The Pensions Regulator
Making workplace pensions work

Annual Funding Statement 2019
Key messages

Agenda

1. Long term funding target
2. Segmentation by maturity
3. What we expect section expanded to include investment, covenant and funding
4. Our new approach

These slides remain the property of The Pensions Regulator and their content should not be altered on reproduction.

Long-term funding target

- We expect trustees to set a long-term funding target (LTFT) with a journey plan of how to achieve this.
- Many schemes have already implemented a LTFT.
- Schemes should also set an investment strategy consistent with the LTFT and plan how to get there.
- Government policy intent (white paper - March 2018) is to introduce a requirement for a scheme to have a long-term destination.

These slides remain the property of The Pensions Regulator and their content should not be altered on reproduction.

Segmentation by maturity

- The majority of schemes are closed to new entrants so maturity issues will assume greater significance for setting funding and investment strategies in the future.
- It is important to consider the interaction of the following, especially as a scheme gets more mature:
  - The level of assets, degree of underfunding and the amount of benefits paid out.
  - The scheme's ability to close the funding gap from investments and new contributions in a reasonable timeframe.

These slides remain the property of The Pensions Regulator and their content should not be altered on reproduction.

What we expect of trustees and employers

- Tables now include expectations by covenant, investment and funding (consistent with integrated risk management).
- Investment expectations are new to the tables and include the following:
  - Setting asset allocation consistent with LTFT.
  - Journey planning to get there.
  - Quantifying the impact on funding of adverse investment performance.
  - Testing and evidencing the ability of the covenant to support this without extending the recovery plan (supportable investment risk).

These slides remain the property of The Pensions Regulator and their content should not be altered on reproduction.

Our new approach

- We have recently completed a review of our approach to regulation and are implementing new ways of working.
- We are rolling out work to contact schemes where we have concerns on specific aspects of their funding or investment approach. In the next few months, we will be contacting schemes where we have concerns around the following:
  - Equitable treatment.
  - Long recovery plans.
- Late valuations – our preference is for the best outcome for the scheme, rather than one agreed under pressure to meet deadline.
- Use of powers – Southern Water was a recent example of where we sought to use our powers in relation to what we saw as unfair treatment of the pension scheme.

These slides remain the property of The Pensions Regulator and their content should not be altered on reproduction.

Summary

- We are setting out much more clearly and explicitly what we expect schemes to consider on funding, investment and covenant to help them think about the risks facing their scheme, to consider what levels of risk are acceptable and how to mitigate risks where appropriate.
- We have set out our expectations but we recognise that individual scheme circumstances might mean alternative action is appropriate. Trustees may wish to consider obtaining evidence and justification for doing so.

These slides remain the property of The Pensions Regulator and their content should not be altered on reproduction.

Summary continued

- Trustees have fed back to us that they find this clarity helpful in negotiating good outcomes for members and avoiding interventions and action from us.
- We continue to take a tough stance on those schemes where we see inequitable treatment regarding dividends and other shareholder distributions compared to the level of deficit repair contributions, as well as recovery plans that we view as unacceptably long.

These slides remain the property of The Pensions Regulator and their content should not be altered on reproduction.