HYMANS ROBERTSON

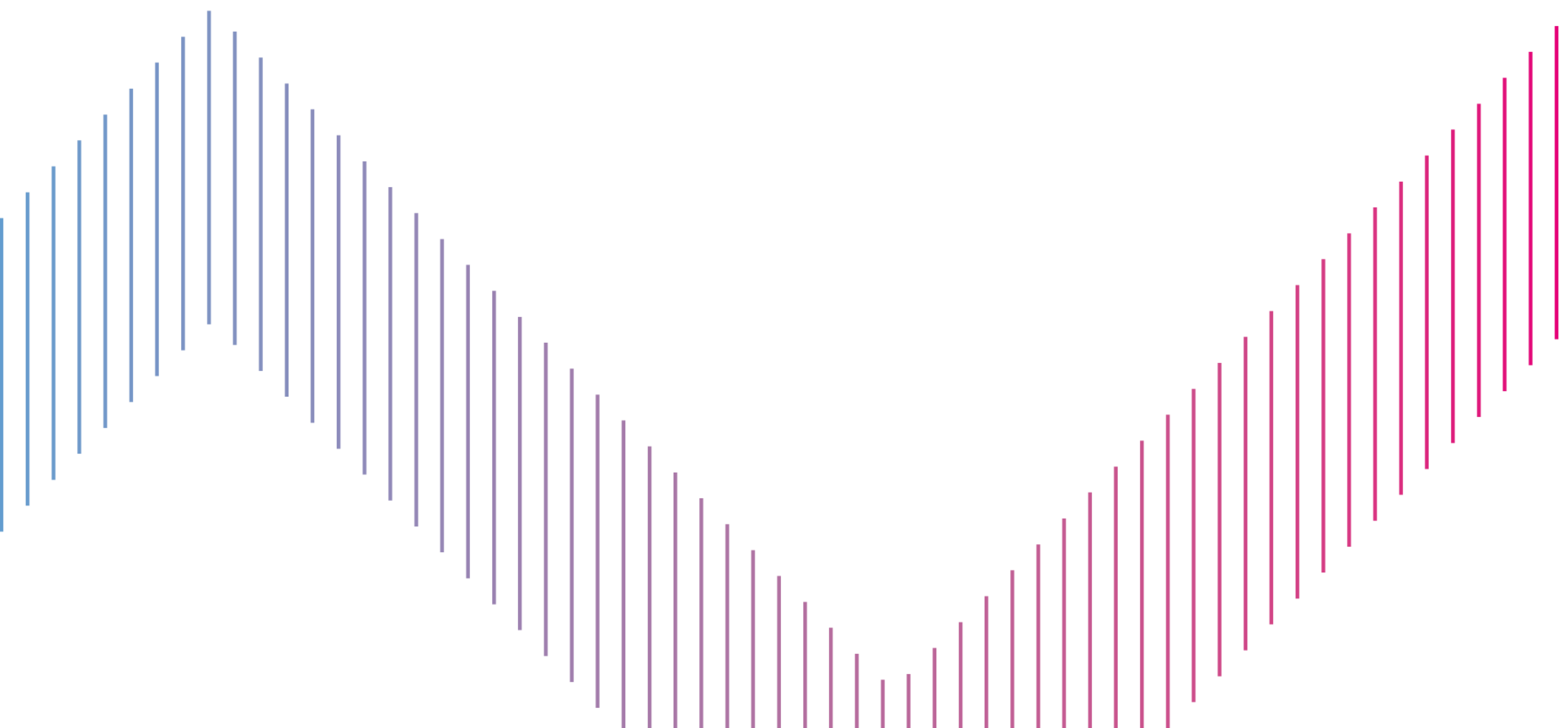
Approaching your 2024 valuation

Our guide to the key strategy and funding issues for 2024

As 2024 valuations get underway, it's safe to say that the environment for DB schemes is very different to what it was three years ago. It's likely you're in quite a different position. And it's important to create the time and space to fully consider how your funding strategy should evolve.

It's an exciting time for the DB pensions market. Funding levels have improved and buy-out affordability has accelerated materially for many schemes. The 'Mansion House' consultations are stimulating debate on whether to buy-out or run-on and share value between members and sponsors. Add the new funding code due to launch later this year, a very busy risk transfer market, and the emergence of new endgame solutions into the equation, and schemes have an awful lot to consider.

Here we explore some of the themes to build into your valuation discussions in 2024.



1.

Endgame planning

All schemes should review long-term objectives to ensure decisions can be aligned with those goals.

As funding improves and discussions move away from repaying deficits, endgame planning has never been more important.

Improved scheme funding and the government's 'Mansion House reforms' have helped to stimulate debate among schemes and their sponsors about alternatives to buy-in and buy-out.

A debate is growing around whether a scheme that can afford to insure should run-on instead, and aim to build a surplus and use it for the benefit of the members or the employer. The government is consulting on measures to make surplus sharing easier, which could make running on more attractive.

We expect many schemes will continue to have a strong appetite for insurance. For example, small schemes might consider the value they can generate as too small relative to the risk. However, buying out as quickly as possible won't be the right choice for all.

And run-on comes in many flavours. For example, schemes can run-on with more or less flexibility to pivot to insurance.

Clear endgame objectives can ensure trustees' and sponsors' plans and decisions are aligned. All this change and a highly energised risk transfer market have given DB schemes an awful lot to think about when it comes to endgame planning. So it's important to get this on the agenda sooner rather than later.

For more information on how to set and implement an endgame strategy, visit our **Excellence in Endgames hub.**

2.

Compliance with the new funding code

The Pensions Regulator's new funding code of practice will launch later this year.

Trustees need to make sure their plans comply with new requirements. The government has finalised its funding and investment regulations, and the Regulator's revised funding code is expected this summer.

The new code will apply to schemes with valuations after 22 September 2024. However, if your valuation is earlier, it makes little sense to agree a funding framework without an eye on how it's likely to work with the new code.

Nevertheless, it's the schemes with valuations from September that need to comply in full. Although most schemes don't expect to be in the regulatory crosshairs, all schemes need to map out and write plans in the detail required.

TPR is consulting on the statement of strategy, seeking feedback on the data it's asking trustees to provide and its proposed templates. The additional disclosures are expected to be significant.

Trustees should watch out for the final code, which will fill in important details, such as how the Regulator will define the point of significant maturity, and the final parameters for its Fast Track filter. Schemes on the cusp of Fast Track may want to weigh up reshaping plans to avoid the need to go Bespoke.

In the meantime, TPR's latest Annual Funding Statement summarises current regulatory expectations (**read more in our 60-second summary**).

The new DB funding code

In a nutshell, schemes will be required to:

- Formalise a long-term 'low-dependency objective' for funding and investment.
- Set a journey plan for how to manage risk to meet the objective. The technical provisions target and investment strategy must converge to low dependency as the scheme matures.
- Either meet the 'Fast Track' tests or go down a 'Bespoke' route to compliance. Fast Track will act as a filter, and the Regulator is unlikely to scrutinise a valuation further if the strategy meets the parameters. These require a plan to be fully funded on a gilts + 0.5% basis (or stronger) by the time the scheme is 'significantly mature', a technical provisions recovery plan of six years or less, and investment risk below specified limits.
- Submit plans to the Regulator in a 'statement of strategy' using standard templates.

Visit our **hub on the DB Funding Code** to read more on the latest proposals.

3. Covenant, contingency planning and consolidation

Consider how you'll approach a covenant review, and whether emerging consolidators might offer an alternative endgame or contingency plan.

The new DB funding code will require trustees to look at covenant visibility, reliability and longevity to determine the risk the employer covenant can support. With the average recovery plan now less than six years, longer plans are likely to attract attention.

Trustees should be vigilant to any corporate activity (such as mergers and acquisitions, refinancing or reorganisation) and other value leakage to ensure fair treatment for the scheme. The valuation is a good opportunity to review and seek extra protections.

For trustees of schemes with a weak or uncertain employer covenant, capital-backed consolidators, or 'superfunds', may be worth looking into. These use third-party capital to break the link to ongoing employer support, at a lower price than would be possible through an insurer buy-out. Clara-Pensions has completed its first transactions, opening the door for more superfund deals in 2024.

4. Longevity assumptions

The long-term impact of the Covid-19 pandemic on longevity is still uncertain, so longevity assumptions need particular attention.

ONS data over the past few years shows significant excess deaths relative to pre-pandemic levels. Though longevity data towards the end of 2023 and in early 2024 showed possible signs of a return to pre-pandemic levels, much uncertainty remains in the aftermath of the pandemic.

The CMI recently consulted on the latest version of its CMI_2023 mortality projections model. This model includes England & Wales population data for 2023 for the first time, alongside updates to data for previous years following the 2021 census. The consultation focused on the CMI's proposal for its 'core' parameterisation, in particular the weights to give to 2022 and 2023 data.

When it published CMI_2022, CMI expected to gradually return to a 100% weighting over four years: 25% weight to 2022 experience, 50% for 2023, 75% for 2024 and 100% for 2025. It added a caveat that this was subject to change.

The published CMI_2023 model adopts a different approach: a single weighting of just 15%, applied to both 2022 and 2023. In life expectancy terms, CMI_2023 is expected to be similar to CMI_2022. A more wholesale, structural review is proposed for CMI_2024.

Updating longevity assumptions to the latest CMI models could improve a scheme's funding position by 2–3% of liabilities when using the core parameters.

5. Cash flow management and liquidity

Make sure you have income to meet benefits, and review options for illiquid assets.

As schemes mature, their cash outflows will increase. Materially better funding positions mean that employer contributions are likely to play a lesser role in plugging the cash flow gap – including expenses.

Trustees should therefore revisit their cash flow policies and plans, and see whether scheme assets can provide enough income.

Horizons for illiquid assets will be particularly important, whether the goal is run-on or buy-out. Schemes headed for insurance should think about their investment strategy in the context of ultimately transferring funds to an insurer. The earlier trustees start thinking about this, the smoother the journey is likely to be.

6. Data and benefit readiness

Robust strategic planning should put all these activities into a cohesive plan for the years ahead.

If insurance is your goal, the sooner you start planning for buy-out, the better. You need governance, investment, data and benefits to be transaction-ready.

Any good run-on strategy should include a plan to get the scheme ready for an insurance transaction, in case that route becomes attractive or necessary. Being insurance-ready also makes run-on much more efficient. The Regulator has announced it will be launching a regulatory initiative on data quality, partly driven by the forthcoming introduction of Pensions Dashboards.

Schemes aiming for insurance should review and monitor timescales for a potential transaction – improved funding means this may be closer than expected. Being clear on how far you are from your endgame objective will help define your plan. For example, the timescale will determine when to schedule work on benefits and data, and what options are most suitable for areas like illiquid assets.

With demand for bulk annuities over the coming years set to remain high, planning now will help you get the best deal.

Our PACE framework integrates affordability, investment and due diligence to create a clear pathway to buy-out. Find out more about **setting the right PACE to buy-out**.

A quick guide to your priorities

Planning for insurance

Know when buy-out might be affordable – you may be closer than you think. You need governance, investment, data and benefits to be transaction-ready. Start planning now.

Well funded

Focus on endgame planning. Consider whether you're planning to buy-out at the earliest opportunity or run-on. Develop long-term plans with suitable contingencies and clarity over surplus. There's a trade-off between commitment to long-term value generation via run-on, and being able to pivot to insurance. Sponsor views will be critical.

Funding plans off track or strained sponsor

Test plans against the new funding code to see how big any gap is. Focus on fair treatment against other stakeholders and mitigating against further covenant weakening through non-cash or wider group support. Review the role emerging solutions such as capital-backed consolidators might play.

Want to find out more?

To find out how we can help, please get in touch with your usual Hymans Robertson contact or one of our experts:

Laura McLaren
Partner and Head of DB Scheme Actuary Services
laura.mclaren@hymans.co.uk
0141 566 7914

Lisa Deas
Senior Actuarial Consultant
lisa.deas@hymans.co.uk
0141 566 7619

Amy Walker
Actuarial Consultant
amy.walker@hymans.co.uk
0141 566 7761

Hymans Robertson LLP (registered in England and Wales - One London Wall, London EC2Y 5EA - OC310282) is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities. A member of Abelica Global.
© Hymans Robertson LLP. Hymans Robertson uses FSC approved paper.