



Pension Schemes Act lands as we emerge from lockdown: Lawyers give their views

PwC's Pensions and Restructuring Lawyers Event
May 2021



Overview

Lawyers believe that the Pension Schemes Act 2021 (PSA21) will impact UK business rescue culture, the recent profile of ESG will impact long-term covenant and that more than 35% of the £75bn of Government debt will be written off.

This was the sixth time over the last 15 years we brought together 200 leading pensions and restructuring lawyers from around the UK and surveyed them on key issues in the sector.

The 2021 results show a significant shift in views since our previous survey given PSA21 and the focus on longer-term issues like ESG.

Less certainty than ever before on the reach and triggers of The Pensions Regulator's (TPR) powers

- The lawyers were split 50-50 on whether the PSA21 could harm business recovery.
- Views on the effectiveness of TPR's powers have fluctuated over the last decade.
- This year showed that 46% of lawyers consider TPR powers will have an impact on their clients (down from 77% in 2019) with 27% remaining undecided, highlighting the uncertainty of how TPR will be enforcing PSA21.

Is a longer-term view needed by the PPF?

- 35% of lawyers thought the PPF's focus when considering how it will vote in a Company Voluntary Agreement (CVA) should be ensuring it succeeds in the longer-term (up from 19% in 2019).

Affordability remains the biggest issue for clients but ESG is becoming increasingly important

- 64% of lawyers believe affordability is the biggest issue for their clients, a view remaining consistent over the past 7 years.
- However, ESG is an increasing issue for pension schemes with over 50% of lawyers saying it should be a key risk in assessing the long-term covenant.

Lawyers give their view on the recovery of the UK economy

- Over 40% of lawyers believe lasting impacts of COVID-19 will be the biggest threat to the UK economy.
- c. 50% of lawyers think that more than 35% of £75bn of Government-backed debt will be written off.

1

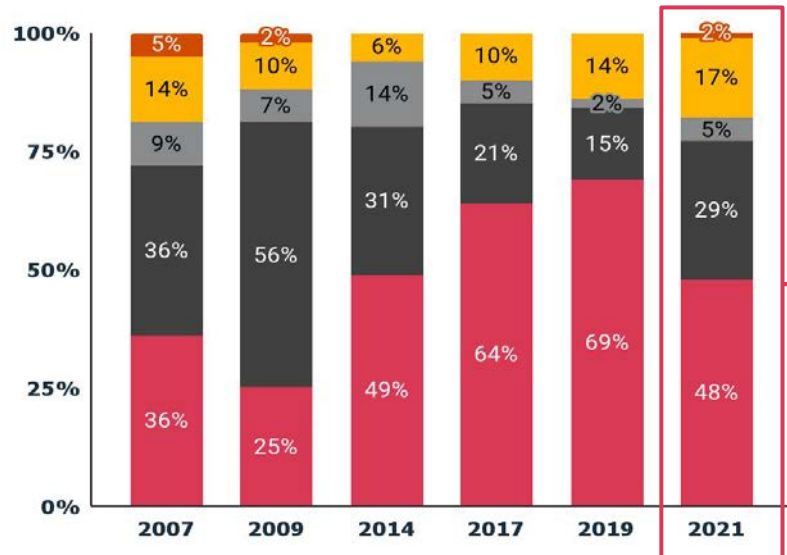
Less certainty than ever
before on the reach and
triggers of TPR powers

Twice as many lawyers now advocate going for clearance, going back to 2014 levels - will TPR be ready?

15% of lawyers in 2019 suggested clients go for clearance. This has increased to 29% in 2021, showing a shift in views in light of the new act.

- There is an increasing expectation in the market that there will be more clearance applications given the broad powers of the new act and the need from corporates to get certainty over their business activity to ensure it won't be caught by the new powers.
- Erica Carroll (Head of Enforcement at TPR) discussed how the Regulator will be responding to an uptick in clearance applications at the [event](#).
- Pension Lawyers are confident to 'follow the guidance but without going for clearance' with 64% choosing this route.

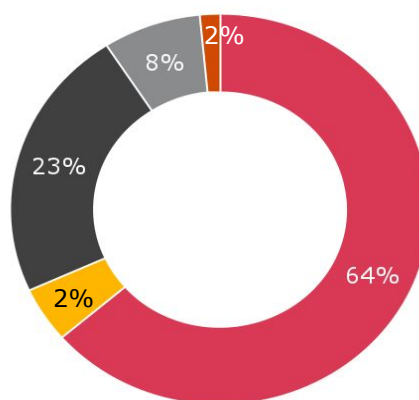
In light of the new act, in terms of advising a client to go for clearance, would you...



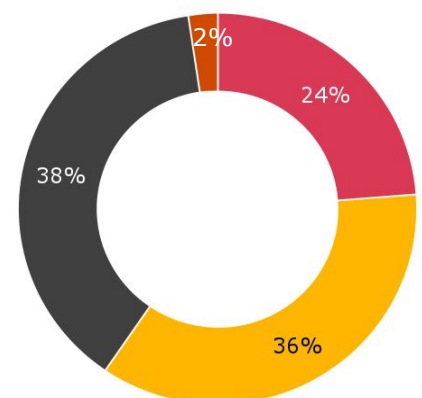
Legend for the charts:

- Normally suggest they don't - 'no teeth, what's the point'
- Normally suggest they do - 'better safe than sorry'
- Never had to
- Follow guidance but without going for clearance
- Sit on the fence

Pension lawyers



Restructuring lawyers

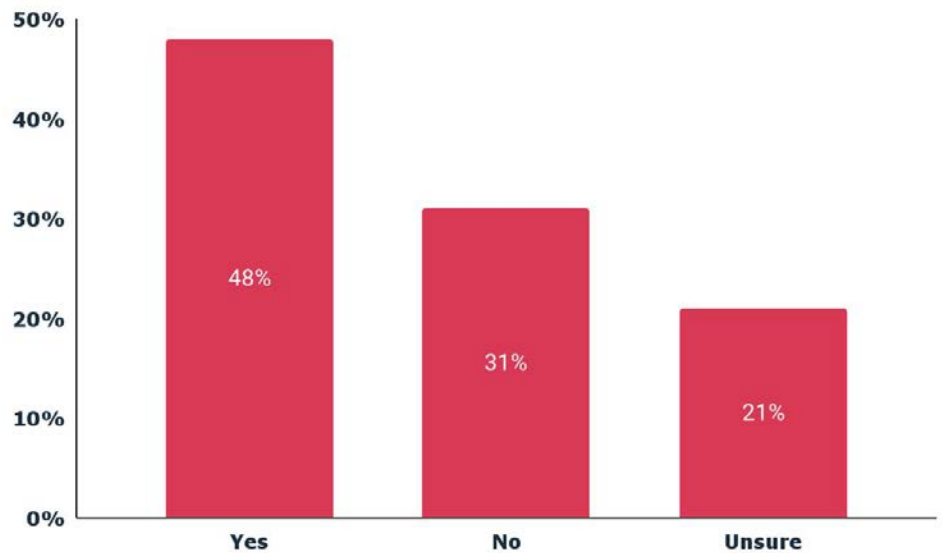


Around 50% of lawyers believe that PSA21 damages the UK rescue culture

This topic was the subject of great debate during our live event

- Michael Tennet Q.C. (Wilberforce Chambers), Erica Carroll (TPR), and David McCall (NatWest) were guest speakers during our panel session debating this question.
- It was clear that there were differing opinions amongst our panel, which is reflected in the lawyers' views below.
- At its core, PSA21 is about protecting members' pensions and TPR did state that this is not about impeding business as usual activities. However, the new powers and sanctions are significant and broad and there is a worry that this could damage the rescue of businesses.
- Clients and advisers will need to engage early with TPR, be innovative and work together to ensure the unintended consequences of the PSA21 do not inhibit UK business rescue culture.

Does the Pension Schemes Act damage the UK rescue culture?

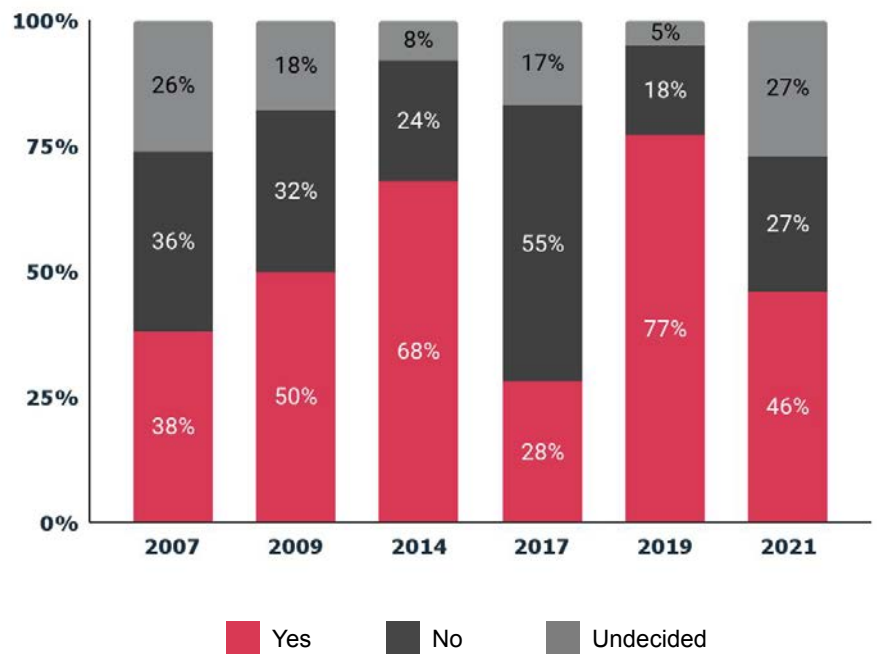


Lawyers are less confident that TPR's powers are having an impact

Increased uncertainty on how TPR will be utilising its new powers with 27% undecided

- 77% of lawyers believed TPR powers would have an impact on their clients in 2019. This has reduced to 46% in 2021.
- The Pensions Act 2004 is now 17 years old and it is clear the market place is still evolving, with the legal community not reaching a consistent view on TPR's powers.

Do you believe TPR's powers are having an impact on your clients?





2

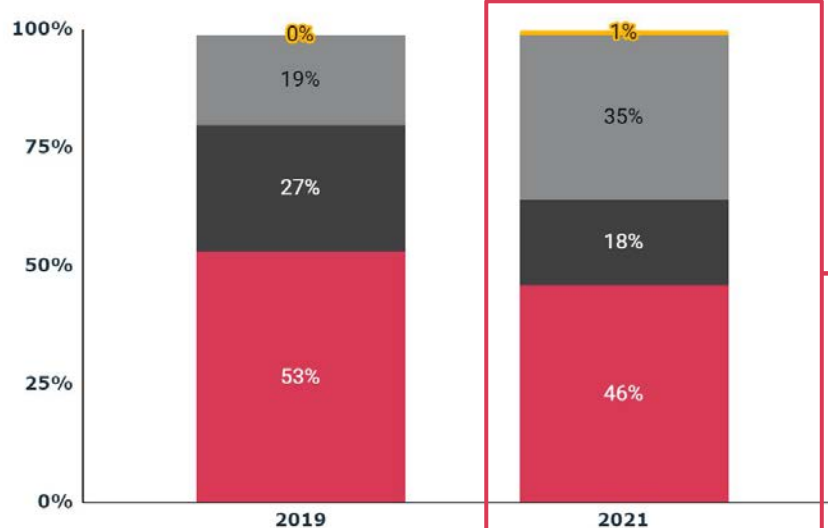
Is a longer-term view
needed by the PPF?

More lawyers now believe that the PPF should have greater consideration for the long-term viability of the business in a CVA

19% of lawyers in 2019 thought the PPF's focus when considering how it will vote on a CVA should be ensuring it succeeds in the longer-term; this has increased to 35% in 2021

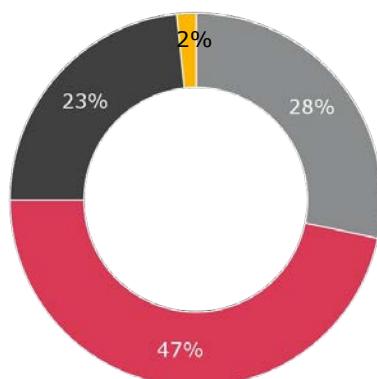
- This view is more prevalent amongst the restructuring lawyers with 43% believing that the long-term success of the CVA should be the PPF's focus compared to 28% of pension lawyers.
- Lawyers reflect our view that a successful CVA needs to be part of a wider restructuring solution to ensure the underlying business issues are addressed for the longer-term.

What should the PPF's focus be when considering how it will vote on a CVA?

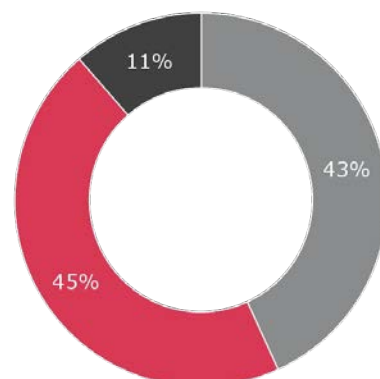


- Ensuring the pension scheme is treated equitably alongside all other stakeholders
- Chance of the CVA succeeding in the longer-term
- Impact on the PPF and PPF drift
- Short-term preservation of the company

Pension lawyers



Restructuring lawyers

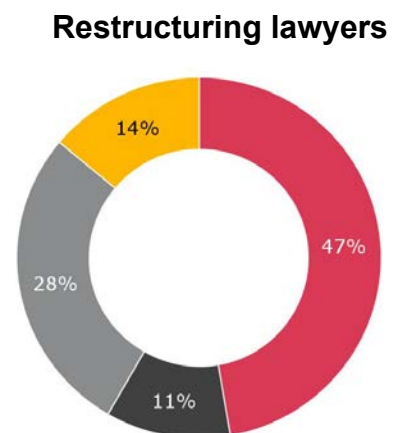
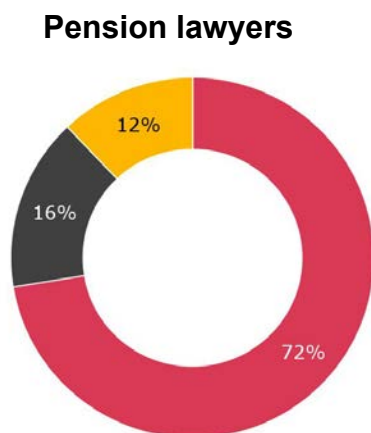
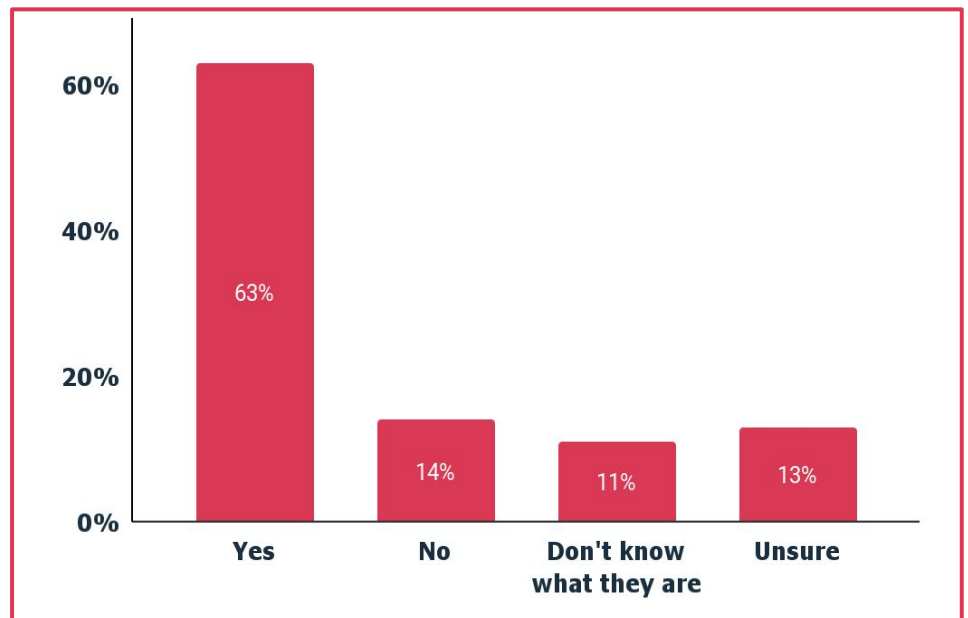


Over 60% of lawyers expect a significant rise in PPF+ compromise deals

72% of pension lawyers are expecting a significant rise in PPF+ compromise deals

- With more distress on the horizon and more pension schemes better funded than previously, this opens the door to an increased amount of compromise deals.
- With DB Superfunds nearing authorisation, we could potentially see more optionality for trustees and companies exploiting PPF+ compromise deals.

Do you expect a significant rise in the number of PPF+ compromise deals in the next three years?



Yes No Don't know what they are Unsure



3

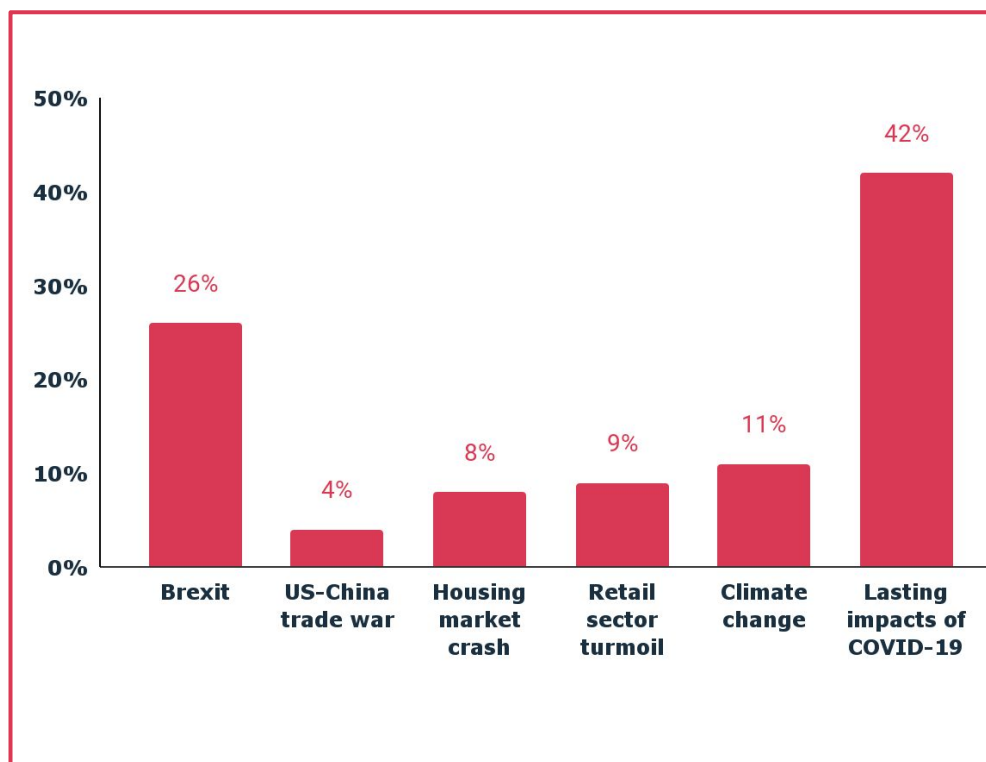
Lawyers give their view
on the recovery of the UK
economy

Lasting impact of COVID-19 is viewed as the biggest threat but an increasing view that climate change will pose an issue

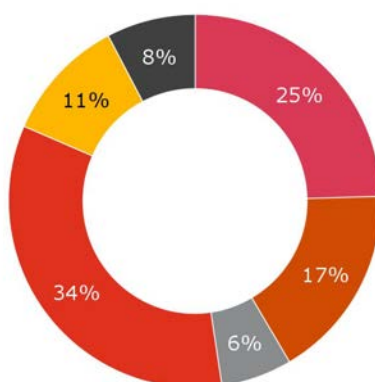
Over 40% of lawyers believe lasting impacts of COVID-19 will be the biggest threat to the UK economy

- 2% of lawyers in 2019 believed climate change would be the biggest threat. This has now increased to 11% demonstrating the view that ESG is becoming more important and should form part of pension scheme risks.
- Restructuring lawyers are more concerned about the lasting impact of COVID-19, highlighting the need to closely monitor covenant as businesses emerge from lockdown.
- 26% of lawyers believe that Brexit is the biggest threat. Lord Gavin Barwell highlighted during the event that recent estimates calculate the impact of Brexit as reducing the size of the economy by 4%.

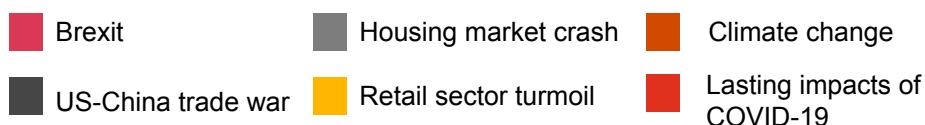
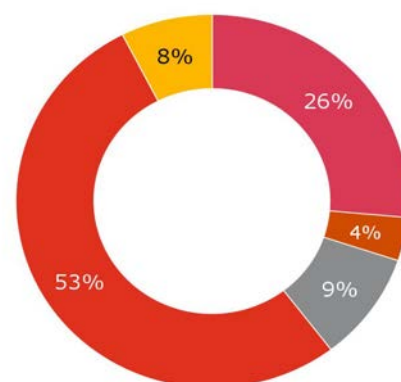
What is biggest threat to the UK economy?



Pension lawyers



Restructuring lawyers

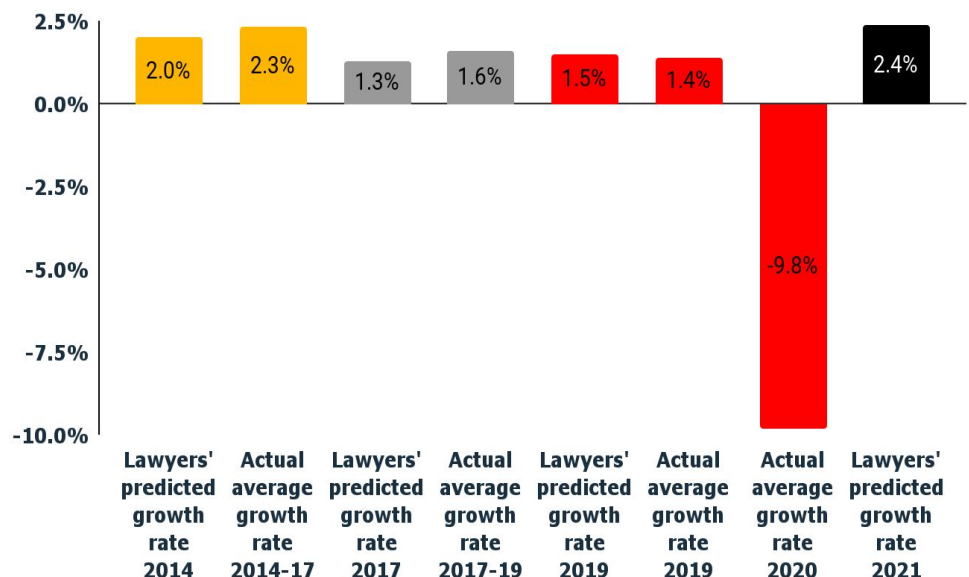


Lawyer's predict 2.4% growth in the UK economy and 50% believe the UK will grow in line with the top 5 countries in the EU

Lawyers have historically been accurate in predicting UK growth rates

- In 2019, lawyers predicted the growth rate in 2019 to be 1.5%, the actual growth was 1.4%.
- Lawyers are predicting 2.4% growth in the UK economy over the next 5 years.
- In a fragmented economy there will be economic winners and losers with TPR highlighting in their 2021 Annual Funding Statement that there are likely to be three categories of businesses emerging from the pandemic: *i) limited impact; ii) initially impacted but now recovering; and iii) impact continues to be material.*

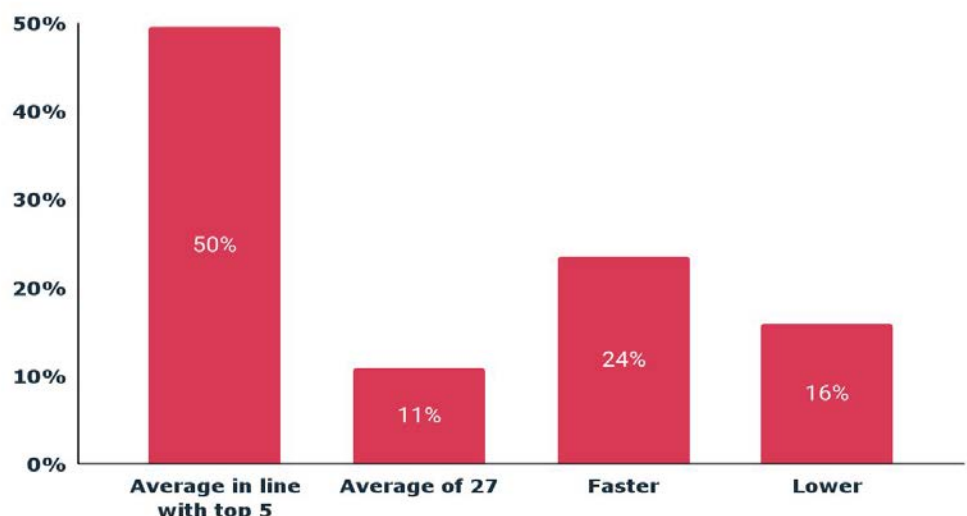
Actual average annual growth rates compared to rates predicted by lawyers



50% of lawyers believe the UK will grow in line with the top 5 EU countries

- In 2019, Brexit was believed to be the biggest threat to the UK economy. Lord Gavin Barwell discussed this result during our event and believes the view of UK growth now being in line with EU top 5 countries has come about from UK's progress in the vaccine rollout versus other European countries.

Now that Britain has left the EU, over the next few years how do you think UK growth will compare with the growth of the EU27?

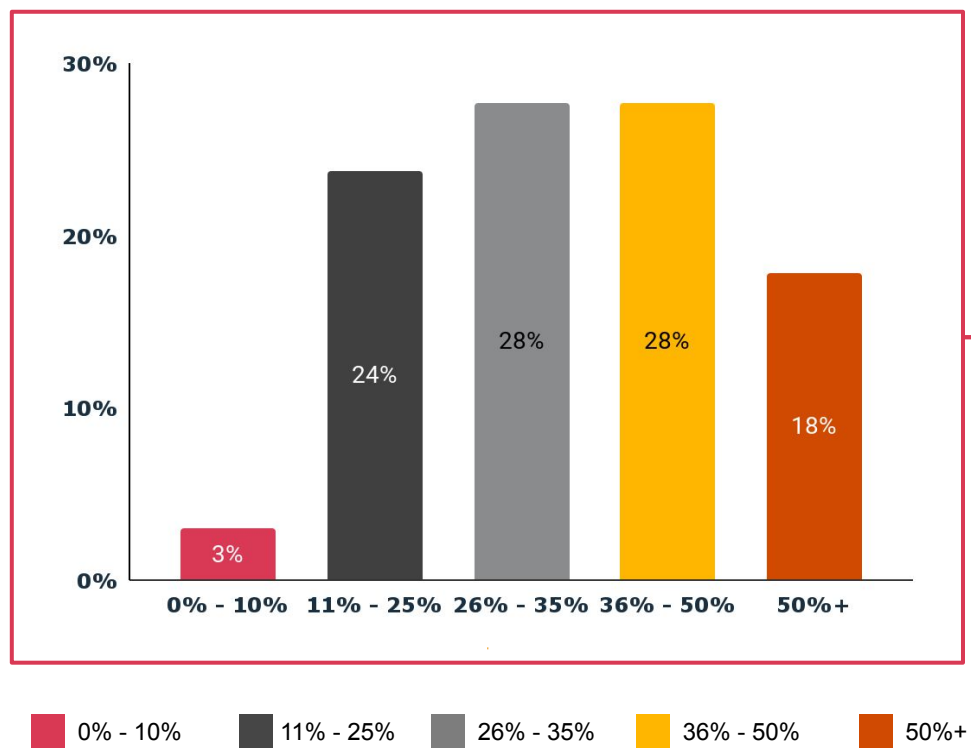


c. 50% of lawyers think that more than 35% of £75bn of Government-backed debt will be written off

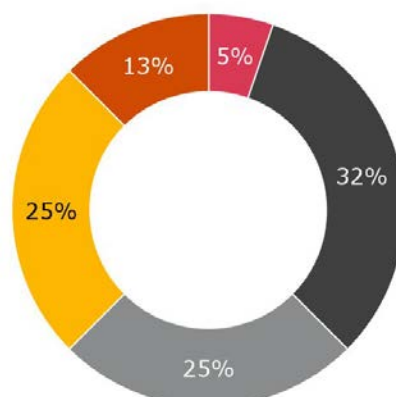
Restructuring lawyers are even more pessimistic with c. 60% believing more than 35% of this debt will be written off compared to c. 40% of pension lawyers

- Around 25% of restructuring lawyers think more than 50% of the £75bn will be written off.
- With such a large amount of debt in UK companies, we expect there to be increased levels of restructurings once Government support tails off.
- Mike Jervis and Jane Steer discussed how the government debt will be repaid during their restructuring market update at the [event](#).

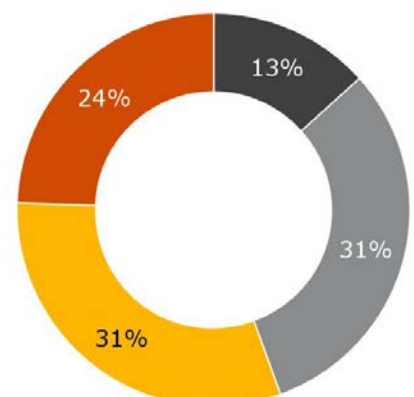
What proportion of government-backed debt (via business interruption loans) do you think will be written off?



Pension lawyers



Restructuring lawyers





4

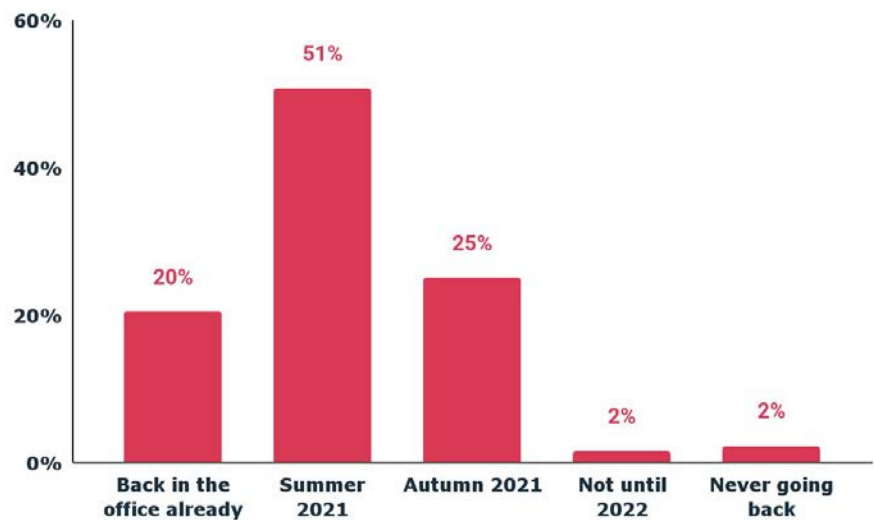
Pandemic shifting the ways
we work?

70% of lawyers will be back in the office by summer, but 9 out of 10 lawyers will not be undertaking as much business travel as pre-pandemic

Over 70% of lawyers expect to return to office working in Summer 2021

- Interestingly, only 4% of lawyers have stated they won't be back until 2022 or will not be returning, which is quite a small proportion.

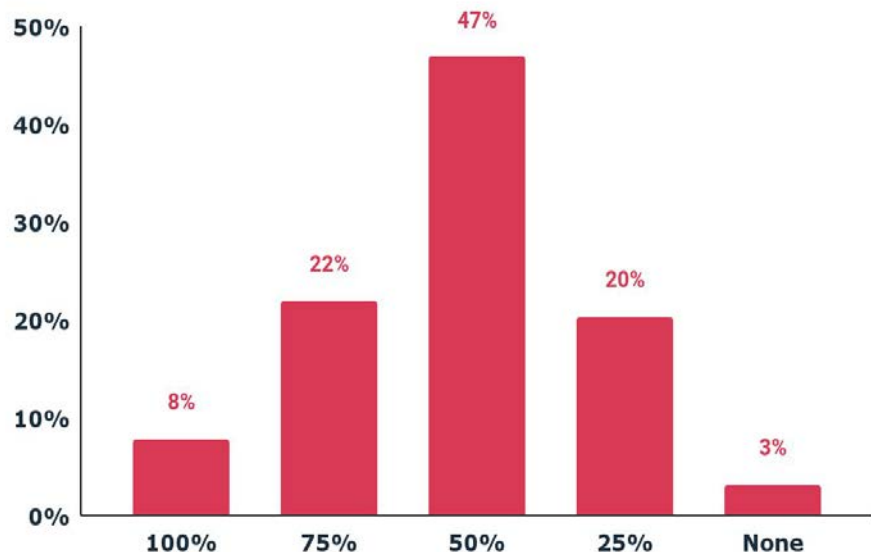
When do you plan to return to the office?



9 out of 10 Lawyers will not be undertaking as much business travel compared to pre-pandemic

- Less than 10% of lawyers will be returning to the same level of business travel as before the pandemic. If this matches the professional community as a whole this will have a big impact on the airline industry.

In two years time, how much business travel do you expect to be undertaking, compared to pre-pandemic levels?





5

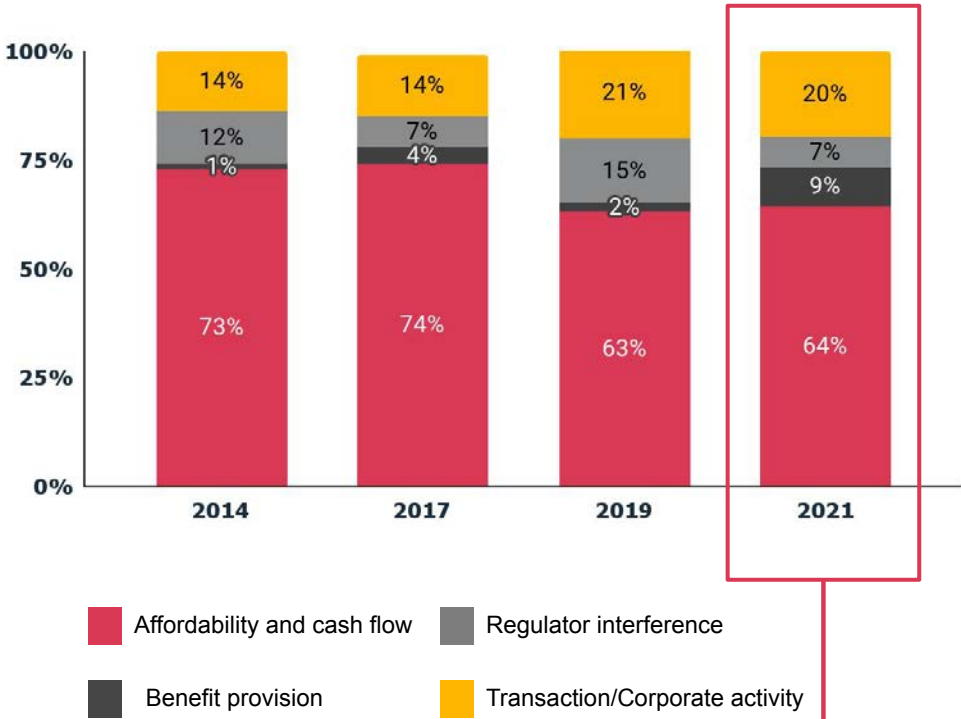
Affordability remains the biggest issue for clients but ESG is becoming increasingly important

Consistent view over the past 7 years that affordability remains the biggest issue for clients

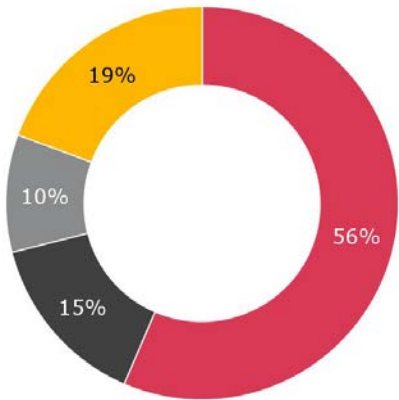
With the UK economy likely to become more fragmented, pensions schemes will be competing with other creditors for cash

- 20% more restructuring lawyers believe affordability is the biggest issue for their clients compared to pension lawyers.
- With affordability posing a risk to pension schemes and government support due to end in Autumn, there could be further deficit repair contribution deferrals on the horizon. It is important that equitability is taken into consideration when assessing these.

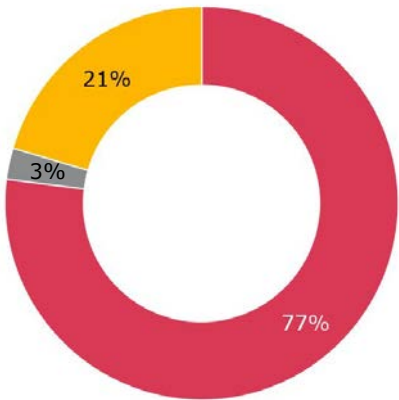
Which of the following is the biggest issue for your clients?



Pension lawyers



Restructuring lawyers

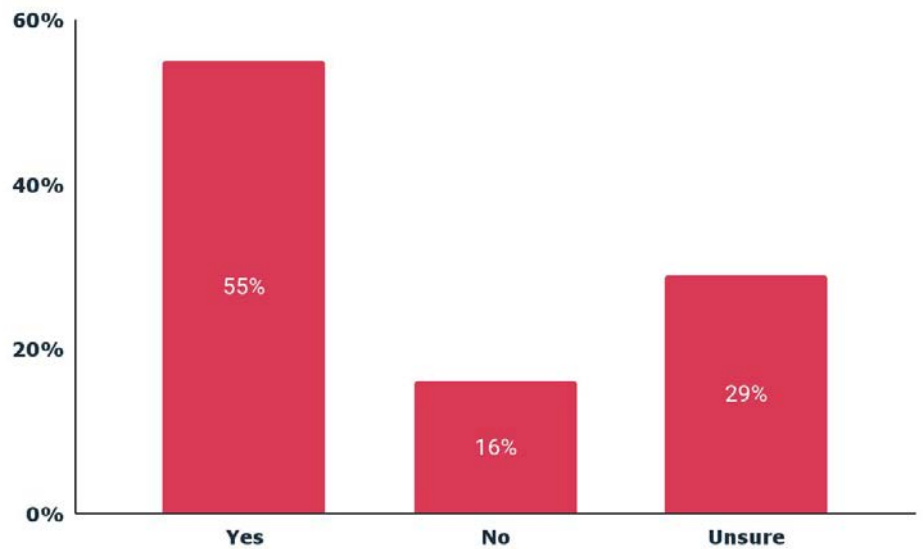


Over 50% of lawyers see ESG as a key risk in assessing long-term covenant

Given the increasing view that ESG is key risk, there is more need for a long-term covenant assessment

- The new Defined Benefit Funding Code will be expecting trustees of pension schemes to have long-term funding targets which will need to incorporate covenant visibility and ESG factors.

Do you believe ESG issues demonstrate the need for a longer-term assessment of sponsor covenant risk?



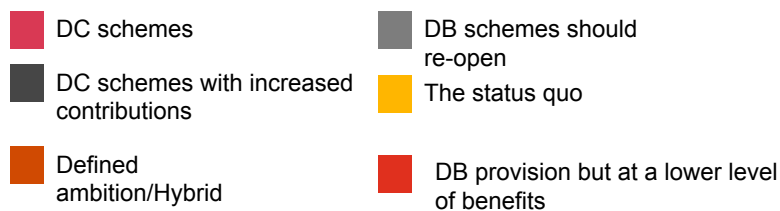
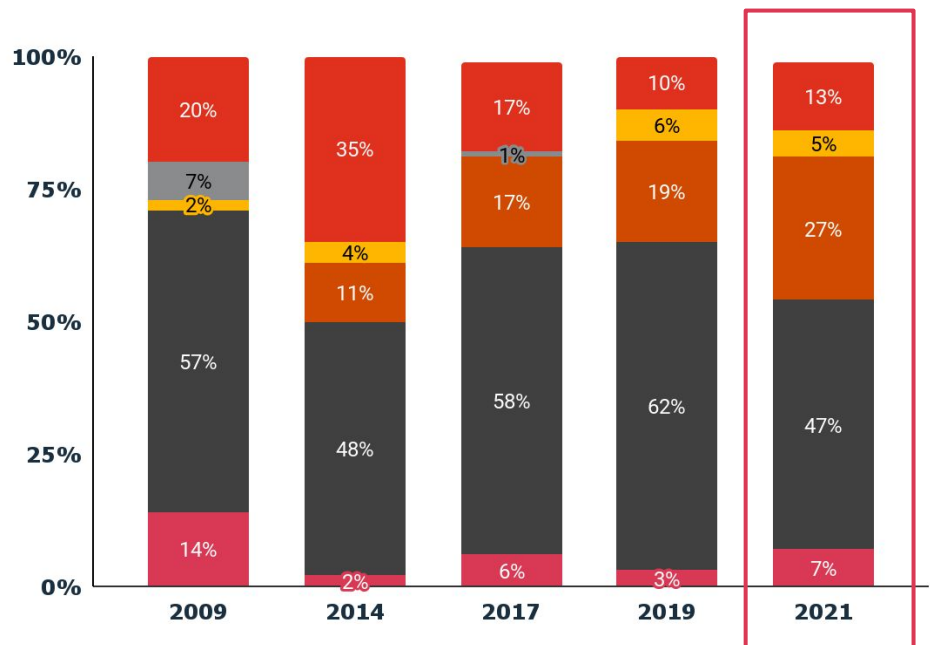
3 out of 4 lawyers believe that hybrid schemes or DC schemes with increased contributions are the right answer for UK pension benefits

Increasing view that DC schemes on their own are not the solution

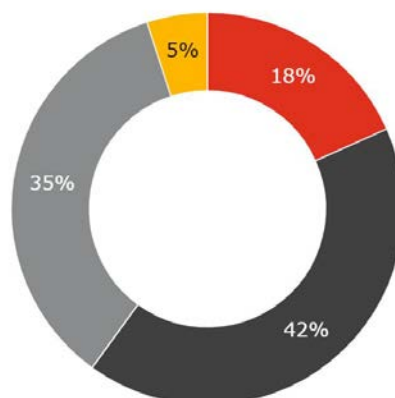
- Lawyers believe there is an increasing need for hybrid schemes.
- This view is more prevalent in pension lawyers who are closer to the market.

“Is there an obligation on all of us to create a better solution?”

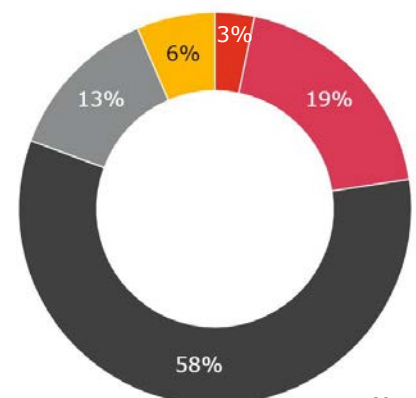
Which of the following is the biggest issue for your clients?



Pension lawyers



Restructuring lawyers





Summary of PwC's Pension and Restructuring Lawyers Event 2021

We brought together a group of around 200 leading pension and restructuring lawyers to discuss 3 key topics:

- A macroeconomic update on the UK economy delivered by Lord Gavin Barwell, who gave his view on the political environment, the current COVID-19 situation in the UK & Globally and what the future looks like for the UK economy.
- Mike Jervis and Jane Steer provided an update on the changes in restructuring and insolvency legislation and discussed if the significant debt in UK companies will be able to be repaid.
- Atul del Tasso-Dhupelia hosted a panel debate entitled "Pension Schemes Act 2021: will it damage the UK's rescue culture?" with Michael Tennet Q.C. (Wilberforce Chambers), Erica Carroll (The Pensions Regulator), and David McCall (NatWest).

You can watch recordings of our live event in the following [link](#). To find out more about this event please contact our Sales & Marketing lead, Catriona Sutherland (catriona.sutherland@pwc.com).

PwC Speakers:



Jonathan Land
Partner
E: jonathan.land@pwc.com
M: +44 (0) 7879 411 796



Mark Jennings
Partner
E: mark.a.jennings@pwc.com
M: +44 (0) 7753 928 103



Lord Gavin Barwell
Senior Advisor
E: gavin.barwell@pwc.com
M: +44 (0) 7710 385 949



Mike Jervis
Partner
E: mike.jervis@pwc.com
M: +44 (0) 7768 336 225



Jane Steer
Director
E: jane.steer@pwc.com
M: +44 (0) 7808 035 618



Atul del Tasso-Dhupelia
Director
E: atul.dtd@pwc.com
M: +44 (0) 7703 563 690



Dhrupti Shah
Senior Manager
E: dhrupti.shah@pwc.com
M: +44 (0) 7525 280 946

Editors:



Abhishek Poddar
Manager
E: poddar.abhishek@pwc.com
M: +44 (0) 7802 661 160



Ashleigh Parker
Senior Associate
E: ashleigh.parker@pwc.com
M: +44 (0) 7483 422 810



Henry Bolton
Associate
E: henry.bolton@pwc.com
M: +44 (0) 7483 935 283

