# What should trustees do to help their members understand the risk of sponsor failure?

> ***"The scheme was under-resourced and unable to provide basic facts to inform a complex choice. A member communication plan proved woefully inadequate."***

*Report on the British Steel Pension Scheme, published by the House of Commons Work and Pensions Committee on 15 February 2018*

## Discussion points

If the sponsor of a pension scheme remains solvent and does not encounter extreme affordability issues over the lifetime of the pension scheme, the trustees will be able to fulfil their objective of paying all members their full benefits. Unfortunately sponsor failure is a major risk for many pension schemes, as demonstrated by the high profile pension failures at BHS, Tata Steel and Carillion.

We estimate that around a third of all the remaining DB schemes in the UK will fail to deliver their benefits in full. This equates to around 2,000 schemes.

This break-out session will aim to discuss what trustees should do to help their members understand the risk of sponsor failure. We also hope that it will allow trustees to share best practice in this area. Possible discussion points include:

- What is the best way to communicate the risk of sponsor failure to members?
- Do members understand that they might not receive full benefits if their employer fails? Are they aware of the compensation provided by the Pension Protection Fund?
- Are members who are no longer employed by the sponsoring employer(s) aware that the security of their pension benefits is reliant on the ongoing support of their former employer?
- Should transfer value quotes highlight the risk of sponsor failure? Is there a risk that this might lead members to take a transfer value where this might not be in their best interests?
- Should trustees provide members with details of steps they have taken to attempt to strengthen the employer covenant, for example issuing a press release about the potential covenant implications of corporate activity, as the trustees of the GKN schemes did in light of the hostile takeover bid from Melrose?
- If the employer covenant were to weaken materially (as happened in the case of Carillion), how would the trustees deal with this?
- Do the trustees feel constrained in giving members the full picture of the employer covenant, as the assessment of employer covenant is based on confidential information about the business provided to the trustees by management? Might some members of the scheme know more about the risk of sponsor failure than others, e.g. current or former management?

The session will be led by Martin Hunter, a Principal at the pension consultancy Xafinity Punter Southall.



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