

Circular 07/2021

3 September 2021

To: Chief Executives

At: All Employing Authorities

Dear Colleague

### **NILGOSC Triennial Covenant Assessment Exercise 2021**

NILGOSC undertakes an assessment of employer covenants on a triennial basis as part of its risk management and funding strategy and regularly monitors covenants between triennial assessments. The employer covenant refers to the employer's legal obligation and financial ability to meet scheme liabilities now and in the future. As detailed below, you are required to provide specific information to enable the covenant assessment exercise to be carried out.

The purpose of employer covenant assessment is to assess the strength and reliability of each employing authority in the pension scheme to help determine if there is any risk that an employer may not be able to meet its pension liabilities. The covenant assessment therefore helps mitigate the risk of an employer's pension liabilities being spread across the other employers in the scheme in the event of default. Note that the assessed strength of an employer's covenant will give due consideration to the nature and enforceability of the legal agreements in place between the employer and the pension scheme along with consideration of a range of other factors.

The employer covenant assessment will enable NILGOSC to respond to any indications of an employer's inability to meet its current and future pension liabilities, and therefore its eligibility to be categorised in the main employer group, and to avail of the common employer future service contribution rate, currently 19.5%. Accordingly, the information you provide will form part of the 2022 valuation process, including the setting of employer contribution rates. Employers assessed as having a weaker covenant and/or a limited period of participation in the scheme may be assigned a higher contribution rate going forward. Failure to provide the information requested as part of this 2021 triennial covenant assessment exercise will result in the conclusion that the covenant is weak.

To enable the 2021 triennial covenant assessment exercise to be completed, it is essential that you complete and return the attached Employer Covenant Assessment Form along with a copy of your latest audited accounts and forecast cash flows for the next three years (where available).

Please note that, due to the nature of the information required and the purpose for which it will be used, it is essential that you, as Chief Executive, are satisfied that all relevant information has been provided and therefore it is requested that you review and sign the Employer Covenant Assessment Form prior to submission to NILGOSC. An electronic signature will suffice.

Please return the required information by e-mail to [covenant@nilgosc.org.uk](mailto:covenant@nilgosc.org.uk) by **Friday 1 October 2021**.

In addition to completing the Employer Covenant Assessment Form it is important that you alert NILGOSC to any of the following as soon as you are aware they are to take place:

1. Change in company structure, including takeovers and mergers
2. Change in nature of business or constitution
3. Change in funding basis
4. Change with respect to the guarantor in place for pension liabilities
5. Change in scheme membership, including restructuring and outsourcing
6. Change to employee terms and conditions which would impact on the pension scheme
7. Any other event that may affect continued participation in the fund

If you are aware of any significant events as noted in points 1-7 above, please communicate the relevant information to me by e-mail at [janice.houston@nilgosc.org.uk](mailto:janice.houston@nilgosc.org.uk).

I would like to thank you for your participation in this process and if you have any queries, please do not hesitate to contact me.

Yours sincerely

Janice Houston  
Investment Accountant  
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