Defined Benefit funding code

Funding regime and code of practice

Helen Forrest Hall

Head of Regulatory Communications

In May 2016

WPC enquiry on BHS

In May 2016, our then CEO appeared at a Work and Pensions Committee enquiry on BHS following the company going into administration. The committee asked questions about earlier actuarial valuations and how we had engaged with the scheme trustees.

Our work ultimately produced an excellent deal to protect members benefits with 360 million of additional funding. This started to shine a spotlight on the funding regime.

Protect members benefits and

360 Million

In February 2018

Our CEO returned to discuss Carillion

In February 2018, our CEO returned to the Committee to discuss Carillion. An organisation we'd engaged with extensively on valuations of their schemes but struggled to make the case for faster funding.

This was the backdrop to the White Paper on DB Funding which was published in March 2018 to review the DB funding system.

The paper concluded that while the system was working largely as intended, in some schemes the security of member benefits was at risk. The paper cited short-term thinking, lack of accountability and transparency over risk taking, and difficulties in taking effective regulatory action.

This was the backdrop to the

White paper on DB funding

6½ years since the white paper was published

Following the paper, the government announced a package of measures. These covered avoidance and funding, to deal with parties who abused the system.

On the funding side, the aim was for better long-term planning and risk management. The measures also sought a better balance of flexibility for scheme specific approaches, with clear funding standards to support trustees.

It's 6½ years since the white paper was published. The subsequent action has taken longer than everyone expected, but the tumultuous events of the last few years impacted everything; including this project. However, everything is now in place for trustees to follow the new requirements.

Andrew Dodd
Interim Head of Supervision, The Pensions Regulator

OVERVIEW

of the new DB funding package

Martin McNamara
Actuary, The Pensions Regulator

Funding and Investment Strategy (FIS) requirements

low dependency by significant maturity

Katrina Martland
Lead Covenant Financial Analyst,
The Pensions Regulator

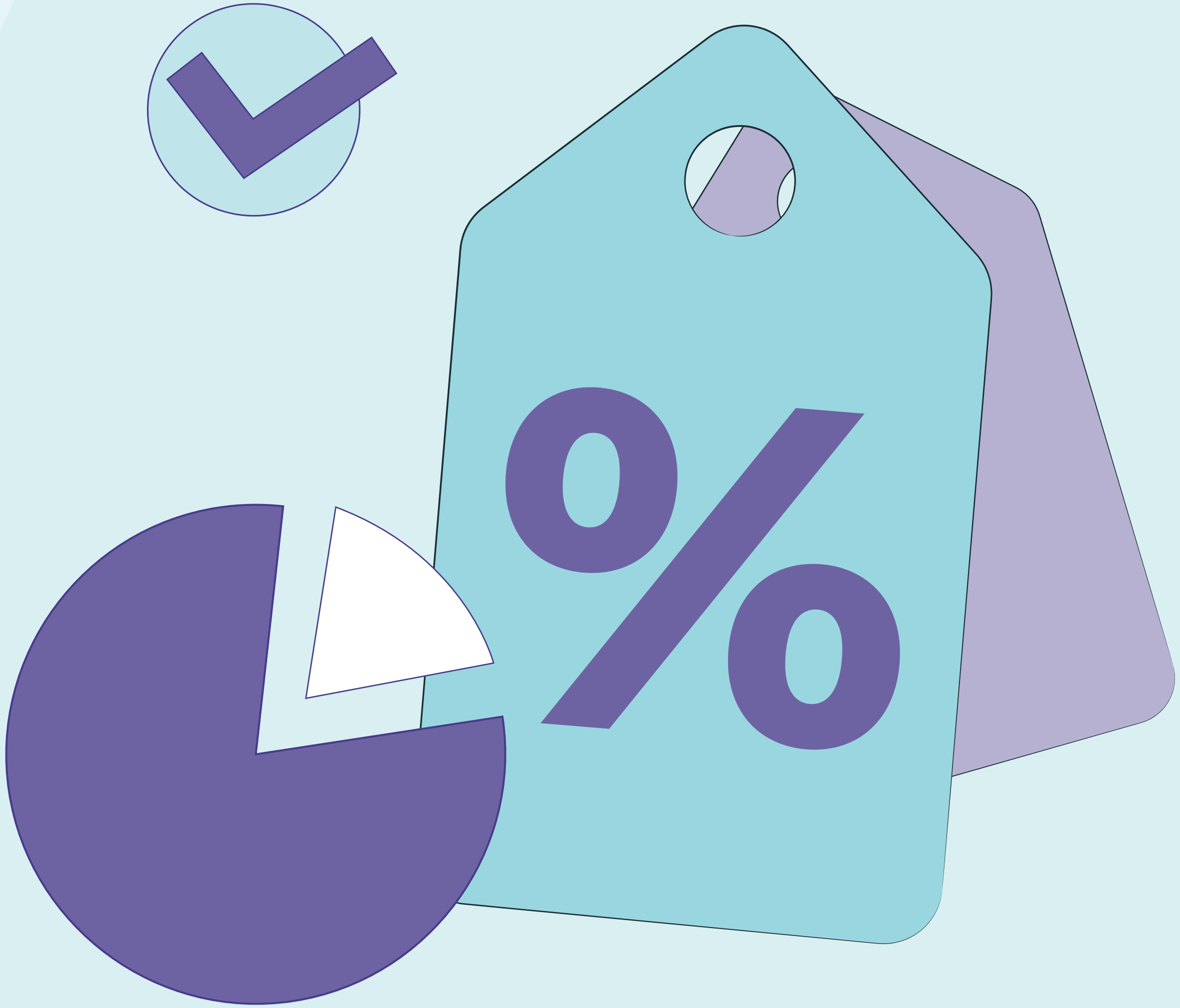
Guidance on employer covenant

Key new periods of reliability and covenant longevity

Martin McNamara
Actuary,
The Pensions Regulator

How the FIS applies to scheme valuations

Guidance on setting technical provisions consistently with the FIS



Katrina Martland
Lead Covenant Financial Analyst,
The Pensions Regulator

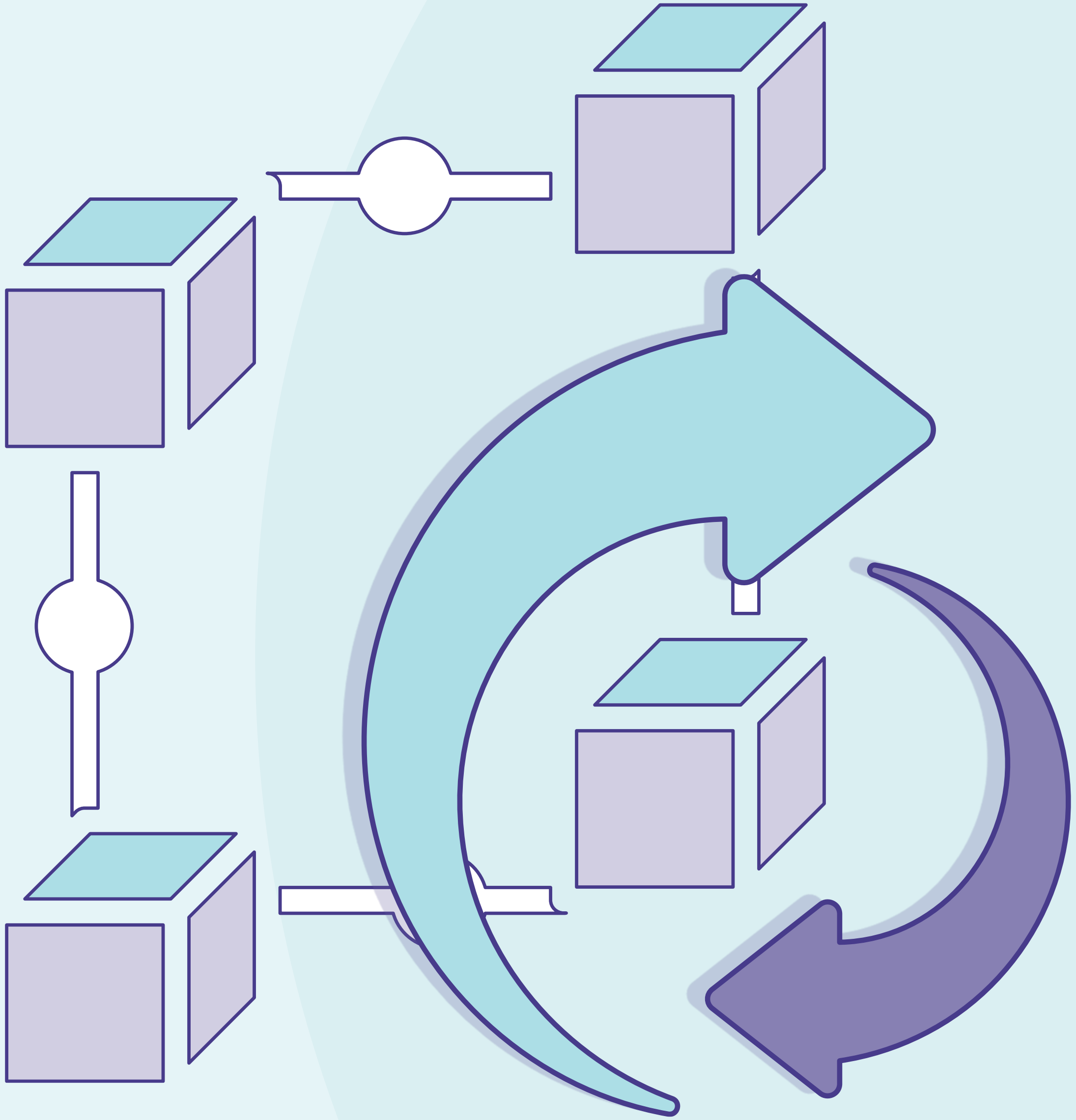
Trustees' considerations

When agreeing recovery plans

Andrew Dodd
Interim Head of Supervision, The Pensions Regulator

Our approach to regulating valuations

Statement of strategy



Resources from today's session will be available through:

- Downloadable slides
- Useful links document
- Webinar recording

Appreciate your feedback

On today's webinar

DB funding package

The new funding regime builds on its predecessor

The DB Code is the fruition of 6 years of hard work.

We consulted on the code twice and helped DWP ensure legislation was in place to support schemes undertaking a valuation on or after 22 September this year. The engagement that we had across the industry combined the many consultations responses we received, helped to get the balance between scheme specific flexibility and clearer standards in the final code.

As a package, the new funding regime builds on its predecessor and best practice to ensure better long-term planning and risk management.

DB funding regime

Government objectives:

Long term planning and risk management; accountability and transparency; effective and efficient regulation of DB

It's important to understand how the whole package fits together. Trustees are obliged to comply with the legislation in the Pensions Scheme Act and Funding and Investment strategy regulations.

The code provides the trustees with the tools and guidance they need to comply, clearly setting out our expectations when approaching the funding of DB schemes.

Pension Schemes Act 2021
Primary legislation

Funding and Investment Strategy Regulations 2024
Secondary legislation:
what trustees must do

DB Funding Code
Our expectations on how to comply

Snapshot of the funding regime

Long-term planning

Funding and Investment Strategy

Low dependency by significant maturity (a minimum)

Funding journey plan determined by supportable risk (employer covenant, maturity)

'Current' funding position

Actuarial Valuation

Statutory funding objective

TPs consistent with the FIS

If required, Recovery plan based on reasonable affordability (sustainable growth)

Report and assess

Information to TPR

Statement of strategy

All actuarial valuations

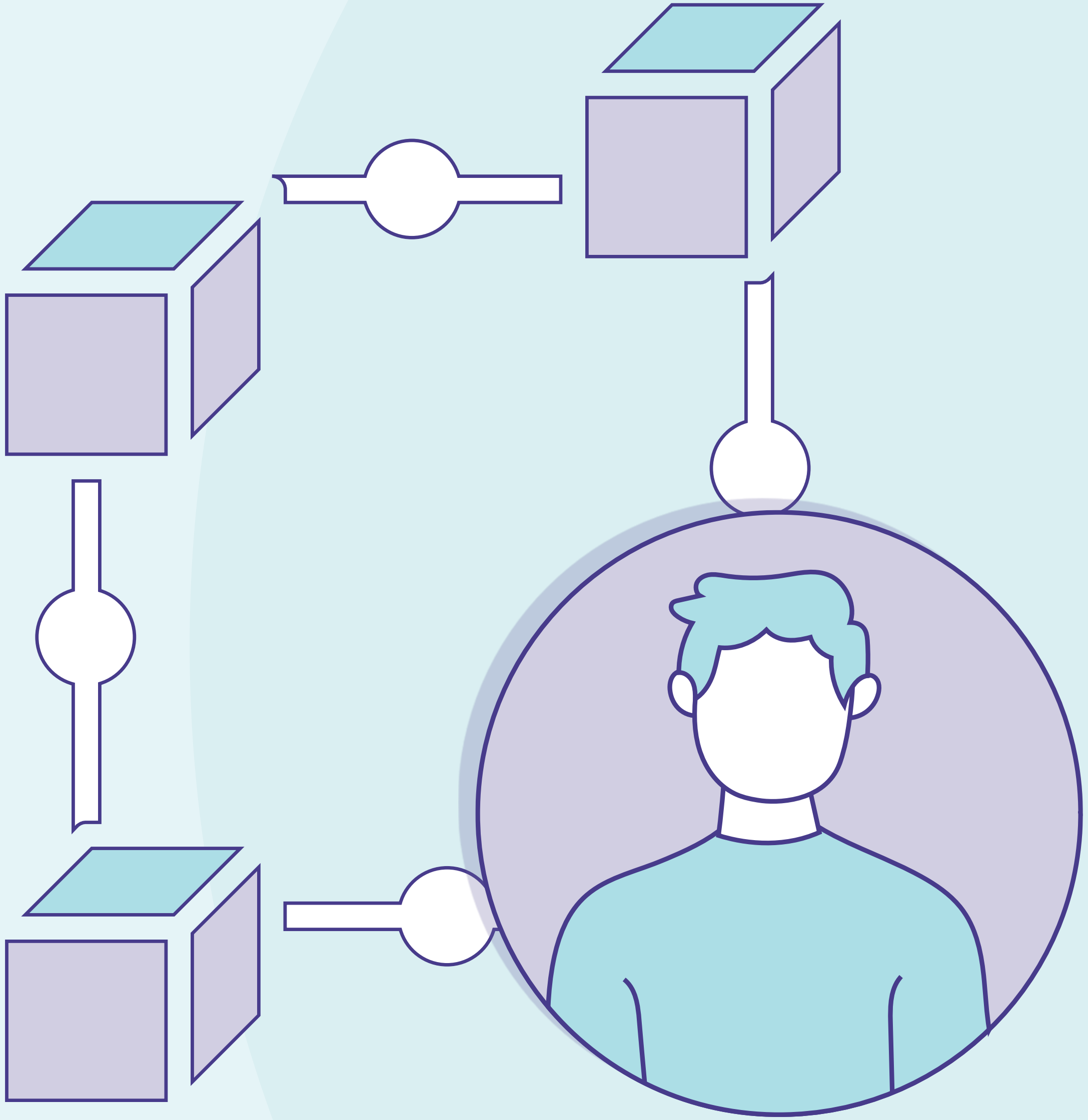
Recovery plan (if required)

Schedule of contributions (if in deficit)

What's different from the previous regime?
(previous slide explained)

- That trustees must now plan for low dependency on their employer by the point of significant maturity, and we will explain what we mean by both of those terms today.
- Trustees must set a journey plan from their current position to low dependency at a future date, taking risk that is supportable based on the employer covenant and the time they have available.
- These two aspects form the Funding and Investment Strategy or FIS, and the scheme’s technical provisions must now be set consistently with that strategy.
- The statutory funding objective, to have sufficient assets to cover your technical provisions, remains. But now, if there is a deficit, the recovery plan must be based on the reasonable affordability of the employer, whilst taking account of the impact on the employer’s sustainable growth.
- The trustees must set out the FIS and other matters in the statement of strategy and send it to us. And we’ll be seeing that for all actuarial valuations, not just those where there was a deficit.

Changes in the new legislative framework



Legislation

Low dependency by significant maturity

Schemes will need to have a long-term funding and investment strategy. As part of this, they must reach something called a ‘position of low dependency’ and this needs to be done by a time known as ‘significant maturity’.

What does low dependency mean? To consider that, we need to think about what low dependency means for both investment and funding.

For investment, regulations define an investment strategy called the low dependency investment allocation (LDIA).

For funding, regulations define an actuarial basis, a set of assumptions to value the liabilities, called the low dependency funding basis (LDFB). These assumptions depend on that low dependency investment allocation.

To be in a state of low dependency the scheme needs to be fully funded on the low dependency funding basis.

This state of low dependency must broadly happen by the time the scheme reaches significant maturity. To determine this, the scheme must know how to measure the maturity of a scheme, and then once that is done, compare it to a defined point of significant maturity.

Low dependency investment allocation

▼

Low dependency funding basis

▼

Significant maturity

Low dependency

investment and funding

Investment
Low Dependency Investment Allocation (LDIA)

Legislation
Strategy is highly resilient to market conditions

The legislation says that under this strategy the value of the assets relative to the value of the scheme’s liabilities is highly resilient to short-term adverse changes in market conditions.

This means that we would expect assets to move broadly in line with liabilities and vice versa, so for example where the liabilities increase because of market movements then, under this investment strategy we would expect assets to move similarly.

In this way, for schemes that are fully funded, a large deficit should not suddenly arise because of market movements, and therefore no further employer contributions may be expected to be required because of the investment strategy.

The Code gives more detail of our expectations in this regard and makes clear there is a lot of flexibility in setting this strategy. It is not prescriptive; instead, it offers principles for trustees to consider, rather than rules.

The code makes clear that the LDIA can include some growth type assets like equities or investments in productive finance, as well as matching assets like gilts or bonds.

Schemes are not actually required to invest in line with the LDIA, or indeed the Funding and Investment Strategy more widely, although we expect many will do. This is a deliberate move to avoid undermining trustees existing powers on investments.

Where the LDIA is essential, is in determining funding at low dependency.

Low dependency
investment and funding

At low dependency, a scheme must be fully funded on a low dependency funding basis which is set with reference to the LDIA irrespective of what the scheme is actually invested in.

The low dependency funding basis is a set of assumptions both financial and demographic which is used to value the scheme benefits for each of the members.

The legislative requirement is that if the scheme is fully funded on the low dependency funding basis, then no further employer contributions are expected, and the code makes clear this should be the expectation under reasonably foreseeable circumstances.

This expectation of no further employer contributions, echoes that in the LDIA and is a key requirement for low dependency. This is only an expectation, and it is possible further contributions might be needed as the requirement is for “low dependency” not “no dependency” on the employer.

As we have said, the scheme must reach a position of low dependency broadly by the time the scheme is significantly mature.

To work this out first we must consider how to measure the maturity of the scheme and there are different ways of doing this.

Maturity can be thought of broadly as how “old” a scheme is, with older schemes closer to making a final payment to the final member.

Funding
Low Dependency Funding Basis (LDFB)

Legislation
No further employer contributions expected

- **Member Information**
- **Scheme Benefits**
- **Demographic Assumptions**
- **Financial Assumptions**

Low dependency liabilities

How much is needed by significant maturity to provide benefits without further employer contributions expected

When to reach low dependency

Legislative principle: FIS must set out the low dependency funding target they intend to achieve by the time the scheme is significantly mature

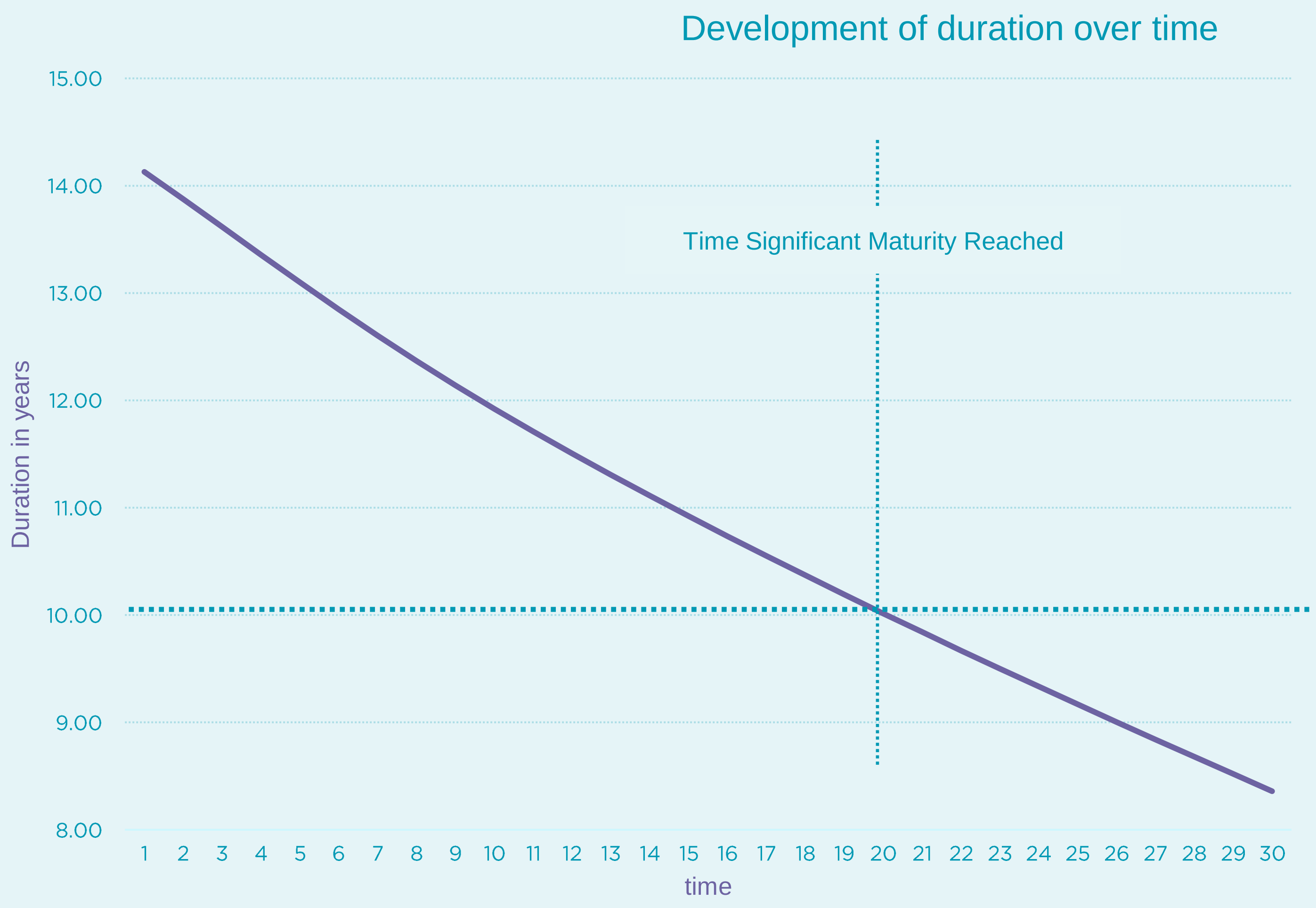
Maturity measured using duration (broadly average time to payment)

Significant maturity for most schemes will be duration 10

Relevant date

Pre significant maturity– no later than the end of scheme year in which the scheme reaches significant maturity

Post significant maturity – effective date of the valuation to which the FIS relates



When to reach low dependency
(previous slide explained)

Under legislation a measure called duration must be used to measure maturity. Duration is broadly the average time of when all the payments due from the scheme are to be made.

This means, perhaps counter-intuitively, that the more mature the scheme is the lower its duration. The solid line in the graph shows how the duration changes over time, with duration getting lower as the scheme becomes more mature.

A scheme reaches a point of significant maturity when it reaches a defined duration.

The regulations set out that this will be specified in the code. For most schemes this is when the scheme reaches a duration of 10 years.

In the graph the horizontal dashed line represents a duration of 10 years, and the graph shows when the scheme will reach significant maturity, which in this example is in roughly 20 years' time.

So far, we have referred to significant maturity as the key determinant for reaching low dependency. But the key metric is something closely related to this, and it is known as the "relevant date."

For schemes who have not reached significant maturity the relevant date is not later than the end of the scheme year in which the scheme reaches significant maturity.

Considering maturity provides an excellent opportunity to discuss open schemes which are a critical part of the universe of pension schemes.

Maturity and open schemes

Introduced a new section collating code expectations on open schemes

Open schemes have different characteristics to closed schemes, and we have highlighted where this means our expectations are different for open schemes in the code.

We have also introduced a new section in the code collating all those expectations for open schemes.

One important area where open schemes have different characteristics is in projecting future maturity. Open schemes can allow for new entrants and future accrual.

This means it can take longer for those schemes to be expected to reach significant maturity and therefore low dependency.

Because of this extra time, it means the technical provisions of the scheme used in the valuation can be lower than an equivalent closed scheme.

These assumptions used by open schemes for new entrants and future accrual in projecting future maturity can therefore be very important and we set out our expectations for them in the Code.

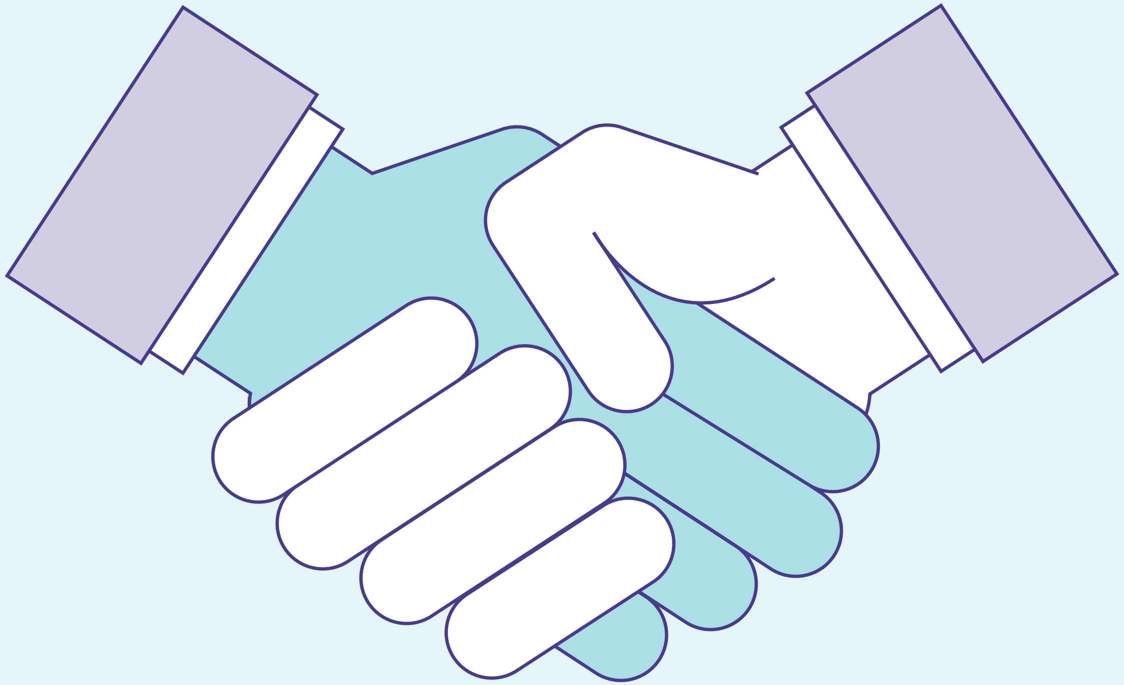
Allowing for future accrual and new entrants will mean an open scheme can be expected to take longer to reach significant maturity than an equivalent closed scheme

This will mean the technical provisions assumed for an open scheme can be lower than an equivalent closed scheme of the same maturity

Code sets out the assumptions we expect to be used for new entrants and future accrual

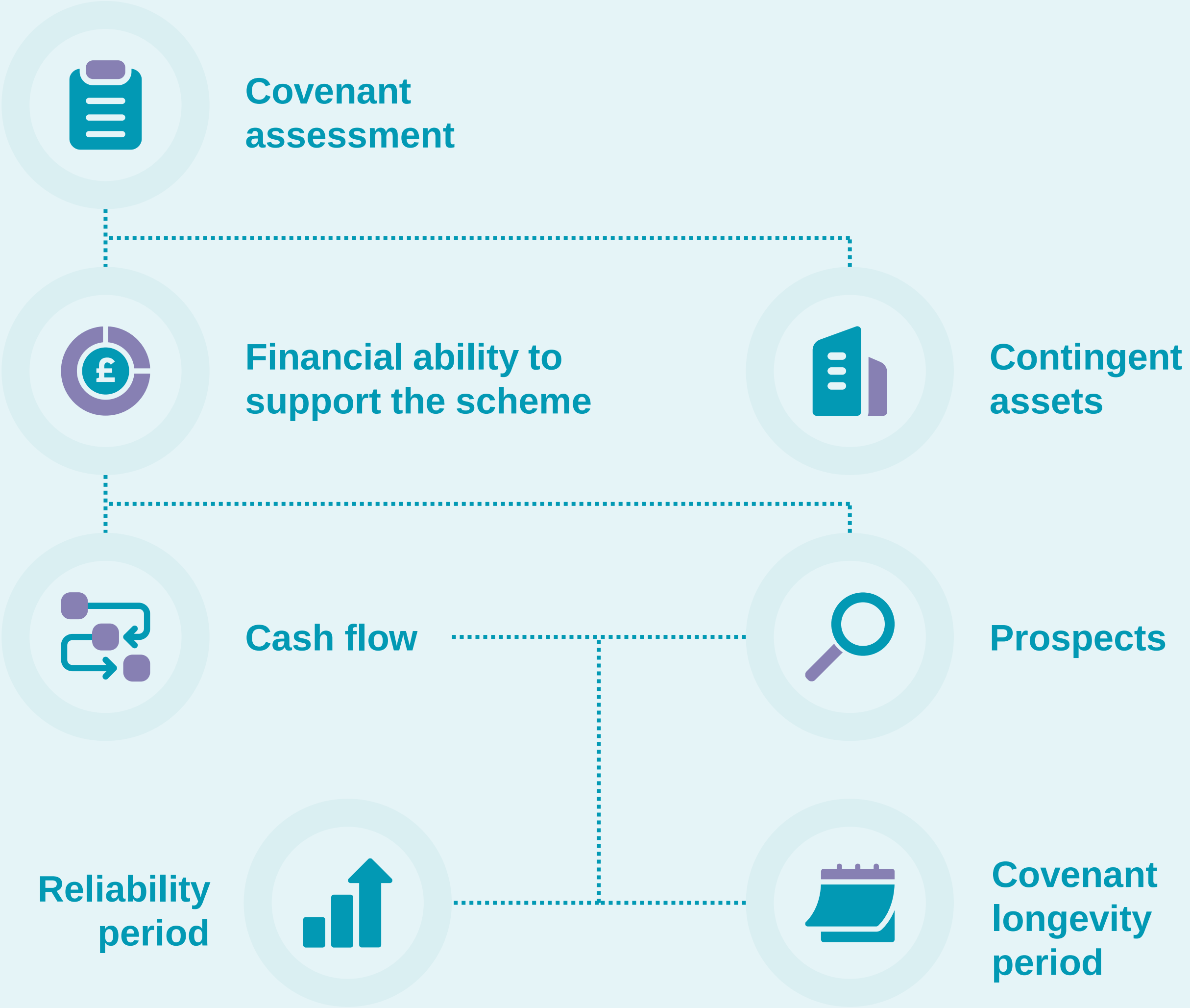
FIS

Employer covenant



Employer covenant

Legislative principle: Funding risk assumed in the journey plan should be dependent on the strength of the employer covenant and, subject to that, the maturity of the scheme



First time covenant recognised in legislation

Key to assessing supportable risk and appropriateness of recovery plans (reasonable affordability)

Looks to embed current good practice

Proportionate covenant assessment expected for all schemes

Covenant ratings not sufficient – must evidence risk is supportable

Employer covenant (previous slide explained)

Although the concept of assessing the employer covenant is not new, this is the first time that it has been explicitly recognised in the legalisation as a key underpin for supportable risk before the relevant date.

Building on the definition of covenant as set out in legislation, the code provides further detail on the two main areas that trustees should consider when assessing their covenant.

This includes understanding the financial ability of the employer to support the scheme based on its legal obligations; and any additional support that can be provided to the scheme from existing contingent assets.

When assessing the financial ability of the employer to support the scheme, trustees should start by considering the employer’s current and future cash flows. Trustees should understand the level of cash that will be available to the scheme to pay any existing deficit through their recovery plan and to remedy any additional deficit that may arise if there were to be a scheme stress event.

Furthermore, trustees must form a view on the employer’s prospects. This will help determine the extent and duration of reliance that trustees can place on the employer to continue to support the scheme. Factors to consider include the employer's market position and outlook, the strategic importance of the employer within the wider group, where applicable, the employer's balance sheet resilience, as well as environmental, social and governance factors, among other things.

Once trustees have formed a view on the employer’s cash flows and prospects, they can use this assessment to determine **the employer’s reliability period.** This is the period over which trustees can be reasonably certain of the employer’s cash flows.

The code goes into more detail on how trustees can determine this period and sets out our general expectation that for most schemes, this period will be between 3 to 6 years. We note, however, that the reliability period may be shorter or longer depending on employer circumstances.

Trustees should also consider covenant longevity. This is the period in which trustees can be reasonably certain that the employer will be able to continue to support the scheme. We expect this period to be no more than 10 years for most schemes.

In addition to looking at the financial ability of the employer to support the scheme, trustees should also consider **any contingent asset support** provided to the scheme.

Employer covenant (previous slide explained cont…)

When assessing contingent asset support, the code is clear that trustees should only rely on a contingent asset to support additional risk-taking where they can reasonably expect that it is legally enforceable and is sufficient to provide the specified level of support when required.

This is an area where we are keen to improve general market practice and will provide further guidance on how to quantify the value of a contingent asset in the updated covenant guidance.

Although the code touches on various types of contingent assets, it also introduces the concept of a look through guarantee which effectively replicates the obligations of the employer onto the guarantor. Where a guarantee is structured in such a way, the trustees are able to assess the guarantor as if it were an employer of the scheme and therefore can factor the guarantor into their assessment of cash and prospects.

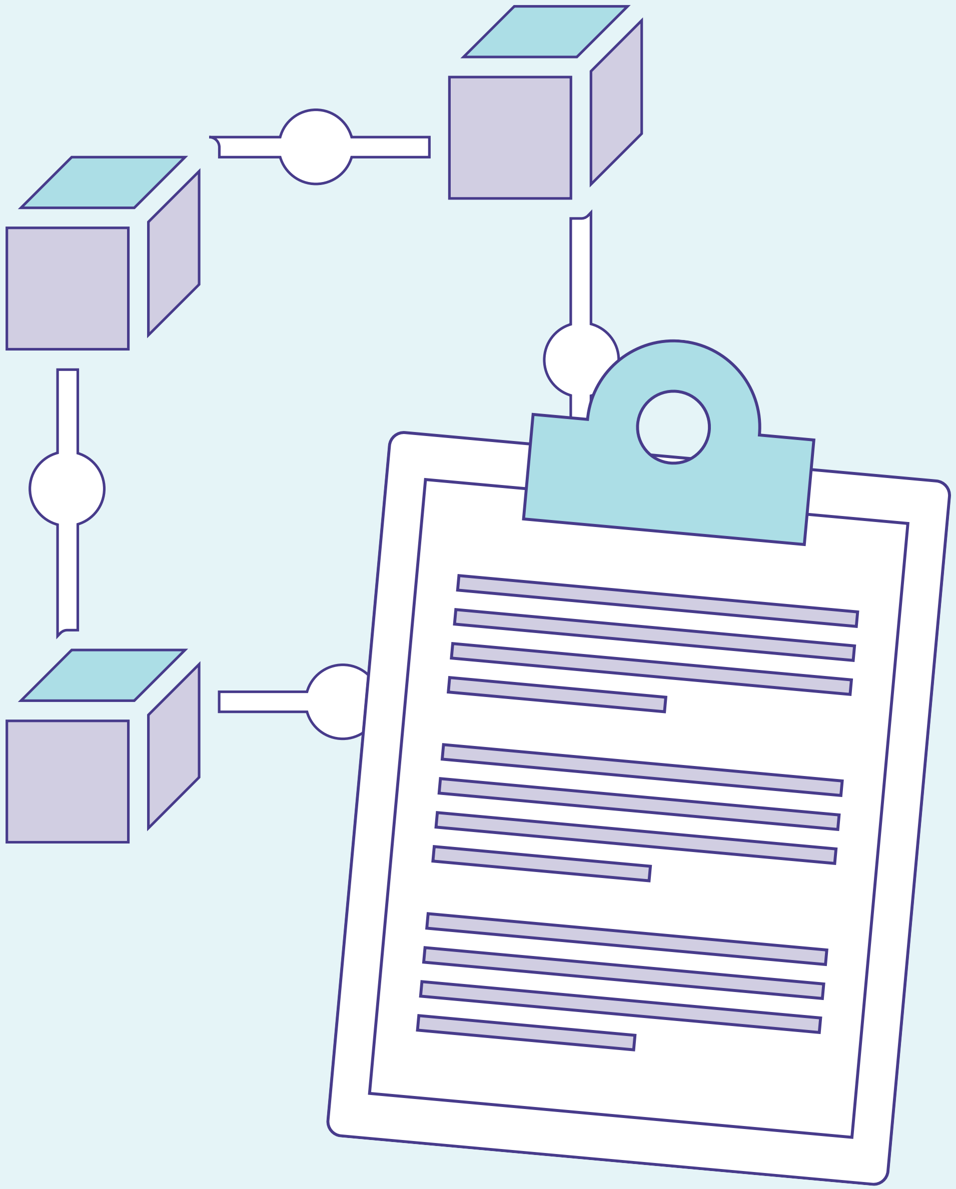
Although we expect all schemes to undergo a covenant assessment at least at each scheme valuation, we recognise the importance of taking a proportionate approach. In fact, proportionately is a key theme that flows throughout the whole code.

As set out in the DB funding code, we expect more work to be done where a scheme is running higher risk or has a low funding level, whereas a lighter touch assessment may be more appropriate where the scheme is well funded, running limited risk or is small relative to the level of available covenant support.

Finally, consistent with previous messaging, TPR is continuing to move away from more subjective covenant ratings. Instead, we will be focusing on whether a scheme's covenant, being cash and contingent asset support, is sufficient to support the level of risk being taken by the scheme.

Journey Plan

Supportable risk



Journey plan (supportable risk)

FIS

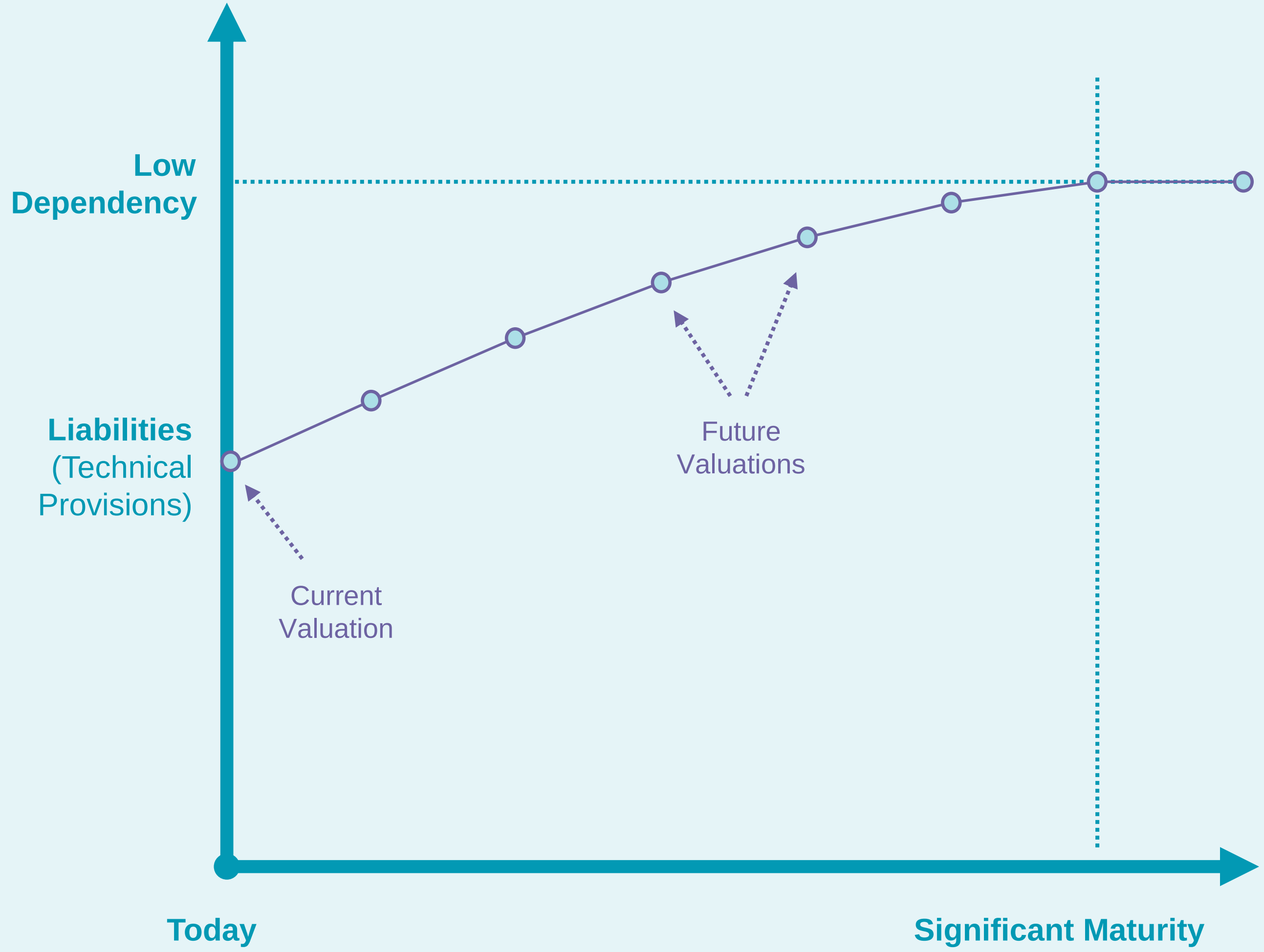
Legislative principle: Funding risk assumed in the journey plan should be dependent on the strength of the employer covenant and, subject to that, the maturity of the scheme

Bridge the gap to low dependency

Funding journey plan supported by a suitable investment strategy

Principles-based approach to assessing risk is supportable

Two key periods to consider:
Reliability period (assessment)
Post reliability period (principles)



Journey planner (supportable risk)
(previous slide explained)

So now we have talked about how we expect trustees to assess their employer covenant, the next few slides will go into more detail about how trustees should use the outcome of this assessment to ensure that the scheme is meeting the supportability principle.

This principle requires trustees to set the level of funding risk assumed within the scheme’s journey plan to low dependency in line with the trustee's assessment of the employer covenant, and subject to that, the maturity of the scheme.

This chart shows what a journey plan could look like for a typical scheme that has not yet reached significant maturity or full funding on a low dependency basis.

The line shows how the scheme’s technical provisions liabilities are expected to move over time so that by the time the scheme reaches significant maturity, its liabilities will be in line with its low dependency target.

For most schemes, we expect in the period up to low dependency, there can be an inherent level of funding and investment risk that can be baked into the scheme’s journey plan that should be based on the circumstances of the employer and scheme. It is this level of risk that we are saying must be supportable by the covenant and subject to that, the maturity of the scheme.

Once at low dependency, we expect schemes to be running a prudent level of risk, in line with the low dependency investment allocation, and therefore they should have limited reliance on the employer covenant thereafter.

The code sets out the principles for how trustees should assess what is an appropriate level of risk to factor in the scheme’s journey plan, based on the period in which this risk is being run.

Where risk is being run within the reliability period, trustees are expected to undergo an assessment or test to determine whether the scheme has access to sufficient employer cashflows or maximum affordable contributions as defined in the code and contingent asset support over the reliability period to recover both the existing deficit (if any), and any further deficit that could arise from a scheme-related stress event during this period.

To help trustees, the code sets out the general principles of what should be considered when performing such a test, whilst also allowing trustees the flexibility to take account of scheme and employer specifics.

Journey planner (supportable risk)
(previous slide explained cont..)

After the reliability period and up to the relevant date, given there will be less certainty over the level of covenant support available to the scheme during this time, there is a general expectation that trustees should start to consider how to transition or de-risk to meet their low dependency target by the relevant date.

Given this, the code shifts from requiring trustees to undergo a more quantitative assessment of supportable risk to instead setting out the principles to consider when assessing if the level of risk being run and the timing and pace in which the scheme is expected to de-risk to low dependency by the relevant date is appropriate.

Considerations include understanding the longevity of the covenant, and whether any concerns over this should accelerate the de-risking process.

Trustees should also consider the level of risk that the scheme is taking during the reliability period, relative to the level of available covenant support. Where trustees are running the maximum level of risk during this period, for most schemes, we expect this level of risk to start reducing from the end of the reliability period. However, where the level of risk is lower relative to what the employer can support, a scheme may wish to run this lower level of risk for longer.

Finally, trustees should consider the availability of contingent assets to support the scheme, post the reliability period and the maturity of the scheme.

De-risking strategies

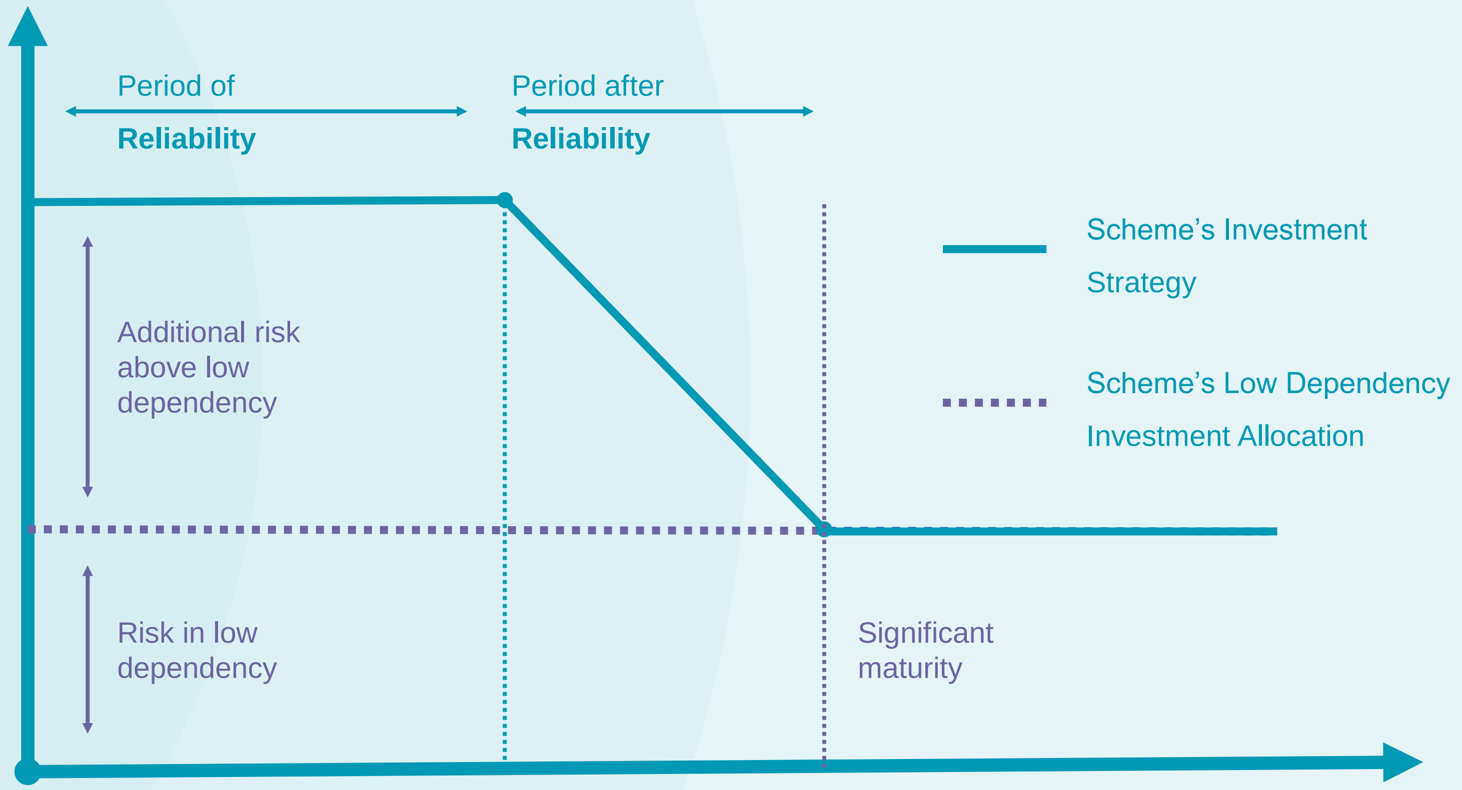
Linear

This graph sets out an example of how a scheme may decide to de-risk its investment strategy, which is represented by the solid line, over the period to the relevant date.

As you will see, post significant maturity, we would expect the scheme's investment strategy to be in line with the scheme's low dependency investment allocation, which is illustrated by the dashed line.

In this example, the scheme is running a relatively high level of supportable risk in the period up to the end of the reliability period, as shown by the top arrow, and therefore the trustees have decided to take a linearly de-risking approach after the reliability period.

It's important to note that the code does not dictate how schemes should de-risk, only that trustees should be able to justify that the level of risk being run throughout the journey plan is supportable.



Application

Technical provisions (TP's)

Legislative principle: At each valuation the scheme's TPs must be determined.
The assumptions used to calculate the TPs must be consistent with the scheme's FIS

TPs must be consistent with the FIS

- After relevant date we expect assumptions the same or stronger than LDFB after the relevant date
- Before relevant date consistent with Journey Plan

No prescription of assumptions for TPs

Cost of future accrual

- No prescription but we expect Trustees to consider risk

There is an important new requirement for technical provisions and that is that they should be consistent with the schemes funding and investment strategy.

We set out our expectation for what this means in the code, that is that after relevant date we expect the assumptions are the same or stronger than the low dependency funding basis and before relevant date the assumptions should be consistent with both the journey plan up to the relevant date and being the same or stronger than the LDFB after this.

We do not provide any prescription in the code for assumptions to be used in the technical provisions but do provide some guidance and refer to the expectations we have given for some of the LDFB assumptions as also being useful when setting the assumptions for technical provisions.

In this section of the code, we set our expectations regarding the cost of future accrual. We do this noting that that future accrual will become technical provisions in the future. Therefore, we set out our expectation that trustees be mindful of the future accrual in determining their approach to funding and investment, for example we expect them to include future service when considering what risk is supportable by the employer.

Recovery plan

Legislative principle: Trustees must follow the overriding principle that steps must be taken to recover deficits as soon as the employer can reasonably afford, and must take into account the impact on the sustainable growth of the employer

Trustees to consider	**Three steps in determining reasonable affordability**	Types of reasonable alternative uses
Reasonable affordability	Assessing employer's available cash	Investment in sustainable growth
Post valuation experience	Assessing reliability of employer's cash flows	Covenant leakage
Investment outperformance	Reasonable alternative uses	Discretionary payments to other creditors
		Contributions to sponsor's other DB schemes

Trustees should assess reasonable affordability at least on a year-by-year basis, with steps taken to reduce the deficit set in line with this assessment

Reliability period is important but does not determine compliance with legislation

Recovery plan
(previous slide explained)

In line with the previous funding regime, where there is a technical provisions deficit at the valuation date, a recovery plan needs to be put in place.

However, under the new DB funding regime, trustees must now follow the **overriding principle** that steps must be taken to recover deficits as soon as the employer can reasonably afford.

We expect trustees to assess future reasonable affordability at least on a year-by year basis, with the structure of the recovery plan set in accordance with this assessment.

Trustees are also required to consider the impact of a recovery plan on the sustainable growth of the employer. When determining if a recovery plan is appropriate, trustees should consider:

- the **employer's reasonable affordability,** which I will focus on today.
- whether to allow for **post valuation experience**.
- and whether to **allow for investment outperformance**.

The DB funding code sets out three considerations that trustees should take account of when determining an employer's reasonable affordability.

The first is understanding the employer's available cash. This comprises employer cash flows and liquid assets, after reasonable working capital requirements.

Trustees must also take account of the employer's reliability period, which for most schemes will be between 3 to 6 years.

Understanding the reliability period is important in determining the reasonableness of alternative uses of cash.

However, it does not determine compliance with legislation. For example, if a scheme's reliability period is 6 years but the employer can comfortably afford to pay off any technical provisions deficit within 3 years, even after allowing for sustainable growth and other alternative uses of cash, the recovery plan length must be 3 years to comply with the legislation.

Recovery plan
(previous slide explained cont..)

Finally, trustees will need to determine how much available cash should go to the scheme and how much should reasonably go towards other alternative uses of cash, based on the circumstances of the scheme and employer.

The code sets out 4 common alternative uses of cash:

- Investment in sustainable growth;
- covenant leakage, including shareholder payments;
- discretionary payments to other creditors, such as early debt repayments;
- and payments to other DB schemes

That said, we acknowledge that there may be other alternative uses of cash and where these are identified, we expect trustees to evidence why these are reasonable, based on the reasonable affordability principles set out within the code.

.

Recovery plan

When assessing reasonable alternative uses of cash, pay attention to:

- Sustainable growth of the employer
- Maturity of the scheme
- Scheme funding level and level of funding risk
- Fairness of treatment
- Reliability of employer cash flows

Recovery plan
(previous slide explained)

So, what are these reasonable affordability principles?

The first principle focuses on sustainable growth and therefore links back to the legislative requirement for trustees to consider the impact of the scheme's recovery plan on the sustainable growth of the employer.

Given the importance of providing employers with the flexibility to invest in sustainable growth, the code makes clear that such investment should be reasonable where the benefits are reasonably certain. Where this benefit is unclear and investment in sustainable growth leads to a recovery plan that exceeds the reliability period, trustees should seek a suitable contingent asset to support the additional risk being run after the reliability period.

The second principle ties back to the funding needs of the scheme and the level of funding risk that is factored into the scheme's journey plan. Where a scheme has a lower funding level or is running a higher level of funding risk, it is less reasonable for cash to leave the employer by way of covenant leakage or discretionary payments.

The third principle focuses on the reliability of the employer's cash flows, with covenant leakage and discretionary payments being less reasonable if this leads to a recovery plan that exceeds the reliability, unless a suitable contingent asset is put in place.

Trustees must also consider the maturity of their scheme -The more mature the scheme, the greater the need for cash to come into the scheme, and therefore alternative uses of cash will be less reasonable.

Finally, trustees should ensure that the allocation of available cash across other DB schemes sponsored by the employer is fair and equitable.

These principles are consistent with TPR's previous messaging set out in publications such as the Annual Funding Statement and therefore should come as no surprise to trustees. However, by elevating these to the new code, we are looking to drive a more consistent approach across schemes.

Our regulatory approach

Fast track and bespoke

Fast track

Using fast track as a filter for assessment of a schemes' valuation

If meet those parameters, then unlikely to hear from us

Tolerated risk where unlikely to engage with schemes on their valuations

Less evidence and explanation in statement of strategy

Fast track Parameters: TPs, the risk in the notional investment strategy and the recovery plan

Fast track not risk free – does not equal compliance

Fast track
(previous slide explained)

- We are using fast track as a filter for assessment of a schemes' valuation.
- It represents our view of tolerated risk where we are unlikely to engage with schemes on their valuations.
- Schemes can use fast track if they meet a series of parameters on different aspects of their funding strategy: the technical provisions, the risk in the notional investment strategy in the FIS and the recovery plan. We published a separate document with our fast track parameters and guidance last month for people to refer to.
- If the scheme meets those parameters, then the trustees are unlikely to hear from us.
- If taking the fast track route, trustees can provide less evidence and explanation in the statement of strategy.
- It's important to remember that fast track is not risk free, and meeting fast track does not necessarily mean you have complied. Trustees need to satisfy themselves that their strategy is in line with the legislation and our code principles.

.

Bespoke

- Flexibility for scheme specific approaches
- We may look at SoS in detail or engage to understand approach better
- Principles-based with clear boundaries (legislation and code)
- Risk-based and outcome-focused approach to assessment
- Evidence risk is supportable, and recovery plan and long-term strategy appropriate in SoS

Bespoke
(previous slide explained)

This allows flexibility for scheme specific approaches, based on the principles within the legislation and our code. Trustees will need to provide more evidence that the risk they are taking is supportable and long-term strategy is appropriate. And we will look at that evidence on their statement of strategy and may engage further to understand the approach.

Our focus will be on schemes that take the bespoke route. Particularly those schemes which appear to be taking a lot more risk.

We expect to engage with a similar number of schemes on their valuations as we do now, and we will take a risk-based and outcome-focused approach to assessing the schemes with which to engage.

As we go through the first 4 years of the new regime, we see every scheme’s valuation. This will enable us to build a rich data picture to support data-led and digitally enabled decision-making.

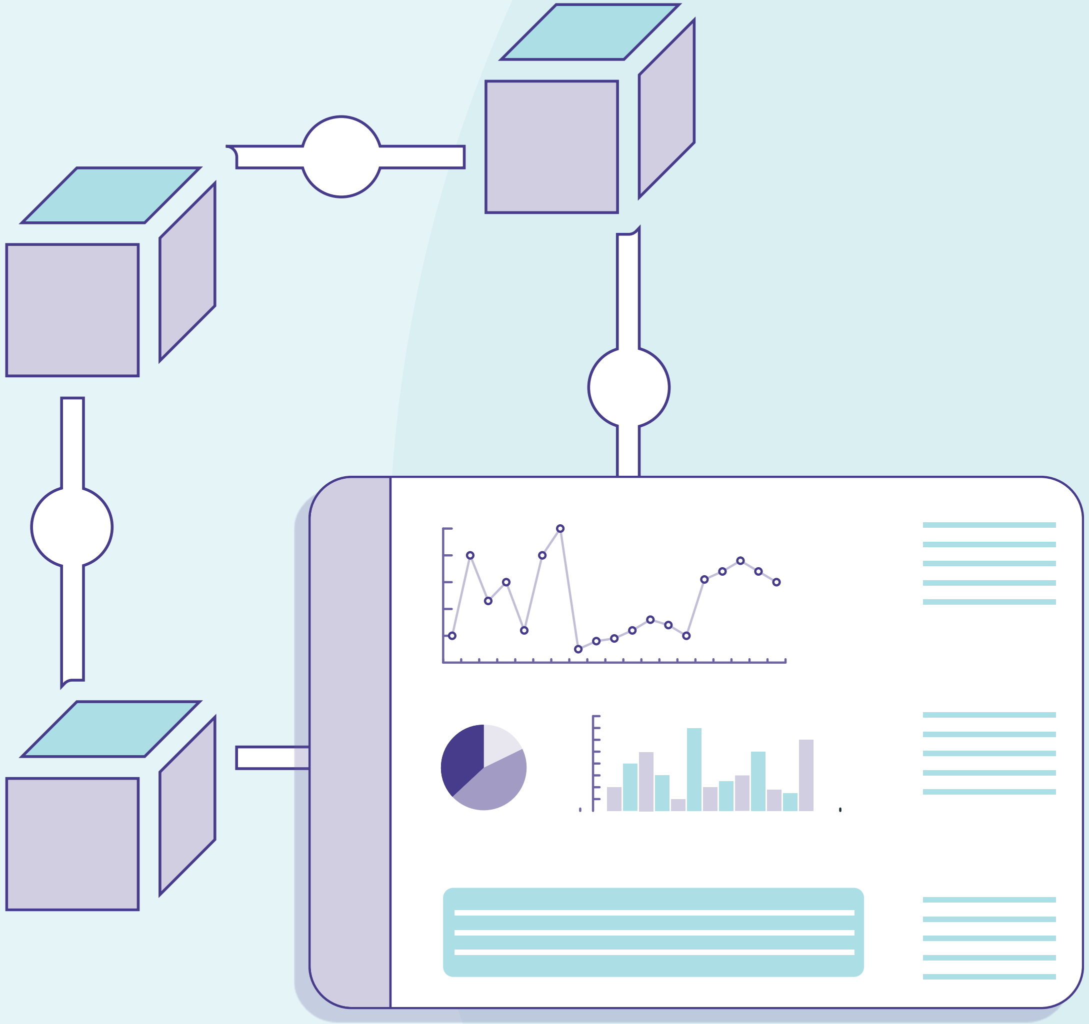
We will be able to identify emerging risks across individual schemes and the pensions landscape. We will be able to respond in a targeted way, proportionate to our purpose to protect, enhance, innovate, including using the data to support future legislative changes.

.

Statement of strategy

Statement of strategy templates and guidance published

consultation response to be published in the coming months



New digital service to submit SoS and valuation documents expected

Statement of strategy

FIS

Legislative principle: Trustees must prepare a written statement of strategy made up of two parts: Part 1, the funding and investment strategy and Part 2, supplementary matters

Part 1
FIS

- Long-term objective
- Low dependency target
- Current funding level on LDFB
- Funding journey plan information (if relevant)
- TP assumptions
- Investments intend to hold at relevant date

Part 2
Supplementary Matters

- Summary of actuarial valuation and RP
- Maturity info
- Level of investment risk
- Liquidity info
- Covenant info
- Employer consultation

Submitted digitally from Spring 2025

Proportionate approach:

4 templates: Fast track or bespoke, pre or post relevant date

Easements for small schemes (<200 members)

Less info for well-funded schemes on LDFB

Statement of strategy
(previous slide explained)

Part 1, the Funding and Investment Strategy; which must normally be agreed with the employer and includes information we've already been talking about today as shown on the slide.

Part 2 the supplementary matters which the employer must only be consulted on.

It's in this second part of the statement where much of the detail of the valuation sits.

This includes a summary of the valuation and any recovery plan and details on covenant and investment risk. It's this part where the amount of information we need to see varies depending on the circumstances of the scheme.

We've taken a proportionate approach to the amount of information we require from different schemes, reflecting the feedback we had to our consultation:

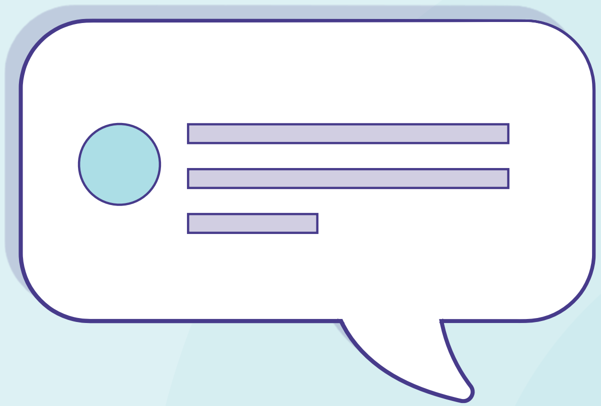
There are four different templates depending on whether you are **fast track** or **bespoke**, and **pre** or **post relevant date**. We require less information for fast track schemes, and those post relevant date, particularly covenant information.

There are some easements for small schemes (with 200 members or less) for example the discount rate and cashflow information they need to provide.

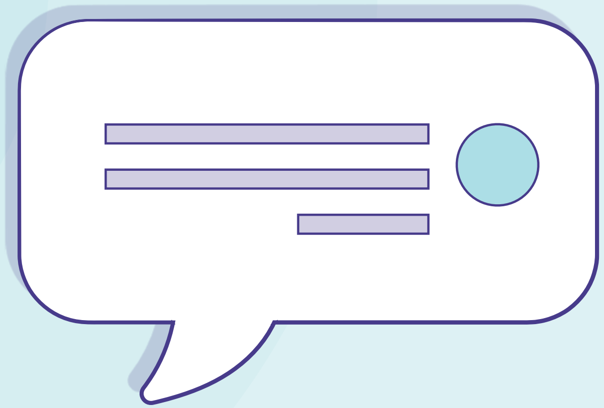
The requirements are also less for schemes which are well funded on a low dependency funding basis.

.

The covenant guidance will be published tomorrow



Q&A



THANK YOU
THANK YOU
THANK YOU