

The new DB funding regime

A quick reference guide to what is now required

Agree how benefits will ultimately be delivered

This could be an eventual aim to run-on, buyout or transfer to a consolidator (e.g. a superfund). Your **Funding and Investment Strategy** needs to address the question of how benefits will ultimately be delivered so that a plan to achieve this can be constructed.

Establish what low dependency looks like

You must choose a **relevant date** by when you aim to have reached **low dependency** with a **low dependency investment allocation** and targeted funding level on a **low dependency funding basis**.

Consider your journey plan towards low dependency

Reaching **low dependency** will usually involve improving the funding position and/or transitioning the investment allocation – a funding journey plan and an investment journey plan. Covenant strength affects the level of risk that can be supported through the journey plan.

Ensure your Technical Provisions support this journey plan

All previous requirements about Technical Provisions (TPs) remain. In addition, you will need to ensure there is consistency between your journey plan and the technical provisions – i.e. that they support the journey towards reaching **low dependency**.

Produce a Statement of Strategy

All previous funding documentation requirements continue (i.e. Statement of Funding Principles, Actuarial Valuation Report, Recovery Plan and Schedule of Contributions). In addition, a **Statement of Strategy** must be prepared that articulates much of the above.

Key (new) terminology

Significant maturity

A scheme's maturity is a measure of its expected time horizon. A scheme reaches 'significant maturity' when the scheme actuary calculates it will have a duration of 10 years.

Relevant date

This is a date that will need to be chosen to be no later than when the scheme is expected to reach significant maturity.

Low dependency

A state of not expecting to need further sponsor contributions. The trustee must aim to reach this position by the relevant date.

Low Dependency Investment Allocation (LDIA)

A notional investment allocation that is highly resilient to adverse short-term changes in investment market conditions.

Low Dependency Funding Basis (LDFB)

Actuarial assumptions to achieve low dependency (and consistent with the LDIA). The trustee must aim for the scheme to be at least 100% funded on the LDFB by the relevant date.

Funding and Investment Strategy

A strategy for ensuring that pensions and other benefits under the scheme can be provided over the long term.

Statement of Strategy

A written two-part document, signed by the Chair and submitted to TPR, that sets out the agreed Funding and Investment Strategy (Part 1) and certain other matters (Part 2).

What is Fast Track?

The Pensions Regulator (TPR) intends to use a 'twin-track' regulatory approach to reviewing funding agreements, with schemes able to follow a '**Fast Track**' or a '**Bespoke**' route.

Fast Track

Less disclosure and scrutiny by TPR

Bespoke

More disclosure and potential for scrutiny

TPR has set out a series of conditions (the Fast Track parameters) for a scheme's actuarial valuation which, if met, mean that TPR is likely to be satisfied with the valuation, with less information required in the Statement of Strategy and less chance of further questions. For schemes with valuation dates before their relevant date, these include:

LDFB discount rate \leq Gilts + 0.5% pa

TPs \geq specified % of LDFB

No outperformance in recovery plan

Recovery Plan \leq 6 years

Scheme actuaries are to confirm if the Fast Track parameters are met. TPR has warned that Fast Track "*won't be right for every scheme and does not equal compliance*" – it is merely a "*regulatory filter*".