PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

STATEMENT OF STRATEGY

TPR CONSULTATION

APRIL 2024

RUARI.GRANT@PLSA.CO.UK

CONTENTS

ABOUT THE PLSA 2

EXECUTIVE SUMMARY 3

THEMATIC RESPONSE TO CONSULATION QUESTIONS 4
APPROACH TO STATEMENT OF STRATEGY 4
PART 1: FUNDING & INVESTMENT STRATEGY 5
PART 2: ACTUARIAL, RECOVERY PLAN & INVESTMEST INFORMATION 6
PART 2: COVENANT INFORMATION 7

DISCLAIMER 9

ABOUT THE PLSA

The Pensions and Lifetime Savings Association (PLSA) is the voice of workplace pensions and savings. We represent pension schemes that together provide a retirement income to more than 30 million savers in the UK and invest more than £1.3 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs, and others who play an influential role in people's financial futures. We aim to help everyone achieve a better income in retirement.

© 2024 Pensions and Lifetime Savings Association

EXECUTIVE SUMMARY

We welcome this consultation on the Pensions Regulator's Statement of Strategy (SoS) proposals, which are largely consistent with plans already set out the draft DB funding code. It is particularly welcome that the Regulator has chosen a template-based approach for this disclosure, following industry feedback that this would afford more consistency across disclosures, and make the task of compliance easier and clearer for schemes. We would, however, highlight that certain aspects of this consultation are difficult to respond to in the absence of other related information, including the final funding code, and the covenant guidance. Coordinating consultations on all the interlinking features at the same time would have allowed industry to better assess the SoS in the round.

There are a number of aspects within the SoS which could be refined, and we address these thematically in our response. We include a summary of these below.

- **Proportionality** – while many of the proposed disclosures will be possible from currently disclosed information, the overall volume is considerable, and this will come at a cost to schemes, and therefore members. There are many – often larger – schemes with good governance and we would like to see a recognition of this through reduced disclosure burden where consistent high standards have been evidenced. The Regulator also needs to make clear exactly how it plans to use the data disclosed.
- **SoS review –** the Regulator should commit to reviewing this product after 2-3 years to ensure it fully achieves its intended purpose, and refine accordingly.
- **Consideration of open schemes** – the focus of the long-term objectives suggested in the consultation are all 'end game' options. A minority of DB schemes are still open to accrual so clarity over their compliance needs to be provided.
- **Consideration of multi-employer schemes** – a number of the data points requested – while reasonable for a scheme with a single sponsor – will be very difficult to provide for a scheme with hundreds of employers. Allowance for this – especially in the covenant and employer information sections – needs to be offered.
- **More clarity for bespoke approach schemes –** we acknowledge the Regulator will review requirements once bespoke submissions have been received, but we would emphasise the need for pragmatism with regard to schemes with bespoke valuations, and any more information on how these can be incorporated into the templates would be helpful.

© 2024 Pensions and Lifetime Savings Association

THEMATIC RESPONSE TO CONSULATION QUESTIONS

APPROACH TO STATEMENT OF STRATEGY

1. We welcome this consultation from tPR on the new Statement of Strategy (SoS) which DB schemes will have to complete as per the new DB funding code, beginning later in 2024. The SoS – and the Funding and Investment Strategy within it - are significant publications and it is important regulators and industry take the time to get it right.

2. Overall, our members are supportive of the template-based approach, and general feedback has indicated that this should go some way to clarify exactly what information must be provided and in what format. While schemes will still use advisers to produce their templates, this format should nonetheless reduce costs, compared to an approach of every scheme drawing up their own document. Support for the template is also in line with previous engagement our members have had, including that templates should also bring a higher level of consistency across disclosures from different schemes.

3. It will be important that schemes can input free text to explain elements of their disclosures within the template, so some flexibility is needed. Additionally, we would recommend the inclusion of a bespoke template for open schemes that aren't maturing, as this would enable them to express their long-term objectives more clearly.

4. There are, however, two key challenges with the proposed approach, namely the lack of proportionality of the proposed disclosures, and specific challenges of using prescribed templates for schemes with bespoke valuation approaches. We discuss the former here, and cover the latter later in this response.

Proportionality

5. While schemes support the template approach in principle, and we understand many of the disclosures consist of information that is already available through valuations, there are still additional inclusions in the SoS and schemes are concerned about the overall burden created by such a volume of reporting.

6. The production cost of the SoS will be considerable for most schemes, due to the volume of disclosure and the additional consultancy services that will be needed. We are concerned that these costs are being created with no evaluation of the benefit of the disclosures.

7. Much of the new DB funding code was conceived of in an environment of scheme deficits and recovery plans, but this has changed; according to the Regulator's own data, at September last year 4,700 DB schemes (out of 5,000) are either at, or approaching, surplus on a low-dependency basis. The volume of required disclosures should therefore reflect the more stable status of the vast majority of schemes, and our members have been clear that the Regulator should evidence how it plans to use the information requested. The level of disclosures proposed implies that the Regulator has interpreted the funding and investment

regulations as requiring it to verify every piece of underlying data involved in the valuation process, which would not be proportionate, nor, we assume, feasible. Therefore, the Regulator should consider adopting the GDPR principle of only requesting information that is demonstrably required, and only delving into this deeper level of data in individual cases where it has reason to.

8. With proportionality in mind, and given our understanding that penalties - as per section 10 of the Pensions Act 1995 - would apply in cases of non-compliance, we would urge the Regulator to exercise discretion, especially in the early years of the SoS requirement, when it comes to enforcement. The requirements, as they stand, will represent a considerable additional burden for schemes, and reporting will take time to refine, especially for schemes with bespoke approaches, so time – and additional guidance to allow trustees and advisers to exercise appropriate judgement – would be welcomed.

9. We would also, therefore, like the Regulator to commit to a formal review of the SoS after 2-3 years. It is only once schemes start reporting according to the SoS framework, and that the Regulator begins to assess the data provided, that we will get an idea of the utility of each part of it. It is important to learn from prior experiences, e.g. the DC Chair's Statement, to ensure these reports are as succinct and useful as possible.

10. Finally, we acknowledge that reporting requirements in some areas are reduced for smaller schemes, which will no doubt reduce the burden for them. However, governance standards are consistently higher with larger schemes, so we would like to see provisions to reduce the burden for schemes of any size where high standards have consistently been evidenced.

PART 1: FUNDING & INVESTMENT STRATEGY

11. The options under the long-term objective could be widened and clarified. While the descriptors of 'buy-out', 'run-off', 'superfund' or 'alternative consolidator' cover the vast majority of schemes, provision needs to be made for schemes which remain open to accrual for the foreseeable future. It is also not clear what exactly is meant by 'long-term'. Schemes may at certain points be targeting a combination of these objectives, for instance a scheme might aim for low dependency until scheme maturity, followed by run-off, with the possibility of buying-out benefits once the scheme is below a certain size. In this scenario, the long-term objective could be defined as various different steps along this route, depending on timescales.

12. Ultimately, these objectives can change in short order – as has been seen in recent years with buy-out becoming realistic for many more schemes – so the guidance needs to reflect this. The conclusion of current work on surplus extraction could also have a bearing on schemes' long-term objectives, further evidencing the need for flexibility, and this is even more the case for open schemes.

13. Similarly, there needs to be more allowance made for schemes with bespoke approaches with regard to the measurement of low dependency. It is important that such schemes do not have to create a new valuation model at the next valuation in order to comply with the SoS requirement, and for open schemes, there needs to be greater accommodation of asset-led funding methodologies with regard to discount rates. Implicit in the consultation is the assumed use of gilts+ as a discount rate methodology, but discount rates based on investment returns must also be factored in.

14. A number of our members have flagged that the proposed asset allocation categories are too broad and open to too much interpretation. This is particularly the case with the 'hybrid' category. We assume this is intended to reflect Diversified Growth Fund type investments, however, a scheme could theoretically disclose 100% hybrid for an allocation made up entirely of bonds and equities. The 'matching' category is similarly broad, as it would catch both long and short dated securities, and encompass gilts and corporate bonds, meaning the overall utility to the Regulator of this information will be very low.

15. Finally, with reference to the proportionality point we make above, there are three specific disclosures withing the FIS we think could be more pragmatic:

    - The Regulator should not require the proportion of liabilities sensitive to inflation to be disclosed. If the Regulator wishes to assess this, it already has the requisite data to do so, from the risk levels and target hedging ratios data disclosed.
    - We disagree with the proposal to not allow for commutation in the disclosure of impact on the value of technical provisions. This would require schemes to commission an additional valuation run, even if the allowance for commutation is insignificant, causing considerable expense to schemes and their members. Instead, the Regulator should only request details of the commutation allowance, and if it deems this to be a material assumption for the scheme based on its wider characteristics, more information can be requested.
    - Life expectancies are not commonly disclosed by schemes and should not be requested by default. Disclosure of mortality assumptions and mortality tables used is straightforward, but converting them into life expectancies requires extensive actuarial modelling, which would come at considerable member expense, with limited additional value to the Regulator.

PART 2: ACTUARIAL, RECOVERY PLAN & INVESTMEST INFORMATION

16. Our members have not provided detailed feedback on these sections, however, we would reiterate the need for proportionality with disclosures in each of these categories. Given the funding levels of many DB schemes, we acknowledge the recovery plan component will not be required in many cases, however, members have flagged that the actuarial cashflow information proposed, would, for some schemes, require a disproportionate amount of

© 2024 Pensions and Lifetime Savings Association

resources, for unknown utility. Therefore, unless the Regulator can provide a clear rationale for requiring these, they should be reduced.

17. Regarding the journey plan investment risk data, the current asset allocations and liability profiling information should already be available through existing valuations, so there is no inherent barrier to these being provided. However, for those schemes yet to reach their relevant date, the requirement to provide future risk information would require substantial hypothetical asset allocation and liability modelling, which is expensive to conduct. While some schemes will already do this, some will not, and requiring those schemes to invest heavily in this process, purely for disclosure purposes, would be disproportionate. Therefore, we would welcome guidance from the Regulator on how higher-level simplified assumptions might be used to provided reasonable estimates.

PART 2: COVENANT INFORMATION

18. The proposed disclosures around employer and covenant information, while covering vital information for the stability of the scheme, are not without challenges, both in their volume, and their sensitivity. Disclosure of such information is new, and so will increase the cost for schemes to produce; it is also important to note that this information – if disclosed publicly – may pose issues for some organisations at a corporate level, separate from the pension scheme. Therefore, clarity from the Regulator over the use and storage of this data would be helpful, as well as some acknowledgement of the need to be proportionate.

19. For standalone schemes, most of the information proposed should be available, although some of it is not required under accounting standards so data would not necessarily be audited (e.g. cash liquidity including undrawn loan facilities). We would also suggest that trustees having to declare covenant reliability and longevity as lasting for 'at least X years' might cause professional liability issues for covenant advisers; the wording of this should be changed to a best estimates basis.

20. Finally, we are concerned about the availability of some of the proposed information for multi-employer schemes. This includes:

    a. Employer cashflows – this data, for multi-employer schemes with many hundreds of employers would be time-consuming and costly to collect, so we suggest this not be required of schemes or employer sections which are in surplus on a technical provisions basis. It would be more reasonable to limit this requirement to the most likely 'last person (employer) standing', or for any employer representing over, say, 10% of total scheme liabilities.

       It is also worth noting that were cashflow figures to be reported, advisers may consider they require additional auditing than they are subject to when used purely for valuations, and this would increase cost.

b. Covenant data – there is significant complexity in gathering the proposed level of detail of covenant data for every sponsor in a scheme, so we agree that aggregating those representing 80% of liabilities is suitable. We would warn, however, that any increase in this proportion would have a disproportionately large increase in the cost to schemes.

c. Assessment of covenant reliability – this is a more subjective assessment, the usefulness of which will depend largely on the forthcoming guidance on areas such as the reliability period. To this end, we would encourage the Regulator to publish this guidance as soon as possible.

d. Certain proposed data disclosures will need careful consideration for multi-employer schemes with sponsors from certain industries. One example is the 'reasonable' alternative uses of cash, which is highly subjective and if incorrectly interpreted could result, for example, in a housing association appearing less financially sustainable if it has invested significant capital in new developments, which, are in reality additive to its long-term sustainability. Another example would be sponsors in the third sector, for which cashflow information has a different significance compared with a corporate sponsor.

© 2024 Pensions and Lifetime Savings Association

DISCLAIMER

The Pensions and Lifetime Savings Association 2024 ©

All rights reserved.

You must not reproduce, keep, or pass on any part of this publication in any form without permission from the publisher.

You must not lend, resell, hire out, or otherwise give this book to anyone in any format other than the one it is published in, without getting the publisher's permission and without setting the same conditions for your buyers.

Material provided in this publication is meant as general information on matters of interest. This publication is not meant to give accounting, financial, consulting, investment, legal, or any other professional advice.

You should not take action based on this guide and you should speak to a professional adviser if you need such information or advice.

The publisher (The Pensions and Lifetime Savings Association) or sponsoring company cannot accept responsibility for any errors in this publication, or accept responsibility for any losses suffered by anyone who acts or fails to act as a result of any information given in this publication.