

New DB funding regime

Summary of the Fast Track requirements

August 2024

Under the new funding regime, the Pensions Regulator (TPR) will assess valuations under one of two routes: Fast Track or Bespoke. Fast Track is a regulatory filter, under which if you pass various tests you can expect limited scrutiny. Bespoke is an equally valid route but you must justify your approach. Here we summarise the key requirements that schemes must meet in order to qualify for the Fast Track.

There are broadly three pillars to passing Fast Track – and ALL must be satisfied in order to qualify



Acceptable level of TPs (Technical Provisions)

- TPs must be at least a minimum level.
- This is based on a specified proportion of a low-risk measure of the scheme liabilities (the “Low Dependency Funding Basis” liabilities).
- The proportion depends on duration*, an actuarial measure of the average time to payment of the scheme benefits.
- For Fast Track, Low Dependency liabilities must be based on a discount rate no higher than gilts+0.5% pa, and in some cases should include a reserve for expenses



Acceptable length of recovery plan

- Recovery plan length of at most 6 years, or 3 years if beyond Significant Maturity*
- No allowance for assumed investment outperformance above TP discount rate
- Annual increases in contributions no more than either CPI or 3% pa
- Allowance for post valuation experience is permitted



Acceptable level of investment risk

- Investment risk, tested using a stress test, must be within defined limits.
- Funding level is calculated on a stressed and unstressed basis using PPF methodology
- Formula then determines the maximum allowable fall in funding level under the test, dependent on duration*
- There is an easement for schemes that are funded to a level above the ‘acceptable level of TPs’ described on the left.

*Duration is calculated based on 31 March 2023 conditions. Open schemes can allow for up to nine years of future accrual and new entrants in the calculation. Significant Maturity is when a scheme reaches a duration of 10 years.



Scheme Actuary signs off that Fast Track parameters met



However it is important to note that satisfying all of the Fast Track tests does NOT automatically mean that you are fully compliant with the new funding regime. In particular, schemes will need to ensure that their approach is appropriate in light of the covenant, regardless of whether they follow a Fast Track or Bespoke approach.

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.



Richard Soldan
Partner, Pensions Actuarial

T: 020 7432 6631
E: Richard.Soldan@lcp.uk.com



Jon Forsyth
Partner, Pensions Actuarial

T: 020 3824 7259
E: Jon.Forsyth@lcp.uk.com



John Clements
Partner, Investment

T: 020 7432 0600
E: John.Clements@lcp.uk.com

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