

Focus On Funding – Summary Funding Statements

As part of the revamped scheme funding provisions under the Pensions Act 2004 (PA 2004), the Occupational Pension Schemes (Scheme Funding) Regulations 2005 introduced a requirement for defined benefit (DB) schemes to issue “summary funding statements”. These statements must be issued to all scheme members and beneficiaries on the basis of the scheme’s latest actuarial valuation. The aim is to make DB members more aware of the funding position of their pension schemes.

Requirements

- Summary funding statements must be provided automatically.
- In addition, trustees will continue to have to provide members, on request, with copies of the statement of funding principles, the actuarial valuation or report, any recovery plan and the schedule of contributions.

Timing of statement

The essential question

- Has the scheme carried out its first valuation (and produced a schedule of funding contributions) under the new PA 2004 funding requirements?
- If not, the scheme must issue an *initial* summary funding statement by 22 September 2006 and updated statements in each subsequent year until the scheme’s first scheme funding valuation.
- If yes, the scheme must issue an annual summary funding statement within a “reasonable period” (the Pensions Regulator suggests 3 months) of the date by when the valuation or report must be obtained.

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Before the first valuation under PA 2004

- Summary funding statements must include:
 - A summary, based on the last actuarial valuation, of the extent to which the assets of the scheme are adequate to meet its liabilities as they fall due;
 - An explanation of any change in the funding position of the scheme since the last actuarial valuation;
 - Any (or the latest) estimate by the actuary of the solvency of the scheme; and
 - Whether any payment of surplus has been made to the employer in the last 12 months and, if so, the amount.
- An example is given on the Pension Regulator’s website at: <http://www.thepensionsregulator.gov.uk/schemeFunding/Examples/index.aspx>

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After the first valuation
under PA 2004

- In addition to the requirements described in box 3, the statement must include:
 - A summary of any recovery plan; and
 - A note of whether the Pensions Regulator has modified the scheme, given its directions, or imposed a schedule of contributions upon it and, if so, details of the circumstances.
- Again, see the example on the Pension Regulator's website at: <http://www.thepensionsregulator.gov.uk/schemeFunding/Examples/index.aspx>

Points to watch!

Variations from the norm

- Schemes with fewer than 100 members (excluding any life assurance only members) are *not* required to issue summary funding statements.
- Schemes are *not* required to issue funding statements to any deferred or pension credit members whose present address is unknown if correspondence sent to that member's last known address has been returned.
- Trustees of hybrid schemes need *not* issue summary funding statements to members who have solely money purchase benefits.

Communications

Keep it simple

- In the words of the Pensions Regulator, "The statement will be the member's principal source of information on funding matters. Therefore, trustees should make the document clear and comprehensible, avoiding any undefined jargon".
- The DWP have indicated that it may not be sufficient for schemes to place the summary funding statement on an intranet or notice board. They must be sent directly to the members and beneficiaries by post or email.

New disclosure regulations

All change?

- The draft Occupational Pension Schemes (Disclosure of Information) Regulations 2006 are expected to come into force in October 2006.
- These regulations deal with the timing of issue of subsequent summary funding statements (referred to as the "annual funding statement") and are expected to re-set the clock to a timetable based on scheme year end.
- Sackers are keeping a watching brief on this issue, so check with your usual contact for the latest position.

SACKER^S
& PARTNERS

Solicitors specialising in pensions law

Sacker & Partners LLP
29 Ludgate Hill
London EC4M 7NX
Tel 020 7329 6699
Fax 020 7248 0552

enquiries@sackers.com
www.sackers.com

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