Update from The Pensions Regulator

ACA Members’ Conference

6 February 2015

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Agenda

1. Feedback on new funding code
2. Covenant and sustainable growth
3. Investment as part of an integrated approach
4. Funding update
5. Next steps

New DB funding code

Trustees

Employers

Balancing the needs of the scheme with the needs of the employer

Working collaboratively

Integrated management of scheme risks

Proportionate approaches

Risks taken based on employer's risk tolerance and ability to address likely adverse outcomes

Appropriate funding strategies

Good governance

Taking a long-term view

Fair treatment for the scheme

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Feedback on code

- New DB funding code well received as shown by research published last week:

Per cent	Actuaries (All)	Employers (T9)	Trustees (T9)
Awareness of the DB code (prompted)	99	73	86
Read DB code (in full or in part) [those aware]	94	47	65
Rated DB code as very/quite helpful (those who read it)	94	94	91
Will mostly/fully take DB code into account when preparing valuations		90	98

Clearly written and appropriate and recognises the reality; gives trustees a clear steer on the trustee's responsibility and employer's position.

The code is practical, forward looking and sets clear principles which can be applied to schemes specific circumstances.

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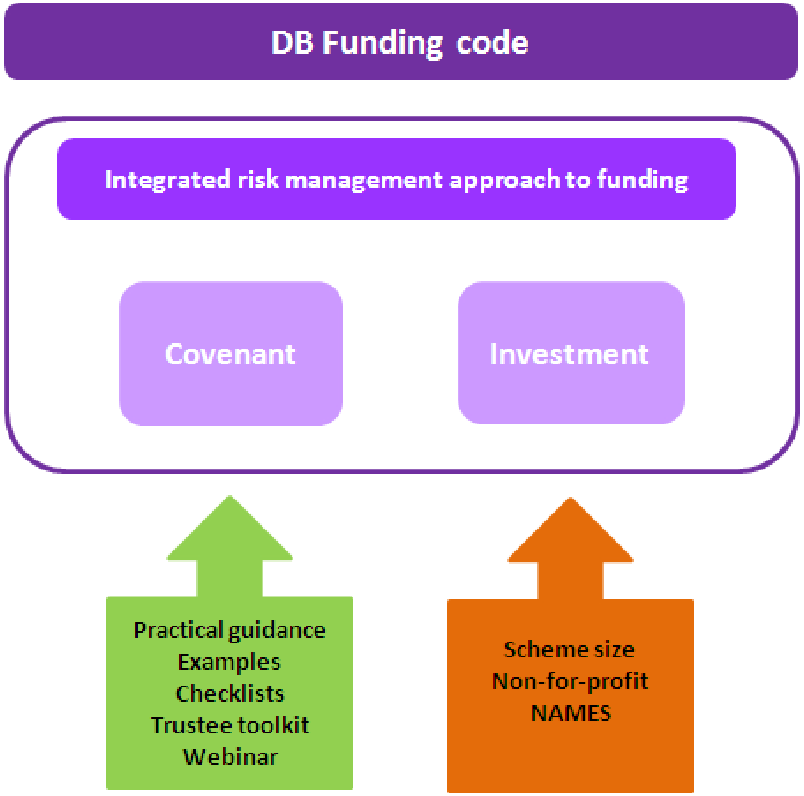
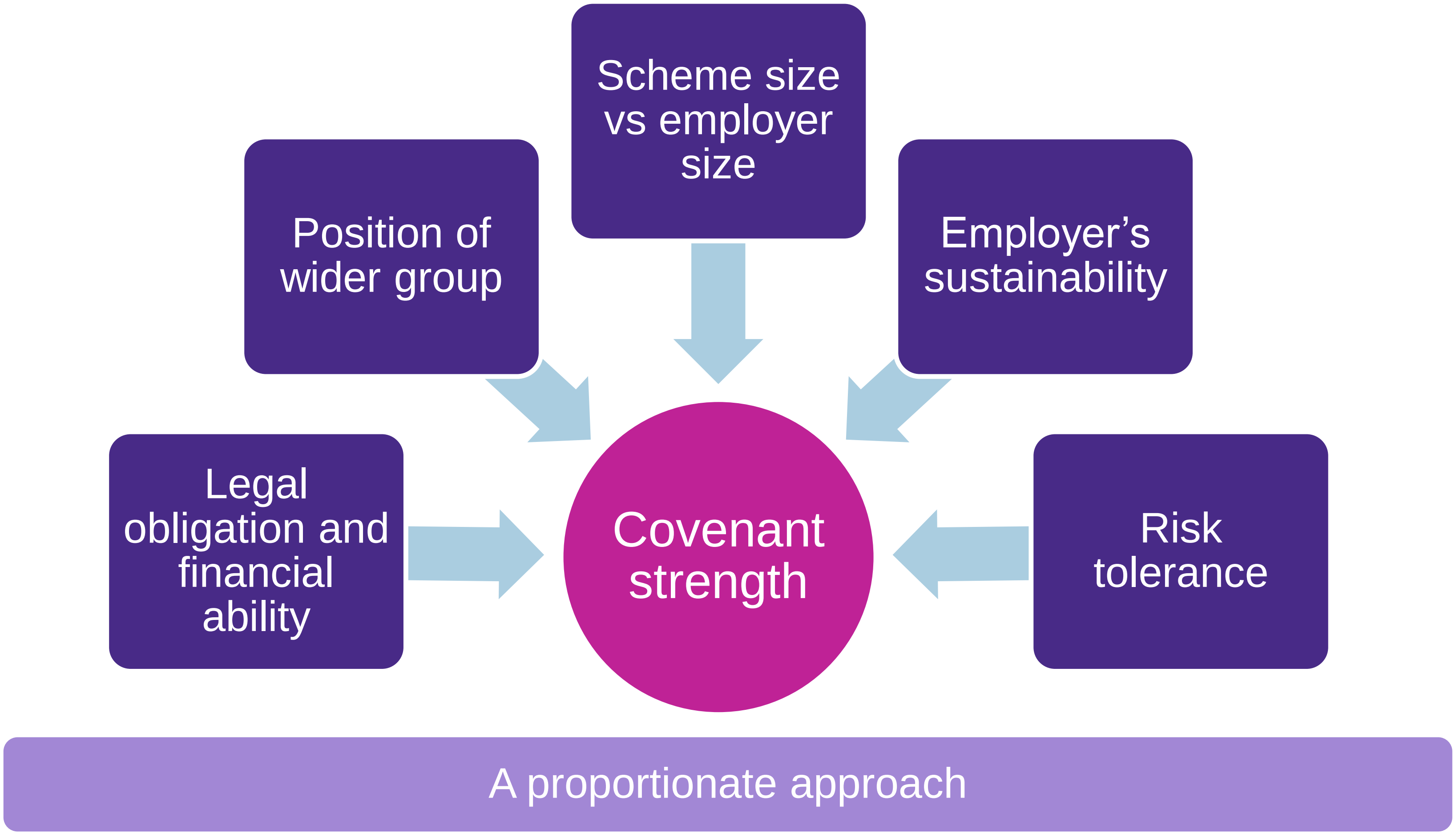
New guidance and tools

- We are undertaking range of activities to raise awareness and understanding of new DB code.
- Feedback from workshops and research suggests strong appetite for face-to-face events, short practical guidance and case studies.



Key covenant messages



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Investing for sustainable growth

- Does investment for sustainable growth constrain the level of deficit recovery contributions (DRCs)?
- What does success look like for the employer?
- Are other stakeholders contributing appropriately (e.g. should there be a dividend restriction?)
- When will the growth fund increased contributions?
- Is the investment within the sponsoring employers?
- Can the employer protect the scheme through providing contingent assets?

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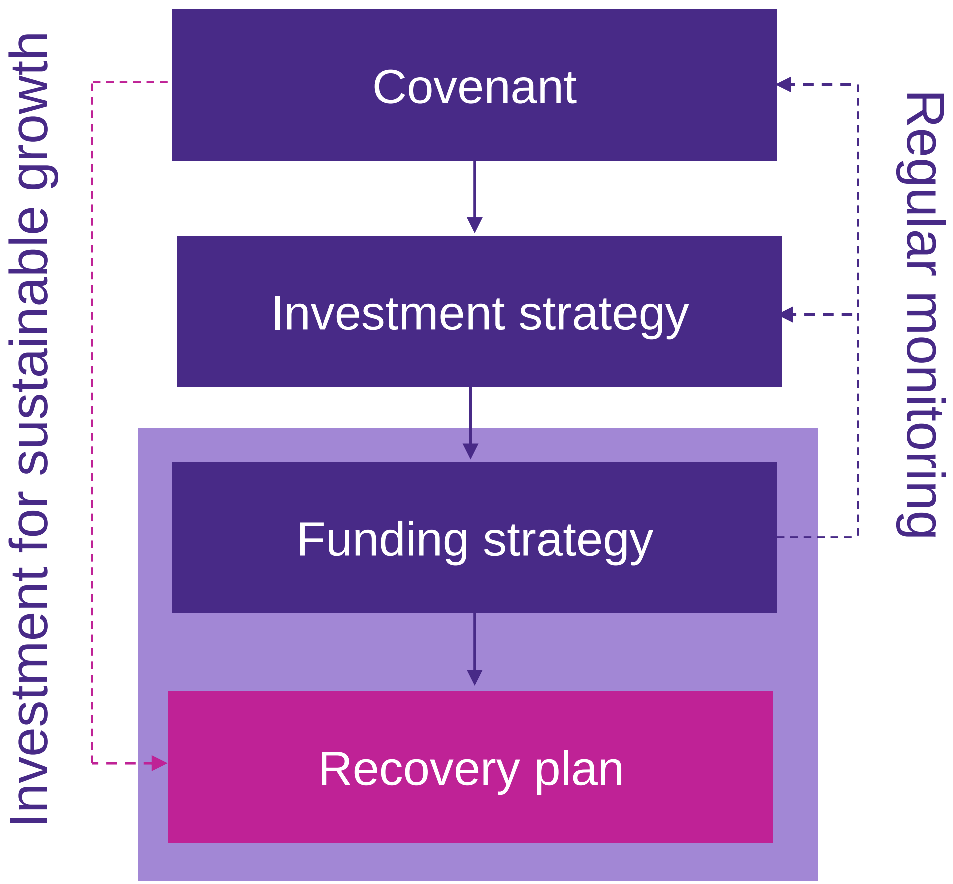
Investment as part of an integrated approach



Five steps

1. Understanding covenant and employer's risk appetite
2. **Risk-taking consistent with covenant**
3. Action / contingency plans
4. Monitoring framework
5. Documenting key decisions

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Investment as part of an integrated approach

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DB scheme Return 2014/15 – new questions
Does the scheme have a …

Value at Risk (VaR) calculation?

- VaR calculation
- Liability basis for VaR
- VaR % and period

Surplus?

- Valuation discount rates and method
- CPI, RPI and salary inflation assumptions

Asset-backed contributions (ABCs)?

- Value of scheme's interest in ABC
- Payment schedule of ABC cashflows
- Type of assets underpinning ABC and their value
- Source of these assets

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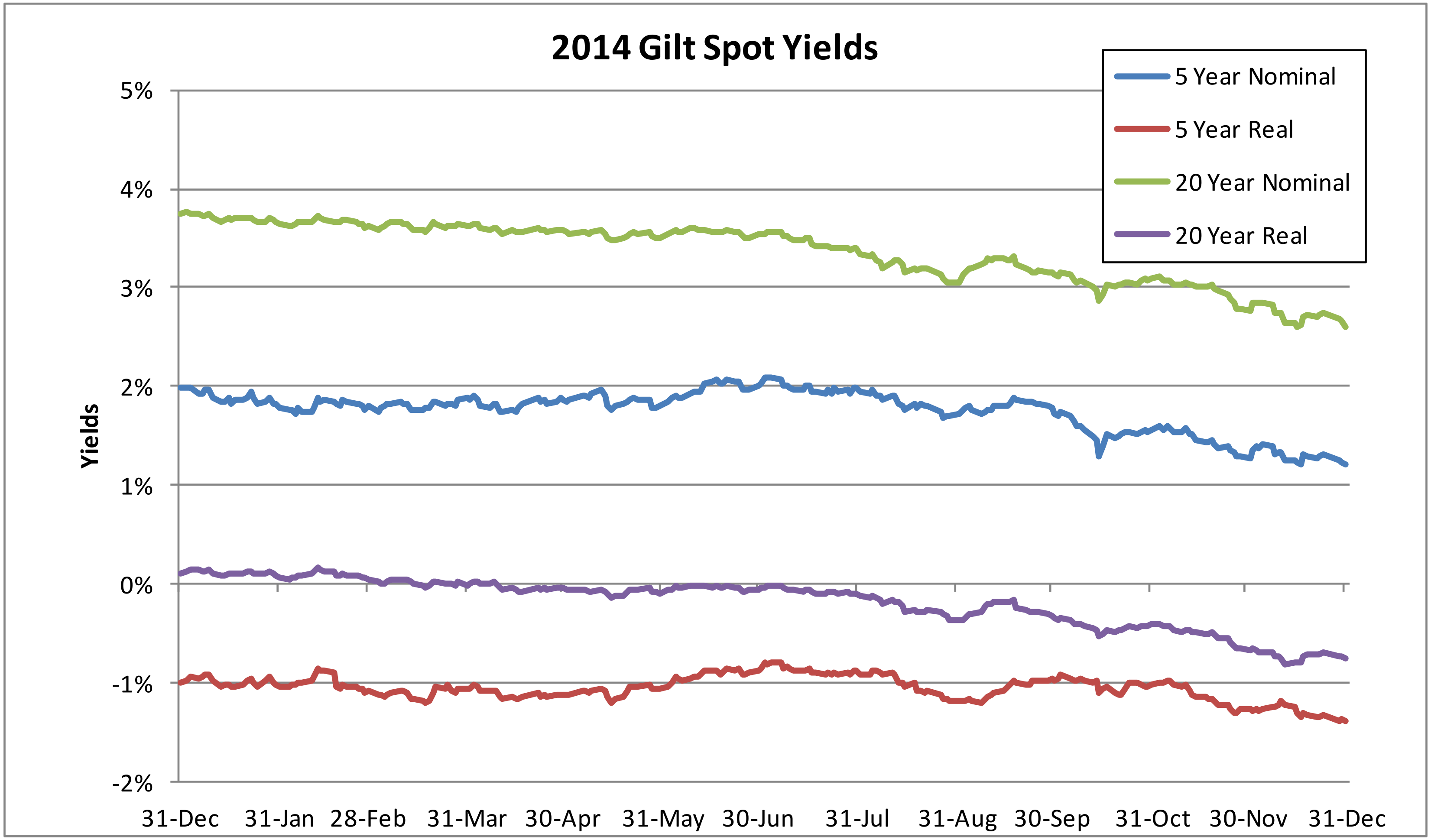
Funding update – market conditions



Source: Bank of England (BoE)

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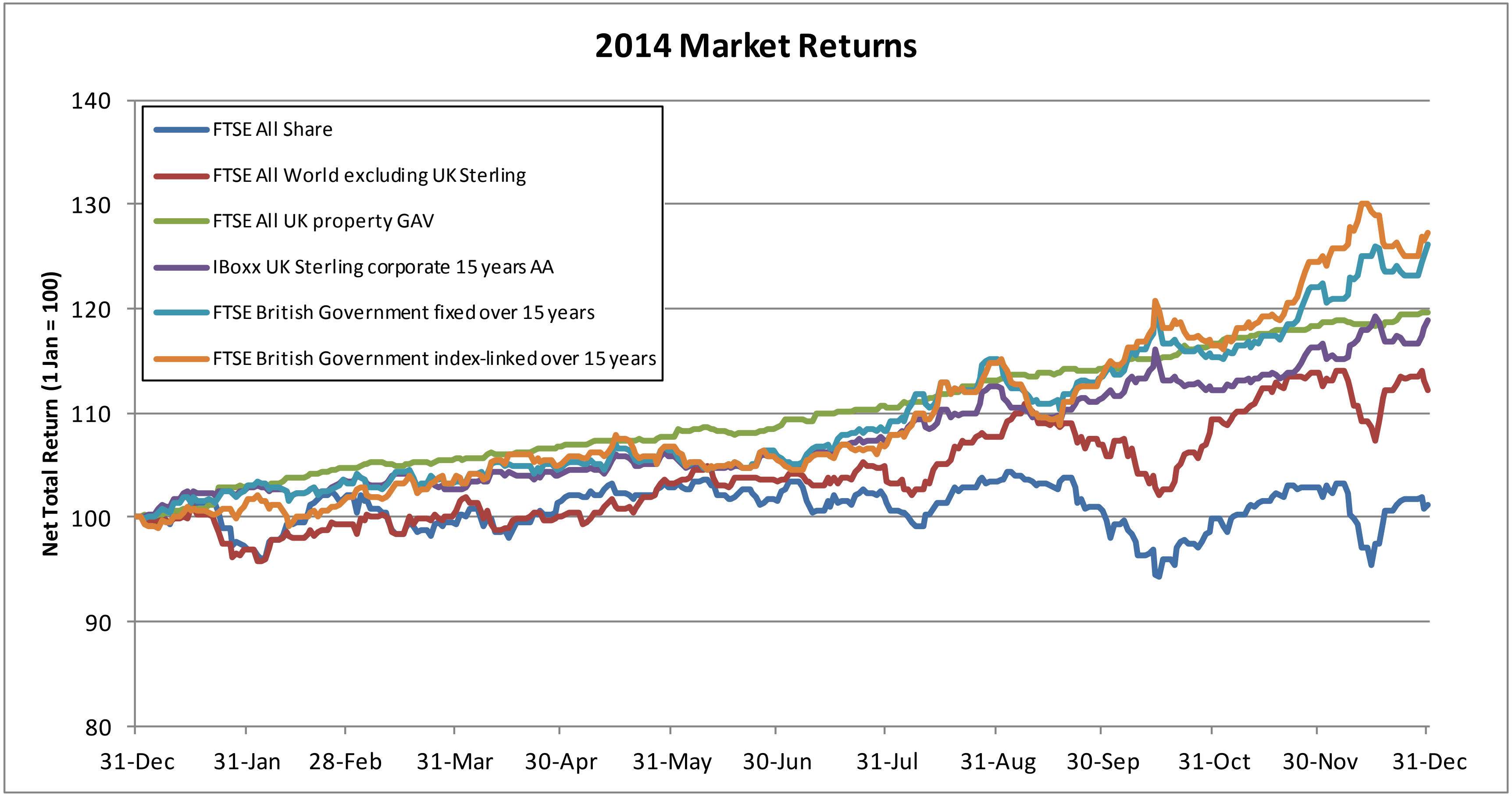
Funding update – market conditions



Source(s): The Pensions Regulator, Thomson Reuters, FTSE group, Markit iBox

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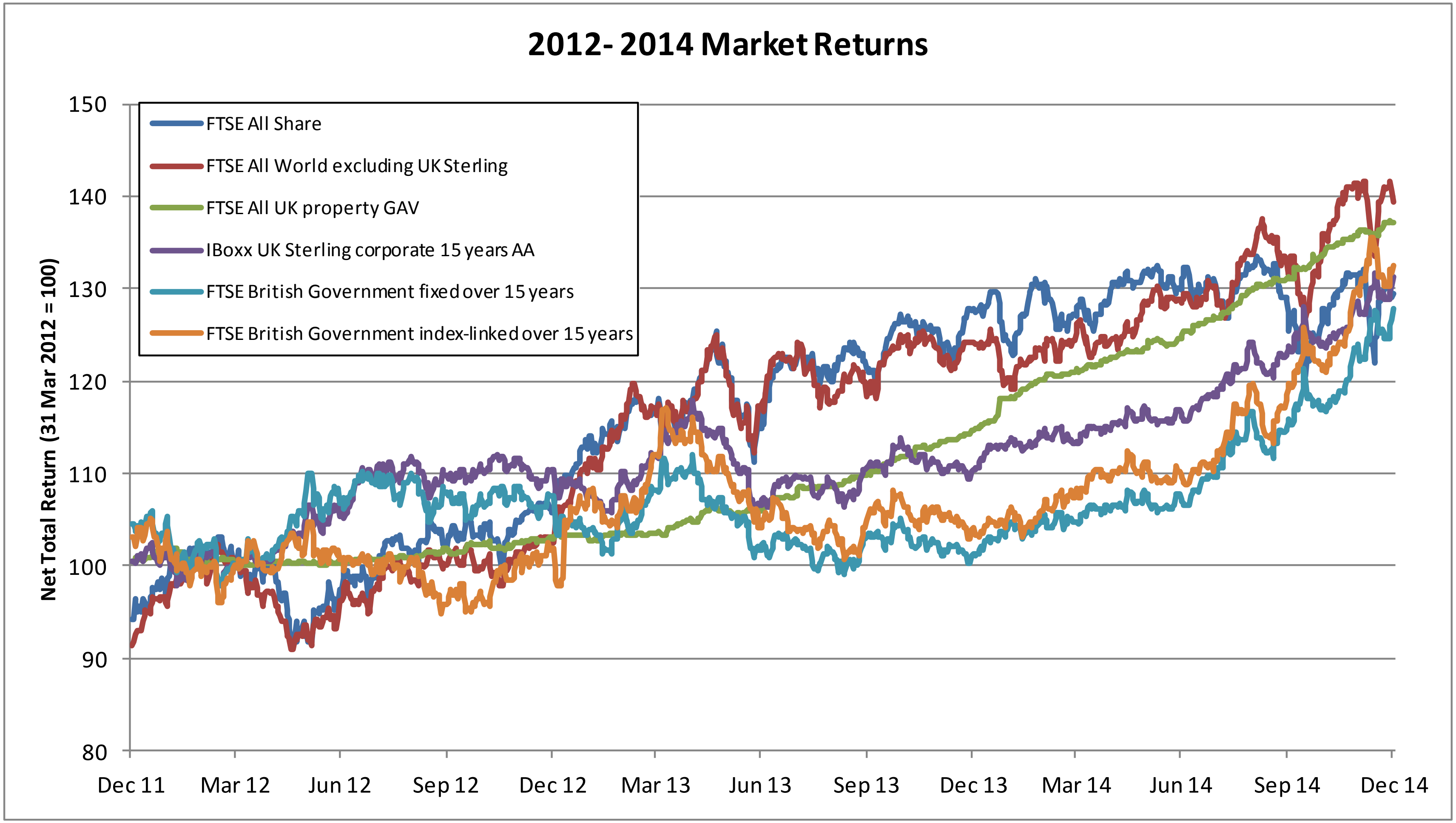

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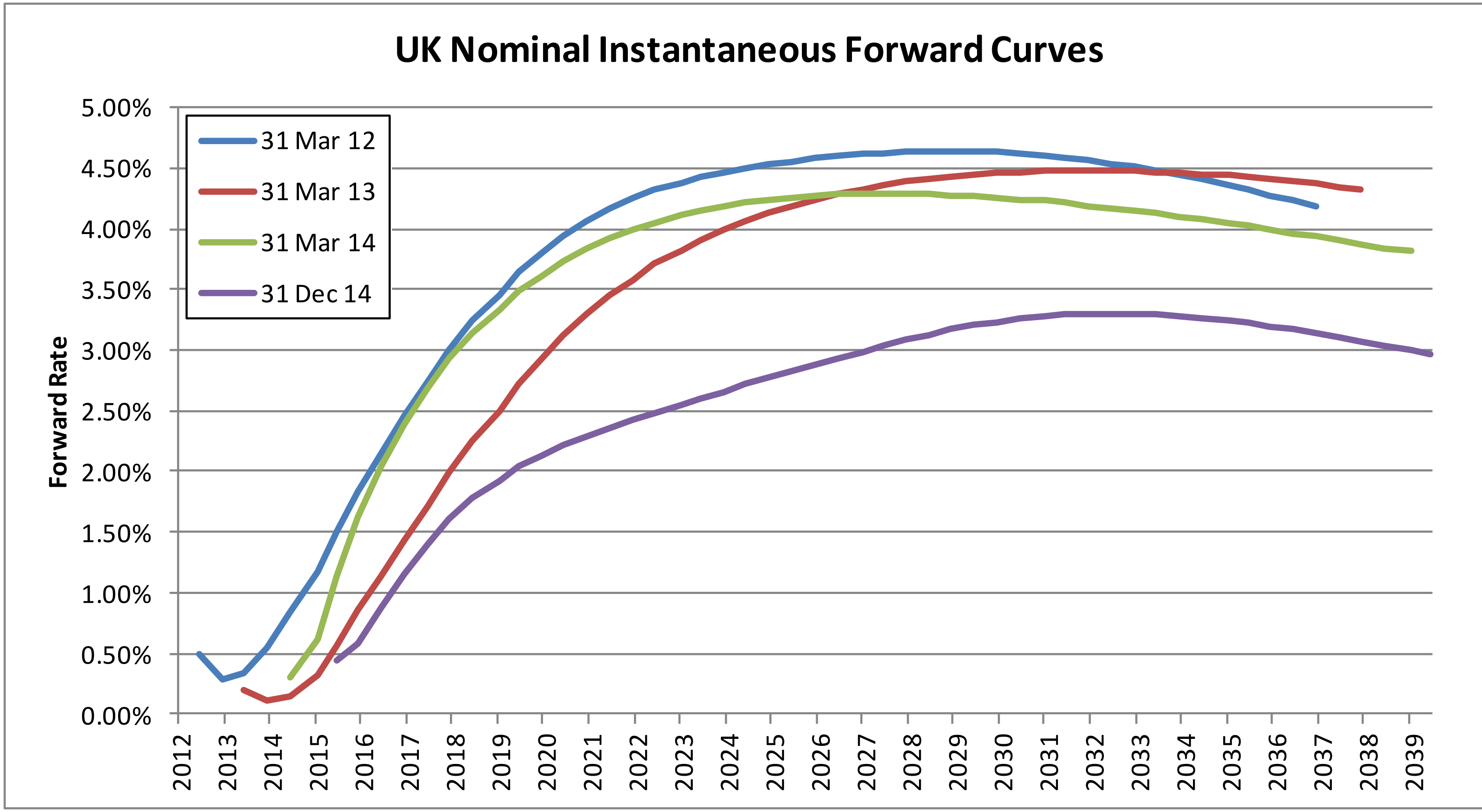

Source(s): Bank of England (BoE)

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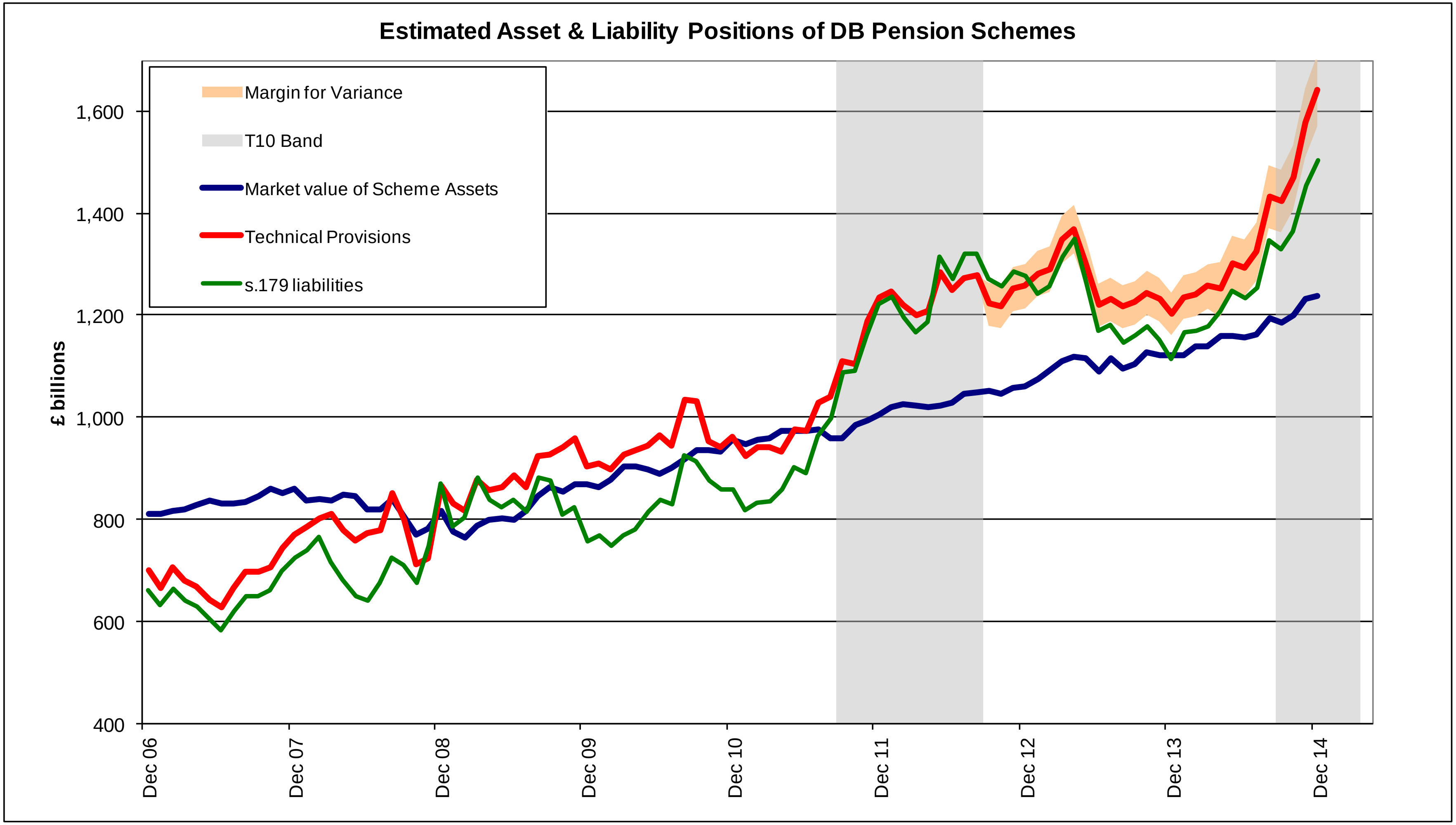

Source(s): The Pension Protection Fund (PPF), The Pensions Regulator

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What next?

- In listening mode
- Further analysis
- Ongoing engagement
- Annual Funding Statement published
- T10 proactives

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Summary

- New DB funding code:
  - well received
  - further guidance and tools to follow
  - sustainable growth objective embedded
- Integrated approach to managing risk:
  - understanding covenant and employer's plans
  - investment strategy is key
- New data on scheme return:
  - voluntary VaR figures, in-surplus assumptions, details of ABCs
- Difficult market conditions:
  - very low gilt yields
  - moderate recent asset returns
  - potentially poor funding positions

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