HYMANS ROBERTSON

Policy Briefing Paper

SoS: TMI*

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* Too Much Information

The Pensions Regulator's proposals for statements of strategy, which trustees will have to compile under the reformed funding rules for defined benefit (DB) schemes, were open for comment until 16 April 2024. We submitted our views in a formal consultation response. This policy briefing is designed to satisfy those craving a taste of our thinking.[1]

Scene setting

Reforms to the DB funding rules (for private-sector schemes) are due to take effect for valuations with dates on and after 22 September 2024. Trustees and sponsors will need to agree a *funding and investment strategy* (FIS) for providing the scheme's benefits for the long term. The trustees must set out their FIS and various supplementary matters in a *statement of strategy* that they will have to send to the Regulator (the supplementary matters, on which the trustees must consult the scheme employer, include evaluations of their progress so far, the risks to success, and important decisions they've taken). The Pensions Regulator has discretion over the form in which statements of strategy are to be submitted, and the level of detail that they will contain.

#TMI

In short, we think that the quantity of information sought is excessive.

It will be laborious and therefore costly for trustees to provide. We suspect that the Regulator hasn't realised how much extra work they're thinking of requiring trustees to do or commission others to do (e.g. putting cash-flow information into the required format). We estimate that there could be a 20% increase in valuation costs if the proposals go ahead.

The Regulator had the *right idea*, by proposing to require less detail from smaller and Fast Track schemes, but it hasn't taken that notion far enough.

Moreover, it's unclear what the Regulator would *do* with it all the data that it would hoover up via the statement (e.g. 100 years of forward discount rates), so it doesn't seem to be commensurate with the task at hand. It's not even the case that there would be any pay-off for trustees, as there would if, for example, the document were to be primarily a planning and risk-management tool or something that could be shared with members. As a submission for the regulator's eyes only, it has little value for schemes beyond compliance.

[1] Studies indicate less than 29% of this cohort are likely to be undiagnosed zombies.

The templates should be as easy to complete as possible; the Regulator could make it less of a chore if sections were pre-populated to the extent possible, and some automation was introduced. The amount of free text required by the proposed template will make data extraction and comparison unnecessarily difficult. It should be possible for trustees to provide any additional information required via file uploads.

There's insufficient accommodation for the circumstances of particular schemes. For example, schemes would be required to perform a detailed calculation of the maximum level of risk that the employer covenant can support—even when that scheme is not relying on covenant to anything like that extent. Open schemes are asked to provide the same information as schemes closed to accrual.

The 'Fast Track' ethos should also be more evident in the information required: it's not obvious that the burden on Fast Track schemes is materially lighter. We don't think, for example, that disclosure of maximum affordable contributions is necessary. It would also be excessive for Bespoke schemes that are on the cusp of Fast Track eligibility (supplementary data should only be required for parts where they fall short of Fast Track). The same goes for well-funded schemes with buy-out in sight. It would be better if the level of information required is tied more directly to the actual risks being run.

For more gory details of our dissection of the Regulator's statement of strategy proposals, please read our full consultation response, available on our website. If you want to discuss what it would mean for you to meet the expectations put forward, please ask your Hymans Robertson consultant.

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