

Regulating the changing DB landscape: long-term objectives

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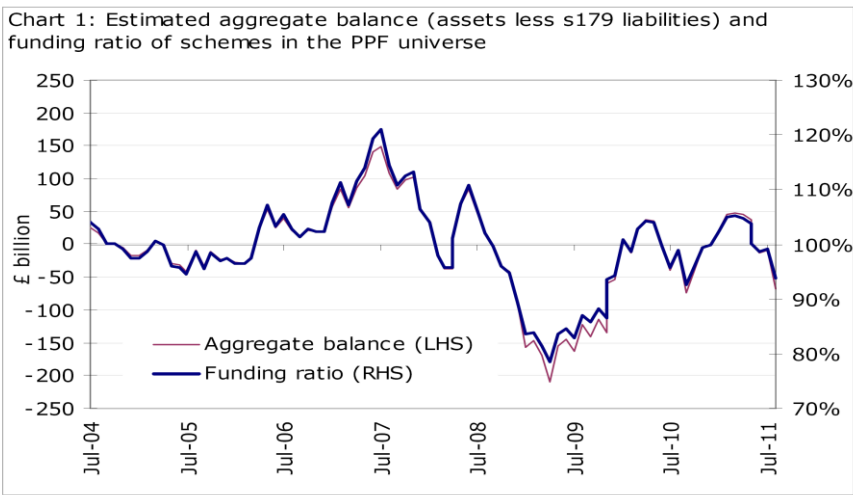
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The current DB funding situation



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Objectives

Our objectives

- Reduce risk to members
- Reduce risk to the PPF

Positive behaviours

- Processes are robust
- Trustees fully understand the risks their scheme faces

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Robust processes

In the next three years all schemes will have carried out two valuations:

- There should be fewer failures to agree
- We should see more reasonable plans that make use of the flexibility in the system
- There should be a solid understanding of the impact of employer covenant on funding plans
- Plans should be long-term strategies and take full account the changing environment/changing scheme structures
- If not, why not?

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Understanding the risks

- Employer covenant
 - Trustees must fully consider the impact of potential changes in their employer's financial position
 - For most employers a reasonable and affordable long term plan is still a viable prospect
 - Where not, trustees must consider what solutions will give the best possible outcome for the scheme

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Understanding the risks

- Corporate transactions
 - Vendor and purchaser must appreciate the size and the stability of the liability
 - Trustees should feel confident in requiring adequate measures to protect the scheme
 - Our response to any avoidance activity will be robust

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Understanding the risks

- Investment
 - Innovative funding structures can strengthen the support an employer provides to the scheme
 - Trustees must understand the risks associated with ERI and take action to remedy any potential breaches
 - We will take a proportionate and reasonable approach to any potential breaches of ERI legislation

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Understanding the risks

- Environmental changes
 - Any changes to European law will impact UK pensions
 - Automatic enrolment will change the shape and size of the UK pensions landscape

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Looking ahead – issues to consider

- What should TPR do to ensure that schemes are better able to weather an economic downturn?
- What should be done to address the problem of schemes which currently have strong employers, but which could become irrecoverably under-funded if the employer's strength was to suddenly deteriorate?
- What should be done to address the problem of under-funded schemes with weak employers?
- What are the funding, investment and governance behaviours which TPR should expect of frozen schemes?
- What aspects of the funding framework should TPR try to make clearer to trustees, sponsors and their advisers?

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