PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

DB FUNDING CODE

SEPTEMBER 2020

CONTENTS

ABOUT PLSA

EXECUTIVE SUMMARY

INTRODUCTION

CHAPTER 3: PROPOSED REGULATORY APPROACH

CHAPTER 4: EMPLOYER COVENANT

CHAPTER 5: GENERAL PRINCIPLES

CHAPTER 6: OTHER ISSUES

CHAPTER 8: SETTING THE LONG-TERM OBJECTIVE (LTO)

CHAPTER 9: TECHNICAL PROVISIONS (TPs)

CHAPTER 10: INVESTMENTS

CHAPTER 11: RECOVERY PLAN (RP)

CHAPTER 12: OPEN SCHEMES

CHAPTER 13: BESPOKE FRAMEWORK KEY FEATURES

CHAPTER 14: ADDITIONAL SUPPORT

ABOUT THE PLSA

We're the Pensions and Lifetime Savings Association; we bring together the pensions industry and other parties to raise standards, share best practice, and support our members. We represent over 1,300 pension schemes with 20 million members and £1 trillion in assets, across master trusts and defined benefit, defined contribution, and local government schemes. Our members also include some 400 businesses which provide essential services and advice to UK pensions providers. Our mission is to help everyone to achieve a better income in retirement. We work to get more people and money into retirement savings, to get more value out of those savings, and to build the confidence and understanding of savers.

EXECUTIVE SUMMARY

- The PLSA supports the principles of the code and believes its overall aims and objectives to be practical. The goal of the overall system should be to ensure that as many savers get their full benefits as possible, which is what the proposals attempt to achieve.
- The overarching proposal for a twin-track approach should help smaller schemes achieve compliance as efficiently as possible. However, the question of *how* the code can be adequately applied in Fast Track – a collection of consistent benchmarks to be applied across DB schemes of all sizes, maturities and covenant strengths – is complex and requires further consideration.
- Expecting schemes of all different sizes, covenant strengths and maturity levels to adhere to rigid investment approaches, technical provisions and recovery plans, will be inappropriate for many scheme-specific long-term objectives and may ultimately be detrimental to scheme members' outcomes. We believe it will be crucial to provide additional flexibility – for example by providing a set range of options throughout the Fast Track approach, from discount rates to technical provisions. We are also concerned that reducing investment risk prematurely, based on assumed covenant visibility, could create expectations for employer contributions which are unattainable. A significant cohort of schemes de-risking into similar assets, at the same time, may also have wider negative market impacts.
- Analysis released in March 2019 from KPMG estimates that the new funding code could add an additional £100bn to UK pension deficits – as an aggregate increase across all UK schemes, with the average pension scheme seeing its deficit rise by 50% – and could result in the doubling of pension contribution for a typical employer.[1] This figure will undoubtedly have swelled in 2020, given the shock on global markets from the outbreak of COVID-19.
- Our detailed response provides commentary and analysis on these issues, where added nuance could help support the delivery of the eight principles, set out in the first stage of the Funding Code's development.

Employer Covenant

- The overarching principles of "covenant certainty reducing with time" and therefore "reducing investment risk with time" is logical. However, this does not and should not equate to no covenant. Additionally, using a blanket 3-5 year period for all covenants – while a practical starting point for discussion – is too arbitrary, as visibility for employer covenant varies significantly between industries.
- We have concerns that the mix of varying assumptions for different elements within the code, which are for some requirements long-term (e.g. economic assumption) and others very short and immediate (e.g. covenant), may not lead to an appropriate assessment of a scheme's position. Where possible we believe all assumption timeframes should be consistent in order to assess 'like with like'.

Long-Term Objective

- The LTO principle identified by TPR is sensible and appropriate, though there remain questions around how assumptions will be set and determined. Significantly mature schemes and large firms with a strong employer covenant should have greater latitude to determine what level of risk to take, without levels of employer contributions necessarily impacting that risk strategy.
- There is a variety of views across our membership on the discount rate for the LTO. However, there is evidence that the combination of requiring discount rates of gilts +0.25% to +0.5% once "significantly mature", with the need to have a capitalised reserve for future expenses, could lead to a funding target that is in line with (or possibly higher than) the buyout cost for mature schemes.[1]

Technical Provisions

- Our members consider the shape of the horizon journey plan to be "cliff edge" de-risking, and inappropriate. The other journey plan shapes are also considered to be quite prescriptive and schemes have expressed concerns that these would effectively set de-risking plans in advance (of necessity), which may not be appropriate in the longer term nor be right for every scheme.

Investments

- Overall, there are concerns that the approach set out in the code for managing investment risk is too prescriptive. For example, specifically expressing investment risk relative to scheme size (e.g. a GBP (£) shock divided by the GBP (£) size of assets to give a % risk measure) does not capture whether the level of investment risk is supportable by the covenant strength. It may be more accurate to look at how a GBP (£) shock compares to the GBP (£) covenant support available. If the covenant support available is very large and reliable, then arguably a riskier investment strategy could be supportable.
- Additionally, the liability measure based on a low dependency basis of gilts +0.25% to gilts +0.5%, as suggested by the Regulator, is too low for many schemes to achieve. A more realistic range would be gilts +0.5% to gilts +0.75% if TPR were to use the liability measure based on a low dependency basis of gilts.
- It is also very important to note that for some schemes, it will be appropriate to maintain or aim for a more cautious target. Ultimately, the target is scheme specific; allowing for flexibility in the liability measure will be crucial to avoid undermining sensible but scheme specific long-term objectives.

---

[1] LCP (2020) A Fast Track to Problems? Why TPR's new DB Funding Code Needs to be Flexible. Available from: https://www.lcp.uk.com/pensions-benefits/policy-papers/fast-track-to-problems-why-tpr-s-new-db-funding-code-needs-to-be-flexible/

Recovery Plan

- The PLSA is concerned that the recovery period range of 6 to 12 years as set out by TPR may be too short for many schemes given the changed economic environment. Research conducted also finds that the mean recovery plan length for schemes was 9 years and 54% of schemes had recovery plan lengths of between 8 and 15 years.[2]

Open Schemes

- The consultation states that members of open schemes “should” have the same level of protection as those in closed schemes. While this in principle is reasonable, the dynamics between open and closed schemes can be very different and need to be accommodated. There is significant concern that proposals around LTOs and TPs might unintentionally hasten the closure of the open DB schemes. The requirement to fund accrued benefits in the same way as benefits for retirees would place a significant burden on funding requirements.
- Open Schemes should be allowed to set lower technical provisions than closed schemes. Making TPS the same as closed schemes is unnecessarily cautious given the longer investment horizon and the longer time they have until they become significantly mature. The higher expected returns overtime may generate trapped surpluses.

Bespoke Arrangements

- TPR’s decision to anchor Bespoke to Fast Track infers that schemes will need to heavily justify utilising Bespoke, which may mean that in practice, schemes that might have been better off as Bespoke, end up conforming to rules, or incurring costs for comparative analysis, which are not suited to their circumstances.

Miscellaneous Issues

- Multi-employer schemes form a significant part of the market - looking after hundreds of billions of pounds of assets and millions of members. It is important that detailed proposals for these schemes are shared as soon as possible for proper consideration.

---

[2] PWC (2019) 2019 Pension scheme funding survey. Available from: https://www.pwc.co.uk/pensions/assets/scheme-funding-survey-2019.pdf

INTRODUCTION

The Department for Work and Pensions' (DWP's) Green and White Papers concluded that the majority of schemes are well-managed and that there is not a widespread affordability problem across defined benefit (DB) schemes as a whole.[3] However, severely underfunded schemes present a risk to member outcomes, the Pension Protection Fund (PPF), as well as PPF levy payers. As such, the DWP's DB White Paper, launched in March 2018, set out a series of proposals to strengthen schemes' funding positions, which includes a revised funding code.

While the PLSA strongly supports the aims and objectives of the proposed code, analysis released in March 2019 from KPMG estimates that the new funding code could add an additional £100bn to UK pension deficits – as an aggregate increase across all UK schemes, with the average pension scheme seeing its deficit rise by 50% – and could result in the doubling of pension contribution for a typical employer.[1] This figure will undoubtedly have swelled in 2020, given the shock on global markets from the outbreak of COVID-19. Additionally, if the Government also decides to move ahead with plans to align RPI to CPIH later this year, there will be further complications and pressures placed on scheme funding.

As such, the Code will be coming into force in a much more complicated and potentially challenging period than could have been envisaged.

[3] DWP (2018) Protecting DB Pension Schemes, paragraph 77. Available from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/693655/protecting-defined-benefit-pension-schemes.pdf

CHAPTER 3: PROPOSED REGULATORY APPRAOCH

Q1 TWIN-TRACK COMPLIANCE

Do you think twin-track compliance is a good way of introducing objectivity into a scheme-specific regime? What are your views on the proposals set out above? If you disagree, what do you propose instead?

- Yes, a prominent Fast Track approach could be a very useful framework to allow the Regulator to process schemes more quickly, which could also allow TPR's resources to be allocated more effectively. It can also help schemes by providing clear targets to aim for. However, there are concerns:
  - that TPR may not have the sufficient resource for the number of schemes likely to use the Bespoke route;
  - that the Bespoke route is not truly "bespoke", given that the assessment criteria asks that funding arrangements use the Fast Track approach[4]; and
  - that the Bespoke route of compliance will be too cumbersome and too expensive to be used effectively by schemes (please see Bespoke framework and Additional Support sections).

- Overall, when finalising the code details, it would be important to consider allowing for flexibility – wider parameters – within Fast Track. A range of set options could be beneficial, in particular for journey plans, rather than expecting all schemes to follow the same journey plan shape. This is because schemes are all at different points of maturity and are at different covenant grades (please see Technical Provisions section for further information).

CHAPTER 4: EMPLOYER COVENANT

Employer Covenant Overall Comments

- There needs to be a balance between a consistency within TPR's Fast Track approach and the acknowledgement that many schemes have different circumstances, which has not yet been achieved in the covenant proposals. The covenant proposals must also balance the sustainability needs of employers with the need to protect savers.
- The proposal to reassess the 3-5 year covenant visibility, at every valuation, is viewed as practical by some within the PLSA membership, and is seen as a sensible starting point. However, we must stress that there are caveats and strong concerns that remain with this proposal.

[4] David Fairs, Executive Director of Regulatory Policy, Analysis and Advice at TPR, addressed this on a podcast from Pensions Expert on 21 August 2020, expressing that it is not their intention to have Bespoke just be a variation on Fast Track. We are hopeful that additional clarification on this point will be shared in TPR's response and in the second DB Funding Code consultation to follow in 2021. Available from: https://www.pensions-expert.com/Special-Features/Videos-Podcasts/TPR-to-make-changes-to-DB-funding-fast-track

The 3-5 year visibility proposal may not the right parameter

- The overarching principles of "covenant certainty reducing with time" and therefore "reducing investment risk with time" is logical. However, this does not and should not equate to no covenant. Additionally, using a blanket 3-5 year period for all covenants feels arbitrary, and reducing all investment risk beyond that point is too onerous in terms of the resulting impact on employer contributions.
- The 3-5 year time horizon proposed is too long for some and too short for others, as visibility of the employer covenant differs significantly between industries.
  - Some employers may have extended covenant visibility (over 30 years), such as Higher Education, while some may not have visibility much further than 12 months. Therefore, having one rule to fit all companies may not be practical.
  - For those industries where the covenant visibility of 3-5 years is actually too long (e.g. retail), it will not sufficiently take into account the potential for economic shocks, as has just been witnessed by the global pandemic.
- We have concerns that the mix of varying assumptions for different elements within the code, which are for some requirements long-term (e.g. economic assumption) and others very short and immediate (e.g. covenant), may not lead to an appropriate assessment of a scheme's position. Where possible we believe all assumption timeframes should be consistent in order to assess 'like with like'.

Additional Economic and Financial Context When Considering Covenant

- Overall, the proposed code has put a lot of weight in and around covenant strength, when it can in actuality be very difficult to accurately take a long, medium or even short term view on it. As we found during the global financial crisis and as we are finding now from the global pandemic, strong covenants can suddenly become very weak within weeks, due to unforeseen events.
- The consultation also does not explore in-depth the nature of the financial transaction element of the relationship between sponsors and schemes.
  - The code proposals helpfully will provide greater visibility over pension scheme deficits, which are unsecured debt.
  - This pension deficit will often be one of the largest debts owed by a company. Similarly it will likely be the largest creditor for the scheme by far and the trustees and members have no choice of counterparty and very little influence over how the company on which the members depend, is managed. This is unusual in that this kind of power dynamic would not exist with a commercial loan.
  - This may mean that there needs to be a shift in the balance of power between the employer (the debtor) and creditor (the trustees). If trustees are to put any reliance on the employer's covenant, there has to be a quid pro quo; as it is in practice a commercial

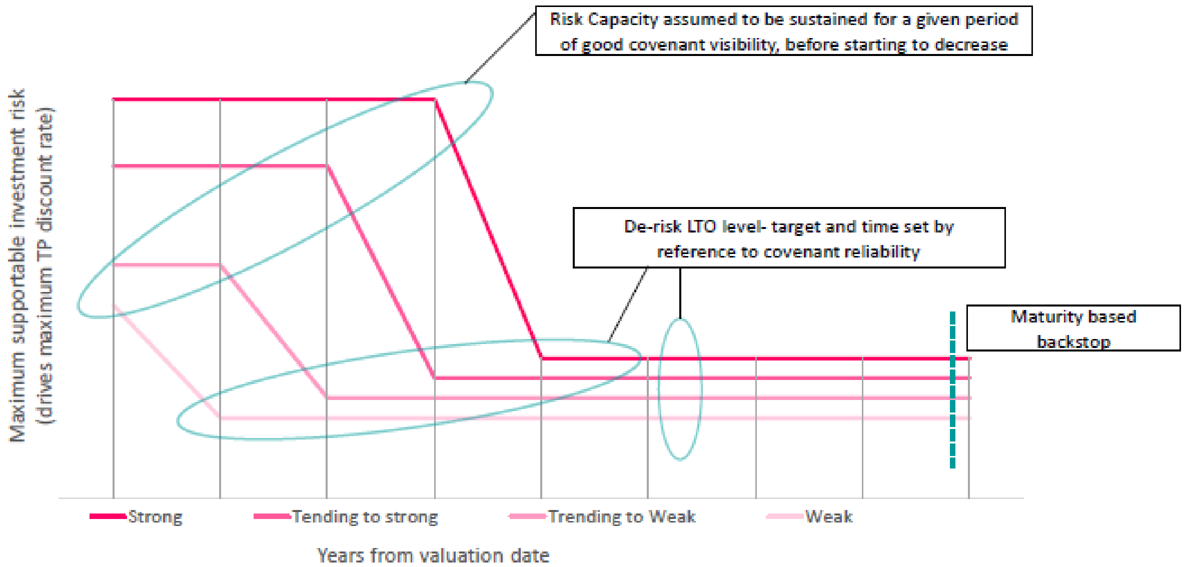
transaction. It may be worth considering that employers should expect/allow trustees to seek to have greater sight into business on which they rely, in the same way as a commercial lender would.

Application of Employer Covenant in Fast Track

- If TPR decides to go ahead with having a 'one size fits all' Fast Track compliance route, it should be as straightforward as possible.
- When considering all of the varied concerns outlined above, there are two proposals that could help to address the need to integrate covenant visibility into funding (please see illustration below as well):

1. There can be a period of covenant visibility (i.e. where it is possible to "see" that the current covenant will continue, and therefore that the current level of investment risk could be maintained), followed by a period over which some reliance can still be placed on the covenant until the LTO is met (this would be a qualitative assessment of covenant reliability). There is also an argument that less reliable covenants should fund to a more prudent LTO (e.g. where run-off is not a realistic prospect).
2. Both the period of covenant visibility and covenant reliance will vary from scheme to scheme, but typically we would expect stronger covenants to a) have a higher risk capacity at the outset, b) have more visibility over how long this capacity will be there for, and c) also offer more reliability over the medium-term (i.e. allow de-risking to the LTO to be further in the future, and to target a less prudent LTO). The simplification where these are all correlated with covenant grades could work to set Fast Track minimums. However, we would need to acknowledge that in Bespoke these parameters could all be set independently to build a journey plan as well.

Illustration 1: Proposals to integrate covenant visibility



Source: Lincoln Pensions

- There is also a view that removing the employer covenant requirement for the Fast Track route is the simplest way forward, and leaving the complex integration of covenant only for Bespoke arrangements – a route that many larger schemes with a strong covenant may likely opt to go down.
- The employer covenant requirements could be made to be more proportionate to the size of the scheme, with different levels for small and large schemes.
- TPR's proposal to take a 'formulaic' approach to assessing the strength of a covenant causes a number of concerns, which is captured in Q4 below. The PLSA supports a less prescriptive approach, referred to by TPR as a 'holistic' approach; this would retain the current approach to assessing employer covenant, which allows trustees and their advisers flexibility in weighing up scheme and employer-specific factors.

Q2 INSOLVENCY RISK AND RELIANCE ON COVENANT

Do you think the risk of member benefit reductions on insolvency is an acceptable part of the existing regime and that trustees should be able to place some reliance (whether implicit or explicit) on the employer covenant? To what extent do you think this should be the case? Do you think this risk is well understood by scheme members?

- The aim of the system should be to ensure as many members get full benefits as possible. However, some risk is accepted as part of the system – which is why the PPF exists – as is some reliance on the employer covenant. Risk of member benefit reductions is an acceptable part of the existing regime, as well as some reliance on the employer covenant. It may become more appropriate for trustees to utilise consolidation options, such as buy-outs or superfunds, especially as employer insolvencies become more likely in the current economic situation.
- It is highly likely that most scheme members will not have a strong or clear understanding of the risk to members' benefit reductions upon insolvency. The PLSA's DB Taskforce commissioned research from Ignition House in 2016, which found that there is a strongly held view that DB pension schemes are secure, with 71% of respondents agreeing with the statement, "you are guaranteed to get the income you have been promised from a defined benefit pension".[5]
- Communications to DB scheme members is currently only required when any member (active or deferred) request information, though in practice, many schemes send annual benefits statements to their active members. Additionally there is currently no regulatory obligation to comment on what would happen to benefits in the event of employer insolvency. Trustees may choose to reference the protection available from the PPF if the scheme became insolvent, though that is entirely a matter of trustee choice; it is not mandated. In light of potential

---

[5] PLSA (2016) DB Taskforce: Interim Report. Available from: https://www.plsa.co.uk/portals/0/Documents/0597-DB-Taskforce-Interim-Report.pdf

increasing insolvencies in the coming years, due in part to Covid-19, educating savers on this risk regularly will become more important.

Q3 INTEGRATING COVENANT INTO FUNDING

A. **Do you think it is better to keep the Fast Track route simpler by only factoring covenant into Bespoke (TPs and/or RP)?**
B. **If you think covenant should only feature in Bespoke, how do you think it should be done?**
C. **If we were to integrate covenant into Fast Track guidelines, do you prefer option 1, 2 or 3 or some other approach for reflecting the employer in scheme valuations, and why? If another approach is appropriate, what do you think this should be?**

- The majority of the PLSA's membership feel that employer covenant is a critical factor in setting long-term strategy for the scheme. If TPR's aim is to make Fast Track as straight forward as possible – to have a "one size fits all" approach, then there is an argument to simplify the process by removing the employer covenant requirement for the Fast Track route and to only keep it for the Bespoke approach.

- Option 1 (integration into Fast Track TPs via discount rate) most resembles the way the current funding regime operates; as such, there is support for this approach within the PLSA's membership.

- The PLSA shares the views of the weaknesses flagged by TPR for Option 2 (Covenant reflected in the RP investment out performance) and Option 3 (Covenant reflected as a scheme resource) and believe them to be less desirable to Option 1.

- Please see the Employer Covenant Overall Comments section above for further views.

Q4 COVENANT ASSESSMENT

A. Should a holistic approach to assessing employer covenant be retained (but with further guidance to assist trustees), or should we seek to define a more prescribed, formulaic approach?

B. If the former (holistic approach), what amendments/clarifications to our existing guidance on covenant do you consider may be necessary? Do you agree with the ones suggested above? Is the structure and content of our existing employer covenant guidance helpful and accessible to trustees? If not, what would make it better?

C. If the latter (formulaic approach), what do you think of the proposed RACF approach? How would you propose that covenant could be explicitly defined in a

clear, consistent and measurable manner? What other metric(s) may be appropriate?

D. Alternatively, would it be appropriate to require employer covenant to be assessed in a prescribed (formulaic) way for Fast Track purposes, and only allow for a more holistic approach under the Bespoke Framework?

- The PLSA supports a more holistic, less prescriptive approach, as it would be difficult to ensure that any regulations have appropriately captured the range of circumstances facing schemes. Trustees are best placed to take the particular circumstances into account and determine the strength of the covenant.

- A more rigid framework could also lead to inappropriately low discount rates.

- However, the holistic approach will need to be robust enough to mitigate the risk of overly generous assessments of covenant being used. With appropriate risk based regulation, TPR would be able to engage with these trustees over time and where it felt the trustees had over-estimated the strength of the covenant, it could rein in any errors.

Q5 RELIANCE ON INDIRECT COVENANT

Do you think that the strength of the wider commercial group should be factored into the sponsoring employer's assessment? If so, how, and to what degree?

- The views here are mixed within our membership, but on balance, the strength of the wider commercial group should not be factored into the sponsoring employer's assessment.

- If it was to be factored in, it should be done through formal support, such as parental company guarantees.

Q6 COVENANT GRADES

A. Should we use a greater range of covenant grades to set guidelines in the code and assess schemes and, if so, what would be an appropriate number of grades?

B. Would there be sufficiently different characteristics between a greater number of grades, such that a set of trustees could reasonably and reliably assess covenant strength without requiring professional advice?

- The current number of covenant grades (CG1 through 4) are sufficient and appropriate.

CHAPTER 5: GENERAL PRINCIPLES

Q7 LOW DEPENDENCY LTO

Should all DB schemes have a low level of dependency on the employer by the time they are significantly mature? If not, what do you think would be an appropriate expectation to ensure trustees manage the runoff phase for their scheme effectively and efficiently?

Q8 TIMING OF THE LTO

What factors should influence the timing of reaching the LTO? Do you think that the timing should be linked to maturity?

Q9 HIGH RESILIENCE TO RISK AT THE LTO

Do you think that the investment portfolio should be highly resilient to risk when schemes reach their LTO? If not, what do you suggest?

- It is reasonable in principle to expect DB schemes to have a low level of dependency on the employer, and to be invested with high resilience to risk, by the time they are significantly mature. Strong technical provisions will encourage contributions sooner and resilience to risk requires a de-risking strategy.

- However, significantly mature schemes and firms with a strong employer covenant should have greater latitude to determine what level of risk to take, without levels of employer contributions necessarily impacting that risk strategy.

- TPR's proposal to have high resilience to risk and low dependency on employer at significant maturity likely will mean that de-risking for some schemes will come sooner in this regime than in the previous one, which may not be advantageous or desirable for those who have a strong covenant.
    - De-risking could prematurely shorten the period that a scheme might have for higher returns, which might lead to poorer outcomes for members in the long-term, where the likelihood of paying all pensions is reduced.
    - A de-risking strategy could also mean that it takes a scheme longer to reach its funding objectives, making it more reliant on the employer for longer.[6]
    - Covenant strength will hold weight in determining how helpful de-risking will be. There is evidence to suggest that if covenant is strong, a combination of de-risking and earlier contributions for low dependency leads to better members' outcomes.

[6] See case studies by LCP here: LCP (2020) A Fast Track to Problems? Why TPR's New DB Funding Code Needs to be Flexible. Available from: https://www.lcp.uk.com/pensions-benefits/policy-papers/fast-track-to-problems-why-tpr-s-new-db-funding-code-needs-to-be-flexible/

However, if applied to weaker covenants, it can lead to a reduction in members' outcomes, due to the pressure put on a weaker sponsor from strong technical provisions and a "too-soon-deployed" de-risking strategy.

- The PLSA encourages that Bespoke arrangements be allowed to have the flexibility to make this decision themselves around when to de-risk - with covenant strength weighted heavily in the strategy – and with of course the appropriate additional supporting evidence. There must be diligence in monitoring ongoing performance in these instances, as well as contingent security.
- In relation to setting and agreeing LTO, the interactions between this and accounting standards – particularly IFRIC 14 need to be fully explored. There are potential consequences for the sponsor that could bring this long term commitment immediately on balance sheet and have the unintended effect of making it financially very difficult/unaffordable for the sponsor to agree to an LTO that they might otherwise be minded to support.
- Of the three options provided, we agree with TPR that linking the timing of the Long-Term Objective to scheme maturity is the preferred choice to using an arbitrary timeframe or using covenant horizon.

Q10 RISK-TAKING FOR IMMATURE SCHEMES

Is it reasonable for less mature schemes, which would have more time to reach low dependency funding, to assume and take relatively more investment risk than a mature scheme?

- Overall, it is appropriate for less mature schemes to take on higher levels of risk, due to the longer time horizon. However, it is important to remember that high investment risk does not always equate to high returns.

Q11 JOURNEY PLANNING

What are your views of the rationale above for the journey plan? Do you think there is a better way for trustees to evidence that their TPs have been set consistently with the LTO?

- The PLSA supports the rationale for the journey plan – the need for a map on how to achieve the long-term objective to close the funding gap through timely and affordable contributions and appropriate risk-taking. Using TPs at successive valuations as staging posts or steps on the journey towards achieving the LTO is logical.

Q12 RELEVANCE OF INVESTMENTS FOR FUNDING

Do you agree that the actual investments and investment strategy are a relevant factor for scheme funding?

Q13 BROAD CONSISTENCY BETWEEN INVESTMENT AND FUNDING STRATEGY

A. Should the investment strategy be broadly consistent with the level of current and future investment risk assumed in the funding strategy? If not, why not?

B. If it is not broadly consistent, for instance where trustees want to take additional investment risk (than that assumed in the TPs), should trustees have to demonstrate that the investment risk taken can be managed appropriately? If not, why not and what would you suggest?

- Yes, it makes sense that actual investments and investment strategy are relevant to scheme funding. If trustees want to take additional investment risk than that assumed in the TPs, they:
    - should demonstrate the benefit of doing so;
    - should demonstrate good understanding of the downside risk;
    - must have strong monitoring and mitigation (IRM) planning;
    - should have a strong employer covenant;
    - must have evidence-based assumptions and contingent security (e.g. overdrafts or cash buffers, surety bonds and other forms of credit insurance).

Q14 LIQUIDITY AND QUALITY AT MATURITY

Do you think that security, quality, and liquidity become more important as a scheme becomes significantly mature? In particular, do you think that the scheme's asset allocation at significant maturity should have a high level of liquidity and a high average credit quality?

- The importance of security, quality and liquidity differs depending on if trustees decide to put schemes on course for a large scale bulk annuity transaction or to run-off – each will require slightly different strategies as it becomes significantly mature:

    - Bulk annuity insurance transactions: improving liquidity will be more desirable, but illiquid assets could still be passed on to insurers. Some forms of illiquid assets – such as social housing loans, educational loans and infrastructure – can be considered a "good match" for long-term annuity liabilities.[7]

    - Run-off: the long time horizon in these situations is advantageous, making illiquid assets that generate income more attractive.

[7] Scottish Widows, Bulk Annuities. Please see: https://adviser.scottishwidows.co.uk/products/annuities/bulk-annuities.html#

- It will be important to be less rigid on expectations of having highly liquid and high quality in all scenarios as schemes mature, as accelerating the sale of illiquid assets could lead to downgraded value of those assets.[8]

Q15 COVENANT VISIBILITY

A. Do you think it is prudent for reliance on employer covenant to be reduced beyond the period over which there is reasonable visibility? If not, why not?

B. How much visibility do you think most trustees can have over the employer covenant? In the absence of evidence to the contrary, do you think it is reasonable for most schemes to assume there is reduced visibility beyond 3-5 years?

- The proposal to reassess covenant visibility at every valuation is practical and is a sensible starting point, but there are caveats and concerns to consider.
- The PLSA agrees in principle with reducing the reliance on employer covenant over time, but not necessarily after the period of reasonable visibility (proposed to be 3-5 years in the consultation); it is important to note that covenant uncertainty should not translate into no reliance on the covenant at all. The period beyond visibility should be based on probable outcome, rather than an assumption of low or no support from the sponsor. It is not appropriate to assume that all employer covenants, in all industries, will be weaker after five years, and thus, it is not appropriate to ask schemes to fund based on this assumption of short period deterioration.
- It is important to note that employer covenant visibility will differ significantly between industries. Some employers may have a very long time horizon (over 30 years), while some may not have visibility much further than 12 months. Higher Education is one industry flagged as having a longer visibility period. Therefore, having one rule to fit all industries may not be practical and there is a view within our membership that 3-5 years is still too arbitrary.
- TPR states that employer covenant visibility cannot be known beyond the short to medium term (3-5 years). It was raised that as many other aspects of long-term factors also lack longer visibility, but are still integrated with assumptions, employer covenant visibility should be estimated for the entire expected funding period.
- Please see Employer Covenant Overall Comments for further views on employer covenant visibility and integration.

[8] "The Perils of Forcing a Sale of Illiquid Assets" (NY Times, 28 September 2015) Please see: https://www.nytimes.com/2015/09/29/business/dealbook/the-perils-of-forcing-a-sale-of-illiquid-assets.html

Q16 USE OF ADDITIONAL SUPPORT

Should additional support, such as contingent assets and guarantees, be allowed in scheme's funding arrangements provided they are sufficient for the risk being supported, appropriately valued, legally enforceable and realisable at their necessary valued when required?

- Yes.

Q17 APPROPRIATENESS OF RPS AND AFFORDABILITY AS KEY FACTOR

A. Should employer affordability be the key factor to determine the appropriateness of a RP? If not, what should it be?

B. Is it reasonable to require schemes with a stronger employer covenant (and a resulting reduction in prudence in the assumed TPs and size of deficits) to have a commensurately shorter RP?

- The PLSA agrees that affordability should continue to be a key factor in determining appropriateness of a RP.
- In principle, it makes sense to require schemes with a stronger employer covenant to have shorter RPs, achieved by higher contributions in a shorter period of time. However, due to wider economic constraints, most employers now face from the global pandemic, this expectation may not be as strong, given that some companies may now need to adapt to sustainability more.

Q18 OPEN SCHEMES, PAST SERVICE

Should past service have the same level of security, irrespective of whether the scheme is open or closed?

Q19 OPEN SCHEMES, FUTURE ACCRUALS

Do you think it would be good practice for trustees to ensure that the provision of future accruals does not compromise the security of accrued benefits?

- TPR's consultation states that members of open schemes should have the same level of protection as those in closed schemes. This in principle is correct, but the dynamics and demands of open schemes and closed schemes are very different and need to be accommodated.
- Overall, there is significant concern that the consultation's proposals around LTOs and TPs might unintentionally hasten the closure of the open DB schemes which would otherwise remain open. The requirement to fund accrued benefits in the same way as benefits for retirees

would place a significant burden on funding requirements, which will likely increase some employers concerns about the affordability of schemes.

- Please see Open Schemes section for further details.

CHAPTER 6: OTHER ISSUES

Q20 OTHER ISSUES

Do you agree with our assessment of the issues above and do you have any further comments?

DB MES

- TPR has deferred detailed work on how its principles will apply to atypical employer covenants – which include Multi-Employer Schemes – until the follow-up consultation. However, multi-employer schemes look after hundreds of billions of pounds of assets and millions of members, so we would like to see more of TPR's thinking on these complex structures sooner.
- A concern for multi-employer schemes with the current proposed code is that shared cost mechanisms will not work with this regime. Some public sector schemes share cost, but these cost sharing mechanisms sit outside the valuation regime.

Pension Schemes Bill 2020

- While not raised as an area for discussion within the consultation, there is concern that 221B Statement of strategy, paragraph 5, of the Pension Schemes Bill will detrimentally alter the existing balance of powers by giving employers the right to sign off on investment strategy set by the schemes' trustees.

Corporate Governance and Insolvency Bill

- TPR's consultation was launched before the Corporate Governance and Insolvency Bill, but how the proposed principles and applications interact with the bill in the future should be something important to consider, especially given that the number of insolvencies are likely to rise in the coming years due to Covid-19 fall-out. The amount of contributions PPF will be able to recover under the Insolvency Bill will determine both the pressure on the PPF as well as on remaining solvent companies to carry any rises in the PPF levy – both which will ultimately affect members' outcomes. In particular, how insolvencies will factor into recovery plans is not currently considered by TPR in the consultation.

RPI to CPIH alignment

- If Government also decides to move ahead with plans to align RPI to CPIH later this year without any mitigation measures, there will be further complications to scheme funding. The

Pensions Policy Institute[9] estimates that for pension schemes that use RPI-linked gilts, for every £10m invested, they would see a loss of £1m in asset value if the changes are made in 2030; this figure doubles if the change is made in 2025. A significant fall in the income received from RPI-linked gilts would lead to a reduction in scheme funding. This funding gap would require higher contributions from employers, which may be difficult to achieve under the current economic climate.

CHAPTER 8: SETTING THE LONG-TERM OBJECTIVE (LTO)

Long-Term Objective Overall Comments

- The LTO principle identified by TPR is sensible and appropriate, though there remain questions around how assumptions will be set and determined.
- Governance, size, maturity and the health of the scheme need to be taken into account for the LTO.
- In relation to setting and agreeing LTO, the interactions between this and accounting standards – particularly IFRIC 14 need to be fully explored. There are potential consequences for the sponsor that could bring this long term commitment immediately on balance sheet and have the unintended effect of making it financially very difficult/unaffordable for the sponsor to agree to an LTO that they might otherwise be minded to support.
- There is a concern that technical provision may become void in practice if the LTO is seen as the ultimate goal for schemes.
- Many schemes, most likely the larger ones, offer benefits significantly better than the PPF[10] and their funding objective needs to reflect this. There is an issue, therefore, as to whether schemes should be able to fund above or below PPF.
- Rigid, defined parameters by TPR may end up creating a minimum target to achieve for those sponsors that are currently contributing more into schemes sooner. Given wider financial pressures, if sponsors see that they are "allowed" to contribute less, then they may take this option, rather than putting in as much as possible, as early as possible.
- There is a variety of views across our membership on the discount rate for the LTO, which include the following positions:
    - There is a view that +0.25% to +0.5% is the right parameter.

[9] PPI (2020) How could changes to price indices affect DB Schemes? Available from: https://www.pensionspolicyinstitute.org.uk/research/research-reports/2020/2020-04-01-briefing-note-118-how-could-changes-to-price-indices-affect-defined-benefit-schemes/

[10] Scheme members' benefits could be negatively impacted if their scheme enters the PPF, in part through the compensation cap and the lower indexation used by PPF.

- Some however feel that setting the low dependency funding basis for Fast Track at a discount rate of gilts +0.25% to +0.5% was seen as too low, with a range of +0.5% to +0.75% seen as more realistic, and is anecdotally what they are seeing.
- Some feel that how they are already doing it - which is to have a discount rate of gilts 0% to 0.25% - is the best estimate of what is needed, inclusive of expense and risk reserves.
- Furthermore, there is evidence that the combination of requiring discount rates of gilts +0.25% to +0.5% once "significantly mature", with the need to have a capitalised reserve for future expenses (please see Q26 on expenses) – including for expected future PPF levies - could lead to a funding target that is in line with (or possibly higher than) the buyout cost for mature schemes.[11]
- This showcases the need to provide a variety of set options for large and small schemes even within Fast Track, that holding a scheme to one rigid parameter might not lead to the right outcomes.

- It is unclear if the LTO requirement would work in respect of schemes that are not maturing.

Q21. What are your views on our proposal that the appropriate low dependency funding basis for Fast Track should be with a discount rate somewhere in the range of Gilts +0.5% to Gilts +0.25%? Where in the range do you think it should be and why? If you disagree, what do you think would be a more appropriate basis and why (please provide evidence)?

There is a variety of views across our membership on the discount rate for the LTO.

- There is a strong view that +0.25% to +0.5% is the right parameter.
- Some feel that setting the low dependency funding basis for Fast Track at a discount rate of gilts +0.25% to +0.5% was seen as too low, with a range of +0.5% to +0.75% seen as more realistic, and is anecdotally what they are seeing.
- Some feel that how they are already doing it, which is to have a discount rate of gilts 0 to 0.25%, is the best estimate of what is needed, inclusive of expense and risk reserves.
- Furthermore, there is evidence that the combination of requiring discount rates of gilts +0.25% to +0.5% once "significantly mature", with the need to have a capitalised reserve for future expenses (please see Q26 on expenses) - including expected future PPF levies - could lead to a

[11] LCP (2020) A Fast Track to Problems? Why TPR's new DB Funding Code Needs to be Flexible. Available from: https://www.lcp.uk.com/pensions-benefits/policy-papers/fast-track-to-problems-why-tpr-s-new-db-funding-code-needs-to-be-flexible/

funding target that is in line with (or possibly higher than) the buyout cost for mature schemes.[12]

Q22 OPTIONS FOR DEFINING OTHER ASSUMPTIONS FOR FAST TRACK LOW DEPENDENCY FUNDING BASIS

Which of these options should be used to set assumptions for low dependency funding under Fast Track? Are there any other options we should consider? Are there any other pros and cons we should consider?

- There are concerns that setting assumptions will make parameters too rigid to fit all schemes, where governance, size, maturity and health of the scheme need to be taken into account for the LTO.

- On balance, an overall "best estimate" approach to set assumptions for low dependency under Fast Track is preferred, but there are views that Option 2 ("define assumptions which are not scheme-specific, with other assumptions no weaker than best estimate overall") and Option 3 ("define all assumptions") are preferable, again pointing to the conclusion that perhaps for even within Fast Track, it becomes important to offer options to suit large and small schemes.

- It is important to note that in relation to setting and agreeing LTO, the interactions between this and accounting standards – particularly IFRIC 14 need to be fully explored. There are potential consequences for the sponsor that could bring this long term commitment immediately on balance sheet and have the unintended effect of making it financially very difficult/unaffordable for the sponsor to agree to an LTO that they might otherwise be minded to support.

Q23 DEFINING ASSUMPTIONS FOR FAST TRACK LOW DEPENDENCY FUNDING BASIS

A. What are the most significant assumptions (other than discount rates) for the calculation of the Fast Track low dependency liabilities?

- Mortality and inflation were consistently cited as being the most significant assumptions for Fast Track calculations of low dependency liabilities.

- Some others in our membership also cite pension increases, other demographics and real salary increases as significant assumptions instead.

[12] LCP (2020) A Fast Track to Problems? Why TPR's new DB Funding Code Needs to be Flexible. Available from: https://www.lcp.uk.com/pensions-benefits/policy-papers/fast-track-to-problems-why-tpr-s-new-db-funding-code-needs-to-be-flexible/

B. If we were to specify some or all of the assumptions to calculate the level of Fast Track low dependency liabilities, which assumptions should we specify and how should we do this? Do you have views on the suggested benchmarking factors in the table above?

C. If we determined mortality assumptions, how could we balance the scheme-specific nature of mortality with the desire to ensure a level of consistency in the assumptions used by different schemes?

- N/A

Q24 LOW DEPENDENCY BASIS – VERIFICATION THAT OTHER ASSUMPTIONS MEET THE BEST ESTIMATE PRINCIPLE

A. Which of these options do you prefer to verify that other assumptions used for low dependency liabilities under Fast Track meet the 'best estimate' principle and why? Are there any other pros and cons we should consider? Are there any other options we should consider?

- Scheme Actuary's certificate is the most preferred:
  - This relies on the Scheme Actuary's professional judgment and ability to take scheme specific matters into account.
  - It is also a balance between ensuring compliance without additional/excessive advisory fees being incurred.

- There is a view that using a comparison with other sets of "best estimate" assumptions is best, as the FRC's actuarial reporting standards TAS 300 requires actuaries to identify the difference between what used to be called "neutral" or best estimate assumptions and prudent ones chosen by DB Trustees.

B. If we decided to require schemes to provide additional information about their assumptions, what information should we require schemes to provide compared to the current requirements?

- N/A

Q25 OTHER ASSUMPTIONS FOR FAST TRACK LOW DEPENDENCY BASIS – PRUDENCE

A. If we specified certain assumptions, should we aim for those to be best estimate or to be chosen prudently?

- To achieve a low level of reliance on the sponsor, the assumptions need either an element of prudence or the basis needs to make an allowance for future expenses and contain risk reserve. Otherwise the scheme will never achieve low dependency.

B. Given the uncertainty around assumptions such as future improvements in mortality should we i) define these assumptions in Fast Track and ii) set the assumptions prudently?

- N/A

Q26 LOW DEPENDENCY LIABILITIES – RESERVE FOR FUTURE ONGOING EXPENSES

A. Should the low dependency liabilities carry an expenses reserve? If so, should this only be a requirement for schemes that self-fund their expenses?

- The PLSA feels strongly that low dependency liabilities should carry an expenses reserve.

- There are a variety of views on whether it should be a requirement that schemes self-fund their expenses:
  - Some feel that it should be a requirement only for those who self-fund expenses. However, it is acknowledged that including an expense reserve for those who self-fund will require higher reserves;
  - Some feel that is should be subject to case-by-case assessment whether members or sponsors can be relied upon to fund expenses;
  - Some felt that it should be a requirement for all schemes if they are to ultimately achieve low dependency. Low dependency is not the same as zero dependency, so schemes that currently do not self-fund expenses may wish to include a smaller expense reserve, depending on individual circumstances.

B. To what extent should we define the reserve for future expenses under Fast Track? Should we just provide guidance on how to calculate an appropriate reserve? As part of that, what level of ongoing expenses is it reasonable to allow the employer to pay directly without any reserve?

- It is our preferred approach to have guidance, rather than explicitly defined parameters for future ongoing expense reserves.

- In terms of what level of ongoing expenses is reasonable to allow the employer to pay directly without any reserve, it will likely depend on the strength of the employer covenant, but actuarial standards will be better placed to steer the final say on this. PPF expense weightings seem to be heavier than necessary, so it is likely that TPR's will be as well.

C. If we defined guidelines on expenses for Fast Track, how should we reflect the proportionally different level of expenses incurred by schemes of different sizes? Could we adopt a sliding scale of percentages of liabilities based on the size of the scheme or a fixed element and proportionate element of expenses?

- There is no firm view from our membership on this.

Q27 DEFINITIONS OF MATURITY

A. Should maturity be defined as duration for the purpose of prescribing significant maturity under Fast Track? If not, which measure would you favour and why? Note that whatever measure we use, it needs to be applicable not only to the time at which we would expect a scheme to reach significant maturity but also at all earlier times in the scheme's life.

- There is a dominant view that scheme maturity should be defined by duration of the liabilities, as it is the defining factor which determines the lifetime of the scheme.
- Some feel that the liabilities need to be specified further, that it should be the duration of the uninsured liabilities, as this represents the scheme's funding risk exposure.
- While duration of the liabilities gives a good indication of scheme maturity, other factors also need to be considered. Most corporate pension schemes will likely buy-out well ahead of the scheme duration (for instance, a PLSA member gave the example where duration is c20 years but the scheme is working towards buy-out in 10 years). Thus, this needs to be factored in along with the de-risking activity and funding level of the scheme.
- The proportion of liabilities that relate to pensioner members could also be used to define scheme maturity. The number of assumptions which need to be made reduces once the majority of members have retired, leaving just a few key ones.
- Some also feel that the proportion of remaining cash flows relating to pension members is the best definition of scheme maturity. If funding and investment strategies are founded on a cash flow plan, then the strategies will be appropriate whether there are many, few or no active members and many, few or no pensioners. Cash flow founded strategies will adjust to changing circumstances much better than a "balance sheet only" approach.

B. Whichever method is used to determine maturity, we need to use actuarial assumptions to make the calculation. Should we require that the Fast Track low dependency assumptions are used for this purpose? What other assumptions could be used?

- There is a variety of views, but on balance it makes sense to use low dependency assumptions for this purpose. It was suggested that it should be set at gilts 0% to 0.25%, as that is the range being used and is deemed the best estimate of what is needed, inclusive of expense and risk reserves.

Q28 DEFINING THE TIMING POINT FOR SIGNIFICANT MATURITY

What are your views on our proposal to set significant maturity (used to define the timeframe for reaching the LTO) for Fast Track to be in the range of a scheme duration of 14 to 12 years (or equivalent on a different maturity measure)? If you

disagree, what would be a more appropriate timeframe and why? Please provide evidence.

- As elsewhere, there is a variety of views within our membership, but there is support for the range of a scheme duration to be of 14 to 12 years on the journey plan on Fast Track.
- A number of questions have been raised by the modelling and more information would be welcome.

Q29 POINTS OR RANGES FOR LOW DEPENDENCY FUNDING BASIS AND TIMING POINT

Do you think our proposal to set a particular level for the low dependency funding basis and/or a range for the significant maturity timing associated with the LTO would be helpful to schemes to manage volatility and allow some smoothing? If not, what would you suggest?

- The PLSA agrees with this proposal that it will help to balance the need for a clear, distinct target and will allow for some smoothing over time.

CHAPTER 9: TECHNICAL PROVISIONS (TPs)

Technical Provisions Overall Comments

- The horizon journey plan shape is seen to be "cliff edge" de-risking. The other journey plan shapes are also seen to be quite prescriptive and schemes have expressed concerns that these would effectively set de-risking plans in advance, which may not be appropriate in the longer term (please see Q9 on LTO de-risking).
- It could be appropriate for TPR to offer a range of set options for journey plans to schemes in Fast Track, rather than expecting all schemes to follow the same journey plan shape. This would account for the plethora of circumstances large and small schemes face.
- Contingent assets and guarantees should be factored into the journey plan as well.
- The 3-5 year horizon period proposed for covenant reliance would not work in practice given that covenant visibility can vary depending on the industry (please see Employer Covenant Overall Comments for extension commentary on this 3-5 year point).
- If schemes took an approach to investment risk that was right for individual scheme covenants, then schemes should be in a position where TPs are not even needed.
- In regards to the maturity and covenant-linked matrix of ranges used to set acceptable TPs, the best option would be for the TPs to be a percentage of low dependency.

Q30 JOURNEY PLAN SHAPE FOR FAST TRACK TPS

A. Which shape of journey plan is most appropriate to define for calculating the Fast Track TPs and why? Does this vary depending on the circumstances of the scheme?

B. Are there any other journey plan shapes we should consider?

C. What unintended consequences might arise from adopting the linear de-risking or horizon method journey plans for Fast Track?

- We do not have a preferred shape for the journey plan.

- We understand TPR's approach for Fast Track aims to ensure risk reduction over a period of time as schemes reach significant maturity. However, there is a concern that by forcing schemes in Fast Track into a single 'one size fits all' journey plan shape, this could result in schemes setting out a de-risking approach which may not be appropriate in the long term (please see Q9 on LTO de-risking).

- Instead, TPR should consider offering more flexibility by providing schemes with a range of set options which they can use in order to better reflect their Long-Term Objective.

Q31 KEY FACTORS FOR FAST TRACK TPS

Should other scheme-specific factors other than covenant and maturity be considered to define the journey plan and TPs in Fast Track?

- Other scheme-specific factors TPR may wish to consider are contingent assets, which are held outside the scheme and then claimed in the case of employer insolvency or failure. They can be used by schemes to increase the security of members' benefits. As such, the value of such assets can support a scheme's TPs and may have an impact on the potential shape of their journey plan.

Q32 EXTENT OF RELIANCE ON COVENANT IN FAST TRACK TPS

A. Should we define a maximum period of acceptable full covenant reliance for Fast Track TPs? For example, a general guideline of five years? Or should covenant reliance be assumed to decline in the much shorter term (or immediately)?

- We agree that there should be a maximum period of acceptable full covenant reliance for Fast Track, but do not think five years would be suitable, as it will be too prescriptive for schemes. The period could instead be driven by the covenant of the sector, given that some schemes may have long covenant visibilities (for example, universities can have very long covenant visibility) whereas others may have very short covenant visibility. This approach would ensure that there is a general approach for each sector, whilst ensuring the period is not too narrow for schemes to adhere to.

B. What level of covenant support should subsequently be assumed? Should there be an assumption of a single covenant grade reduction (e.g. CG1 to CG2), a reduction to assumed returns in line with a weak covenant, or something else?

- N/A

C. Over what period should any reduction in reliance take place? Should this be immediate (e.g. a reduction to a lower covenant reliance in the sixth year) or more gradual (for example, over the subsequent five years)?

- A reduction in reliance should be done gradually following this period.

D. Does the need for a covenant visibility overlay depend on the approach taken for the journey plan to low dependency? For example, is this a more relevant consideration where the horizon journey plan shape is used?

- We do believe the covenant visibility overlay is dependent on the approach taken for the journey plan to low dependency.

- However, though covenant is important to understand the position with ongoing funding, for many schemes it can be difficult to measure too far into the future. While for some schemes, in particular open pension schemes, the covenant strength will remain broadly level over time, for others it could change drastically as a result of events such as economic shocks (e.g. Covid-19 impact).

- Additionally, TPR should also consider that the covenant is much less relevant if a scheme is fully funded on a low dependency basis (please see Employer Covenant Overall Comments for additional discussion around the relevance of the covenant).

Q33 HOW FAST TRACK TPS SHOULD BE EXPRESSED

Which option do you think is preferable for defining TPs/journey plans under Fast Track and why? What are the practical issues associated with each option? If you disagree with these options, what would you suggest and why?

- As outlined by TPR in the consultation, each approach to how Fast Track TPs should be expressed has advantages and disadvantages.

- On balance, we believe that expressing TPs as a percentage of low dependency is the preferable option as setting strict discount rates could make it more difficult for schemes to comply with Fast Track. The percentage of low dependency approach will allow for more flexibility for trustees to choose TP assumptions appropriate for their scheme.

Q34 METHOD TO DERIVE FAST TRACK TPS

A. Do you prefer a particular approach? If so, why? Is there another approach that would be suitable?

- We believe that any approach taken by TPR to determine acceptable TPs must be appropriate and robust.

    - Though a data driven method may be sensible and provide more-evidence based parameters, in practice data may not be reliable and could place a burden on schemes when it comes to provision.

    - A stochastic model is our preferred approach; it is less prescriptive and may be more reflective of how schemes are approaching TPs in relation to their long-term targets. However, consultation will be needed to ensure the assumptions used for this approach are appropriate.

B. Do you have ideas as how to best approach each option?

C. How do trustees incorporate considerations about covenant strength into their TP assumptions/discount rates?

D. If a stochastic approach is adopted, what would you consider to be an appropriate confidence level against which to mark the results?

E. Do you have any data or modelling results which you think would provide useful evidence for the baseline TPs or covenant overlay? Please provide full details of methodology/data limitations.

- N/A

CHAPTER 10: INVESTMENTS

Investments Overall Comments

- While we accept that some level of prescription is needed in Fast Track, there are concerns that TPR's approach to managing investment risk is too prescriptive.

- For example, specifically expressing investment risk relative to scheme size (e.g. a GBP (£) shock divided by the GBP (£) size of assets to give a % risk measure) does not capture whether the level of investment risk is supportable by the covenant strength. It may be more accurate to look at how a GBP (£) shock compares to the GBP (£) covenant support available. If the covenant support available is very large and reliable, then arguably a riskier investment strategy could be supportable.

    - As such, this adds complexity if TPR is trying to translate scheme size to its covenant rating. A more joined-up approach is needed, rather than approaching each section in isolation.

- We are concerned that the liability measure based on a low dependency basis of gilts +0.25% to gilts +0.5% is too low for many schemes to achieve. A more realistic range would be gilts +0.5% to gilts +0.75% if TPR were to use the liability measure based on a low dependency basis of gilts. However, it is very important to note that for some other schemes, it will be appropriate to aim for a more cautious target. Ultimately, the target is scheme specific; allowing for flexibility in the liability measure will be crucial to avoid undermining sensible but scheme specific long-term objectives.
- The proposal to use liabilities as a reference point to measure investment risk would be preferable. This is due to concerns that unintended consequences could arise from using a reference investment portfolio if TPR are unable to keep the list of investments up to date with the rapidly changing market.
- In relation to stress tests, there are concerns that schemes could pass the test but still be high risk, so more care is needed over the parameters used for the test itself. One solution may be to look at scenario analysis or place stress test parameters in priority order to provide a more rounded test. There are already examples of "best practice" being used for "priority ordering" of stress test parameters, for instance, by central banks and the PPF.

Q35 WHICH REFERENCE POINT FROM WHICH TO MEASURE INVESTMENT RISK IN FAST TRACK

A. Would a measure of the liabilities be an appropriate position to measure investment risk from? If not, why not?

- We agree that a scheme-specific measure of the liabilities is more appropriate than a reference investment portfolio. Given how quickly the market changes and evolves, there is concern that an investment portfolio approach could lead to unintended consequences if the portfolio does not fully reflect the market.

B. Do you prefer a liability measure on the low dependency basis (Gilts +0.5% to +0.25%) or a Gilts flat basis? Why? Are there any other liability measures that would be suitable?

- Though gilts on a flat basis could allow for all investment risk, in practice, this method would result in schemes being forced to undertake extra liability calculations at a time where resource is already stretched.
- However, we are also concerned that the liability measure based on a low dependency basis of gilts +0.25% to gilts +0.5% is too low for many schemes to achieve.
- PWC's 2019 Pension scheme funding survey found that the most common post-retirement margin over gilt yields was +0.5% p.a for schemes that used a member-led approach. However,

those that used a static approach had an average margin over gilt yields of +0.7%.[13] TPR should also consider the impact of the recent pandemic, which is likely to be reflected in increased gilt yields.

- As a result, we believe a more realistic range would be gilts +0.5% to gilts +0.75%, if TPR is to use the liability measure based on a low dependency basis of gilts.

- However, it is very important to note that for some other schemes, it will be appropriate to aim for a more cautious target. Ultimately, the target is scheme specific; allowing for flexibility in the liability measure will be crucial to avoid undermining sensible but scheme specific long-term objectives.

C. Would a liability reference portfolio approach (as a proxy for liabilities) for smaller schemes be more proportionate and practical? If so, how should a small scheme be defined for this purpose (number of members, assets or liabilities)? What would be an appropriate threshold?

D. Would a reference portfolio consisting of gilts and inflation-linked gilts with a duration similar to the liabilities be appropriate as a proxy for the liabilities for smaller schemes? If not, how would you go about constructing a reference portfolio as a reference point from which to measure risk for smaller schemes?

- Yes, we agree that it is more proportionate and practical to have a reference portfolio as a proxy for liabilities in relation to smaller schemes.

- We also agree that a reference portfolio consisting of gilts and inflation-linked gilts with a duration similar to the liabilities would be appropriate as a proxy for the liabilities for smaller schemes.

- In terms of the definition for 'small schemes', we believe there could be several parameters based on membership and their asset size. It could be based on membership numbers, but it is worth highlighting that a scheme with a few members might still have considerable assets.

Q36 METHODOLOGY TO MEASURE INVESTMENT RISK IN FAST TRACK

A. Would a simple stress test to measure investment risk in Fast Track be the most preferable option? If not, why not? Are there other measures of investment risk that are more suitable, taking account of the desire for a relatively simple and objective measure?

B. Do you agree with the proposed principles for an appropriate pension's stress test, namely a fall in growth assets and a fall in interest rates? If not, what do you suggest?

[13] PWC (2019) 2019 Pension scheme funding survey. Available from: https://www.pwc.co.uk/pensions/assets/scheme-funding-survey-2019.pdf

C. What are your views on which stress test we should use? Do you think the PPF stress test (Bespoke and simple approach) would be a good starting point?

D. Which of the ways to measure the impact of the stress would you prefer and why? Is there an alternative method not listed that would work better? If so, please describe it.

- We agree that a stress test is reasonable in terms of ensuring simplicity for the Fast Track approach. However, we caution that the design of the stress test must be designed to ensure that schemes cannot simply take actions to pass the test, and still be high risk based on how they have hedged their assets. As such, the parameters of the stress test must be carefully considered.
- The proposed principles for an appropriate stress test seem sensible. However, they may not reflect the complexity of investment risk for pension schemes as proposed. Matters such as hedging ratios, asset allocation, membership demographic, and cash flow deficits, must be considered as part of any stress test as these can differ widely depending on the scheme.
- A stress test modelled on that of PPF would allow for industry consistency and will reduce the amount of resource that would be necessary if schemes had to report against a completely different stress test. However, adjustment would need to be made to incorporate a wider range of sub-asset classes to fully reflect the investment risk relating to long-term funding and reaching low dependency.
- We also suggest that TPR considers setting a priority order for the parameters of the stress test, with the largest impact tending to come from the interest rate risk, then inflation, equity/growth asset and longevity risk.[14]
- When it comes to measuring the impact of stress tests, we agree that the change in surplus or deficit/starting liabilities is preferable.

Q37 APPROACH TO DEFINING MAXIMUM LEVELS OF INVESTMENT RISK FOR SCHEMES OF DIFFERENT MATURITIES IN FAST TRACK

A. What are your views on the proposed methodology for setting maximum thresholds for investment risk for significantly mature schemes in Fast Track? If you disagree, what would you suggest?

- Setting an appropriate maximum level of investment risk in Fast Track for a significantly mature scheme that has reached low dependency funding is understandable.
- A portfolio with a level of growth assets of more than 20% would not be consistent with a portfolio with a high resilience to risk. Therefore the proposal of maximum growth assets for a

[14] Please note, the impact of each of these parameters can differ between schemes and so any stress test may need to be built to reflect this.

mature scheme that has reached low dependency funding of 20% is sensible. However, TPR will need to be clear as to how strict this maximum level will be. For example, will buffers for short-term material increases in growth assets be allowed, and if so, what level of buffer will be acceptable and over what time period would schemes need to take restorative action.

- We agree with TPR's assertion that under Fast Track a prudent expected return on actual asset allocation should be broadly consistent with the assumptions used for the LTO. However, as discussed in Question 35, we do not believe a discount rate of gilts +0.25% to gilts +0.5% p.a. is achievable for many schemes under the current economic climate. Instead, gilts should be set in the range of gilts +0.5% to gilts +0.7%.

B. In relation to acceptable portfolios and consistency with discount rates, is it reasonable to use a best estimate return premium for growth assets over long-term gilts in the range of 3-5% p.a.?

- In relation to acceptable portfolios and consistency with discount rates, it is reasonable to use a best estimate return premium for growth assets over long-term gilts in the range of 3% to 5% p.a. However, we urge TPR to review this periodically to ensure the figures continue to reflect long-term forecasts from investment managers and advisers.

C. Should the allowance for prudence be higher for an investment portfolio with a higher level of risk?

- Higher prudence for investment portfolios with higher risk levels seems sensible. However, TPR must avoid being overly prescriptive to ensure schemes have the flexibility to act in a way that is most appropriate for them.

D. What are your views on the considerations we have set out to determine investment limits for immature schemes (journey plan shape, downside risk and covenant)? In particular, should the maximum level of investment risk for immature schemes vary by covenant under Fast Track?

- We understand TPR's reasoning behind the proposal for varying the maximum level of investment risk for immature schemes by covenant under Fast Track. However, investment risk measures can depend on scheme size which can add complexity when translating this into the covenant rating of the scheme.

- As discussed in our answer to Question 30, we do not believe a prescriptive approach to the shape of the journey plan should be taken. Rather, schemes should be provided with several set options so they can choose which is more appropriate for them. This will allow for more flexibility and reduce systemic risks.

Q38 DEFINING GUIDELINES FOR LIQUIDITY AND QUALITY OF THE INVESTMENT PORTFOLIO IN FAST TRACK

A. Do you think we should define some guidelines around liquidity and quality in Fast Track?

B. If so, what are your views on the options outlined above? Are there other approaches you favour?

C. What limits would you set on the above criteria and why?

D. How would the above change for a more immature plan?

- N/A

CHAPTER 11: RECOVERY PLAN (RP)

Recovery Plan Overall Comments

- Recovery plans must be appropriate for the scheme, and so different plan lengths will be needed for different circumstances.
- The PLSA is concerned that the recovery period range of 6 to 12 years as set out by TPR may be too short for many schemes. Research finds that the mean recovery plan length for schemes was 9 years and 54% of schemes also had recovery plan lengths of between 8 and 15 years.[15]
- TPR should consider the concept of prudence in the framework. If schemes take a prudent investment risk approach which is right for their covenant, then if there is a risk event, the covenant should be able to make up that at least over the short-term.
- There are two levers that can be pulled when it comes to RPs - funding and investment. For funding, schemes will seek to maximise the value they can extract as soon as possible as uncertainty increases over time, but for investment, it is the inverse as uncertainty reduces over a longer length of time. As such, TPR needs to understand the challenge of striking a balance between the two.
- With regards to back end loading, the increase in the amount employers have to pay should factor in lost return if paid late. This should only be allowable if there is a covenant event so schemes will know in advance that the employer will be able to pay at a later date, with the employer then required to pay this amount plus the discount rate.
- In relation to TPR's approach to back end loading, some restrictions will be needed but it should not be too prescriptive. Members were wary of TPR's proposal to solely provide guidance in Fast Track, as it could lead to more Bespoke approaches which could undermine the purpose of the Fast Track compliance route.

Q39 FAST TRACK GUIDELINES ON RP LENGTH

A. What are your views on the principles set out above in relation to RP length under Fast Track? In particular, do you have views on what may be appropriate RP length thresholds for different covenant strengths? Is it helpful to frame these in terms of the typical multiple of valuation cycles (i.e. three years)?

- Setting a recovery period based on covenant strengths is a straightforward approach for Fast Track.

- However, the recovery period ranges of 6 to 12 years (depending on covenant strength) set out by TPR may be too short for many schemes. Research conducted in 2019 found the mean recovery plan length for schemes was 9 years, with 54% of schemes having recovery plan

[15] PWC (2019) 2019 Pension scheme funding survey. Found here: https://www.pwc.co.uk/pensions/assets/scheme-funding-survey-2019.pdf

lengths of between 8 and 15 years.[16] There is a concern that if recovery plan lengths are set too short in Fast Track, many schemes will not be able to comply and need to enter the Bespoke compliance route.

B. Do you consider it would be more appropriate to have a single maximum guidance RP length and to expect trustees (under the Bespoke framework) to justify any plans that are longer than this?

- Though we believe more consideration should be given to the single maximum guidance RP length and how this would work in practice, it is a reasonable proposal for trustees to be expected to justify any plans that are longer than the single maximum RP length if they are in the Bespoke Framework.

C. Do you think Fast Track RP lengths should be shorter for schemes nearing and/or at significant maturity? If so, to what extent?

- We believe it is reasonable for recovery plans lengths to be shorter for those schemes nearing and/or at significant maturity.

Q40 FAST TRACK GUIDELINES ON RP STRUCTURE
Should the extent of back-end loading be limited to increases which are in line with inflation (in the absence of appropriate additional support such as a contingent asset being provided)? Or should there be more flexibility subject to a significant proportion of DRCs being committed in the early years of the plan? If inflation-linked increases are acceptable, what measure of inflation do you consider would be an appropriate benchmark?

- Some restrictions on back end loading is reasonable but this approach should not be too prescriptive.

- TPR may wish to consider whether the increase in the amount employers have to pay should factor in lost return if paid late. This should only be allowable if there is a covenant event so schemes will know in advance that the employer will be able to pay at a later date, with the employer then required to pay this amount plus the discount rate.

Q41 FAST TRACK GUIDELINES ON INVESTMENT OUTPERFORMANCE

Should investment outperformance not be allowed in Fast Track RPs? What do you think the impacts may be?

- N/A

[16] PWC (2019) 2019 Pension scheme funding survey. Found here: https://www.pwc.co.uk/pensions/assets/scheme-funding-survey-2019.pdf

Q42 FAST TRACK GUIDELINES ON FUTURE RPS IN WHAT CIRCUMSTANCES SHOULD/COULD OUTSTANDING RP PAYMENTS BE RE-SPREAD AT SUBSEQUENT VALUATIONS? IN PARTICULAR:

A. If a scheme's funding deficit has reduced (at least) in line with the expectations at the previous valuation, would it be appropriate to maintain the same end date? Or would it be pragmatic to re-spread the remaining deficit over a renewed period?

- It would be more appropriate to keep the same end date in the event that a scheme's funding deficit has reduced in line with the expectations at the previous valuation. Allowing for re-spreading could introduce more complexity to Fast Track approach than is necessary.

B. If a scheme's funding deficit is higher than expected, what guidelines should apply for the appropriate length of the new RP?

- If TPR does allow for re-spreading, then we believe more nuanced guidance would be appropriate. However, we are concerned that by providing this type of guidance in Fast Track, it could undermine the purpose of the Fast Track compliance route, as those that need an allowance for re-spreading should instead enter a Bespoke arrangement.

C. Would the idea of 're-spreading' be more acceptable where a scheme has a long period before it becomes significantly mature?

- We do not agree that 're-spreading' is more acceptable where a scheme has a long period before it becomes significantly mature. As answered in Part A of this question, we believe this would introduce unnecessary complexity to the Fast Track compliance route.

Q43 EQUITABILITY

What are your views on the concept of 'equitability' in respect of how a scheme is treated compared with other stakeholders? Should any requirements be qualitative (in line with the commentary above) or should trustees also be expected to consider a specific metric? If so, what might be an appropriate measure of equitability (for example, comparing the ratio of DRCs to dividends, or the size of scheme deficit to the 'stake' of other stakeholders) and how could this reflect a scheme's superior creditor status over shareholders?

- A qualitative approach to equitability would be most appropriate. In practice, measuring and ensuring equitable treatment of employers in covenant groups CG3 and CG4 may be difficult, though TPR's proposals to expect DRCs be maximised, or, prioritised over all forms of covenant leakage, are sensible.

CHAPTER 12: OPEN SCHEMES

Open Schemes Overall Comments

- The PLSA is concerned over TPR's proposals to seemingly treat open schemes in the same way as closed schemes, with particular worries over pressure this would place on employers that support open schemes.
- While the principle behind the Regulator's approach to open schemes is understandable, there is considerable concern that it is likely to have a significant impact on cost and sustainability of such schemes.
- As such, open schemes needed to be treated differently to closed schemes.
- There also needs to be more clarity around how open schemes are defined.
- Open DB multi-employer schemes are also not addressed in this consultation; it would be good to see any proposals from TPR on Open DB multi-employer schemes as soon as possible as these Schemes, in terms of both member numbers and assets and liabilities, represent a significant proportion of the DB market (please see Other Issues section).

Q44 TREATING PAST SERVICE AND FUTURE SERVICE LIABILITIES SEPARATELY IN FAST TRACK

What are your views on our proposed approach to outlining code guidelines for open schemes? Should any other approach to calculating future service liabilities be considered?

Q45 FAST TRACK LTO FOR OPEN SCHEMES

Should the LTO (low dependency at significant maturity) for an open scheme be the same for a closed scheme? If not, how should they differ?

Q46 FAST TRACK TPS FOR OPEN SCHEMES

What option do you favour and why? Are there other options we should consider?

- TPR's consultation states that members of open schemes "should" have the same level of protection as those in closed schemes. However, while this in principle is reasonable, the dynamics between open and closed schemes can be very different and this needs to be reflected within the expectations set out in the code.
- Overall, there is significant concern that the consultation's proposals around LTOs and TPs might unintentionally hasten the closure of the open DB schemes.

- The requirement to fund accrued benefits in the same way as benefits for retirees would place a significant burden on funding requirements. The proposals could mean new accruals may become prohibitively expensive, when in practice these younger members' benefits will not come into payment for many decades.
- Long-term objectives and technical provisions (TPs) as milestones on the journey is sensible and logical for closed/legacy schemes, but the PLSA questions how they should be applied to open schemes.
    - The proposed LTOs do not appear to be appropriate for open schemes where the schemes are maturing slowly or not at all. Being asked to review the LTO at every valuation, even if the scheme has not matured, may add little material benefit to scheme members in the long-run, and will have the effect of raising costs to schemes through potentially unnecessary adviser fees.
    - Open Schemes should be allowed to set lower technical provisions than closed schemes. Making TPs the same as closed schemes is unnecessarily cautious given the longer investment horizon and the longer time they have until they become significantly mature. The higher expected returns overtime may generate trapped surpluses.
- We understand TPR's intent, that by treating schemes open to new members in the same way as schemes that are open only to accrual and closed schemes, it will help trustees of open schemes to plan for the possibility of closure – thereby avoiding a "cliff-edge" in funding when the scheme closes. However, this outcome – of potential closure in the future – is no different than if a closed scheme's covenant deteriorates very rapidly. So, this intent, while good in principle, has costs that outweigh the potential benefit, which may accelerate the closing of schemes which intend to remain open.

Q47 FAST TRACK GUIDELINES FOR CALCULATING FUTURE SERVICE COSTS

A. Which options do you favour and why? Are there any other options for calculating future service costs which should be considered, for example pre-and post-retirement discount rates?

B. If Option C (best estimate) were adopted, how should the best estimate return assumption be determined? Are there any options other than those described above that we should consider?

C. Would our preferred approach (Option B) make it difficult for scheme actuaries to certify schedules of contributions?

- Although this method was not preferred by the majority, there was some support in our membership that past and future service assumptions do not diverge too much, with the view that exposure to risk from future service benefits is in reality a small proportion of the overall risk. Additionally, at the next valuation, all the "new" benefits accrued in their inter-valuation period will be valued as past service benefits. It may be that additional vigilance needs to be exercised here, as liabilities within open schemes are not as clearly defined as in closed schemes.

- Prudence should be allowed to vary over market cycles which also takes some measure of long-term rates of return and scheme performance.

Q48 FUNDING FUTURE SERVICE USING PAST SERVICE SURPLUS

Do you think that this approach to funding future service using past service surplus is reasonable? If not, why not? What else would you suggest?

- This is a reasonable approach.

CHAPTER 13: BESPOKE FRAMEWORK KEY FEATURES

Bespoke Framework Overall Comments

- Using Fast Track as a reference point seems to undermine the Bespoke approach, with concerns that Fast Track parameters would be seen as the default position.
- TPR's decision to anchor Bespoke to Fast Track infers that schemes will need to heavily justify being Bespoke, which may mean that in practice, schemes that might have been better off as Bespoke, end up conforming to rules not entirely suited to their circumstances.
- In regards to proposals relating to stressed schemes, a more specified definition around what a stressed scheme is would first be needed.
- Trustees taking more investment risk within a stressed scenario would not be practical; rather, they should pay what is affordable and extend the recovery plan.
- Regarding stressed schemes, it makes sense to have the two options proposed by TPR, but these are based on the assumption that risk taking gives constant rewards over time, which is not always the case. On balance, risk can work both ways, and so it would make more sense for TPR to allow for a longer RP for stressed schemes.

Q49 CRITERIA FOR ASSESSING BESPOKE ARRANGEMENTS

What are your views on the criteria we propose to use to assess Bespoke arrangements? If you disagree, what would you change and why? What else should we consider?

- In order to ensure that the Bespoke compliance route is a viable option for schemes, it is important that the Fast Track approach not become seen as the default option. By design, Fast Track sets restrictive standards for schemes which need a more simple approach to regulatory compliance (for example smaller schemes). However, given the high variety of DB pension schemes in the UK, the benchmark set by Fast Track will not be appropriate for many schemes.

- We are particularly concerned that Bespoke is anchored too close to Fast Track; the consultation infers that schemes will need to justify any deviation away from it, resulting in costs for comparative analysis that not all schemes will be able to undertake. This may lead to schemes that might have been better off with Bespoke arrangements in Fast Track.

Q50 BESPOKE EXAMPLES

A. Do you have any comments on the assessments we have made in the examples above?

- The examples seem to show very small deviations from the Fast Track route; more examples of truly Bespoke approaches which are not so aligned to Fast Track would be useful.

B. Could you provide other examples (relevant to your own scheme experience or that of schemes you advise) of arrangements which you think will follow the Bespoke route? Why do you think these arrangements would be compliant?

C. In example 2 (LTO – CDI strategy), could it be appropriate, in your view, to be able to use a higher discount rate/lower value of TPs (low dependency basis) than in Fast Track? If so, in what circumstances and by how much?

- N/A

Q51 STRESSED SCHEMES

A. Assuming that affordability is genuinely constrained, are very long RPs 'appropriate' and therefore compliant with the Act?

B. Alternatively, should we make an exception to the principles and allow the trustees of stressed schemes to take unsupported investment risk, or more risk investment risk than other CG4 schemes (schemes with weak employers)? What checks and balances should we put in place in addition to those mentioned above (equitable treatment, risk management)?

C. For schemes with unviable RPs, should an exception be made for them in terms of the level of acceptable investment risk?

D. Are you aware of situations other than stressed schemes where the trustees and employer would have difficulties meeting the Bespoke compliance principles? Chapter 14: Additional support

- Careful consideration needs to be given regarding the meaning of a stressed scheme. The PPI defined stressed schemes as "where the pension scheme is significantly underfunded relative to the value of the sponsor's business, and the trustees cannot rely on the financial support they need from the sponsor because its covenant is weak."[17] In order to establish requirements around such schemes, TPR will need to formally define at what point a covenant is so weak that the scheme becomes stressed.
- In the event that an employer cannot genuinely afford to pay the necessary contributions to the scheme, it is reasonable to allow for an extended recovery period with sponsors paying what is affordable.
- We do not believe that allowing for stressed schemes to take higher risk investment strategies would be practical. This approach assumes that high level risk taking would reliably provide rewards over time, but this is not always the case. Risk can work both ways, and though it could

[17] PPI (2015) The Greatest Good for the Greatest Number. Available from: https://www.pensions-institute.org/reports/GreatestGood.pdf

pay off for some, taking a higher investment risk strategy could result in poor returns for others and result in further issues for the scheme.

- It would also not be practical to provide schemes with unviable recovery plans with an exception in terms of the level of acceptable investment risk, for reasons set out in the above bullet point.

CHAPTER 14: ADDITIONAL SUPPORT

Q52 TRUSTEES' ASSESSMENT OF ADDITIONAL SUPPORT IN BESPOKE ARRANGEMENTS

Do you have any views on the framework we set out for trustees to assess the appropriateness of additional support in Bespoke arrangements? If you disagree, what do you suggest?

- The framework seems sensible.

Q53 ACCESSING ADDITIONAL SUPPORT

When do you think trustees should be able to access the additional support? Does it depend on the Bespoke arrangement and the type of risk that it supports?

- Any additional support will depend on the Bespoke arrangement. For example, depending on the agreement, timing could be accessible following each valuation, at the end of the RP, in the event that cash flow budgets or targets are missed or at the point of reaching significant maturity, or upon insolvency.

Q54 ASSESSING THE VALUE OF ADDITIONAL SUPPORT

Should trustees be required to assess the stressed value of any contingent asset? What other guidance do you think we should set out on the recoverable value of contingent asset support?

- We agree that trustees should be required to assess the stressed value of any contingent asset.

Q55 INDEPENDENT VALUATION

Should trustees always be expected to seek an independent valuation of continent assets, or should it depend on asset value and/or type? If this should be based on value thresholds, how should these be defined? How frequently should we expect trustees to seek an independent valuation? Should trustees be expected to regularly monitor contingent asset value in the intervening period?

- An independent valuation depending on the asset value or asset type would be reasonable depending on the type of support arrangement.
- Trustees could be expected to do this triennially, with the potential to consider annually, whether the valuation has changed significantly.

Q56 GUARANTEES

A. Should we treat guarantee support differently to asset backed support?

B. Should trustees rely on guarantee support to change the covenant grade assessment or do you think in these circumstances the supporting entity should become a statutory employer instead?

C. Other mitigations – Can you think of any other types or arrangements which can help trustees mitigate risks?

Q57 OTHER MITIGATIONS

Can you think of any other types of arrangements which can help trustees mitigate risks?

- TPR may wish to consider letters of credit, demand guarantees or surety bond arrangements for the mitigation of risks. These bonds are alternative funding options, provided by an insurer under certain conditions, which can provide schemes with insolvency protection.[18] This can increase the security of benefits and under certain circumstances allow trustees to reduce employer contributions.
- These types of contingent assets are recognised by the PPF (as Type C contingent assets) and may result in schemes seeing a reduction in the PPF levy payable.[19]

Q58 REPORTING INFORMATION ON ADDITIONAL SUPPORT

Is there any reason why it would be unreasonable to expect trustees to undertake the analysis and provide the information outlined above? Is there additional information that should also be provided to us?

- The requirements as set out by TPR seem practical and reasonable.

[18] Allen & Overy (2014) Surety bonds – a new option for pension scheme funding. Available from: https://www.allenovery.com/en-gb/global/news-and-insights/pension-risk-group/funding-design

[19] PPF (2020) Guidance in relation Contingent Assets Part 4 Type C Contingent Assets. Available from: https://www.ppf.co.uk/sites/default/files/file-2019-11/1920_contingent_asset_guidance_part_4_type_c.pdf

