

Trustee options for dealing with deficits

This note gives general information on the options open to trustees of defined benefit schemes when their scheme has a deficit. It does not advocate any particular course of action. In all cases where a scheme has a deficit, scheme trustees should get professional actuarial advice, and, if appropriate legal advice.

Since 2007, most defined benefit schemes do not satisfy the statutory minimum funding standard. Every year, the trustees of defined benefit schemes must prepare a trustee annual report. This report must include an opinion from the scheme's actuary about whether the scheme satisfies the statutory minimum funding standard at the date of the report. If the standard is not satisfied, the scheme is in deficit and the trustees will be required to take specific action to deal with this deficit.

Broadly speaking, there are a number of ways to deal with a deficit:

1. Pay an immediate lump sum
2. Pay additional contributions (which could include employer and/or employee contributions) over an agreed period
3. Reduce the benefits already provided under the scheme

In many cases, the solution will be a combination of some of the above options. In all cases, the trustees should discuss and agree the proposed solution with the sponsoring employer. Where additional contributions will last for more than three years or where benefits already granted are being reduced, the consent of the Pensions Board will be needed.

Where a solution cannot be agreed, or an affordable solution cannot be found, it may be necessary to wind-up the scheme.

The Board is not advocating any preferred approach. The Pensions Board recognizes that in many cases this is a very difficult decision and that each scheme will have a different answer.

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