New DB funding (covenant and investment!) regime

Action list for trustees

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 trustees 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 trustees – immediate

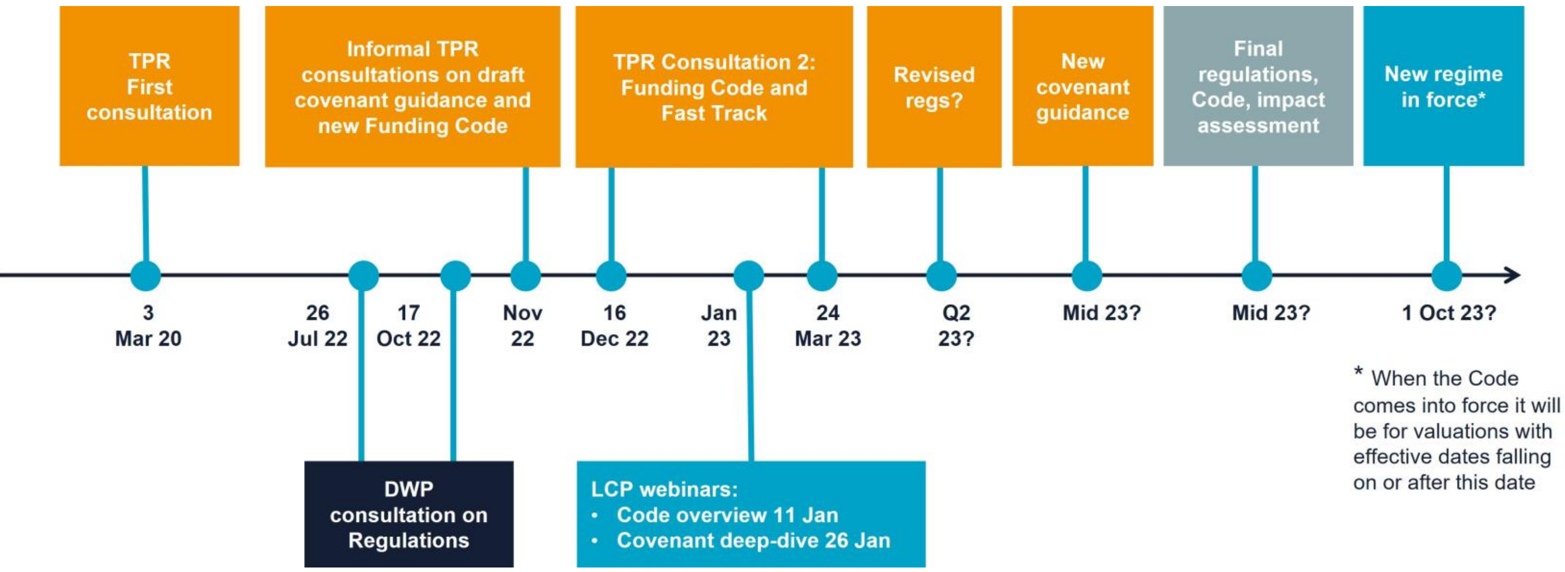
- Discuss with advisors the likely extent of the impact, perhaps focussing on the following questions:
  - Covenant – what is the “reliability period” of your covenant? What level of risk can the covenant support?
  - Funding – what is your scheme’s “duration” and when do you expect the scheme to reach significant maturity? Do you have a long-term target? Is the current valuation approach and deficit recovery plan suitable?
  - Investment – do you 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 sponsor’s business (eg more pension contributions, additional other support for the scheme, and/or new constraints on business activity), start a dialogue with the sponsor on this ASAP.
- If the scheme is likely to need to de-risk in the short term, make a plan for that now, working with the sponsor as appropriate (eg this could be the case if your scheme is already mature, and the level of investment risk is still quite high).
- If likely to need covenant advice for the first time, or to expand current advice, appoint appropriate advisors and start planning the work (you will probably need to comply with new guidance expected later in 2023).
- 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 trustees at your first valuation in the new regime (or sooner)

- Bring advisors together before the valuation, ensure responsibilities and project plan is clear, agree budgets.
- Kick off covenant work early and appoint advisor if not already in place. Carry out the additional covenant work required under the Code, identify risk areas (eg nature of contingent assets, and covenant leakage) early and highlight to the sponsor. This work is particularly necessary if you are likely to follow a Bespoke approach.
- Seek legal advice where you wish to push the boundaries or where the trustees have unilateral powers.
- Undertake the additional actuarial work including: confirm duration and when you reach significant maturity; more detailed experience analysis as needed; understand position on buy-out, low dependency and Fast Track bases.
- Develop your end game and journey plan with support from advisors and agree this with the sponsor. This will be an iterative process requiring input by investment advisors and the Scheme Actuary, cross referencing covenant work. As part of this, consider whether you are expecting to be Fast Track or Bespoke, and/or use of any contingent assets.
- Write down your Statement of Strategy.
- Prepare new scheme cashflows projections to support investment work, including scenario analysis as needed.
- Adjust your investment strategy to align with your new risk budget and new cashflows, put in place a de-risking approach and consult on your SIP for future adjustments.

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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