

HERBERT SMITH FREEHILLS RESPONDS TO PENSIONS REGULATOR'S ANNUAL FUNDING STATEMENT

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Firm news

Responding to The Pensions Regulator's publication of its [Annual Funding Statement](#) for trustees and sponsors of occupational defined benefit pension schemes, [Rachel Pinto](#), pensions partner at Herbert Smith Freehills says that "today's statement will offer comfort to sponsors looking to reduce or defer deficit contributions in the short term, in order to preserve cash."

She comments: "Whilst the statement will provide some level of reassurance for sponsors, it will also place constraints on corporate activity and result in more complex funding arrangements and triggers having to be negotiated.

"In its statement the Regulator tries to walk a fine line between urging trustees to give sponsors sufficient breathing space to help them survive the current crisis while urging trustees and sponsors not to be deflected from their long-term goals. The Regulator acknowledges that agreeing valuations with an effective date in March or April this year will be challenging.

"Whilst it recognises the need for sponsors to be given time and space to recover once the COVID-19 storm recedes, the Regulator expects the interests of DB scheme members to be protected and for deficit recovery contributions to increase as corporate performance and cash flows improve. The Regulator also expects distributions to shareholders to have ceased and intra group transfers to be restricted where deficit contributions have been deferred and for these restrictions to remain in place until deficit contributions have resumed.

"Buried in the statement, the Regulator also reminds trustees not to forget the potential impact of Brexit on their scheme and sponsor with the transitional period following the UK's departure from the EU due to end on 31 December 2020."

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