THE SOCIETY OF PENSION PROFESSIONALS
making pensions work

Executive summary

1.1. The Society of Pension Professionals (SPP) believes that much of the information requested by TPR in the Statement of Strategy is pragmatic and supports the use of a standard template.
However, SPP believes that improvements could be made and has a number of suggestions as to how this could be achieved.

1.2. TPR could reduce scheme burdens by making relatively simple changes.
For example, greater clarity in some of the wording; better use of proportionality to reduce submission requirements where the detail will not add value to the trustees, careful consideration of the form of the submission. A specific example being the requirement to resubmit the Statement of Strategy between valuations if there has been a material change in circumstances e.g. a change in investment strategy, which could prove burdensome and may deter small schemes from making strategy changes that would be in the best interests of their members.

1.3. TPR should consider making changes that better reflect the needs of particular types of scheme.
For example,

i) small (or relatively small) schemes going through a Bespoke route;
ii) schemes that are required to go Bespoke but only because of affordability reasons; and
iii) schemes that are very well funded (e.g. fully funded on a buy-out basis, or fully funded in a low dependency basis) and in a low dependency investment allocation.

1.4. TPR should consider requesting less information
We believe that TPR is asking for some information that adds little or no value to the Trustees' decision-making (especially in relation to well-funded schemes in a low dependency asset allocation). It is difficult to understand how providing this is proportionate or useful to TPR and therefore appears to be unnecessarily burdensome for schemes.

2. Consultation response

Question 1, To what extent do you agree that our proposal to adjust the information required of smaller schemes as outlined in the document is pragmatic and proportionate?

2.1. We very much agree that it is appropriate to adjust the information required of smaller schemes, indeed we believe that such adjustments are essential.

2.2. However, we remain unconvinced that the adjustments are sufficient for the smallest schemes, who appear likely to still face considerable burdens and additional costs if these proposals are pursued unamended.

2.3. This is particularly true for those required to go down a Bespoke valuation route because of affordability reasons. The additional investment requirements here are significant, and unnecessary if they are not going to change the outcome of the valuation (since there is no more that can be paid).

2.4. Our understanding is that there is no flex for covenant information for smaller schemes. Clearly covenant is equally important whatever the size of scheme, but the full list of covenant information (particularly for Bespoke cases) is unlikely to be proportionate for very small schemes.

2.5. Whilst these comments apply to all schemes, they are particularly relevant for small schemes where costs are a more material factor.

Question 2, To what extent do you agree with the two definitions proposed for smaller schemes depending on whether we are requesting actuarial or investment information?

2.6. We are not convinced that two definitions are needed, and believe that a simpler solution would be to use the £30m Section 179 liabilities threshold (given its existing link to the asset information required for the Scheme Return).

2.7. That said, if a definition requiring a number of members is used, we would suggest:

- the membership threshold be higher as there are many schemes with more than 100 members that are small in asset size; and
- it should only refer to DB/hybrid members, and disregard pure DC members

Question 3, To what extent do you agree with our proposal to have pre-defined templates for the statement of strategy to help trustees provide information that is proportionate, relevant and specific to the circumstances of their schemes?

2.8. We very much agree with TPR's proposal to have pre-defined templates for the statement of strategy. It is the content of such templates that will be of concern to affected parties, not the fact templates exist.

2.9. It would be even more helpful if such information could be collected by TPR in as simple a way as possible, such as through an Exchange-like system, or in a spreadsheet where advisers could auto-populate some or all of the inputs from existing systems.

2.10. It would also be helpful if this information was easy to update on the system- simply adjusting relevant sections rather than requiring a full new submission – particularly given the Statement of Strategy would need to be updated between valuations if a material change was made to the scheme's investment strategy (for example).

Question 4, To what extent do you agree with the benefits we expect to see by providing a pre-determined statement of strategy?

2.11. We agree with the list of benefits given.

Question 5, To what extent do you agree with the key differences in the information we ask for between the four proposed templates?

2.12. We agree that there should be differences in the information collected for Bespoke vs Fast Track and pre and post significant maturity. However, please note our response to question 6 below.

Question 6, Are there any scenarios that the proposed four templates are not suitable for?

2.13. We strongly believe that Trustees should not be required to produce information that is not helpful for them, and would not be expected to be used by TPR either for any reasonable assessment of the risks posed by the scheme. There are a number of examples of this in the current templates, in particular:

- If the scheme is fully funded on its long-term objection funding target, with a low dependency investment strategy; and

- If the scheme has a full scheme buy-in or is at least 100% funded on a buy-out basis.

2.14. In both of these cases the information requested is disproportionate. For example, the maximum affordable contributions and reliability period are not relevant. In our view these schemes should have their own, substantially slimmed down template.

2.15. As noted in question 1, we also believe that consideration should be given as to why a scheme is Bespoke in how much data is collected. For example, if a scheme is Bespoke purely because of affordability of contributions, then we do not believe that they should need to provide any additional investment risk information.

Question 7, To what extent is the example Bespoke template a clear tool that supports trustees' long-term planning and risk management and facilitates engagement between trustees, their employer and TPR?

2.16. The template will help many trustees in these areas, which is very welcome. However, we are concerned that it is overly burdensome for some, as discussed in the remainder of this response.

Question 8, Do you have any further comments on our general approach to the statement of strategy template?

2.17. The justification for a Statement of Strategy is stated as being to improve the sustainability of defined benefit (DB) pension schemes but it is unclear whether and how it will achieve this. We can see that it will help make TPR's supervision more efficient, but this is at the expense of regulatory burdens for trustees, making their responsibilities greater, imposing additional legislative requirements, not least as TPR highlights, *"…failure to submit the statement of strategy in a form as set out by us will be a breach of the law.[1]"*

2.18. The consultation document states that *"It is important that we deliver the benefits of the statement of strategy for trustees, members and us, without unnecessarily increasing trustee burden and cost for schemes"*. As noted throughout this document we believe that there are several instances where the costs are being increased unnecessarily, or at least disproportionately, to the value that they might add, and that the balance is too heavily weighted towards TPR data collection rather than providing a useful risk management tool for trustees to consider and revisit.

2.19. TPR should not be requesting information that is not needed and is unlikely to be used or analysed. For example, detailed covenant forecast information for a scheme that has bought in its liabilities and is 110% funded. The number of cashflow entries are also appears to be excessive.

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[1] **TPR Statement of Strategy consultation document, February 2024:**
https://www.thepensionsRegulator.gov.uk/en/document-library/consultations/statement-of-strategy-consultation/statement-of-strategy-consultation-document#8abe6df2d6f148c2bf600be9267b1448

2.20. We are also concerned about the cost implications for small (or relatively small) schemes that are focused to go down a Bespoke route because of affordability issues.

2.21. We are also concerned about the need to resubmit the Statement of Strategy between valuations if the scheme changes its investment strategy. This will add cost to changing investment strategy, and potentially deter smaller schemes from doing so, which would not be in members' best interests.

2.22. Clarity is needed on what information would need to be updated in this scenario. For example, would all of the covenant and liability information need to be updated? In our view this would be disproportionate.

Funding & Investment Strategy

Question 1 To what extent do you agree that the long-term objective options (buy-out, run-off, move to a superfund or alternative consolidator) capture most long-term objectives for a scheme?

2.23. We believe that they do adequately capture most long-term objectives. However, we encourage TPR to recognise that many schemes will have a different long term funding objective to their actual long-term aspiration. Many will actually want to achieve buy-out in the long-term, but won't want to commit to have a funding arrangement to do so. We suggest that you change the data request to try to help make this distinction.

2.24. That said, there is a question on whether a superfund can really be a long-term objective, given the current gateway test for superfunds. Having a superfund as a long term objective would mean a scheme's ambition being to reach a stage where they are not able to afford to buyout within 5 years, which seems very odd.

2.25. Although not necessarily a true long-term objective TPR should recognise that with corporate activity, some schemes may have a known, short term end game of being merged into another scheme thereby relinquishing their assets and liabilities in that manner.

Question 2. To what extent do you agree that the three broad categories of growth, matching and hybrid assets gives sufficient breakdown of the low dependency investment allocation?

2.26. These broad categories appear reasonable, but we suggest that with such broad labels and descriptions, there could be uncertainty as to which category a particular asset type fits into. An example of this is an infrastructure investment which some trustees may consider bears more of a matching characteristic but the consultation document suggests should sit in the "Growth" category.

2.27. It might be that such assets should sit in the "Hybrid" category, but we suggest that the definition of hybrid assets should be expanded, and examples added, as for the "Growth" and "Matching" categories.

2.28. If such changes are not made to the "Hybrid" category, it could become outsized and therefore misleading through schemes hedging their benefits on categorisation.

2.29. It is also unclear to us how LDI should be categorised – while it would seem naturally to fit in the "Matching" category, the description of the characteristics of matching assets does not make that obvious.

2.30. It would also be helpful for the Regulator to clarify how, in its view, the requirement to agree investment strategy with the employer - in Part 1 of the Statement of Strategy - is consistent with the powers of trustees to set investment strategy under existing legislation (including the Pensions Act 1995 and the new Funding and Investment Regulations). This is a concern SPP has highlighted on a number of occasions since 2022[2].

Question 3, To what extent do you agree that it is sensible to include all three funding bases (low dependency funding, technical provisions and buy-out)?

2.31. Yes, we agree.

[2] SPP response to DWP consultation on draft Funding and Investment Strategy and Amendment Regulations, October 2022: https://the-spp.co.uk/wp-content/uploads/SPP-Response-DWP-Funding-Investment-Regs-v.no_sig.pdf

Question 4, To what extent do you agree that the standard wording in the proposed statement of strategy template is adequate to outline the funding journey plan?

2.32. We agree that the wording is adequate but note that such wording is unlikely to be read in detail in most cases and therefore question if it is really needed.

Question 5, To what extent do you agree that the discount rate approach options (horizon method, different rates pre-retirement and post-retirement, constant addition) include the majority of options available?

2.33. This appears reasonable.

2.34. Some discount rates are explicitly linked to yields on actual assets held (known as dynamic discount rates) and so can move over time e.g. you may have an addition to the gilt curve which is half of the corporate bond spread and/or some fixed element. However, this can perhaps be included in "other".

Question 6, To what extent do you agree that the selections of gilts, swaps, inflation or other cover the main underlying yield curves used when setting technical provisions and low dependency funding basis?

2.35. We suggest corporate bond yield curves should be added, though this of course could be covered by the "other approach" selection.

Question 7, In respect of the underlying yield curves, indicate the extent to which you agree with the approach proposed of providing the forward discount rate curve, or for small schemes the appropriate single rate?

2.36. This appears reasonable.

Question 8, In respect of the addition/premium to the yield curve, indicate the extent to which you agree with the approach proposed to provide the forward discount rates?

2.37. This appears reasonable.

Question 9, In respect to the addition/premium to the yield curve for schemes that use a pre- and post-retirement discount rate methodology, indicate the extent to which you agree with the approach proposed of providing the appropriate single rate?

2.38. We believe that this is reasonable, though it would add some costs.

Question 10, To what extent do you agree with the proposed approach to capture information on inflation and pay increase data?

2.39. Again, we believe that this is reasonable but would note that pension increases can be a more material issue. For example, where inflationary pension increases are subject to caps and collars, different inflation models from different actuarial advisers can result in noticeably different answers.

2.40. It is also worth noting pay inflation expectations can vary significantly by employer and sector, and for that reason it would be difficult to draw any meaningful conclusions from this.

Question 11, To what extent do you agree that it would be useful to provide further information on the mortality tables adopted for the mortality assumptions?

2.41. We do not believe that more information on the mortality tables adopted would be particularly helpful in and of itself.

2.42. Best-estimate life expectancies vary considerably by socio-economic group, and so schemes justifiably will adopt different mortality assumptions.

2.43. More important than asking what table has been adopted would be to ask how the assumption was derived. TPR could request confirmation of whether a scheme specific mortality study has been undertaken (and what type), or what prudence has been built into the assumption.

2.44. It is also worth noting that mortality assumptions are more material in pension scheme funding than some of the assumptions queried. For example, commutation and salary/pay inflation etc. and so we suggest either more information is requested here (if it is felt necessary to do so) or perhaps less is asked elsewhere (where it leads to disproportionate focus and could lead to false conclusions about the prudence of the overall basis). For instance, the requested level of detail on pay increases is probably unnecessary for a closed scheme.

Question 12, On allowances for commutation, to what extent do you agree that the options provided capture the majority of approaches used?

2.45. We believe this is reasonable and does not suggest any additional options should be included. That said, the impact of cash commutation may not be as material as other assumptions not included in many cases. For example how pension increases are derived from inflation, allowance for other options, proportions married etc. We do not suggest TPR collects all this data – it is more that we question why commutation is being singled out.

Question 13, To what extent do you agree with the proposed approach of asking about how the key assumptions differ between the technical provisions and low dependency liabilities?

2.46. We agree with the proposed approach.

Question 14, Do you have any further views or considerations on the information required for Part 1 of the statement of strategy, including any views on alternative approaches or missing data to support Part 1?

2.47. We have no further views or considerations to highlight here.

Actuarial information

Question 1, To what extent do you agree that it is reasonably straightforward to provide the cashflows information listed?

2.48. We agree that in most cases it is fairly straightforward to produce the cashflow information requested from a technical perspective, and this will sometimes by the byproduct of the cashflow being produced as part of the valuation anyway.

2.49. In some cases adjustments (for example for non-standard benefits or other elements such as future GMP equalisation work) will be made to valuation figures post production of cashflows and as such providing cashflows consistent with the final liability values may require additional work and cost.

2.50. Whilst it may be straightforward to produce the information, it would likely require additional checking and review before sharing with third parties because of concerns about how this information may be relied upon. As such this requirement would result in additional costs.

Question 2, Is it easier to provide benefit cashflows on a low dependency basis or on a technical provisions basis?

2.51. There is no material difference between the two.

Question 3, To what extent do you agree that you would expect these cashflows to be materially different?

2.52. We anticipate the two sets of cashflows to be materially the same, as in most cases we would expect that the difference in member cash flows between the low dependency basis and technical provisions basis will be the discount rate only.

Question 4, To what extent do you agree that splitting the cashflows into the five categories listed is a reasonable approach?

2.53. Although this appears reasonable, we suggest TPR requests the cashflows combined rather than by section if the regulator is not going to use the broken down figures.

2.54. One area that has the potential to be confusing is "insured member cashflows". We assume by this that TPR means the liability cashflows of the benefits of the members that are insured. However, there are occasions where this differs from the actual annuity contract. For example, the contract doesn't include spouse pensions but the benefits do, or the contract pays out a higher pension increase than the benefit.

2.55. TPR should make clear what is required here and should consider having an option to add annuity asset for clarity.

2.56. We also note that some insurance policies will cover both pensioner and deferred members – would these be combined, notwithstanding the separate request when considering non-insured cashflows?

2.57. It is also worth noting that some schemes exclude annuities from the valuation (on both the asset and liability side) for simplicity and/or on grounds of materiality. We therefore suggest TPR makes it clear whether this is allowed or not and consider carefully whether requiring insured cashflow projections is essential if these would not otherwise have been produced (given this is additional cost and potentially adds little or no value).

Question 5, Please provide any further considerations that you have on the actuarial data to be included in Part 2 of the statement of strategy. Please include any views on alternative approaches or missing data that you have considered and any data items that you think could be included or excluded from Fast Track

2.58. We believe that a degree of pragmatism may well be required for certain questions. For instance, "*The proportion of the liabilities on a low dependency basis which are linked to inflation."*

2.59. Providing accurate inflation sensitivities can be a significant piece of work with substantial cost and time implications.

2.60. Differing adviser firms may interpret this differently and so some guidance/ an example from TPR as to what it wants here would be welcome.

Question 6, To what extent do you agree with the removal of the requirement to provide accounting valuation and s179 valuation data from a valuation submission perspective? Details of the s179 valuation will still need to be provided via the scheme return.

2.61. Yes, we agree.

Considerations

Question 1, To provide details about post valuation experience, we expect providing an updated estimated deficit would be best. To what extent do you agree that providing an estimated deficit is the appropriate approach?

2.62. We agree that this is appropriate, noting that the updated position could also be a surplus so there should be flexibility in any data collection system to allow a surplus figure here.

Question 2, If providing an updated deficit, to what extent do you agree it would be straightforward to also provide the updated estimates for assets and liabilities, if we require that detail?

2.63. This should be straightforward if the estimated deficit (or surplus) referred to above is provided.

Question 3, Share your views on our proposed approach to collecting information on investment outperformance and post-valuation experience, including any alternative questions that should be considered.

2.64. We do not have anything to add here.

Investment information

Question 1, We do not envisage schemes will incur significantly more costs in providing journey plan investment risk data. To what extent do you agree with this assessment?

2.65. We do not wholly agree with this expectation because there will be additional work required for trustees to prepare journey plan investment risk data and therefore additional costs for many schemes. For example, producing future risk numbers is not something most consultants provide as a matter of course (or would otherwise provide as a matter of course under the new Funding and Investment Regulations) and would therefore incur additional costs.

2.66. Whilst approximate methods do exist to overcome this (e.g. working out risk numbers as at today using expected funding at maturity), they still involve extra work and could distort the risk assessment (e.g. no allowance for changing duration / risk sensitivities between today and maturity).

2.67. We see little value in providing currency hedging information.

Covenant information

Question 1, To what extent do you agree that the proposed approach to submitting covenant information will work in practice for different types of multi-employer schemes?

2.68. This is a pragmatic way forward. However, aggregating covenants in a multi-employer situation can lead to misunderstandings and misjudgements and so care is needed.

2.69. There are many examples where this approach would overstate covenant (aggregating financial data assumes full joint and several support is provided by the employers, which is rarely the case – even in a last man standing scheme).

2.70. The nuances of covenant support structures are often misunderstood, and this approach could further encourage over-simplification, leading to groups of members within schemes being exposed to a materially higher level of covenant risk than is understood by trustees / communicated to TPR.

2.71. We also note that aggregating is not consolidating so this could lead to double counting where there is intragroup trading.

2.72. We therefore suggest your covenant guidance makes the above points clear and the Statement of Strategy includes a free text box for trustees to comment on their covenant support structure and risks associated with any simplification for the purposes of the Statement of Strategy.

2.73. We agree that carving out NAMES is sensible.

Question 2, To what extent do you agree with the proposal that aggregated covenant information should cover employers that account for at least 80% of scheme liabilities?

2.74. We agree this is a sensible proposal (subject to the above limitations).

Question 3, We expect employers to work with trustees and provide the appropriate information. To what extent do you agree that information required will be obtainable to understand the level of risk supportable by the covenant?

2.75. Ordinarily we would expect the required information to be available, but it is not difficult to envisage many cases where this will prove challenging as there are many circumstances where information is not readily available e.g. a small scheme sponsored by a large employer, especially if that company is abroad and listed; not-for-profit organisations; divisional reporting etc. Even if the information is obtainable, it will likely add considerable time, and therefore expense, to the valuation process.

2.76. Much of the information needed in this area of the Statement of Strategy is subjective and will therefore result in differences of opinion. For example, Maximum Affordable Contributions might be difficult to interpret, for example a scheme whose sponsor is a group entity who technically could pay off the entire deficit in one go.

2.77. Much of the information relies on forecasts which can have a very limited time horizon (sometimes as little as one year hence) and therefore information for Maximum Affordable Contributions over the reliability period becomes an increasingly subjective 'best estimate' by the Trustees and/or their advisers and therefore liable to be a point of disagreement with management.

2.78. Total Maximum Affordable Contributions is a function of the period of reliability. Although subject to the publication of The Pensions Regulator's covenant guidance on assessing this period, we would expect forecast sensitivities to form an important part of this assessment. Often these sensitivities are not routinely produced by management and requesting their compilation could add cost to the valuation process.

2.79. Given the above, additional information may be required to adequately assess features such as Maximum Affordable Contribution, the period of reliability and the contribution of contingent assets and we anticipate a greater level of interpretation of that information will likely be needed, likely requiring specialist input.

2.80. For the smallest schemes who may not have a covenant adviser, trustees might find it difficult to independently scrutinise the figures provided by the Employer.

2.81. TPR should be clear what Trustees should do if the employer does not provide all of the information required.

Question 4, To what extent do you agree that the covenant information we propose to request for Bespoke and Fast Track valuation submissions is reasonable and proportionate?

2.82. We do not believe this is reasonable or proportionate. This is because it very much depends on the funding position of the scheme e.g. if fully funded on a buyout basis there is no need for a recovery plan, reliability period or longevity period etc.

2.83. It would also be helpful if Maximum Affordable Contributions should be summarised as "*at least £xm*," in a similar fashion to the reliability/longevity period being classified as "*at least x years*", provided the scheme was meeting the Fast Track criteria.

2.84. Potential unintended consequences of requiring the information set out in the consultation include:

- Increased costs (especially difficult to justify where information is prepared solely for TPR's purposes)

- Trustees are lulled into incorrectly thinking that they are adequately managing covenant risks by providing the information requested (when the information requested is focused on easily quantifiable metrics and a central scenario)
- A strain on trustee-sponsor relationships (in asking for information that is not necessarily required for setting the scheme's funding and investment strategy)

3. About The Society of Pension Professionals

3.1. Founded in 1958 as the Society of Pension Consultants, today SPP is the representative body for a wide range of providers of pensions advice and services to schemes, trustees and employers. These include actuaries, accountants, lawyers, investment managers, administrators, professional trustees, covenant assessors, consultants and pension specialists.

3.2. Thousands of individuals and pension funds use the services of one or more of the SPP's members, including the overwhelming majority of the 500 largest UK pension funds.

3.3. The SPP seeks to harnesses the expertise of its 85 corporate members - who collectively employ over 15,000 pension professionals - to deliver a positive impact for savers, the pensions industry and its stakeholders including policymakers and regulators.

4. Further information

4.1. For more information about this consultation response please contact the lead author Mike Bartlet or SPP Chief Executive Fred Emden at: info@the-spp.co.uk or telephone the SPP on 0207 353 1688.

4.2. To find out more about the SPP please visit the SPP web site: https://the-spp.co.uk/

4.3. Connect with us on LinkedIn at: https://www.linkedin.com/company/the-society-of-pension-professionals/

4.4. Follow us on X (Twitter) at: https://twitter.com/thespp1

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