

DB funding - TPR consults on statement of strategy

Alert | 05 March 2024

Introduction

TPR today published a [consultation](#) on the statement of strategy (the “Statement”) that DB trustees will need to submit as part of planning and managing their scheme’s funding. It forms part of a wider package of changes to DB funding, aimed at improving “the security and sustainability” of DB schemes. It may become known as the DB chair’s statement, as the chair has to sign it off.

Key points

- Changes coming into force later this year will require DB schemes to have a funding and investment strategy (the “F&I Strategy”) aimed at achieving “low dependency” on their sponsoring employer by the time they are “significantly mature”.
- The Statement forms the next part of the suite of documents needed for the new DB funding regime. It follows the publication of what we believe are the final draft funding and investment regulations back in January, although they have been subsequently tweaked to clarify that the new regime will first start to apply in respect of actuarial valuations with an effective date on or after 22 September 2024.
- **Part One** of the Statement will set out the F&I Strategy itself, with **Part Two** addressing certain “supplementary matters”, including the trustees’ assessment of the F&I Strategy, key implementation risks and mitigations, and information relating to investment, funding and covenant.
- TPR is proposing to produce four template Statements, reflecting the different information that will be required from schemes depending on their circumstances.
- Closing on **16 April 2024**, the consultation sets out in detail the information TPR is proposing to collect, along with an example draft template to illustrate how a completed Statement might appear.
- TPR’s DB funding code and covenant guidance are expected in the summer, together with a response to its consultation on its Fast Track and Bespoke twin track approach.

Background

The [PSA21](#) sets the scene for a new requirement for DB schemes to have an F&I Strategy, in which trustees will set out how they plan to reach low dependency funding by the time the scheme is significantly mature (the “relevant date”).

Following a [consultation](#) in 2022, the DWP published [revised funding and investment regulations](#) in January 2024, setting out the matters the trustees must take into account, and the principles they must follow, in determining or revising their scheme’s F&I Strategy. The regulations also detail the supplementary matters that schemes need to cover within the Statement and give TPR some discretion over the content (unlike the DC chair’s statement).

What is the Statement?

Once the trustees have determined an F&I Strategy, this must be set out in writing in the Statement. The Statement is intended to facilitate better trustee engagement, and better understanding and accountability between trustees and TPR. As required by the regulations, the consultation focuses on the proposed form of the Statement, as well as the type and extent of information that will need to be submitted (and evidenced) to TPR.

Split into **two parts**, **Part One** of the Statement will be the F&I Strategy itself, with **Part Two** covering various other information (see below). Whilst employer agreement is needed for the F&I Strategy set out in Part one, trustees only need to consult employers in respect of Part two.

The Statement must be signed by the chair of trustees and submitted to TPR “as soon as reasonably practicable” after it has been prepared or revised. (This is the DB chair’s statement we have been expecting.) The submission process will be set out in TPR’s revised DB funding code.

TPR’s templates

Under the regulations, the Statement must be submitted in a form “as set out by TPR”. TPR is therefore seeking views on its suggested approach, including the form of the document, and the type and extent of the information that will need to be submitted. It proposes that:

- the Statement should be in a standard form and follow a set TPR template
- separate templates will be produced to reflect that schemes will have to provide slightly different information depending on their circumstances, and
- less information will be requested from smaller schemes.

The four templates will reflect the different information that will be required from schemes depending on which funding track they are on (ie Fast Track or Bespoke) and whether or not they have reached the scheme’s “relevant date”. As Fast Track reflects TPR’s “view of tolerated risk and acts as a regulatory filter” when assessing valuations, unsurprisingly, it anticipates less detail being provided than under the Bespoke route. However, within each template, there is scope for schemes to reflect their scheme-specific circumstances. For example, TPR is proposing to adjust some of the information required from smaller schemes.

As part of the consultation pack, TPR has provided an example draft template, populated with synthetic data to illustrate how a completed Statement might appear.

What information is TPR hoping to collect?

Part One – F&I Strategy

The consultation sets out what information TPR is intending to collect, including the scheme’s long-term objective, funding strategy, investment strategy, and an outline of the journey plan (if relevant). It is also proposing to cover the scheme’s funding position, information on discount rates and other key assumptions (eg financial and demographic information).

For each item, TPR explains which schemes it applies to, provides a summary of what is needed, and sets out various considerations in respect of the information required.

Part Two – Supplementary matters

Part two includes:

- the **trustees’ assessment** of how successfully the F&I Strategy is being implemented and related risks
- **actuarial information**, including a summary of the actuarial valuation
- **investment information** relating to the current investment strategy
- the trustees’ assessment of the **employer covenant**, and the evidence on which it is based.

TPR expands in more detail on the information it is proposing to collect in respect of the above.

Covenant

Currently, trustees typically rate covenant support on a scale of 1 (strong) to 4 (weak) in the scheme return. Under the new DB funding regime, trustees will need to provide more detailed information on the elements of covenant support in the Statement, depending on how much reliance is placed on the covenant to support the level of risk implied by the F&I Strategy over the “reliability period”.

TPR’s revised DB funding code will set out expectations on how trustees should assess the employer covenant. Further guidance on all aspects of the covenant information being requested is also expected to be covered in TPR’s “forthcoming” covenant guidance.

Duplicate information

Some of the information to be collected is already provided through the DB scheme return and, in some cases, in the actuarial valuation as well. Where possible, TPR is “looking to streamline” information collection to ease the burden on trustees and plans to “investigate removing any unnecessary duplication”.

Timetable for the new DB funding regime

This consultation is the next step in the journey towards introducing the new DB funding regime. In terms of the bigger picture:

- the revised **draft funding and investment regulations** were laid in January 2024 and are expected to come into force on 6 April 2024

- the **revised DB funding code** was **consulted on** in December 2022 and the code is expected to be laid in the summer, to be in force in September 2024. It is designed to partner with the regulations, providing practical guidance on how trustees can comply with the requirements
- TPR's consultation on **covenant guidance** is expected in the summer
- TPR's **Bespoke and Fast Track** regulatory approach was **consulted on** in December 2022 and we are awaiting TPR's response
- the new funding and investment strategy legislative requirements are expected to apply to scheme valuations with effective dates on and from **22 September 2024**.

Next steps

With the final version of the new DB funding code not expected until the summer, there is still some way to go until all the pieces of the funding puzzle finally fall into place, but this consultation certainly gets us closer.

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