Time for the next stage of the journey

FTSE 100 pension accounting surplus maintained

LCP Accounting for Pensions

May 2019

Welcome to LCP's 26th annual report looking at FTSE 100 companies' pension disclosures

In this report, we present a concise analysis of facts, figures and trends revealed by FTSE 100 companies reporting in 2018. The report will help anyone involved in preparing or reading accounts to understand and benchmark their schemes.

Themes include:

- Consolidation of the aggregate IAS19 position at the 2018 year end, and reduced levels of investment risk
- High profile developments in executive pensions
- Shocks in store for corporate balance sheets from potential rule changes
- Audit scrutiny increasing the reporting burden and reputational risks for company directors
- The need to develop and set a long term pensions strategy and journey plan, providing more certainty for all stakeholders

Maintaining the IAS19 surplus and reducing the level of pensions risk within pension schemes are both positive steps for sponsors. Companies will now want to set out on the next stage of their pensions journey to develop a long term strategy and plan to secure their pension scheme in a stable and capital efficient way.

Phil Cuddeford
Head of Corporate Consulting

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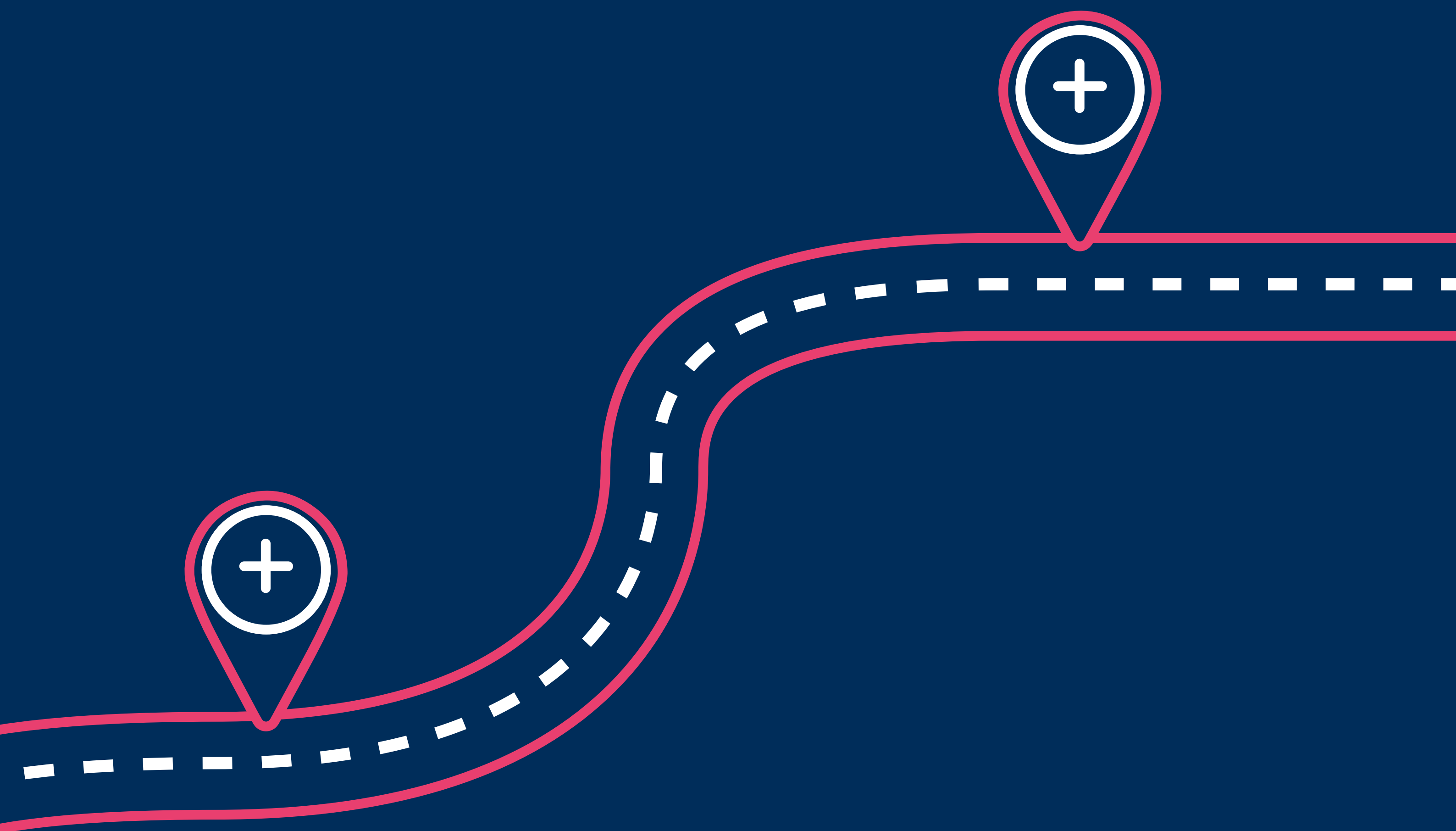
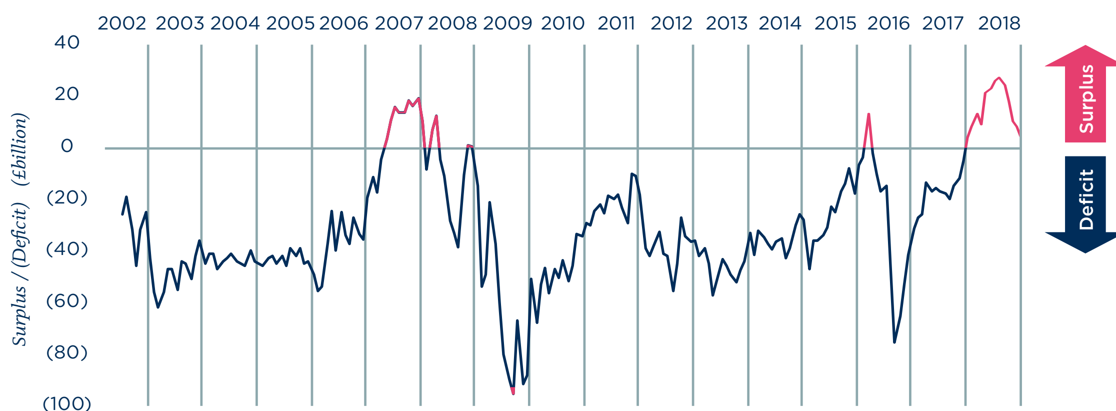


Foreword

FTSE 100 in pensions surplus throughout 2018

For the first time in two decades, 2018 saw the aggregate FTSE 100 in pensions accounting surplus throughout the whole year. This is good news. With large contributions and reducing levels of pensions risk, members' benefits are now safer and more likely to be paid than ever before.

Estimated IAS19 position of FTSE 100 companies



For some (perhaps many) of the cases with an IAS19 surplus, IAS19 is already a relatively "low-risk" basis. That's because many modern investment strategies are expected to deliver significantly more than the IAS19 assumed return (broadly equal to 1% pa above gilts) with a high degree of confidence and a low degree of downside exposure (subject to support from the sponsor covenant and any contingent assets in such downside scenarios).

IAS19 is already a low-risk basis for some

In such cases, rating analysts, equity analysts and shareholders might not look favourably on large contributions to the pension scheme once it is fully funded on IAS19, as that could be viewed as an inefficient use of capital.

However, the direction of regulatory travel is to shorten recovery plans, "mend the roof while the sun's shining", and perhaps (subject to the upcoming new funding code) increase prudence (while the last point is not a stated objective, it is possible that market practice may move in that direction).

Potential changes to accounting rules could further highlight this pressure, by requiring companies to book the liability for any extra contributions (compared to IAS19) immediately on their balance sheets.

Expected increase in use of contingent assets to secure pension schemes in a stable and capital efficient way

Some companies may therefore find themselves being pulled in opposite directions by these two forces. We believe this will lead to a marked increase in the use of contingent asset and contingent contribution mechanisms, to provide the appropriate balance between these forces.

In this environment, companies need a long-term strategy to secure their pension scheme in a stable and capital efficient way.

At a glance

Continued surplus for the FTSE 100

For the first time in two decades, 2018 saw the aggregate FTSE 100 pensions accounting surplus throughout the whole year.

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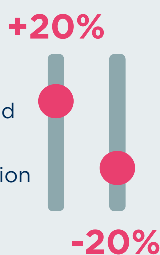
RPI reform



Possible reform to RPI inflation could change funding positions by up to around 20%. In some cases this could be a 20% improvement, in others a 20% deterioration – a very material issue for companies.

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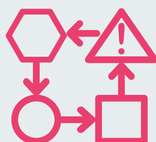
Life expectancy

New life expectancy assumptions have decreased life expectancies and IAS19 liabilities. However, the increasing number of parameters now available has made setting this judgmental assumption even more difficult for company directors. There's now over **£50bn** of subjectivity within this assumption for the FTSE 100 (around twice as much as within either the discount rate or inflation assumptions).



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GMP equalisation

The FTSE 100 disclosed an average estimated cost of correcting for sex inequality in "GMP" benefits of

0.4% of liabilities or *£1.3bn* in total.

While this is considerably lower than estimates made before the landmark Lloyds judgment, **five** FTSE100 companies still took a hit to profits of **£100m** or more from this.

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Equities out of favour

In line with wider de-risking trends, overall FTSE 100 companies have for the first time less than

↓ *20%* **of their pension assets in equity holdings.**

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Audit changes

Ever increasing FRC and audit scrutiny on pensions increases the reporting burden and reputational risks for company directors. Given that the audit materiality level of **over one third** of FTSE 100 companies is less than the effect of just a 0.1% change in the IAS19 discount rate, companies need to understand and manage these reporting risks.

See page 13

Shocks in store from rule changes

Possible changes to IFRIC14 rules could force companies to show agreed deficit contributions on their balance sheets. We estimate this could worsen FTSE 100 balance sheets by **£100bn**, with over a quarter being hit to the tune of more than **£1bn**.

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Executive pensions

FTSE 100 companies paid pension contributions to CEOs averaging 25% of their pay. Due to high profile pressure from regulators and investors, we predict this figure will be significantly reduced over 2019.

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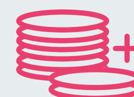
Contributions vs dividends

FTSE 100 companies paid on average



7 times more

in dividends than pension contributions. Whilst regulatory focus is increasing in this area, a simple dividend to contributions ratio is not adequate to assess whether a given company is behaving appropriately.

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Pensions Regulator statement

The Regulator is focussing on getting companies and pension scheme trustees to agree a long-term target – companies should be proactive in developing this.

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Section 1: IAS 19 benchmarking

Wide range in IAS19 assumptions

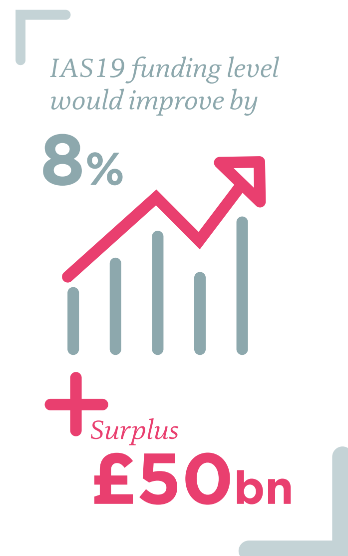
Pensions accounting is more than a compliance exercise – it can have a large impact on business-critical issues, such as credit rating and the ability to raise debt and pay dividends.

With that in mind, it is perhaps not surprising to see the wide range of assumptions that companies adopt when valuing their pension liabilities. This chart highlights the range of different values FTSE 100 companies have placed on £1 pa of pension payable from age 65, for a male employee currently age 45.

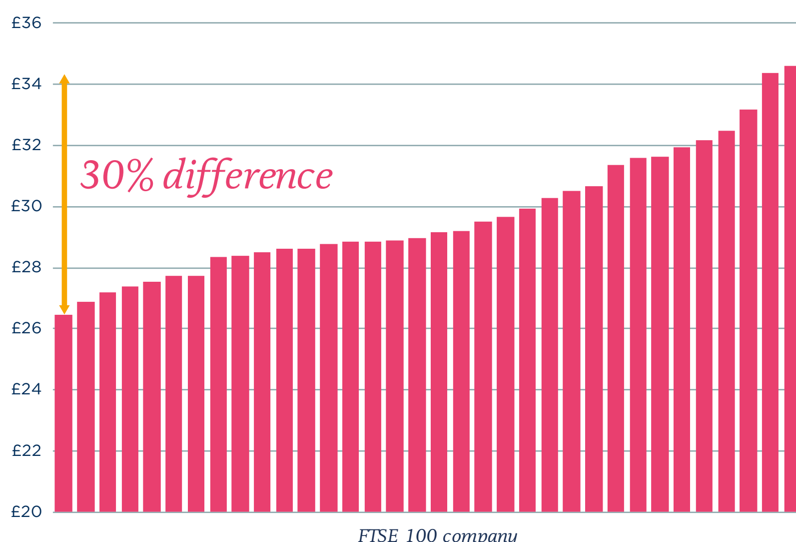
This range only captures the three most important assumptions - discount rate, inflation and life expectancy.

Given that other assumptions also influence the results, in reality the possible range of liability values is wider still.

If all companies moved to the lower end of the scale, the total IAS19 funding level would increase by about 8% and the surplus would increase by about £50bn.



Value placed on £1 of pension payable from age 65 with inflationary increases for a male employee currently aged 45

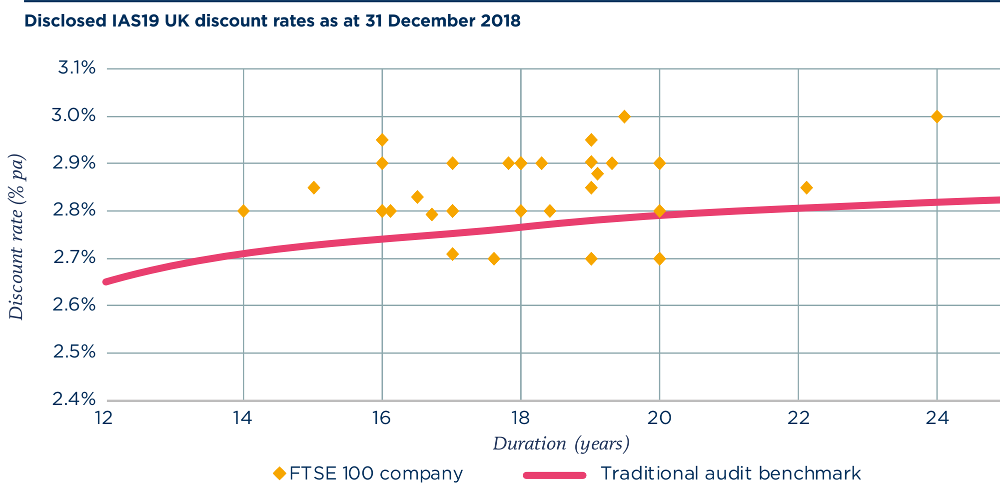


Discount rate

The chart below shows the disclosed FTSE 100 UK IAS19 discount rates as at 31 December 2018, with most companies using an assumption in the range of **2.7%** pa to **2.9%** pa.

The average discount rate is 0.1% pa above a "traditional audit benchmark" (shown by the solid line), with many above this. As highlighted in our 2018 report, many companies have reviewed their approach to setting discount rates in recent years, and that trend continued in 2018 with several companies disclosing large gains from this.

Disclosed IAS19 UK discount rates as at 31 December 2018



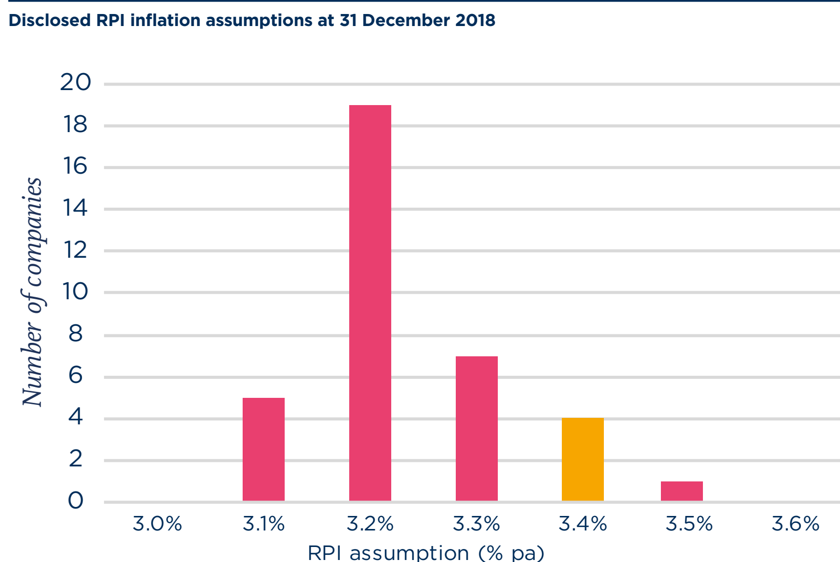
It is important for companies to understand the impact of different approaches to setting assumptions on their wider business.

RPI inflation

The chart below shows disclosed long-term inflation assumptions as measured by RPI for companies reporting at 31 December 2018. The orange bar shows "breakeven inflation" as calculated by LCP based on figures published by the Bank of England. This is the long-term rate of RPI inflation implied by market yields on RPI linked bonds compared to market yields on fixed interest bonds.

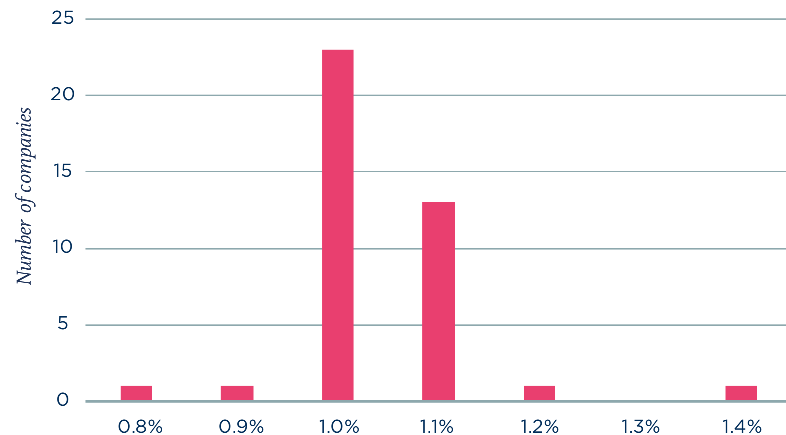
The gap between breakeven inflation and the disclosed RPI assumption is the assumed "inflation risk premium", with a majority of companies using a deduction of between 0.1% pa and 0.3% pa (corresponding to assumptions of 3.3% pa and 3.1% pa respectively). This is similar to last year, with both years having an average inflation risk premium of 0.2% pa.

Disclosed RPI inflation assumptions at 31 December 2018



CPI inflation

Market practice is to set an assumption for future CPI inflation by deducting a margin from the assumed level of RPI inflation. This chart shows the range of margins for companies reporting in their 2018 year-end accounts. Most companies have continued to assume CPI is 1.0% or 1.1% pa below RPI.



Fundamental changes for inflation on the cards?

The House of Lords Economic Affairs Committee issued a report in January 2019 on measuring inflation, and in particular on the differences between RPI and CPI.

The report recommended:

- the correction of the most well-known error in RPI – the measurement of clothes prices – which could reduce RPI inflation by at least 0.3% pa in the longer term. This change would not generally impact CPI inflation. If implemented, the expected long term gap between RPI and CPI could decrease.
- issuing index-linked gilts based on CPI rather than RPI going forwards. For valuation purposes, once the market is sufficiently deep and liquid, this would give companies a way of measuring CPI inflation directly, rather than having to make a judgmental deduction from RPI.
- agreement within five years on a single inflation measure for the long term with a plan to get to that single measure. This includes the possibility of slow convergence of RPI and CPI over many years and could remove the current pensions legal lottery over which inflation measure is used within each scheme.
- In addition, the report suggested that action should be taken to agree the best method for capturing housing costs within the inflation measure. RPI, CPI and CPIH (a variant of CPI, and the government's preferred measure) allow for these costs differently.

Our view on the potential impact and next steps

A change to the calculation of RPI, reducing RPI inflation, would reduce pension increases that are linked to RPI. On the other hand, it would also reduce income from index-linked gilts and other assets linked to RPI. The net effect has the potential to be materially positive or negative for UK pension scheme funding and accounting numbers depending in particular on the nature and extent of hedging. Where CPI-linked liabilities are hedged using RPI instruments, all else being equal this could be very bad news for the funding position. Companies therefore need to factor these dynamics into all pensions decisions that are affected by inflation (that is, most decisions!).

Life expectancy

The number of deaths in England and Wales in 2018 was the highest since 1999.

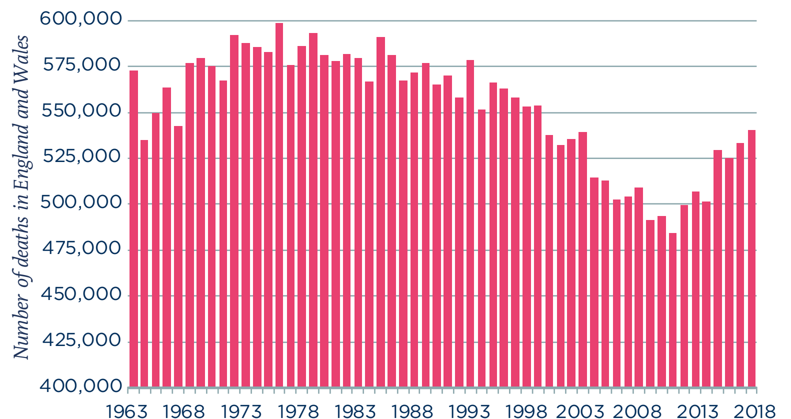
It is therefore not surprising that disclosed life expectancies have continued their recent downward trend. The median assumption for males aged 65 reduced from 87.8 years in 2017 to 87.5 years in 2018. Given the subsequent publication of new actuarial tables, we expect this trend to continue for companies disclosing results in 2019.

Improvements in life expectancy have flattened off in the last five years, and no one knows whether this trend will continue. That leaves significant judgements to be made.

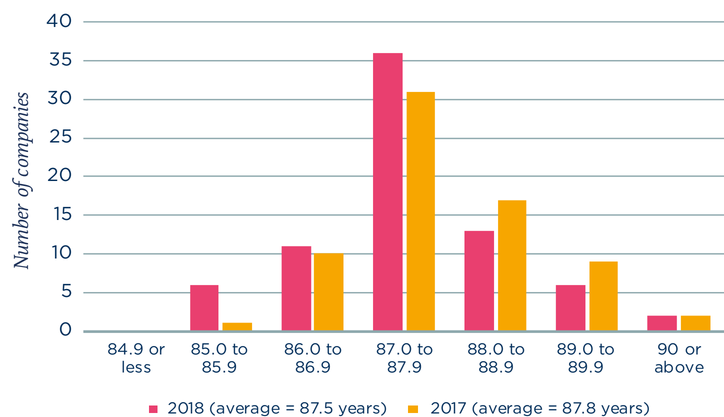
Whilst the base table is typically linked to analysis by the pension scheme trustees as part of the funding valuation, the other highly material components of the life expectancy assumption are subjective and have to be decided by company directors for company accounts.

Excluding the impact of using different base tables, it is easy to see differences in life expectancy of up to 3 years equivalent to around 10% of UK IAS19 liabilities (or about **£50bn** of liabilities for the FTSE 100). In light of the increased scrutiny from auditors (section 2 of this report), it is important that directors are aware and fully consider how they are applying their judgement.

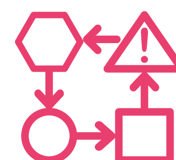
Number of deaths in England and Wales each year



Life expectancy of UK men aged 65 on the accounting date



The increase in number of parameters underlying the life expectancy assumption means we now have more than £50bn in subjectivity for the FTSE 100 in this assumption



What makes a life expectancy assumption

Future life expectancy has become an increasingly complicated assumption for companies to set, with more and more different parameters – all of which require judgement.

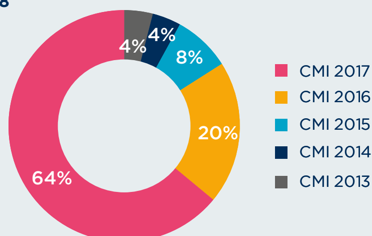
1. A base table:

- This sets the current life expectancy for pension scheme members. It takes into account factors such as gender, geographical location and pension size.
- New “SAPS 3” base tables were released in December 2018.

2. A projection table

- This estimates how life expectancies are expected to change in the future. New projection tables are released each year to include the latest available information. The latest such table is currently the “CMI 2018” projections, which were released in March 2019.
- Of the companies that disclose which table they use, the majority continue to use the latest available table at the balance sheet date (the “CMI 2017” projections as at December 2018).

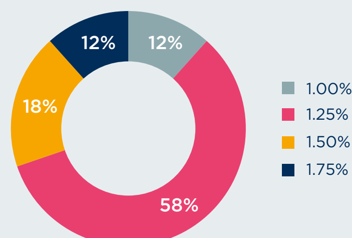
Projections tables disclosed by FTSE100 companies reporting in 2018



3. A long-term rate of improvement

- This is a guess about the rate of life expectancy improvement in the very long term. Of the companies that disclose this, the median assumption is a long-term annual improvement rate of 1.25%.

Long term mortality improvement rates disclosed by FTSE100 companies reporting in 2018



4. A “smoothing” parameter

- This parameter reflects how much relevance is placed on the latest life expectancy data.
- A lower figure places more reliance on recent data, meaning that trends in life expectancy are recognised more quickly - this corresponds to a view that the recent data shows more of a trend than a blip.
- The “Continuous Mortality Investigation” (CMI) has recently reduced the default smoothing parameter, following a public consultation, reflecting an increasing consensus towards “trend over blip”.

5. An “initial adjustment”

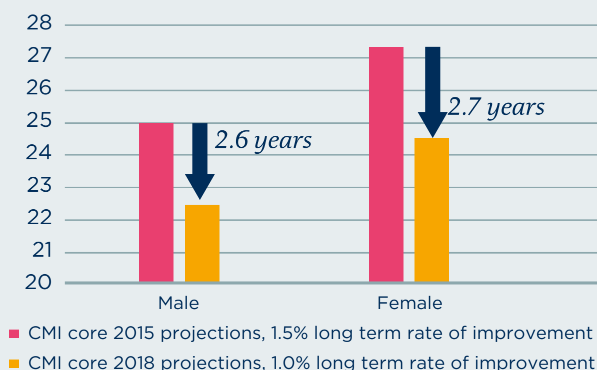
- A new parameter within the CMI 2018 tables that allows companies the possibility of reflecting different rates of improvement from the general population of England & Wales to which the CMI model is calibrated.
- The appropriate size of this adjustment (if any) is very subjective, and it’s too soon for a clear market practice to have emerged. The default “core” approach is to make no adjustment, which is in line with historical practice.

Impact of key areas of judgement

To illustrate the materiality of the assumption, we can compare the life expectancy for a male and female at age 65 in 20 years’ time using two different assumptions for how life expectancy could improve in the future. The differences in the assumptions in this chart represent the key areas of judgement for company directors, rather than being related to scheme specific membership information.

The assumptions for the pink and orange bars are both within the possible range expected for IAS19 based on current market practice. Depending on a scheme’s membership profile, moving from pink to orange could reduce UK IAS19 liabilities by **10%** - equivalent to an improvement in balance sheet position of about **£50bn** for the FTSE 100.

Life expectancy from age 65 for a current 45 year old



Guaranteed Minimum Pensions

A court ruling relating to Lloyds Bank was handed down on 26 October 2018, confirming that pension schemes need to remove the inequalities that arise in benefits between men and women because of unequal "Guaranteed Minimum Pensions" (GMPs) earned between 1990 and 1997.

Lloyds Bank's 2018 annual report revealed that they estimate this will cost them over **£100m**. They are not alone. The judgment affects most companies with pension schemes, and **five** other FTSE 100 companies also revealed estimated costs of over £100m, with the total cost across the FTSE 100 estimated at around **£1.3bn**.

The figure for each company depends on the benefit structure, membership profile, administration practice and assumed equalisation approach.

The chart below shows the disclosed impact for different companies as a proportion of liabilities.

Over the coming year, important decisions need to be made on how to equalise for GMPs.

There are various equalisation methods with clear advantages and disadvantages that will weigh differently for each party depending on their own objectives. Guidance issued in mid-April 2019 by the DWP on GMP conversion demonstrates that conversion is a viable and practical option. It delivers a cleaner long-term solution than the other methods that suffer from the complexity of running a dual record system for many decades into the future. Conversion could also help companies simplify other elements of their benefit structures at the same time, with potential benefits for administration, ongoing costs, communications and probably insurer buyout pricing.

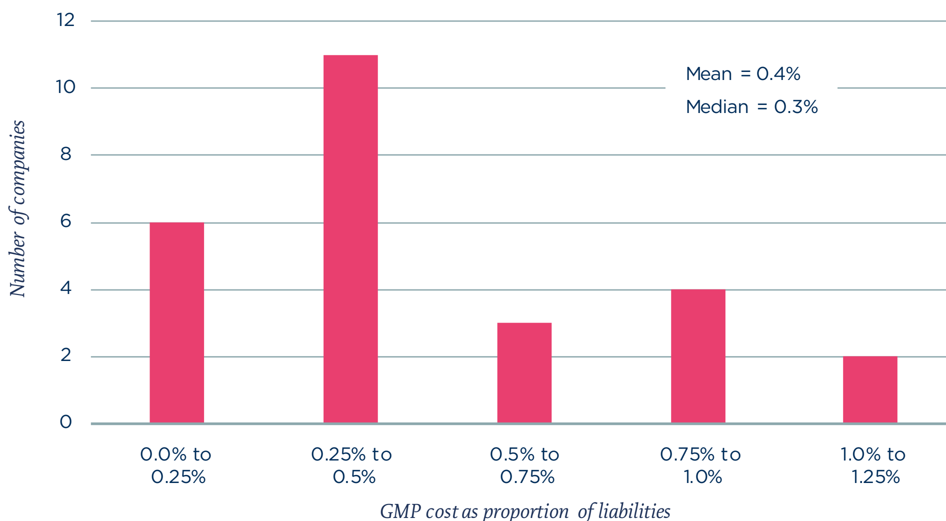
The choice of whether to use this GMP conversion legislation rests with companies, not just trustees. Therefore, companies should be proactively engaging with trustees with a view to carrying out initial analysis based on the specifics of their scheme before any irrevocable decisions are made.

Companies need to be engaged in that process even where the estimated impact is small.

Companies need to act, in collaboration with trustees, to address unequal GMP benefits.

Engage now before irrevocable decisions are made

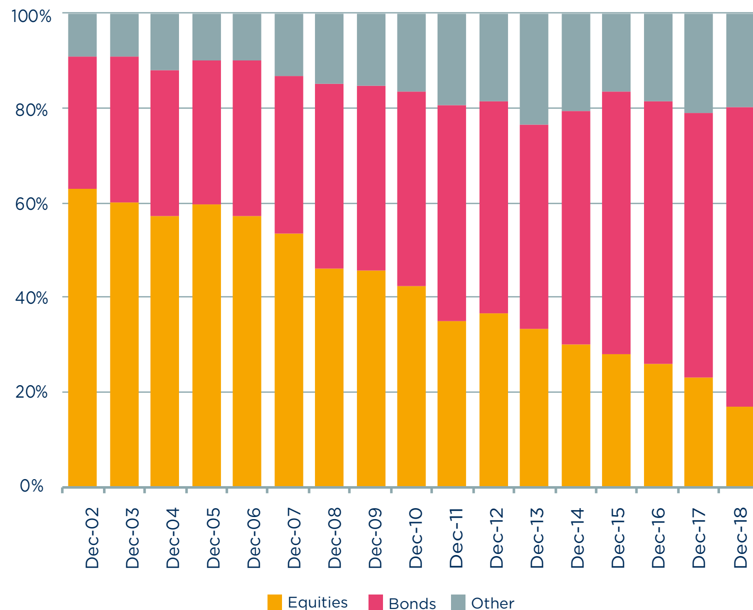
Estimated IAS19 cost of removing GMP inequalities as a proportion of UK IAS19 liabilities



Continuing trend to de-risk pension schemes

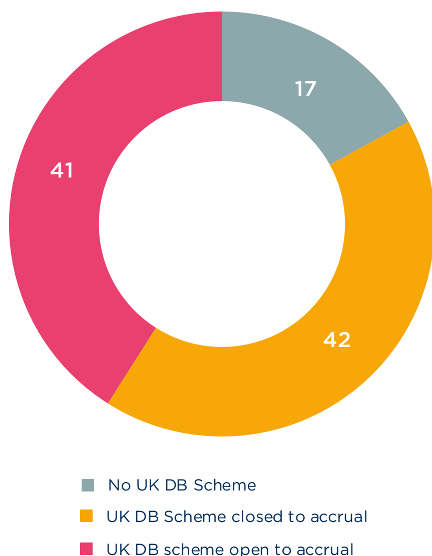
FTSE 100 pension schemes now invest less than 20% of their assets in equities – whereas only 12 years ago this figure stood at over 50%. We estimate that around £30bn of equities were either sold or not rebalanced in 2018.

Overall asset allocation for FTSE 100 companies



In conjunction with this, the move away from defined benefit (DB) provision continues. Now only 41% of the FTSE 100 provides any form of DB pension benefit to existing UK employees (down from 44% in 2017), with **United Utilities** and **Standard Chartered** disclosing closure to future accrual. Just two FTSE 100 companies now offer DB to new UK employees (**Croda** and **Johnson Matthey**).

Continued move away from DB pensions



No UK DB Scheme
UK DB Scheme closed to accrual
UK DB scheme open to accrual

During 2018, two FTSE 100 companies – **Segro** and **Rentokil** – disclosed full buy-ins covering all members (not just pensioners) with the intention to move to full buyout in the short term, thus entirely removing the pension liability and risks from the company's balance sheet.

Many other companies, including **Morrisons, Kingfisher, ITV, Vodafone, Marks and Spencer, Smiths Group**, and **International Consolidated Airlines** disclosed they had transacted pensioner buy-ins in their 2018 accounts. In addition, **SSE** transacted a longevity swap.
More details are included in our Pension de-risking report

Section 2: Accounting developments

Focus on IAS19 auditing

In July 2018, the FRC, in their role as accounting watchdog, published their report "The audit of Defined Benefit Pension Schemes". This found that improvement was required in almost half of IAS19 audits. Following the report, we have seen auditors put greater scrutiny on corporate pensions figures at the 2018 year end.

Audit firms remain under pressure. In the wake of the collapse of **BHS** and **Carillion**, both leaving underfunded pension schemes, the government commissioned a review of the role of auditors. The review reported in December 2018, with far reaching recommendations, including the complete replacement of the FRC with a new independent regulator, the "Audit, Reporting and Governance Authority" (ARGA).

On the same day, the Competition and Markets Authority (CMA) recommended tough new measures covering auditors, including legislation to separate audit from consulting services, more independent oversight of audit committees, and a new "joint audit" regime giving firms outside the Big Four a role in auditing the UK's biggest companies.

The government has endorsed these recommendations and we can expect a full overhaul of the audit sector. This will bring more focus both on how pension figures are audited, and on auditors' role in cases where companies may become insolvent with underfunded pension schemes.

Consequently, companies can expect the trend for more rigorous and detailed audits in the future to continue. Significant pensions related balance sheet errors were reported by FTSE 100 companies over 2018 and it is possible that further errors are identified over the coming years as audit scrutiny is increased.

We expect future audit focus on pension schemes to be on three key areas:

1. justifying that the material demographic assumptions used are best estimate for the scheme in question;
2. checking whether key financial assumptions are within the auditors' ranges and are reasonable compared to disclosed market practice;
3. checking the accuracy of the figures within the pension disclosures are within audit materiality.

As a result, we expect companies to be challenged more robustly on any judgements taken within the preparation of their accounts. From a pensions accounting perspective, we wonder whether this also might ultimately lead towards a narrowing of the **30%** spread in assumptions that we identified earlier, in addition to the likely extra time, resource and costs involved.

See LCP's Autumn 2018 report for more on the FRC's report

Potential increase in audit time, resource and costs

IFRIC14 – future shocks for corporate balance sheets?

Usually, a company's pensions liability reported under the IAS19 accounting standard is less than the more prudent funding liability agreed with the trustees to set deficit contributions. In some cases, rules in IFRIC14 mean that companies must recognise an extra liability on the balance sheet, over and above the normal accounting liability, to reflect the contributions the company is committed to pay. Whether or not a company is hit is essentially down to a legal lottery based on the technicalities of its pension scheme's rules.

For some years, the International Accounting Standards Board has been proposing to tighten the rules. While proposals put forward in 2015 were dropped, new proposals may be put out to consultation in the coming year. The new proposals are intended to be more "principles based", to better reflect the reality of the position rather than legal and accounting technicalities. Depending on what the new rules say, they could affect most or all UK companies, rather than just a handful as at present.

We estimate that the potential new IFRIC14 rules, combined with the possibility of more prudent contribution requirements, could lead to a one-off balance sheet hit of over **£100bn** for the FTSE 100. For comparison, the impact of IFRIC14 on FTSE 100 companies' 2018 accounts was only **£13bn**.

Any changes to IFRIC14 remain a little way off, giving companies precious time to put in place strategies to manage this risk. For example, contingent asset arrangements (such as escrow, asset-backed funding, charge over assets, surety bonds, letters of credit and other approaches) may give trustees the security they need while addressing shareholder concerns around the efficient use of capital. Over **10%** of FTSE 100 companies with DB pension schemes disclosed they already use these arrangements, and we expect this figure to grow as companies adopt new ways to support their pension commitments in the future.

Potential one-off balance sheet hit of over £100bn to the FTSE 100

Contingent assets could offer companies a solution to potential balance sheet shocks from changes to IFRIC14

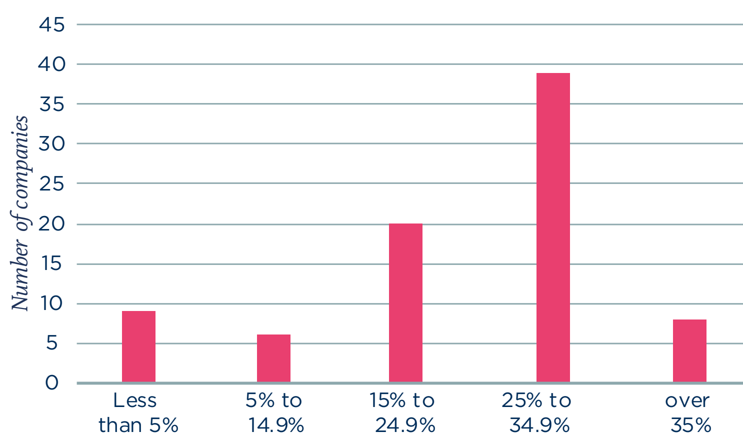
Section 3: Executive pension provision

Executive pensions under the spotlight

In recent weeks many high-profile companies have announced changes to their executive pension practices following criticism in national newspapers.

Our analysis of the 2018 disclosed accounts for the FTSE 100 shows average CEO pension contributions of around **25%**, typically paid as a cash supplement.

Pension contributions to CEO as a percentage of basic salary



This may be set to change.

Following changes in 2018 to the Corporate Governance Code, in February 2019 the highly influential Investment Association (IA), whose members oversee over £7 trillion of assets (broadly ten times the size of the combined FTSE 100 global pension schemes), stated that:

> *This is an issue of fairness and [executive] pension contributions should be aligned with the majority of the workforce*

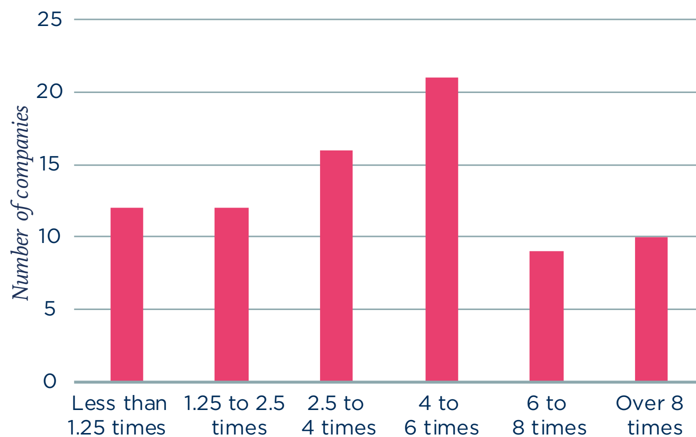
In addition, the Investment Association updated its guidelines to highlight companies that pay executive directors pension contributions of more than 25% of basic salary and “red top” any companies who appoint new executive directors from 1 March 2019 whose rate of pension contributions exceeds those available for the majority of the workforce.

Executive pension provision
continued

The following chart shows how CEO pensions contribution rates compare to the average for employees. The median contribution rate was four times higher for CEOs than the average contribution rate for employees.

Pension contribution rates to CEO four times higher on average than rates to their workforce

Pension contribution rate for FTSE 100 CEO relative to the average pension contribution rate paid to employees



Currently around half of the FTSE 100 pay CEO pension contributions of 25% or above and our analysis shows that currently only around **15%** of the FTSE 100 companies pay CEO pension contributions or cash in line with their workforce.

The Business, Energy and Industrial Strategy Committee (BEIS) described the current position as:

> *an unacceptable example of weak corporate governance and flagrant disregard for any notion of fairness*

The BEIS also recommended that regulators require public explanation from any company that fails to align pension contributions. With the average CEO receiving more than four times the percentage of salary as pension contributions compared to an average employee, there is clearly some way to go.

There's a trend developing with many large companies amending their remuneration policies to provide lower pension contribution rates for new executive appointments. Where these remain higher than the general workforce, further reductions may be appropriate.

Companies need to consider options and whether they need to act

Relatively few companies have reduced contribution rates for their current CEOs. Standard Chartered and Lloyds did undertake changes but faced a significant amount of negative publicity and shareholder disquiet as the moves were seen as tokenistic. If the decision has been taken to reduce contributions then this should be undertaken transparently and thoroughly. Otherwise companies are open to the charge that it is just a PR exercise.

There is certainly more change to come and the impact has started to filter through to medium and smaller sized companies too.

Companies should take immediate action and consider their options where:

1. Executives have a contribution tier with a pension rate of 25% or higher;
2. Executive remuneration policy doesn't state that pension will be set in line with the majority of the workforce for future appointments; or
3. Executives are hired on a higher rate than the general workforce.

Boards and remuneration committees should be aware of this issue and carefully think through whether they need to act.

Section 4: The bigger picture

Regulator focus on risk management and long-term thinking

The Government has already announced that it intends to legislate to require all DB pension schemes to have a specific long-term destination, such as buyout, entering a consolidator vehicle, or achieving “self-sufficiency”.

In March 2019, the Pensions Regulator issued its latest funding statement that set out its key messages for pension scheme trustees and sponsors. It is perhaps unsurprising that some of the key messaging is consistent with the proposed legislation. The statement continued the direction of travel of previous statements with a steer towards:

- Setting and agreeing a long-term funding target, which is distinct from and more prudent than the triennial valuation “technical provisions”.
- Balancing funding and investment risks, taking into account the strength of the sponsor and maturity of the pension scheme (Integrated risk management).
- Shorter recovery plans, with a focus on schemes getting more cash more quickly from the sponsor (“Mend the pensions roof while the sun’s shining”).

We welcome the focus on setting and agreeing a long-term funding strategy as it gives all parties a focus and more certainty for the future. Pension scheme sponsors should be proactive in raising and agreeing these issues with trustees to ensure that the long-term objectives and priorities for all involved are aligned.

Contributions or dividends – the debate continues

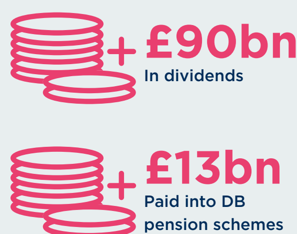
In 2018, FTSE 100 companies paid around seven times more to shareholders in dividends than they paid into their DB pension schemes. This is an increase from around 6 times in 2017.

Whilst contributions remained steady at **around £13bn** – which could be interpreted as a sign that sponsors are standing firmly behind their pensions promise – there could be some concern at the £10bn increase in reported dividend payments from about £80bn in 2017 to about £90bn in 2018.

There has been an increasing focus on the possible tension between the payment of dividends to shareholders and the payment of deficit contributions to pension schemes to meet the deficit on a prudent funding measure. Companies, credit rating agencies, equity analysts, trustees, shareholders, politicians and the media all have their own perspective on this question. For companies, it is necessary to strike a delicate balance.

- **Paying contributions:** The regulator’s direction of travel may be interpreted by some as increased prudence and additional contributions to the scheme. The regulator has said that companies with strong covenants should continue to pay contributions where warranted by the deficit (so fix the pensions roof while the sun is shining) and that it will focus on any dividends paid where the pension contributions are not deemed appropriate.
- **Not paying contributions:** In some (perhaps many) cases, the IAS19 basis is already a low-risk basis, because the investment strategy might deliver significantly more than the IAS19 assumed return (broadly 1% pa above gilts) with a high degree of confidence and a low degree of downside exposure due to increasingly sophisticated investments, covenant strength and contingent assets.

As the analysis on page 14 of our 2018 report showed, it is critical to go well beyond this single headline statistic in drawing any meaningful conclusions. It depends on the extent of deficit, the security provided by the sponsor covenant and other sources, and the level of investment risk amongst other things. This is a nuanced issue and there is no single one size fits all answer.



Over 2018, FTSE 100 companies paid around £90bn in dividends, which is **seven times** the £13bn paid into DB pension schemes.

Pulling it all together

Companies may find themselves being pulled in opposite directions. In one direction, the funding and IAS19 positions of many pension schemes have improved and significant actions have been taken to reduce the level of risk. In the other, a combination of potential changes to accounting rules and pressure to shorten recovery plans to "mend the roof while the sun's shining".

We believe this tension will lead to a marked increase in the use of contingent asset and contingent contribution mechanisms, such as some of those shown below, to provide the appropriate balance between these forces.

Credit	*Cash*	*Assets*	*Corporate actions*
Parent or bank guarantees	**Escrow account**	**Charge over assets**	**Dividend or profit sharing**
Surety bonds	**Reservoir trust**	**Asset backed funding**	**Negative pledges**

The options available for each company, as well as the funding and IAS19 implications of putting a contingent asset solution in place, will need to be considered and will be dependent on the specific circumstances at that time.

However, in the current environment, we believe contingent assets will play an increasing role as companies develop a long-term strategy and journey plan to secure their pension scheme in a stable and capital efficient way.

LCP INSIGHT CLARITY ADVICE

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