



**The
Pensions
Regulator**

Making workplace pensions work

Protecting Defined Benefit schemes – A new funding code

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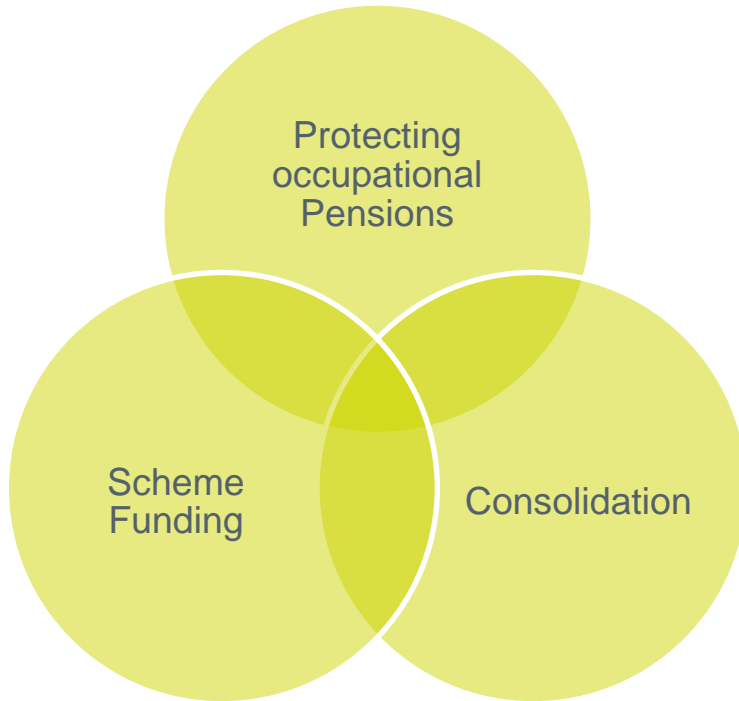
IFoA Current Issues in Pensions Seminar

London, 10 December 2018

Agenda

- DB White Paper's key objectives
- Our approach to the DB White Paper's remit
- Group breakout – Defining prudence
- Group breakout – DB funding principles
- Timeline for DB code work

DB White Paper – Security and sustainability of DB pension schemes



TPR to be provided with the *‘right powers to do its job’*

- New powers to gather information and punish wrong doing
- Better oversight of corporate transactions
- **Revised funding code with greater clarity on expectations**
- Authorisation and accreditation regimes for consolidation approaches

TPR's remit from DB White Paper

No funding crisis but improvements needed to ensure

- Trustees focus on the **long-term view** and risk management
- Greater **accountability** and **transparency**
- More **efficient** and **effective** regulation of funding

Revised code of practice
providing greater clarity on

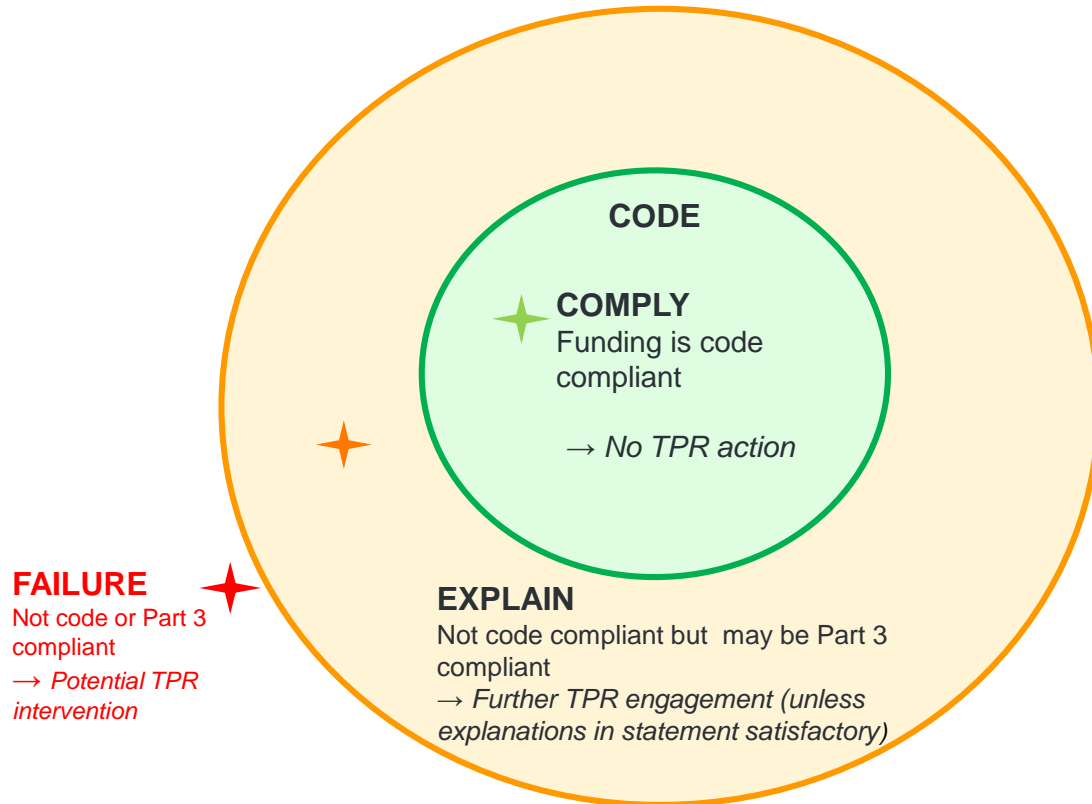
- prudent technical provisions
- appropriate recovery plan
- setting SFO in the context of a long-term objective

Chair's statement
submitted with valuation

Legislative change to
support the code and
enforcement

What this means in practice

2004 PA PART 3



- Setting clarity for the whole landscape
- ‘Comply or explain’

Defining prudence?

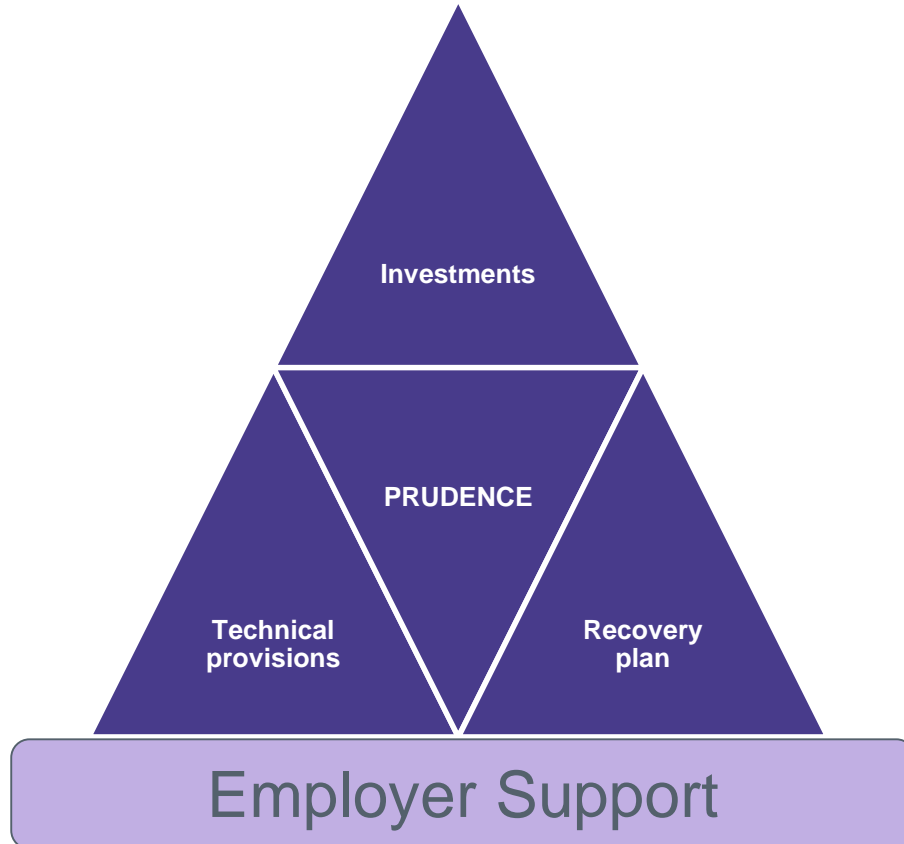
Government has asked TPR to provide greater clarity on prudent technical provisions.

- No clear definition in legislation
 - *Scheme funding regulations: assumptions must be chosen prudently*/based on prudent principles
 - *Investment regulations: prudent person rule*
- *Common law: little case law and goes back to 19th Century:*
 - *A trustee sufficiently discharges the common law duty of care if, when managing trust affairs, he takes all those precautions which a **prudent man of business** would take in managing similar affairs of his own (Speight v. Gaunt (1883) 9 App. Cas. 1 HL).*
 - *As the role is fiduciary, the trustee will be expected not to do what an ordinary prudent man of business would do if he had only himself to consider, but what he would do if he had a **moral obligation** to provide for others (Re Whiteley (1886) 33 Ch. D 347 at 355).*
- *English dictionary: 'acting with or showing care and thought for the future'*

Defining prudence – what do you think?

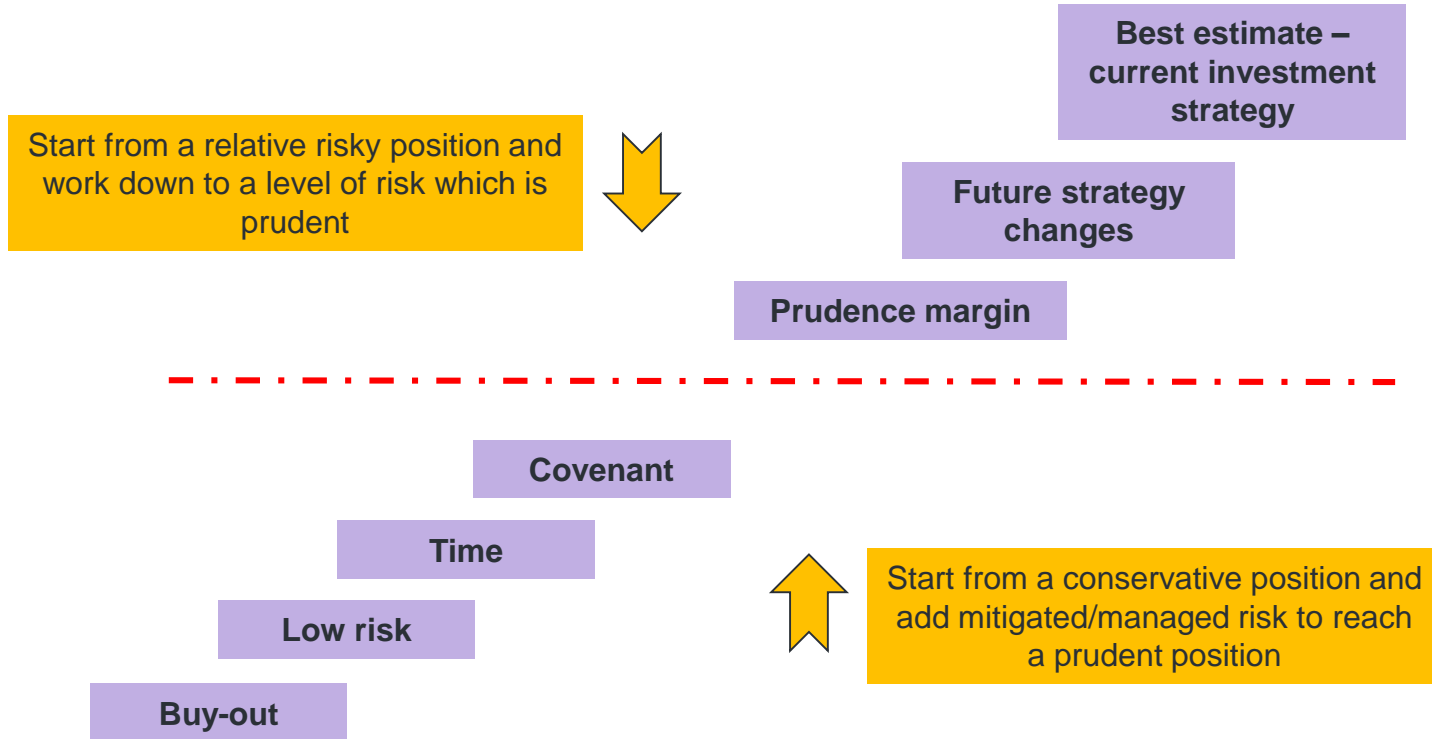
- Exercise:
 - Assume you are a trustee to a pension scheme (so expected to act as a prudent person)
 - Set aside current practices for setting prudence – start with a clean sheet.
 - Your ‘business plan’ for delivering member’s benefits involves
 - a) An investment strategy
 - b) Setting technical provisions
 - c) A recovery planAll underpinned by the employer’s covenant, and exposing members to some risk.
 - **Your task:** rank where you think it would be most appropriate to build prudence among these three strategies.

Approach to prudence



- Prudence in the round – a methodology, a way of thinking.

Prudency methodology in practice



- Example: setting TPs
- Two approaches to demonstrating prudence
- Evidencing risk taking over and above risk-free/low-risk position is more **transparent and objective**.

Principles for funding framework



- Many principles come directly from the White Paper proposals
- Initially developed with closed schemes in mind
- Operating in a “comply or explain” regime

TPR principles for developing framework

Aspect of the framework	Principle (for consultation)
LTO (Long Term Objective)	Scheme to have a long-term funding objective which is clear , measurable and time-based .
Journey Plan/ Technical Provisions (TPs)	TPs should reflect the long-term funding objective and the level of all risks over time (explicit link between TPs and LTO).
Journey Plan/ Technical Provisions (TPs)	Schemes should plan for the level of scheme-based risks to member benefits to decrease over time , with the appropriate level being linked to scheme maturity .

TPR principles for developing framework

Aspect of the framework	Principle (for consultation)
Risk taking and reliance on covenant	Schemes can account for contingent security in their asset base but under strict criteria (appropriately valued, realisable).
Risk taking and reliance on covenant	Schemes with stronger employer covenants can afford to take more risk and so assume higher investment returns . However, full reliance on covenant strength should be time limited to the period over which there is good covenant visibility - for most schemes, practical considerations will limit visibility to the medium-term (i.e. 3 to 5 years). So schemes' funding strategies should reflect some future weakening of the covenant (depending on its visibility).

Break-out session – Framework principles

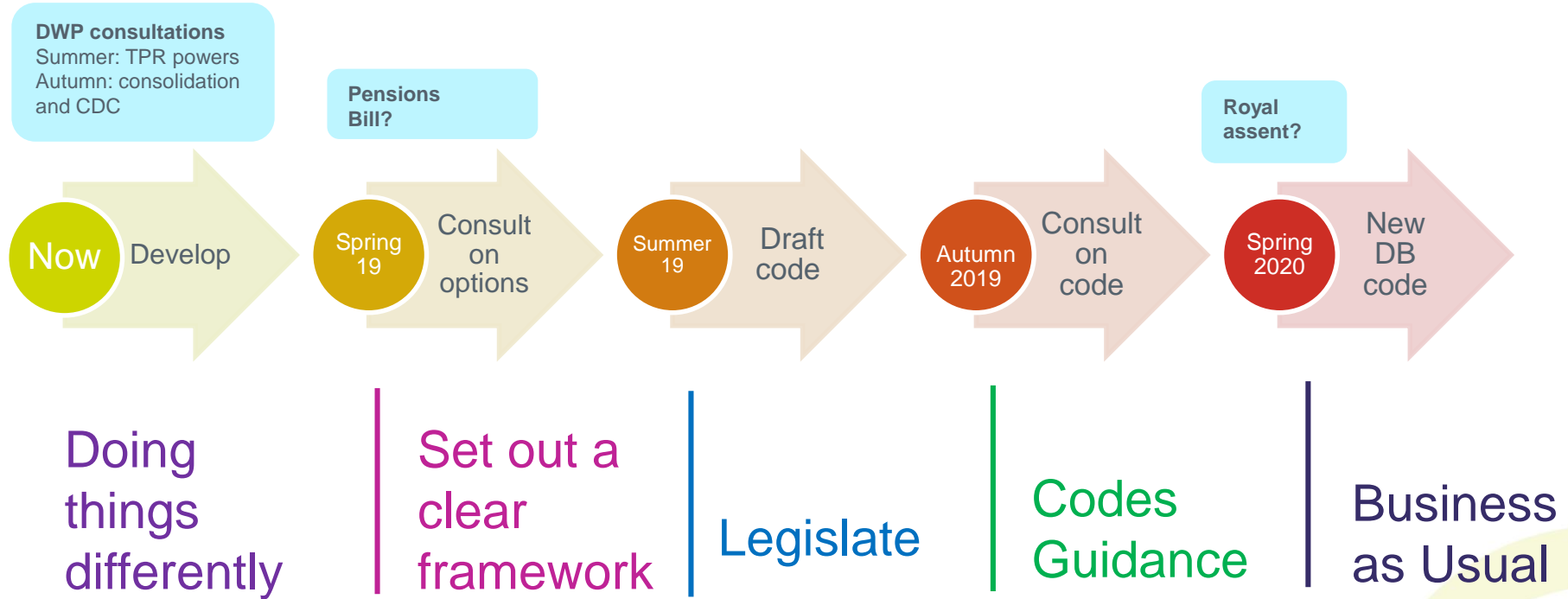
Aspect of the framework	Principle
Recovery plan: Reliance on covenant	Deficits should be recovered... Recovery plans are expected to be...

- **Exercise:**
 - We have removed some words in the principle above.
 - In your tables, discuss what key messages you would want to include.

Break-out session – Framework principles

Aspect of the framework	Principle (for consultation)
Recovery Plan / Reliance on covenant	Schemes should be fully funded on their technical provisions, and deficits should be recovered as soon as possible based on affordability. Recovery plans expected to be time-limited to short to medium term.
Compliance	In the context of a comply or explain regime where trustees can explain why they are 'not compliant' (for all aspects of the framework).

Timeline for DB funding work



Key takeaways

- Key objectives for DB review flow from DB White Paper remit:
 - 1) better long-term risk management
 - 2) transparency and accountability
 - 3) enforceability
- Comply or explain regime
- Prudence in the round (methodology)
- Objective and transparent risk taking
- Developing principles and framework
- All to be consulted on (Spring 2019)

If you have any ideas or comments, please get in touch at dbchange@tpr.gov.uk.

Questions

