



PRESS RELEASE

ACA SAYS NEW FUNDING REGIME MUST MAINTAIN SCHEME SPECIFIC FLEXIBILITY, WITHOUT TYING ALL SCHEMES TO 'FAST TRACK' BY DEFAULT

13 August 2020: In its [response to the DB Funding Code consultation](#), the Association of Consulting Actuaries (ACA) says it is generally supportive of the proposals outlined in the consultation, but notes that many of the key details are yet to be defined and these details are likely to make the difference between the success, or otherwise, of the new regime.

Commenting on the response published today, Peter Williams, Chair of the ACA's Pension Schemes Committee, said:

"The ACA supports TPR's twin track proposals. But we need to see details on how the 'Bespoke' option will work in practice to be confident in the new regime. It is important that the current scheme specific funding flexibility is maintained, as this must be balanced with the needs of supporting the sustainable growth of UK employers.

"The ACA supports TPR's proposal to introduce a 'Fast Track' option and that TPR uses 'Fast Track' as the yardstick for accessing its powers under s231. But this must not mean that TPR compels schemes using 'Bespoke' to fund to 'Fast Track equivalence' by default. 'Bespoke' must remain as a genuinely scheme specific alternative."

Key points in the ACA response are:

On Fast Track:

- ACA supports a simple 'Fast Track' compliance approach based on covenant and maturity and, in principle, a 'fit-for-purpose' stress test. The precise terms of the Fast Track framework will be important (particularly in view of COVID-19) to ensure the system works appropriately.
- "Covenant visibility" can reasonably inform recovery plan length and prevailing investment risk. But what happens to the covenant beyond the visible period should be based on the balance of likelihoods and not assume low or nil covenant beyond the visible period.
- The ACA notes that there was no mention of allowance for post-valuation experience within the Fast Track framework (or more widely). The flexibility to allow for such experience in setting a recovery plan is a useful tool which should be maintained.
- The ACA would like to see TPR undertake an annual review of 'Fast Track' terms and triennial or quinquennial review of the framework.

On Bespoke:

- Maintaining the current scheme specific funding flexibility (where the approach is suitably evidenced) is vital to support employers' sustainable growth. We need more detail on how using the flexibility under the 'Bespoke' option will be regulated, to provide assurance that the new regime will not be too restrictive.
- It is important for the 'Fast Track' approach not to simply be seen as the 'default' option and that 'Bespoke' offers a genuine and viable alternative for pension schemes.
- We are concerned that there may be too much pressure for 'Fast Track equivalence', with the risk that TPR's s231 powers come into play if TPR considers the divergence from Fast Track too significant. Funding solutions imposed by TPR should be based on a scheme's circumstances and not defaulted to be in line with 'Fast Track'.
- Demonstrating good trustee governance, to manage the scheme and react appropriately to significant changes, is important. This isn't featured in the narrow financial framework but should be within a full IRM evaluation. We hope to see more on this in TPR's second consultation later this year.

On the timing of changes in the context of COVID-19

- In view of the impact of COVID-19, the ACA supports setting 'Fast Track' parameters towards the more flexible end of ranges suggested in TPR's consultation. For example, setting a Long-Term Objective at gilts+0.5% rather than gilts+0.25%.
- We encourage TPR to avoid responding to COVID-19 by requiring trustees to obtain legally binding contingencies that cover all the risks that schemes run. We would argue for a more balanced approach which favours employers' sustainable growth; or in many cases employers' survival.
- COVID-19 presents an interesting case study in responding to economic stresses. The ACA encourages TPR to use this instance to think through temporary additional flexibilities that could be suitable, either within or alongside its 'Fast Track'.

ACA Chair, Patrick Bloomfield added:

"The ACA supports Guy Opperman's statement to the House of Commons on 27 April, that the "best possible protection for members of Defined Benefit schemes is a strong profitable employer". DB scheme funding is very different to minimum risk/insurance funding and must be designed to balance sustainable growth of employers.

"We would not like to see a new regime that unreasonably pushes up DB costs. Doing so would exacerbate issues of intergenerational fairness, by diverting a greater share of employers' pensions spending to making DB promises more secure, at the expense of DC saving for current employees. TPR and the Government must be mindful that the new Funding Code has to balance commercial risks fairly, both across generations and between those with and without DB savings within each generation."

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NOTE FOR EDITORS

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