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tPR's Annual Funding Statement 2024

Introduction

The Pensions Regulator (tPR) published the 2024 Annual Funding Statement on 24 April 2024. The statement is for trustees and sponsors of Defined Benefit (DB) pension schemes and is particularly aimed at schemes with actuarial valuations between 22 September 2023 and 21 September 2024 (Tranche 19).

Some of the key points are summarised below:

Funding regime

tPR expects to publish their revised funding code (and supporting documentation) over the summer. This will then be expected to apply for valuations from 22 September 2024. Whilst the current funding regime applies for valuations until then tPR do consider it good practice for Trustees to align with the code, once released, for live valuations as well.

Funding positions

tPR expects that most schemes will have seen a material improvement to their funding level and estimates that half of schemes will also be in surplus on a buy-out basis. However, it recognises that there will be a number of schemes that are still likely to have a funding deficit (tPR estimates this to be the case for less than 25% of Tranche 19 schemes).

General considerations

In light of the significant rise in interest rates over the last couple of years and the impact that this may have had on each DB Scheme, Trustees should review the long-term objectives they have set previously, including the funding and investment strategy for appropriateness when undertaking their next triennial valuation.

Further considerations highlighted by tPR include:

- Calls from employers to reduce or suspend contributions.
- Open schemes may have seen a material reduction in future service costs and, if also in a funding surplus, may be considering using this surplus to subsidise these costs.
- Requests from members to grant discretionary increases given high levels of short-term inflation.
- Strength of employer covenant supporting a scheme and how this impacts the level of supportable risk. If a scheme is still materially reliant on covenant, trustees need to keep re-financing risks, covenant leakage, and fair treatment at the forefront of their minds.
- Potential impacts from climate change (and other sustainability issues) on covenant and investment and funding strategies.

Rethinking strategies

In line with the previous statement, schemes can be grouped into three categories:

Group 1 - Funding level is at or above buy-out

Schemes have two main options of buying out or running on. Consolidation might also be an option. Some key points for Trustees to consider are set out below.

Buying out

- Scheme rules may provide some guidance
- May need to seek advice and consult the employer
- Should consider if buyout is the best way to protect members' benefits and explore how they can achieve the best price
- Recommended to consider sustainability during due diligence. Guidance can be found **here.**

Running on

- Should be able to justify why it is a better option for members
- Scheme/employer may benefit from continued surplus generation
- Risks should be considered e.g. investment, longevity, future level of expenses

Given constraints in the insurance market, some schemes may adopt to run on in the short to medium term and buyout when specific targets are met. Trustees should document their strategy and explain why the chosen strategy is in the best interest of members.

Group 2 - Funding level is above technical provisions but below buy-out.

Trustees should consider the appropriateness of the long-term funding objectives in place and the timescale set out for reaching them. If funding levels have improved significantly in recent years, trustees should consider accelerating the process and the considerations set out in the section above.

Schemes may consider emerging options e.g. consolidators, capital-backed journey plans and public sector consolidator, accepting that it would be reasonable for Trustees to wait and see how these options develop.

There are further options which schemes may have available that may help improve governance and allow greater buying power. tPR encourage Trustees to consider all options rather than accept the status quo in this area and will provide more guidance on alternative arrangements later in the year.

Group 3 - Funding level is below technical provisions.

The initial focus should be to bridge the funding gap.

Technical provisions should be reviewed to ensure alignment with the long-term funding objective and ensure any risk taken is supported by the employer covenant.

Deficits should be recovered as soon as the employer can reasonably afford. Guidance from previous years' statements should be adhered to as appropriate.

The 2024 Annual Funding Statement can be found **here**. If you would like any further information in relation to the above, please get in touch with your usual Quantum Advisory contact or email us at **info@qallp.co.uk**