Taking a proportionate approach to assessing the employer covenant

The covenant should be assessed and monitored with a level of detail and frequency proportionate to the circumstances of the scheme and employer. Some of the factors affecting whether a more or less detailed approach or a more frequent review is needed are set out below (the list is not exhaustive). Trustees should take into account all the factors relevant to their scheme when deciding on the required depth and frequency of review.

Factors suggesting a less detailed approach and/or a less frequent review (eg every three years)	**Factors suggesting a more detailed approach and/or a more frequent review**
The structure of the employer is straightforward, eg the employer is a single company which is not part of a group or has minimal interactions with its group.	The covenant is complex, eg the employer is part of a large group with a complex legal and operational structure.
The scheme has a low deficit on a prudent basis in the context of the employer's profitability and cash flow.	The scheme is under-funded and will require material DRCs and investment returns to reach full funding.
The employer is large relative to the size of the scheme and generates significant cash flows relative to the funding needs of the scheme.	The employer is small relative to the scheme and generates limited cash flows relative to the funding needs of the scheme.
The employer is able to invest in sustainable growth while making sufficient contributions to the scheme.	The employer is planning to invest in sustainable growth which will constrain the level of funding available to the scheme in the short term.
There are no significant competing calls on the employer's cash flows (eg debt repayments).	There are material calls on the employer's cash flows, for example it has significant debt repayment obligations which restrict the affordability of contributions to the scheme.

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Factors suggesting a less detailed approach and/or a less frequent review (eg every three years)	**Factors suggesting a more detailed approach and/or a more frequent review**
The operations of the employer have not changed since the last review was undertaken (relevant only if the last review was undertaken within the last three years).	The employer has undertaken material corporate activities, for example acquisitions or restructurings.
The employer operates in a stable sector.	The sector in which the employer operates is subject to significant change.
The investment strategy is lower risk and there is minimal reliance on the covenant to support downside investment performance.	The investment strategy is higher risk and the scheme may require materially increased support from the employer in a downside scenario.
The employer is open and transparent in its discussions with the trustees and provides, on time, the information they require to assess and monitor the covenant.	The employer does not co-operate with the trustees and instructs them to rely only on publicly available information.

The Pensions Regulator