Essential Guide for Sponsors and Trustees:

tpt Investment Management

Navigating the DB Funding Code Requirements

This document contains marketing material about our fiduciary management service. This document does not represent impartial advice on this service. In certain cases, you are required to conduct a competitive tender process prior to appointing a fiduciary manager. Guidance on running a tender process is available from the Pensions Regulator.

The new DB Funding Code

The new DB funding code came into force on 12 November 2024, so trustees of DB pension schemes with valuations on or after 22 September 2024 must comply with the new code.

This includes a requirement to submit a **'statement of strategy'**, but what exactly is the statement, and, perhaps more importantly, what work must be done to submit it?

To help answer this second question, the article explains what data is needed for the submission based on the (revised) guidance issued by The Pensions Regulator (TPR).

What is the statement of strategy?

At its core, **the statement of strategy** is a list of questions that must be answered by trustees (with support from their advisors) following the completion of the funding and investment strategy review accompanying each valuation.

By asking these questions, TPR encourages trustees to focus on long-term objectives (i.e., reaching a position of low dependency) and a suitable journey plan and investment strategy to achieve them. The statement includes identifying and managing material risks that may impact the funding strategy and placing greater emphasis on covenant assessment.

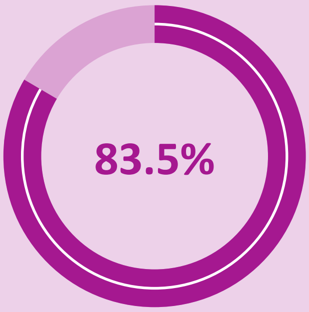
The questions that trustees must answer will differ depending on scheme size (whether or not it has less than 200 members), the position of the scheme (whether or not it's already reached a low dependency position – the date of which is described as the **'relevant date'**) and whether it's applying for **'Fast Track'** or **'Bespoke'** status. A scheme that has not yet reached low dependency by its valuation date is considered **'pre-relevant date'**; where it has, it's **'post-relevant date'**.

For schemes using the Fast Track approach, it's unlikely TPR will engage with them on their valuation. This is on the basis that those schemes meet the requirements for being a **'Fast Track low-risk scheme'**. This is achieved if the scheme meets all the pre-defined tests and conditions, known as the **Fast Track parameters** – TPR suggests this route may not be suitable where there is very limited employer covenant support.

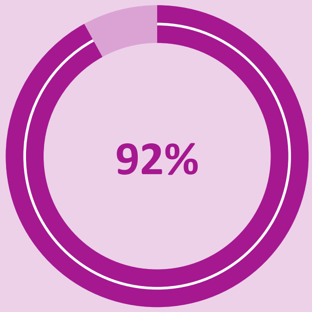
Fast Track Parameters

One key test is whether the scheme's technical provisions are at a minimum funding level, where the scheme's liabilities are calculated on a low dependency basis. TPR has set conditions for calculating the liabilities on this basis, a key one being the discount rate is not more than gilts+0.5%. The minimum funding level will vary by the scheme's duration, for example:

If the scheme duration is 20, then the 'low dependency' funding level must be at least



If the duration is 15, the minimum level is



The regulations stipulate that duration is calculated using the accrued liabilities and a basis consistent with the scheme's low dependency funding basis assumptions but derived using market conditions as at 31 March 2023. For Fast Track, the economic assumptions at each valuation must be based on the economic conditions that applied at 31 March 2023, as if that were the valuation date.

Another criterion is passing TPR's funding and investment stress test. A scheme must demonstrate that, if fully funded and invested in its current notional investment allocation, when stressed, the scheme's funding level would not fall by more than a pre-defined set percentage (which will vary depending on the duration of the scheme). This stress test must be performed in accordance with the calculation methodology defined by TPR, which includes pre-defined stress factors to be used for each asset category.

The recovery plan is also tested, if one exists. For example, if the valuation date is before the relevant date and the plan's length is over six years, then a scheme would not qualify for Fast Track. If the valuation date is on or after the relevant date, then the maximum length is three years. Additionally, no allowance for future investment outperformance should be allowed for in the recovery plan or schedule of contributions for Fast Track compliance.

Trustees can find further details of the parameters on TPR's website:
Fast Track submission tests and conditions | The Pensions Regulator

What work must be done to submit the statement?

The statement (i.e., answering TPR's questions) will be submitted via a new digital service, expected to be launched in Spring 2025. According to TPR, this shouldn't delay the valuation's completion – but it does mean trustees aren't expected to complete or submit their statement of strategy until the new system is live.

To assist trustees with submission, TPR provides guidance and question templates. These show the submission is broken down into two main parts covering 'funding and investment strategy' and 'supplementary matters'.

Four appendices seek additional information depending on some of the responses given within the two main sections. There are also some initial 'guard questions' to determine what set of questions will be asked during the submission – as already mentioned, the total number of questions will differ depending on whether the scheme is small, whether a Fast Track or Bespoke approach is being used, whether the scheme is open to accrual and whether or not it has a recovery plan.

On the following pages is an overview of the questions that will be asked for a Fast Track application, which helps to illustrate the work that will need to be done to respond to these questions.

Answers are based on either free text or number input, or via multiple choice questions. Some questions are mandatory for all schemes, while others are conditional on previous responses.

Funding and Investment Strategy

Actuarial valuation and relevant date

This section opens by asking for the low dependency and technical provisions funding levels as at the valuation date, before asking for the scheme's 'relevant date', i.e., the date at which the scheme is expected to achieve low dependency full funding, which must be no later than the date of 'significant maturity' (which is when the duration of the liabilities is at 10 years).

This section also asks for the expected maturity at the relevant date (expressed in years of duration) and the funding level (or was, if post-relevant date) intended to be achieved at the appropriate date.

Long-term investment strategy

This section asks for details of the low dependency investment strategy that trustees are targeting for their investments at the relevant date. This includes the intended allocations to matching and growth assets (TPR provide guidance as to what should be considered matching or growth assets).

There are also questions about whether there is an intention to allocate any low dependency surplus differently from the rest of the assets.

Funding journey plan and long-term objective

For schemes using a pre- and post-retirement discount rate methodology, trustees will need to include a description of how they expect the assumptions used to calculate the technical provisions will change over time. For schemes before the relevant date, TPR expects this to illustrate how those assumptions will move to be consistent with full funding on a low dependency funding basis by the relevant date.

Trustees will also need to describe the way they intend to provide benefits over the long term (known as the long-term objective). In describing the objective, TPR expects trustees to include a summary of the desired funding target.

Supplementary Matters

Trustee assessment of funding and investment strategy

This section asks trustees whether they think the funding and investment strategy is being successfully implemented and, if not, what remedial actions are being taken.

It also requires trustees to describe the main risks to implementation, and how they plan to mitigate those risks.

Finally, it requires trustees to identify any significant past decisions that have impacted the funding and investment strategy (positively or negatively) and, if so, describe those decisions and include justification for why they were made.

Actuarial information

This section asks for the scheme's estimated maturity (past service benefits only) as of the valuation date and an expected date at which it will reach significant maturity (if it hasn't already). There are some additional questions for schemes that are open to accrual.

The submission then requires trustees to provide a summary of the valuation (and recovery plan, if applicable). This requires inputting a lot of information that is too exhaustive to list here. For further details, please see TPR's guidance (link at the bottom of the page).

Investment risk and liquidity

This section begins by asking trustees to confirm the scheme's current level of investment risk (in %), calculated according to the Fast Track stress test methodology.

For schemes that are post-relevant date, this section asks how the scheme's intended investment allocation at the relevant date complied with the objective that assets of at least the value of the scheme's liabilities are invested in accordance with a low dependency investment allocation.

Trustees must also provide details of the notional investment allocation that was used to estimate risk (broken down into pre-prescribed asset classes) and the proportion of highly liquid investments (defined as those that can be frequently realised within five working days) and illiquid investments (defined as those which may take a month or longer to be realised, or anything that might trade more frequently but has the possibility of being gated).

Covenant information

This section opens by asking for the date at which the trustees assessed the employer covenant, and whether the covenant was considered to be adequate to support the scheme. It requires details of any support provided by guarantees, contingent assets, or asset-backed contributions (ABCs).

There are further questions for schemes that do not meet the definition of ‘small scheme’ or a ‘Fast Track low risk scheme’. These include details about the estimated ‘reliability’ and ‘longevity’ of the covenant, which means the period over which trustees can be reasonably certain of the employer’s future ability to support the scheme (TPR expects reliability to be between 3 to 6 years for most employers, longevity may extend to up to 10 years).

Employer consultation and signing

These final sections ask whether the trustees consulted the employer in preparing the statement of strategy, and whether the employer asked for any comments to be included in the submission (and if so, whether the comments have been added). The chair of trustees must then sign the statement.

Appendices & DB Funding Code Requirements Summary

Appendices

There are some appendices asking for further information, some of which is conditional on answers given in the main sections.

Statement of strategy:
Appendix 1

There are multiple questions concerning the assumptions used for the valuations. This includes details of the discount rate methodology and how it was derived, the yield curves used for derivation and mortality assumptions.

Statement of strategy:
Appendix 2

This is a short section that is only relevant for Bespoke applications.

Statement of strategy:
Appendix 3 & 4

These final two appendices ask many questions to capture further detail about any guarantees, contingent assets, or ABCs that were disclosed in the statement of strategy.

Summary

TPR streamlined its requirements for the **statement of strategy** following industry feedback, which included concerns that it would be too onerous. This resulted in some easements for smaller schemes and those deemed low risk, and alterations for scheme's that remain open. TPR has also provided guidance and templates which are likely to be very helpful for trustees.

However, that guidance indicates that a sizeable amount of work is still needed to both determine the type of application to be used, and then to gather the necessary information for the submission of the statement. Trustees and employers will rely on support from their advisors to help reduce the burden of this new requirement. This collaboration, of course, is one of the primary objectives of the new code – it will help to focus minds, requiring trustees, employers, and advisors to work pro-actively to navigate some of the tensions, and achieve the right balance between long-term funding goals, risk, and regulatory requirements.

Guidance for the statement of strategy including details of the data needed for the submission can be found on TPR's website: **Statement of strategy | The Pensions Regulator**

Better for everyone

TPT is one of the leading pension scheme consolidators in the UK. We offer three solutions for you to choose from:

1. Standalone fiduciary management
2. DB Connect, which provides fiduciary management, actuarial, covenant, administration, and secretarial services, whilst retaining the existing scheme structure and trustee board
3. DB Complete, a fully integrated service that also includes trusteeship via the scheme joining our Master Trust

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Get in touch

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