## New DB funding (& covenant & investment!) regime Preparing for the new requirements and key actions for trustees August 2024

The Pensions Regulator's new funding code has (finally!) been laid before parliament and we now know the vast majority of the details of the new funding regime, which is set to be the biggest shake up in DB pension scheme valuation discussions for almost 20 years. Following improved funding levels over recent years, the impact of the new regime for many schemes will be less significant than anticipated when the code was first drafted. However, there are still actions that all schemes can, and should, be getting on with, especially those with valuation dates later in 2024.

## Highlights of the new funding regime

- The new regime will apply to all funding valuations with an effective date on or after 22 September 2024.
- The <u>final regulations</u> set out the legal framework and <u>the new Code</u> covers TPR's interpretation and guidance. <u>Our News Alert</u> summarises Key Actions and the new funding regime.
- All schemes will need to **develop a formal "funding and investment strategy"** that is, a formal journey plan that targets derisking and **full funding on a low-risk basis**. In most cases this requires agreement between Trustees and sponsor.
- This low-risk state must be achieved by the time a scheme is "significantly mature". This is defined as when a scheme reaches an actuarial "duration" of 10 years. For 10% of our clients this is within 6 years, but for 40% it is over 15 years away. Ask your consultant what your timeframe is. Open schemes can include some allowance for future accrual and new members in the maturity calculation.
- Trustees will need to agree a "low dependency investment allocation" with the employer. This is a low-risk strategy assumed to apply from significant maturity. The new Code clarifies that the new regime does not constrain trustees' investment powers.
- The level of supportable risk depends on employer covenant strength. Covenant analysis is more important than ever before, with even well-funded schemes expected to submit covenant information to TPR. Some schemes will need covenant advice for the first time, and many will need to expand current advice. Covenant reliability and longevity factors may constrain scheme journey plans – so are central to the new regime.
- Deficits must be repaired "as soon as the employer can reasonably afford", taking account of the sustainable growth of the employer.
- There are two routes for TPR to assess valuations Fast Track or Bespoke. <u>Fast Track</u> is a regulatory filter, under which if you pass various tests (eg relating to your technical provisions, or recovery plan length), you can expect limited scrutiny. Bespoke is an equally valid route but you must justify your approach. You can read our summary of the Fast Track requirements <u>here</u>.
- There will be **more paperwork** for trustees and for advisers, including a range of new submissions by all schemes to TPR in the Statement of Strategy relating to their long-term objective, journey planning, investment strategy and covenant.

## **Actions for Trustees**



Understand implications of new regime ahead of your next valuation



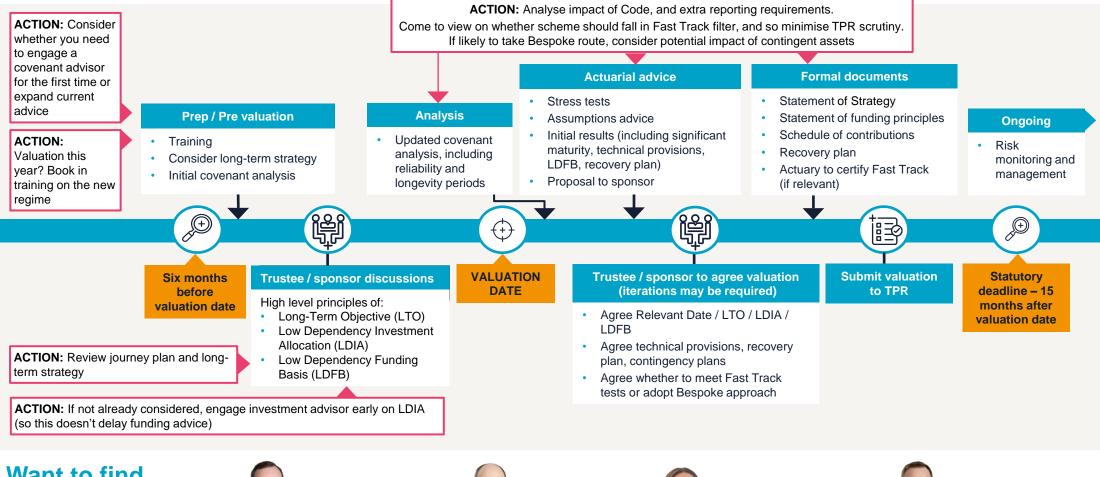
Establish formal funding and investment strategy consistent with new regime and your objectives

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Determine additional steps and advice needed on covenant and new investment topics

## An example valuation under the new funding regime, and actions for trustees







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