The UK's Leading DB Pension Superfund

What is Connected Covenant?

Connected Covenant

Connected Covenant is an optional 'bolt on' to Clara's standard Bridge to Buy out solution. It is designed to provide additional reassurance for members, sponsors and trustees, while retaining the same overall structure and objectives as Clara's core offering.

Clara's structure includes clear, pre defined triggers to protect members and strengthen oversight. If total assets fall below the scheme's Technical Provisions, Clara's capital buffer is moved into the section and comes under the direct control of the Clara Trustees. This gives the Trustees full control of all assets and the ability, if appropriate, to move directly to buy out and wind up the scheme. Importantly, no return can be made on Clara's investment once this trigger occurs, creating a strong incentive to avoid it being met.

In addition, a wind up trigger applies if funding within a section were to fall further (below 105% of Section 179 liabilities). In this scenario, the section would be wound up, subject to a defined cure period.

Together, these measures support early intervention, strong trustee control and clear protections for members throughout the journey to buy out. Clara also retains the flexibility to inject additional capital at any point to prevent these triggers from being reached, ensuring member benefits remain secure.

Together, these measures support early intervention, strong trustee control and clear protections for members throughout the journey to buy out.

Additional sponsor backstop

With Connected Covenant, in the highly unlikely event (less than 1%) that a wind up trigger is breached, responsibility falls back to the ceding sponsor to restore funding to a pre agreed level, to avoid a wind-up scenario, should Clara not do so itself. An additional Section 75 safeguard can also be included, ensuring that if a Section 75 debt would otherwise have arisen, a payment is made directly to the Clara Pension Trust to support transferred members.

Aside from these additional protections, Connected Covenant operates in the same way as Clara's standard structure. The ceding scheme transfers in full and is wound up, and the sponsor's only ongoing obligation is a contingent liability to Clara, rather than to the scheme itself. Because of this, Clara has the ability to tailor the specifics of the Connected Covenant protection to a wide range of scenarios, for example including caps and floors in terms of time or amount of the obligation or to carry over the benefit of an existing security structure.

As the scheme has wound up, it is treated as settled for accounting purposes, with the contingent liability disclosed as a note to the accounts. Importantly, the Connected Covenant structure is taken into account by The Pensions Regulator as part of its assessment of the third Gateway Test, providing further regulatory comfort that the arrangement is in members' best interests.

Which schemes are suitable for a Connected Covenant bolt on?

Connected Covenant may be appropriate for schemes that cannot yet afford insurance buy out, but have a strong sponsoring employer that wishes to settle its pension liabilities.

Where a covenant assessment shows that the sponsor's strength materially improves member security, Connected Covenant can provide additional protection, alongside the capital contributed by Clara at the outset.

Delivering Connected Covenant

Clara completed its first transaction using a Connected Covenant structure with the Church Mission Society Pension Scheme. Around 730 members and £55m in assets transferred to Clara, supported by financial contributions from both CMS and Clara.

The structure allows CMS to continue providing a contingent guarantee alongside Clara's capital buffer, adding an extra layer of security for members as the scheme progresses towards buy out.

MYO St Paul’s
One New Change
London EC4M 9AF

solutions@clara-pensions.com

clara-pensions.com