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Glossary of terms

DB Funding Code

The Pension Regulator’s new funding code will apply to valuations from 22 September 2024. This glossary explains some of the terms in the new code.

Bespoke

One route to compliance with the code. Offers more scheme-specific funding flexibility than Fast Track, but may be subject to greater regulatory scrutiny. Schemes taking the Bespoke route need to show compliance with the code’s principles and how they are mitigating risks.

Covenant reliability

During the period of covenant reliability, the trustees can be reasonably confident about the employer’s available cash to fund the scheme into the future. After this period, trustees have less certainty.

DWP Regulations

The TPR’s draft code is based on the Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024. These provide the legal framework for the new regime to operate, with the Code setting out how TPR expects schemes to comply.

Fast Track

One route to compliance with the code. Fast Track is in effect a regulatory filter. TPR is unlikely to scrutinise a valuation further if a scheme’s actuary confirms its strategy meets each Fast Track parameter.

Journey plan

The trustees’ plan for how the scheme is to reach its long-term funding target.

Long-term funding target

The funding level the trustees intend the scheme to have at the relevant date. This level must be at least 100%, calculated on the low-dependency funding basis.

Low-dependency funding basis

If a scheme is fully funded on a low-dependency basis and the scheme’s assets are invested in accordance with the low-dependency investment allocation, then no further employer contributions would be needed. A scheme should meet this so-called low-dependency test under most reasonably foreseeable scenarios.

Low-dependency investment allocation

An asset allocation where the cash flow from the investments broadly matches the scheme’s payments, and the assets’ value relative to the liabilities’ value is highly resilient to short-term adverse changes in market conditions (on a one-year, 1-in-6 stress test).

Reasonable affordability

A funding deficit must be recovered as soon as the employer can reasonably afford. Reasonable affordability is based on the employer’s available cash, the reliability of that cash and whether the employer can reasonably use it in other ways. Affordability of recovery plans should be assessed on a year-by-year basis, and steps to reduce the deficit set accordingly,

Relevant date

When a scheme is fully funded on a low-dependency basis. This date is set by the trustees and must not be later than the end of the scheme year in which the scheme is expected to reach, or has reached, significant maturity, as estimated by the scheme actuary. From the relevant date onwards, scheme assets are subject to a low-dependency investment allocation though there may be more flexibility for surplus.

Significant maturity

The point at which a scheme reaches significant maturity is measured by the duration of its liabilities on the low-dependency funding basis calculated based on 31 March 2023 market conditions as if that were the valuation date. TPR has set the duration at which a scheme reaches significant maturity at 10 years. The scheme actuary is responsible for estimating the date of significant maturity.

Statement of strategy

All scheme trustees must provide TPR with a written statement comprising two parts: the funding and investment strategy, and supplementary matters. These include the journey plan, how well the funding and investment strategy is being implemented, the main risks to the strategy and how they are being managed.

Stress test

In a low-dependency investment allocation, asset values must be highly resilient to short-term adverse changes in market conditions relative to liability values. TPR expects a minimum resilience test of a one-year, 1-in-6 stress scenario. During the period of covenant reliability, the maximum supportable risk should be assessed by considering the affordability of a downside stress test.

Supportable risk

The risk a scheme takes depends on the strength of the employer covenant and the scheme’s maturity. A stronger covenant supports more risk, as does a scheme that is further from significant maturity.

Technical provisions

The scheme’s technical provisions must be set consistently with the low-dependency funding basis and the journey plan. For an actuarial valuation with an effective date after the relevant date, the economic and actuarial assumptions used for the technical provisions should be at least as strong as those in the low-dependency funding basis.

HYMANS ROBERTSON

London | Birmingham | Glasgow | Edinburgh

T 020 7082 6000 | www.hymans.co.uk

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