SPP Flash Poll:
Impact of Covid on Covenant

THE SOCIETY OF PENSION PROFESSIONALS
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SPP held the event *Sponsoring Covenants - A Year on From Lockdown* on 30 March 2021.

In February 2021, the newly formed Covenant Committee undertook a poll of SPP members to gain an understanding of the use of covenant advisers across pension schemes, how employer covenants have been impacted by Covid-19 and whether the frequency and monitoring of covenants have changed.

Covid-19 and covenant

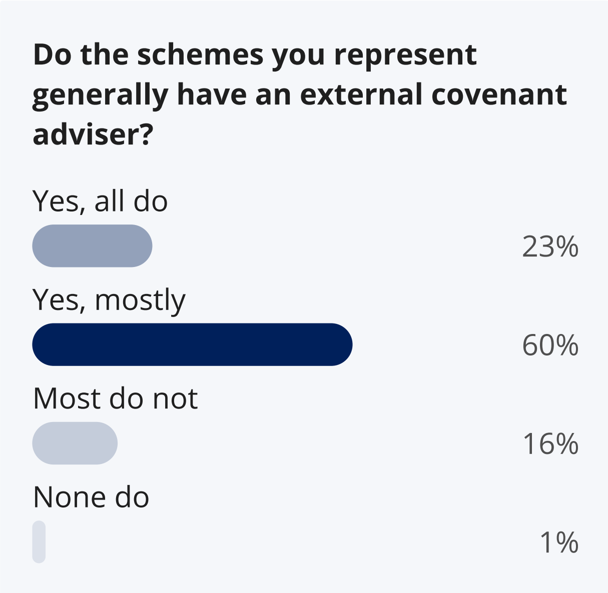
The results show that Covid-19 has affected both employer covenants and how trustees assess employer covenants.
72% of respondents said that the employer covenant of the schemes they advise had been affected by the Covid-19 pandemic and ensuing lock downs, with as anticipated the travel, retail, and hospitality industries most affected. When this question was asked again at a recent SPP webinar on covenant and Covid-19, 1 in 10 respondents felt that sponsor covenants had been severely or materially impacted.
Where the sponsor has been impacted by Covid-19, 72% of respondents had seen DRCs deferred and 48% had seen other changes to recovery plans. Where a scheme is going through a valuation there has been more challenge and scrutiny of valuation assumptions.
As well as affecting employers' covenants, 80% of respondents say the schemes that they advise have changed the way they look at covenant through more frequent monitoring, a higher focus on short term aspects and a higher focus on insolvency risks. Some also noted that there is better engagement between the employer and trustees regarding the employer's business and sharing of financial information.

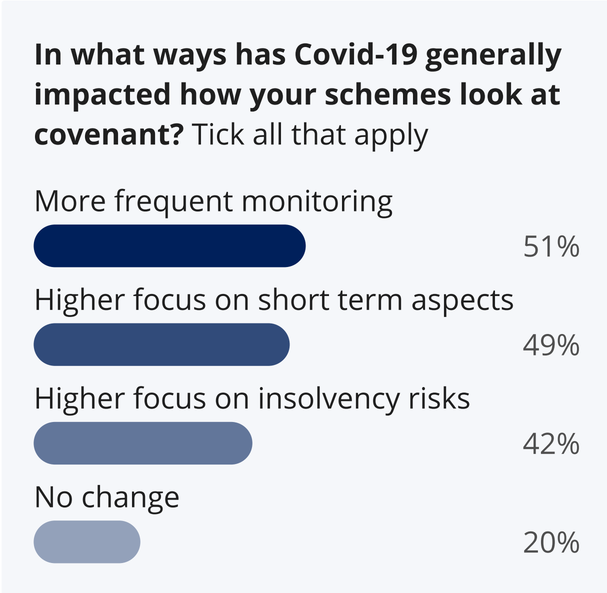
Covenant assessment and DB funding

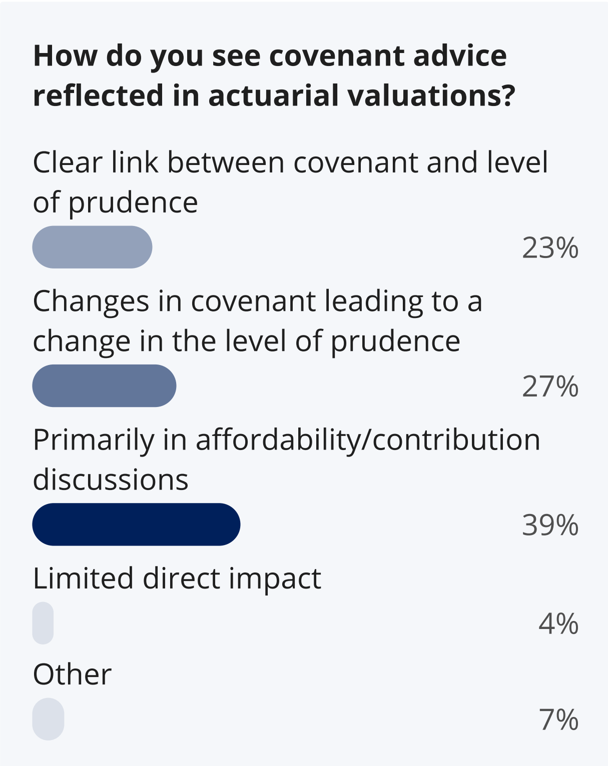
Another key driver of a scheme's approaches to covenant assessment will be the Pension Schemes Act 2021 and the Pensions Regulator's funding code.
Surprisingly, nearly 18% respondents stated that their schemes did not appoint a covenant adviser. The main reasons for not doing so were cited as value for money (scheme too small, cannot justify the cost, etc.), the scheme being well funded with less reliance on the employer covenant, and the trustees fully understanding the employer's business and covenant themselves. Interestingly in the consultation on its new DB funding code, the Pensions Regulator suggests that it can be appropriate for trustees to assess the employer covenant themselves provided they are following all the relevant guidance.
Another key component to covenant assessment is the timeframe over which it can be looked at. There were mixed views on this subject with the majority of respondents specifying a period ranging from 6 months to over 3 years. This is broadly consistent with the Pensions Regulator's view of 3 to 5 years. Interestingly 22% did not know what the ideal timeframe should be.

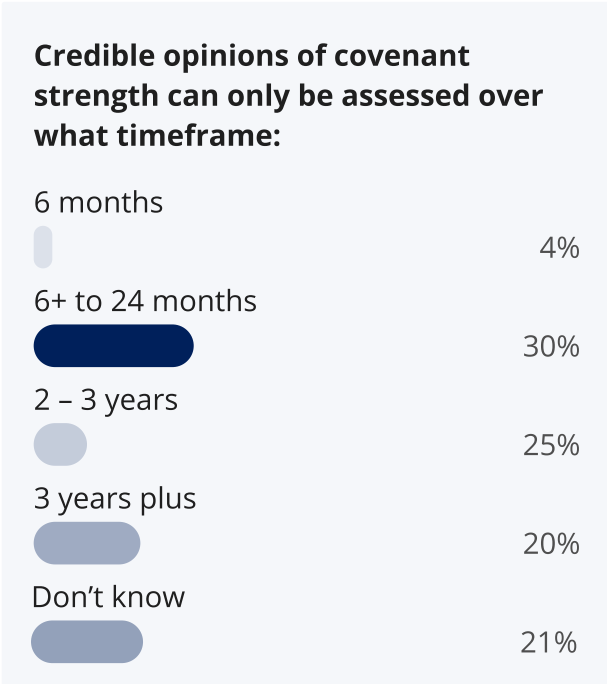
Finally, we posed a more technical question which was how do respondents see covenant advice reflected in actuarial valuations.
This question showed a continuing clear lack of consensus within the industry. 50% of respondents saw covenant linked to prudence, with 23% stating a clear link and 27% stated a broader link. 39% saw covenant primarily driving affordability and contribution discussions.

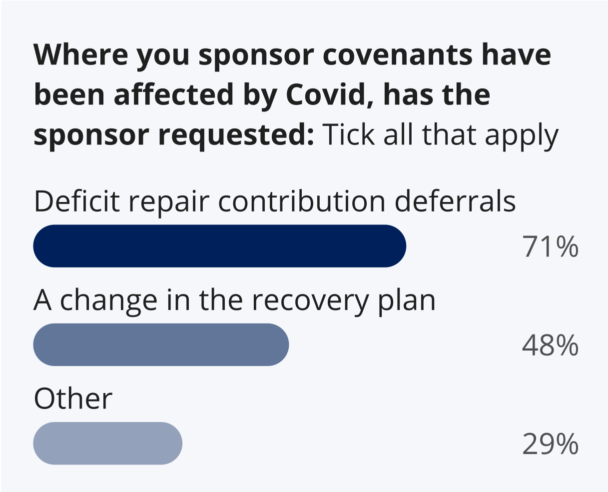
The following polls were conducted with the membership, the final one during our online covenant event.

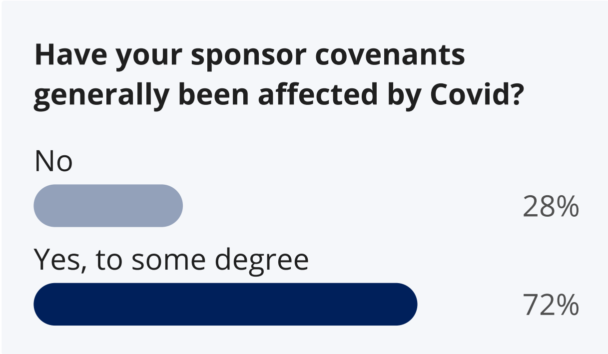


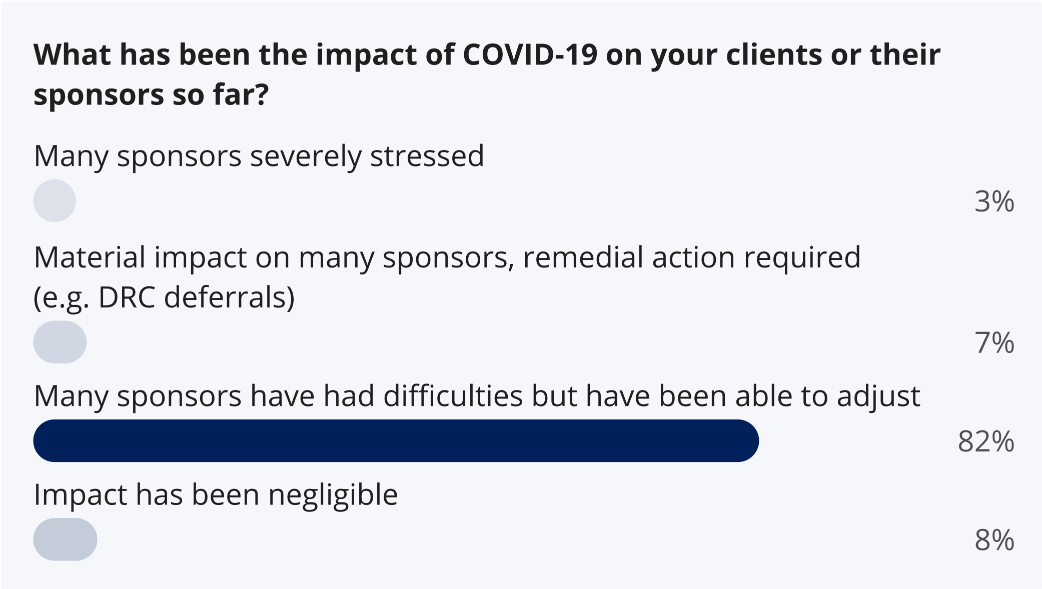












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