The New Funding Regime

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Agenda

- The code of practice on funding
- The regulator's "statement"
- Guidance on "contingent assets"
- Experience so far
- e-learning and the trustee toolkit

Code of practice: Funding defined benefits

- New regime kicked off 30 December 2005
- Valuation process
  - technical provisions
  - solvency
- Objective assessment of employer's covenant
- Advice from the actuary
- Consultation and agreement with the employer
- Dealing with conflicts

Code of practice: Setting technical provisions

- Timetable fits in with MFR
- Default is annual valuations but expect most schemes to opt for triennial cycle
- Scheme specific
  - employer's covenant
  - risk and prudence
- statement of funding principles
  - funding method
  - assumptions as to the future course of events
  - economic factors
  - demographic factors

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Code of practice: Setting technical provisions

- Illustrations of variability
  - stochastic approaches
  - scenarios
- Equity out-performance allowed in investment assumptions used to set technical provisions (need to consider employer covenant)
- Mortality
  - latest available data on likely future mortality rates
  - allowance for future improvements

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Code of practice: Recovery plans

- Recovery plan: aim to eliminate shortfall as quickly as the employer can reasonably afford
- Scheme specific
  - Assessment of employer's ability to pay
  - Investment return over recovery period
  - Contingent assets

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The regulator's statement

- Issued May 2006
- Our strategy on how we intend to regulate scheme funding
- Triggers for technical provisions and recovery plans
- Viability of sponsoring employer is key
- Recognition of contingent assets

Key regulator messages

- Higher margins on assumptions expected for schemes with weak employer covenants
- Prefer prudent technical provisions and a longer recovery period
- A back-end loaded recovery plan or one longer than 10 years could be appropriate for a specific scheme
- Justification for assumptions adopted (including in relation to mortality)
- Our triggers are not your targets
- One size won't fit all!

Scheme Specific Funding (SSF) Team

- SSF team within TPR set up autumn 2005
- Currently 18 team members and growing
- Mixture of business consultants, case managers, an actuary and a lawyer

Submission of a recovery plan

- Encouraging completion of a recovery plan submission data form (now on-line)
- Details of valuation results/assumptions/recovery plan
- Other data items including s179 (PPF) and FRS17 figures
- Completion will satisfy legislation and code of practice

Initial assessment of recovery plans

- Largely automated assessment of recovery plans against our triggers
- Prioritisation of triggered cases
- Cases may come to our attention for other reasons
- We will also sample cases that don't trigger

Secondary stage assessment of recovery plans

- Selected and prioritised recovery plans will be passed to a case manager within SSF team
- Virtual teams set up for each case
- We are likely to ask for more information about the valuation and the employer as well as advice provided to the trustees
- We will assess information on employer's covenant
- We will assess the trustees' decisions on technical provisions and recovery plan in the light of the actuarial advice they obtained and the employer's covenant
- As part of this assessment we may ask to meet trustees and/or the employer and their advisers

Actions following secondary stage assessment

- We may conclude that the trustees' decisions appear reasonable and no further action is warranted
- We may engage with the trustees and the employer to discuss decisions made
- If we still have concerns, we may decide to make use of one or other of our powers

Experience to date (20/10/06)

- 17 recovery plans have been submitted and analysed
- Recovery plan lengths range from 6 months to 22 years
- 11 out of 17 have triggered (2 on TP alone, 5 on TP and RP and 4 on RP alone)
- Some triggered cases have received 'no further action' letters

Experience to date (20/10/06)

- 7 schemes have adopted a higher pre-retirement investment return assumption than post retirement (for non-pensioners)
- All the schemes have adopted the P(M/F)A92 tables but with a variety of approaches (calendar year, YoB, age adjustments, medium cohort adjustment factors)
- Only 2 schemes (of the same employer) have adopted a different asset return assumption for setting its recovery plan to that adopted for technical provisions

Help to trustees

- E-learning and the trustee toolkit
  - Three scheme funding modules available

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The end!

Any questions?