



Utilising intangible assets to finance pensions in the charity sector

Funding UK pension schemes

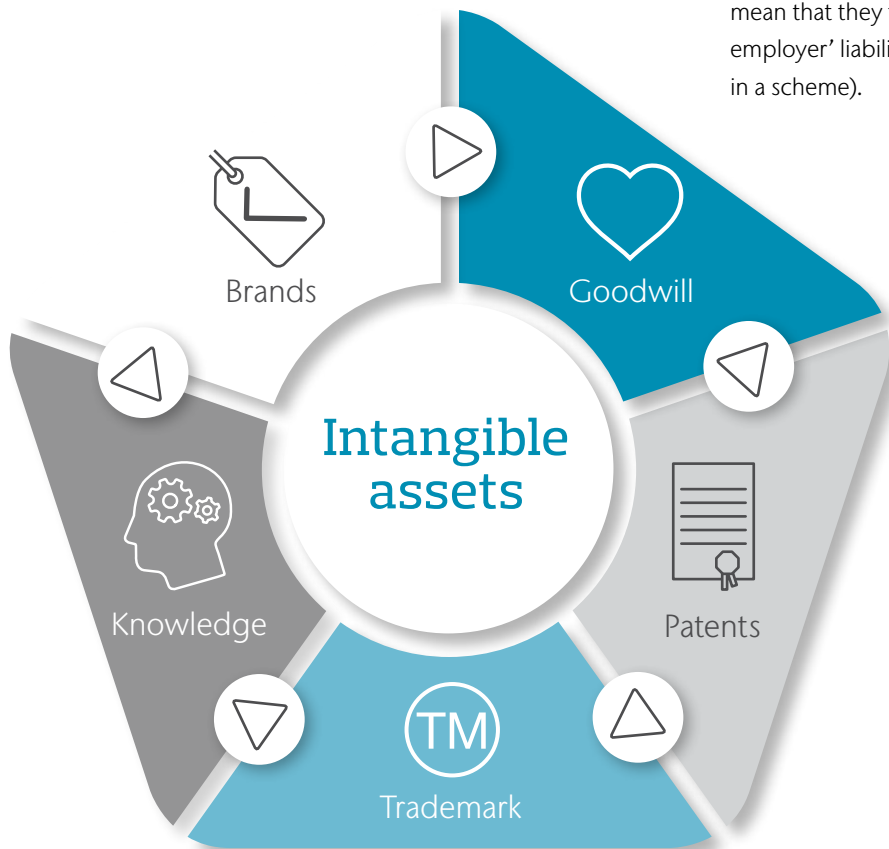
Historically low long-term interest rates have meant that deficits in UK defined benefit pension schemes have been a persistent problem for many sponsors for a long time. Further, high profile corporate failures like BHS and Carillion have meant that recent guidance from the Pensions Regulator (TPR) on funding pension schemes will generally push sponsors to improve funding levels and reduce member risk over shorter time periods.

Impact of TPR guidance* on charity sector

Some of TPR's guidance does not translate directly to the charity sector (e.g. the comparison of pension contributions with dividends to shareholders). However, it is likely that charities which sponsor pension schemes may find that their scheme trustees will push for some (or possibly all) of the following:

- The scheme's liabilities calculated on more prudent (cautious) assumptions leading to a larger pension deficit
- Requests for higher cash contributions to rectify any pension deficit over a shorter period
- A claim for some type of security

In addition, some charities may participate in other pension schemes (e.g. a local government pension scheme) which may mean that they face other pension issues (e.g. a 'debt on the employer' liability upon the cessation of the charity's participation in a scheme).



* <http://www.thepensionsregulator.gov.uk/docs/db-annual-funding-statement-2018.pdf>

Using intangible assets to help solve a pensions' problem

In simple terms, an entity's 'brand' (i.e. identity in its name, reputation, standing etc.) is often a significant differentiator from its competitors. This logic applies in the charity sector where branding is just as important as in commercial sectors. Indeed, an argument can be made that a strong brand, trademark, and reputational values are crucial within the charity sector in order to attract income via donations, voluntary work, legacies, merchandising and sponsorship.

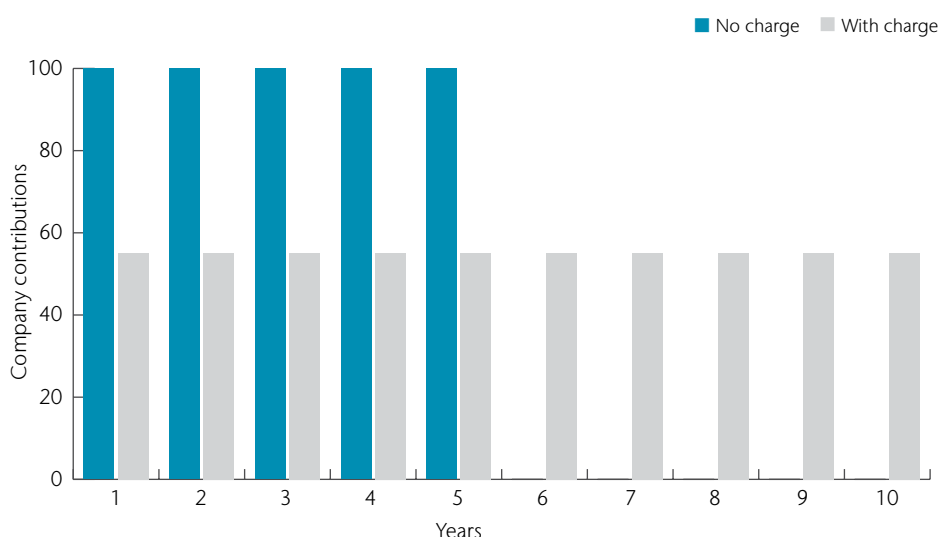
Accounting standards take little or no account of an entity's intangible assets such as its brand. Accordingly, making no allowance for this 'hidden value' can lead to an understatement of the value of a charity's support to its pension scheme which is likely to lead to claims from the scheme trustees for higher contributions.

Notwithstanding the position above, brands and intangible assets have been found to be both durable and capable of rigorous valuation and scrutiny in court processes and to date have been used to finance an entity's pension deficit in the following ways in the commercial sector:

- As an additional 'input' into the sponsor's covenant to its pension scheme
- As security to the trustees via a charge (thus allowing lower annual deficit contributions to be paid over a longer period)
- As the underlying assets in an asset backed funding arrangement which provides regular income and an attaching charge to the trustees

Although an asset backed funding arrangement is probably not appropriate for a charity's pension financing requirements (given the attaching implementation costs and due diligence required), we see no reason why the first two examples (input into covenant or as a source of security) cannot work.

Using a charge over assets as part of a funding solution



Finding out more

We would be pleased to have an initial discovery meeting with you to talk through your circumstances. If helpful, we will also arrange for a brand valuer to attend to discuss their experiences in the charity sector. Our aims would be to explain how we could help you optimise your short-term pension financing requirements whilst laying the groundwork for a longer term objective which will meet the requirements of both your scheme trustees and TPR.

Contacts

Paul Heaney FIA
Senior Consultant
t +44 (0)20 7086 0502
m +44 (0)7717 808 124
paul.heaney@aon.com

Greg Doyle
Principal Consultant
t +44 (0) 20 7086 9084
m +44 (0) 7939 507067
greg.doyle@aon.com

The information contained herein and the statements expressed are of a general nature and are not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information and use sources we consider reliable, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Aon Hewitt Limited is authorised and regulated by the Financial Conduct Authority. Registered in England & Wales. Registered No: 4396810.