

The new DB funding regime – where we are now?

October 2024

With the new DB funding regime now in force (albeit with some detail still missing), in this Hot Topic we summarise the new requirements and set out key actions for trustees and employers.

The main headlines



- ✓ Trustees must produce their first funding and investment strategy (“FIS”) no later than 15 months after the effective date of the first actuarial valuation **on or after 22 September 2024**. It must then be reviewed, and if applicable revised:
 - within 15 months of the effective date of each subsequent valuation (usually every three years), and
 - as soon as reasonably practicable after any material change in the circumstances of the pension scheme or its employer.
- ✓ Once trustees have determined their FIS, it must be set out in writing in a statement of strategy (“SoS”).
- ✓ The [final draft DB funding code](#) (“the Code”) was laid before Parliament in July 2024, setting out TPR’s guidance and expectations on how to comply with the FIS requirements.
- ✓ Although the Code technically won’t be in force until late November, the underlying legislation is, and TPR has said that, in the meantime, trustees should proceed as if the version of the Code laid before Parliament applies.
- ✓ A consultation on revised covenant guidance and TPR’s response to the [2022 consultation](#) on its bespoke and fast track regulatory approach are expected shortly.

What’s the FIS’s purpose?



The FIS is intended to ensure schemes put in place a longer-term strategic plan to help manage the funding and investment risks attached to a mature scheme, focusing on delivering the benefits promised to members. It must:

- include certain information, including the funding level the trustees intend the scheme to have achieved and the investments they intend to hold at specified times
- be determined or revised in accordance with the principles set out in the [Funding and Investment Strategy Regulations 2024](#).

As a minimum, schemes must be “in a state of low dependency on their sponsoring employer by the time they are significantly mature”. However, there is intended to be sufficient flexibility for “appropriate risk taking” to be accommodated, where this is “supportable” in terms of the scheme’s maturity and the employer covenant. TPR is clear that “low dependency” does not mean no dependency.

Statement of strategy



Once determined, trustees must set out their FIS in part one of their written SoS. Part two comprises specified “supplementary matters”. Trustees must obtain the employer’s agreement to part one but must only consult the employer when preparing or revising part two.

TPR has published [SoS illustrative templates](#) and a list of the data and information for insertion into the relevant document.

The SoS must be signed by the chair of trustees (who must meet certain basic requirements) and submitted to TPR (in digital form) as soon as reasonably practicable after it has been prepared or revised. There is no requirement for the document to be shared with members.

SoS templates



- TPR has published four separate templates. They reflect the different information that is required from schemes depending on which funding track they are on (ie Fast Track or Bespoke) and whether or not they have reached the scheme's "relevant date".
- Within each template, the sections which need to be completed may depend on the scheme's particular characteristics, including its size.

What must the SoS cover?



- the trustees' assessment of how successfully the FIS is being implemented
- key implementation risks and mitigations
- actuarial information, including a summary of the actuarial valuation
- information relating to the scheme's current investment strategy, and
- the trustees' assessment of the employer covenant, and the evidence on which it is based.

Action points



Trustees and their employers (as appropriate) should:

- ✓ familiarise themselves with the new requirements and understand how they will impact their scheme
- ✓ consider appointing a sub-committee to deal with scheme funding or, consider whether an existing committee's terms of reference and/or membership remain appropriate
- ✓ if the DB scheme doesn't have a chair, appoint one
- ✓ ensure procedures are in place to enable sufficient financial information to be shared.

