

New DB funding (covenant and investment!) regime

Action list for sponsors
January 2023



In December 2022, The Pensions Regulator (TPR) [published](#) its draft Code of Practice on DB funding. This is the biggest shake up in DB pension scheme strategy for almost 20 years and there is a lot for sponsors of schemes to consider.

To help, our [News Alert](#) includes an overview of the Code consultation, our 11 January 2023 [webinar](#) walks through the detail and what it may mean in practice, and our 26 January 2023 [webinar](#) focuses on the new covenant requirements.

This note sets out our view of the key actions to undertake, both immediately and as part of your next valuation.

Actions for sponsors – immediate

- Discuss with advisors the likely extent of the impact, perhaps focussing on the following questions:
 - Covenant – what is your expected “reliability period”? What level of risk can the covenant support?
 - Funding – what is your scheme’s “duration” and when is the scheme expected to reach significant maturity? Does the scheme have a long-term target? Is the current valuation approach and deficit recovery plan suitable?
 - Investment – does your scheme have a low dependency investment allocation? Can you demonstrate that it is “broadly cashflow matched” and “highly resilient”? Do you have a clear plan to get there?
 - Fast Track versus Bespoke – which approach do you expect to follow?

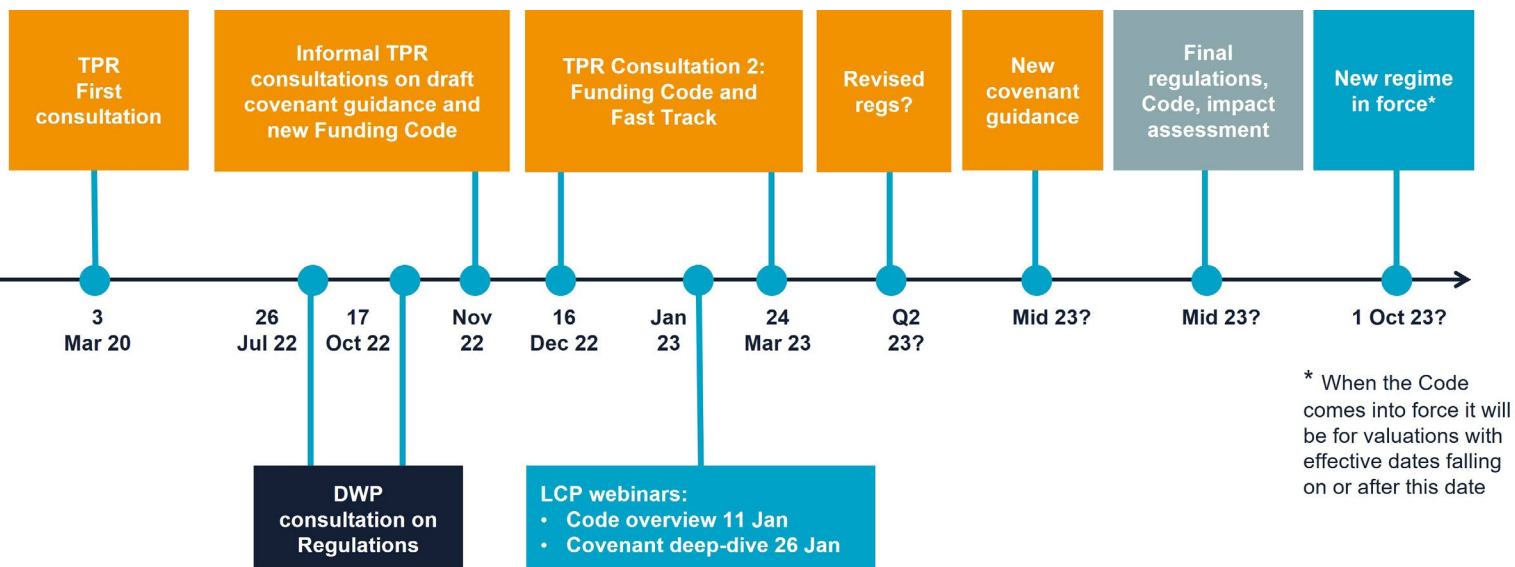
If there is likely to be a large impact on your business (eg more pension contributions, additional other financial support for the scheme, and/or new constraints on business activity including dividends), consider ASAP.

- If the scheme is likely to need to de-risk in the short term, work with the trustees to make a plan for that now (eg this could be the case if your scheme is already mature, and the level of investment risk is still quite high).
- Understand the trustees' view of the covenant and what new information you will need to provide. If you may need to appoint external covenant advisors to support your position, do this now and start planning.
- Where your scheme is a **special case** eg stressed schemes, open schemes, not-for-profit sponsor, small schemes (less than 100 members) – make sure you understand the specific requirements and implications.
- Consider responding to the consultation.

Actions for sponsors at your scheme’s first valuation in the new regime (or sooner)

- Work with advisors 6 months before the valuation date to identify the likely impact of the new regime.
- Agree objectives at an early stage – eg Fast Track vs Bespoke, managing future surplus risk vs minimising impact on business plans.
- Take early advice on the most significant issues you know the trustees will need to consider, particularly covenant.
- Identify the likely points for negotiation and manage trustee expectations on these at an early stage, including:
 - The view on covenant and in particular the “reliability” of sponsor cashflows
 - The nature of any additional contingent support you are willing to give (eg to boost the covenant assessment) or will request (eg escrow to manage future surplus risk)
 - Your preferred end game target – both the investment strategy expected return and the discount rate – remembering you have to agree it in many cases
 - The desire to use “Fast Track” as leverage to make technical provisions less prudent where appropriate
- Identify early the potential impact on cash, guarantees, and manage Board / Group / shareholder expectations.
- Work with trustees to agree the end game and journey plan, and then the technical provisions and recovery plan. Ensure sponsor views feed into the investment strategy too.

The timeline to the new regime



Related events and thought leadership



Webinar: The new DB funding code – the good, the bad and the (potentially) ugly

11 January 2023



Webinar: The new DB funding code – a whole new world for covenant advice

26 January 2023



On point paper: Missing the target: How over rigid pension scheme funding proposals could have unwelcome consequences

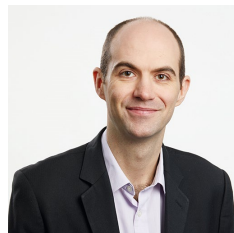
Want to find out more?

If there's anything further you'd like to ask, please get in touch with your usual client contact, or one of our experts below.



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