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The Pensions Regulator's 2017 Funding Statement

The Pensions Regulator (TPR) has published its Annual Funding Statement for defined benefit schemes. The Funding Statement identifies some of the key issues facing schemes with valuations in the period 22 September 2016 to 21 September 2017.

The Funding Statement sets out the points which trustees and employers should consider when undertaking valuations. The main message is largely unchanged, that the TPR expects the majority of employers to be able to manage the increased deficit arising. However, there are some warnings:

- TPR reminds trustees that if their scheme is in a worse funding position than anticipated they should consider acting on their contingency plans. All trustees are now expected to have a contingency plan in place detailing the actions they will take in the event of downside risk materialising.
- TPR intends to take a more proactive stance, becoming involved earlier in a valuation process where it perceives the biggest risks to members and where it believes schemes are not being treated fairly. TPR wants valuations to be completed within the 15 months and will take a tough stance on schemes that fail to submit their valuations on time.
- TPR will quickly escalate its actions to ensure compliance by trustees and employers with their scheme funding duties.
- There is a continued emphasis on risk management given the uncertainty over future economic conditions and the persistent low interest rate environment.

The Statement reminds trustees and employers of their duties;

- Trustees must monitor risks and take action when required regardless of the scheme's funding position.
- The duty for trustees and employers to notify TPR of notifiable events which could affect the long-term security of the scheme.
- To consider the extent to which changing market conditions affect the longer-term view of expected risk and returns, and how this effects the scheme's funding plans and risk appetite.
- The Statement highlights that the Regulator is likely to intervene where it believes schemes are not being treated fairly compared with other stakeholders, and in particular where recovery plans are extended "unnecessarily" or where prioritising payments to shareholders is restricting the level of deficit contributions.

Schemes are advised to read the Statement alongside TPR's code of practice on scheme funding and supporting guidance on integrated risk management, DB investment, and assessing and monitoring the employer covenant.

For further information please contact your 44 Consultant.

July 2017