Banking on Pension Scheme Trustees

It's your first day in your new job in a banking institution. You are feeling good. You are now a senior executive with lending responsibility for a portfolio of apparently blue chip customers.

You open your first file. But what's this? You are owed £900m by a company which already owes another £900m to other banks? Let's take a look at the balance sheet. Mmm, over 100% geared – that's a stretch! Hold on, that's not even including what we are owed. Quick, what's our security? Aargh, you say we are unsecured! And our customer's commitment to repayments seems to be minimal – it will be way over 10 years before we get our money repaid. I can't believe it! How did this happen? This has been the shortest "honeymoon period" ever!

Replace our new banker with a new pension scheme trustee and, beyond that, the problem potentially facing the trustee is not much different. Trustees' responses have been, however, historically more supine

I would suggest that our banker would want to get this situation more under his or her control - and quickly. The bank would want to get very close indeed to the business and its senior management, requiring at least a full suite of monthly financial information and pre review of business budgets. Further, the bank may well require sanction over business disposals and acquisitions. It may even demand the right to be present at all board meetings. Possibly, even, a sanction on dividends to shareholders. It would keep under constant review the opportunities to improve its security and to reduce its exposure.

The point is, as FRS 17 brings pension deficits on to companies' balance sheets, the extent to which companies are being funded by their pension schemes will become even starker than it is now. (Interestingly, it would be illegal for many pension schemes to *actually advance* funds to the sponsoring employer).

Trustees have always, usually implicitly, made judgements about employers' ability to pay. As the Pension Act 2004 brings us into an era where trustees and sponsoring employers must explicitly agree funding principles, contributions and recovery plans - implying a degree of negotiation – perhaps trustees should also be donning bankers' hats as an unsecured "lender" of some significance. (What a pity that the recent opportunity, in the Enterprise Act 2002, to classify sums due to pension schemes as preferential creditors, was missed).

My imaginary banker's numbers above are actually those of a FTSE 100 company, but the position is recognisable in many other companies of all sizes. Should trustees now be increasingly thinking as bankers would, notwithstanding that making what are effectively difficult banking judgements is another activity for which the vast majority of trustees are ill prepared? Is this another set of professional skills that pension schemes, already the most "outsourced" of organisations, need to engage?

Indeed, if board observer and other rights – even perhaps an equity for debt restructuring - come on to the agenda in funding negotiations, previous tongue-in-cheek speculations, that some plc's are essentially pension funds with a business attached, may well become a reality.

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