ACA Sessional Meeting

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May 2025

Agenda

- DB Annual Funding Statement
  - Key messages
  - Clarifications on DB Code
  - Funding position of schemes and implications
- Policy developments and communications
- Changes to our regulatory approach

DB AFS – Key Messages

- Strong funding positions => move to endgame planning
- Understand risks from heightened trade and geopolitical uncertainty
- 80% of schemes should be able to meet Fast Track, with reduced regulatory burden
- Supporting first valuations under the new DB funding regime

Supportable Risk

Supportable Risk over the Reliability Period	• For schemes before relevant date the Code sets out the supportable risk the employer covenant can support over the reliability period • Assesses support to cover deficit and any further deficit that could arise from a stress event

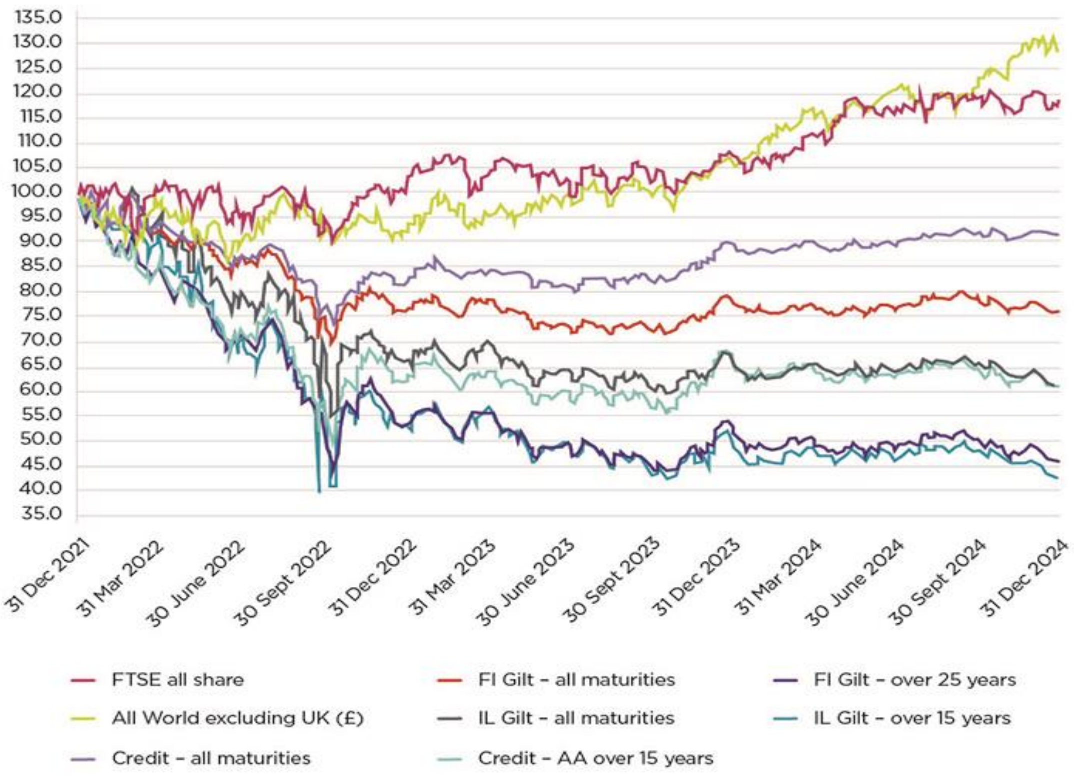
- Code expectation is that downside stress even is at least one in six and this is measured over the reliability period – it is not a one-year test.
- Pragmatic approaches to adjust one-year test to multi-year tests are acceptable
- We encourage proportionality
  - use the existing modelling where feasible
  - stochastic modelling is <u>not</u> expected
  - where prudent shorter periods than the reliability period can be used

Long Term Objective

Long Term Objective	• As part of the Funding and Investment Strategy (FIS) schemes must set out the way in which they intend pensions to be provided over the long term – the long-term objective (LTO).

- Statement of strategy allows flexibility when describing LTO for schemes.
- The LTO can happen after relevant date (although the scheme must comply with principle of full funded on a low dependency funding basis)
- Trustees will need to decide if the commitment to achieve buyout, is clear and settled enough for it to be included in the FIS

DB AFS Analysis – market background

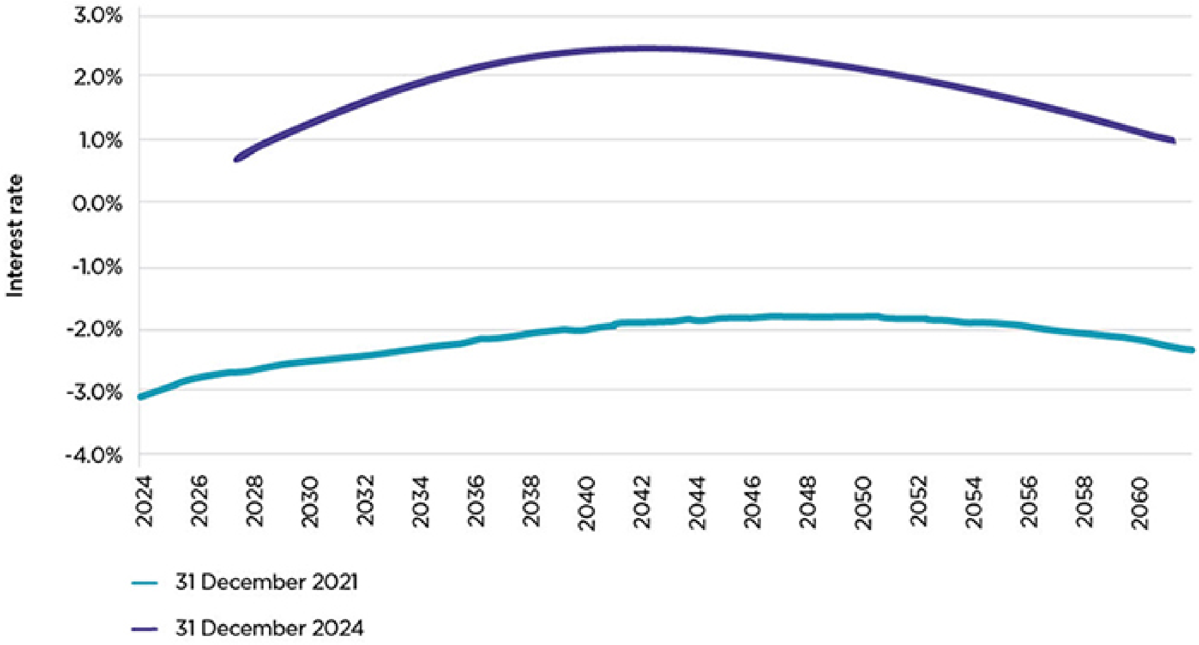


Source: LSEG

DB AFS Analysis – market background

Figure 2: UK instantaneous real forward gilt curves

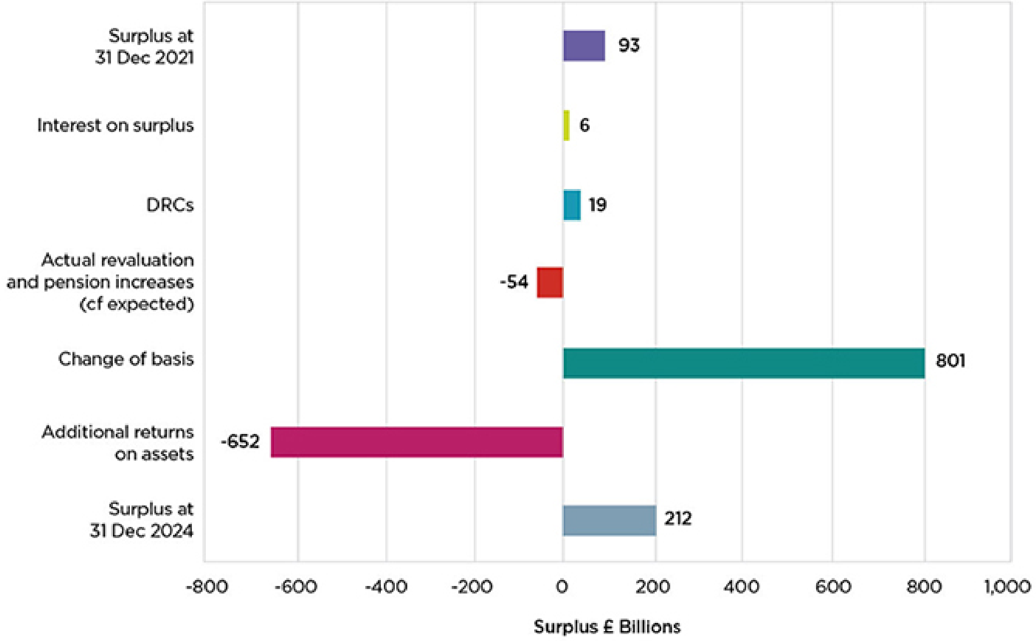
Source: BoE



DB AFS Analysis – Analysis of Surplus

Figure 5: Estimated impact of change in surplus over the period December 2021 to December 2024

Sources: TPR, LSEG, Office for National Statistics (ONS)



- Analysis of surplus for all 4,818 schemes
- TPs down c45%, asset values by c35%
- Relatively stable since 30 Sept 2023
- Assets c£1.2trn, TPs c£1.0trn

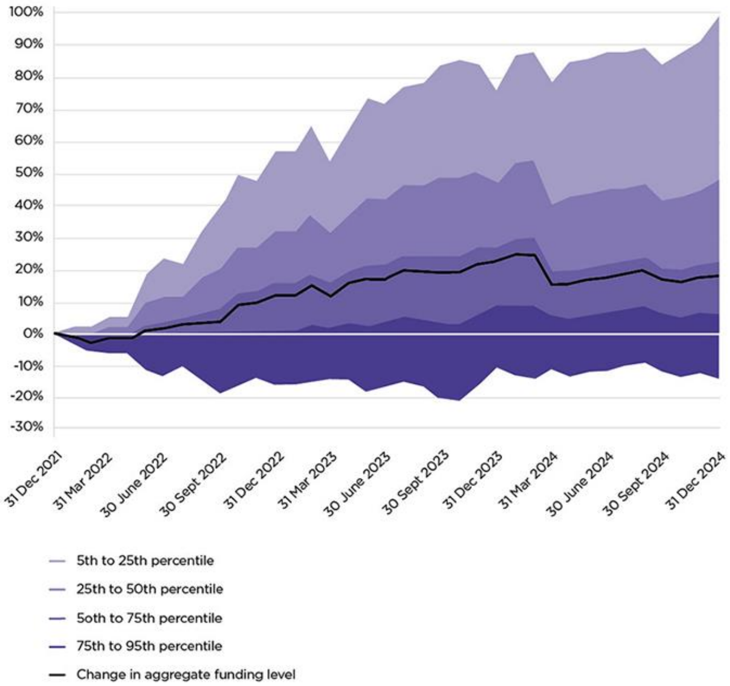
Overall estimated funding positions

Funding Basis	Technical Provisions	Low dependency	Buyout
Assets (£billions)	1,153	1,153	1,153
Liabilities (£billions)	941	1,021	1,127
Surplus/(Deficit) (£billions)	212	133	26
Funding level	123%	113%	102%
% of schemes in surplus	85%	76%	54%
% of schemes in deficit	15%	24%	46%

4,818 schemes in data set

Figure 6: Variation of impact on funding level of all schemes – December 2021 to December 2024

Sources: TPR, BoE, LSEG



AFS - Funding strategies for different groups

Funding Position	Approximate proportion	Key points
At or above low dependency	76%	Focus on end-game planning Benefits vs risks of running on Monitoring and management strategies inc employer covenant
Above TPs but below low dependency funding target	9%	Continue on path to achieving the low dependency objective by the relevant date
Below TPs	15%	TPs consistent with journey-plan to low dependency Risk-taking dependent on (i) covenant and (ii) maturity Deficit recovery as quickly as reasonably affordable

Policy developments and communications

Published already

- Blog: Superfunds transfers
- Report: Market volatility and what trustees should do

Coming soon…..

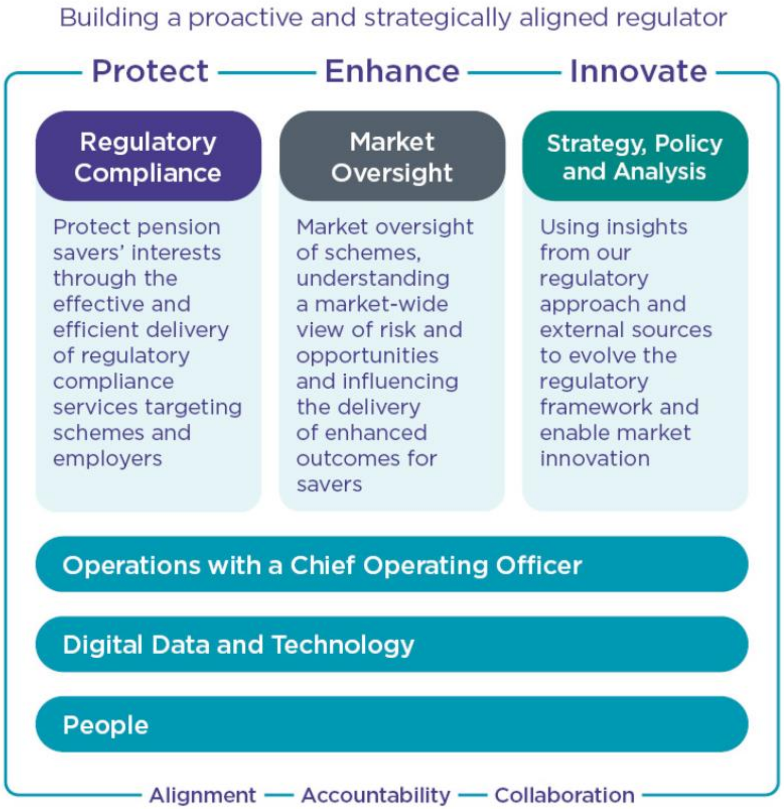
- SoS consultation response and spreadsheet for submission
- Guidance: End game, including run-on and return of surplus

Pensions Scheme Bill

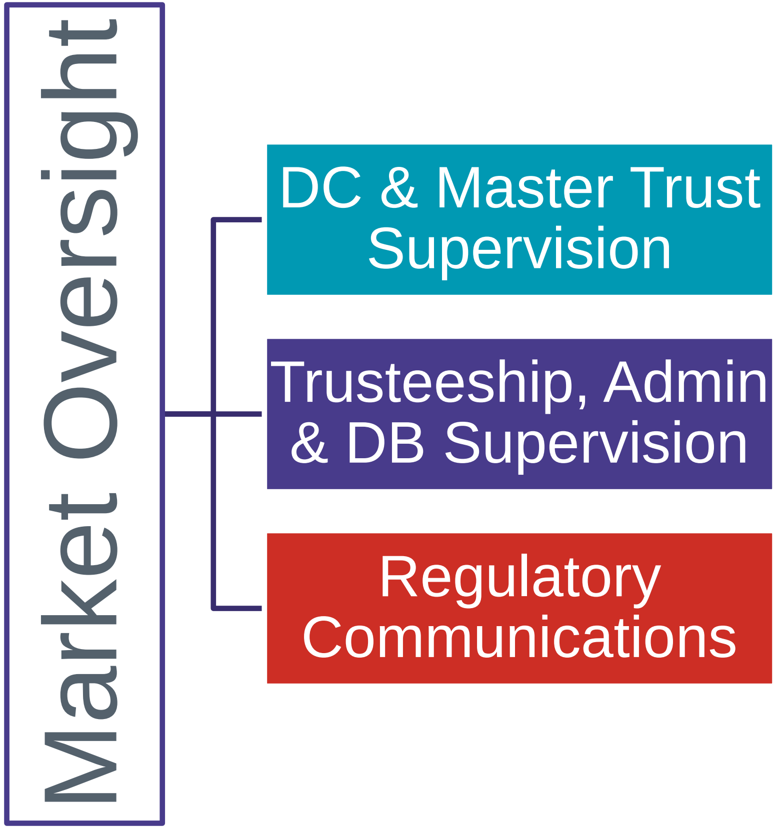
- Superfunds legislation
- DB Surplus – ‘Options for DB Schemes’ consultation response

Change to our regulatory approach

Fewer, larger, well-run schemes that provide good outcomes by default



Market Oversight - structure



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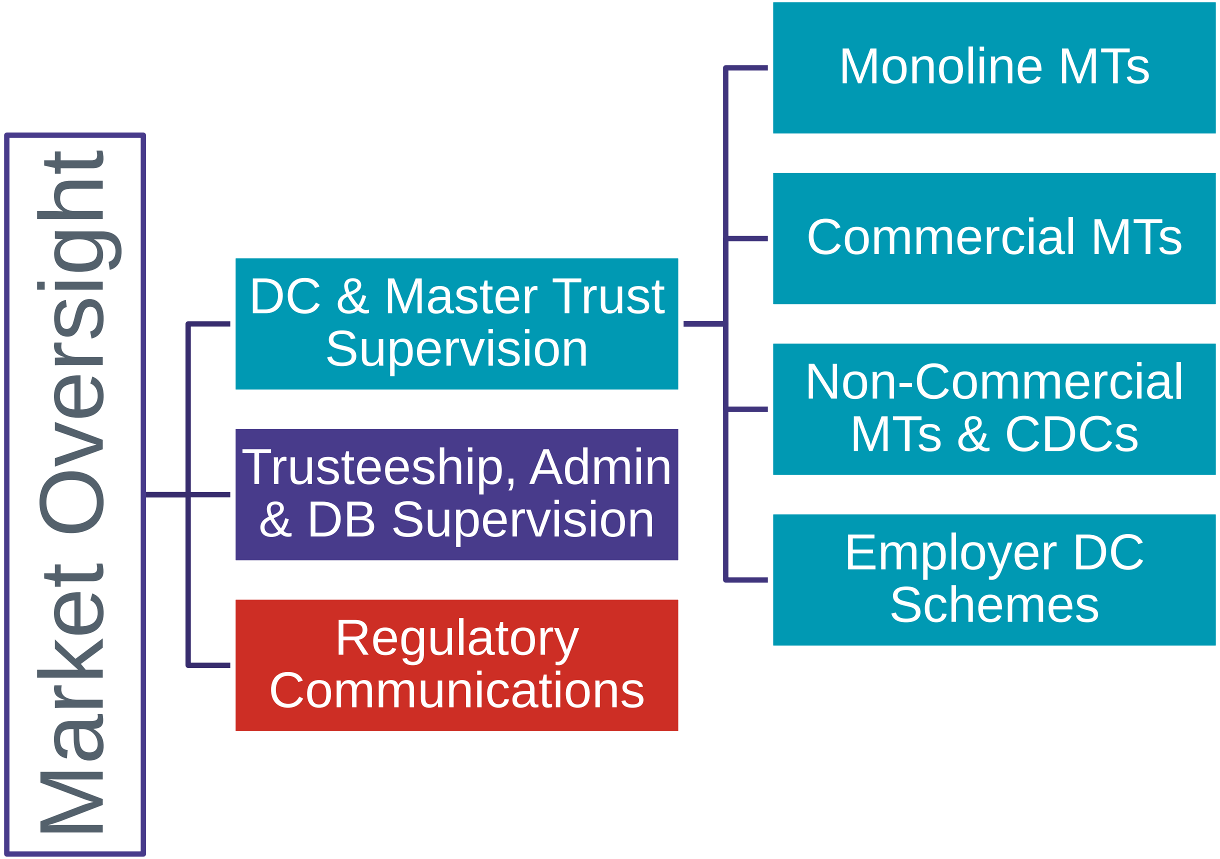

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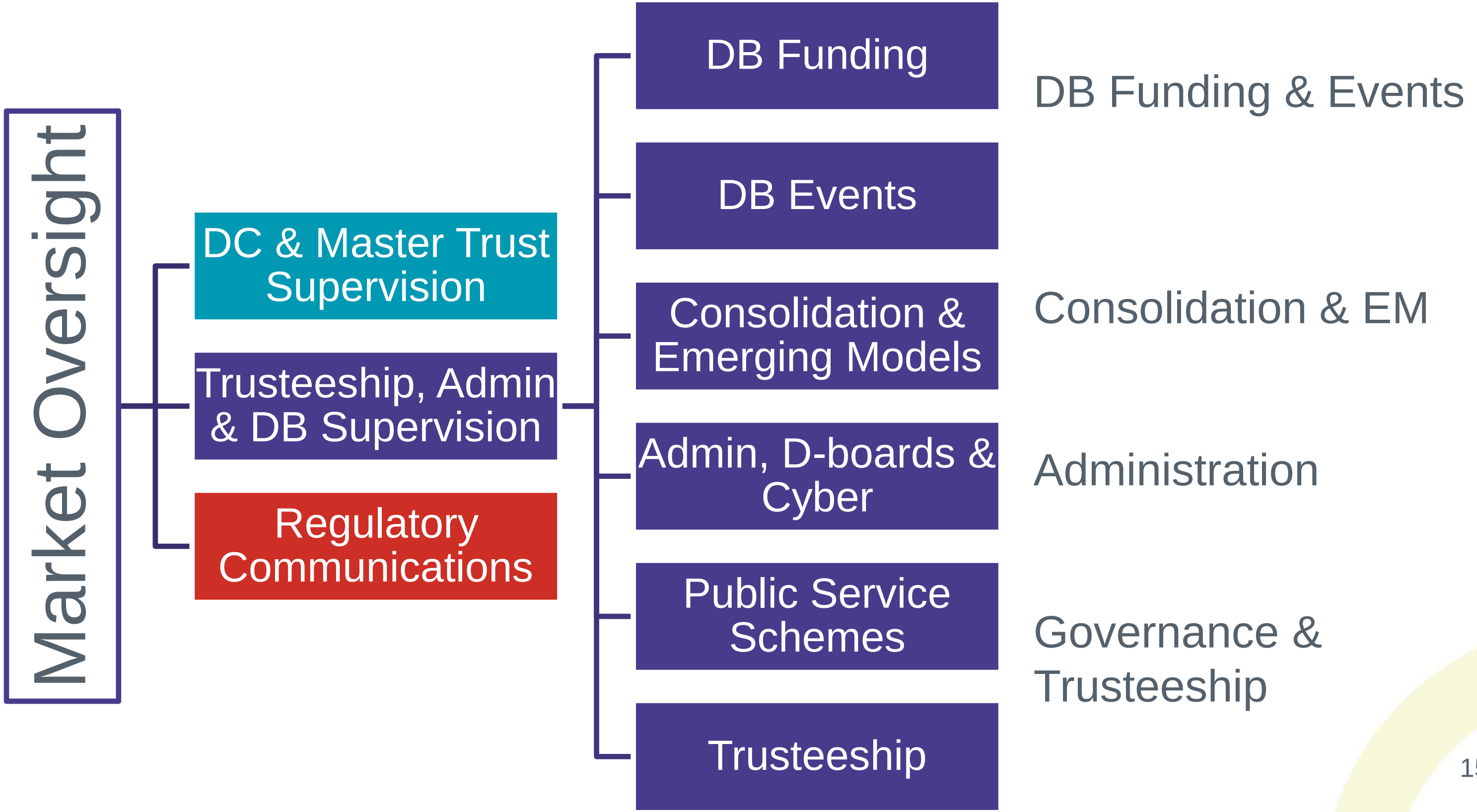
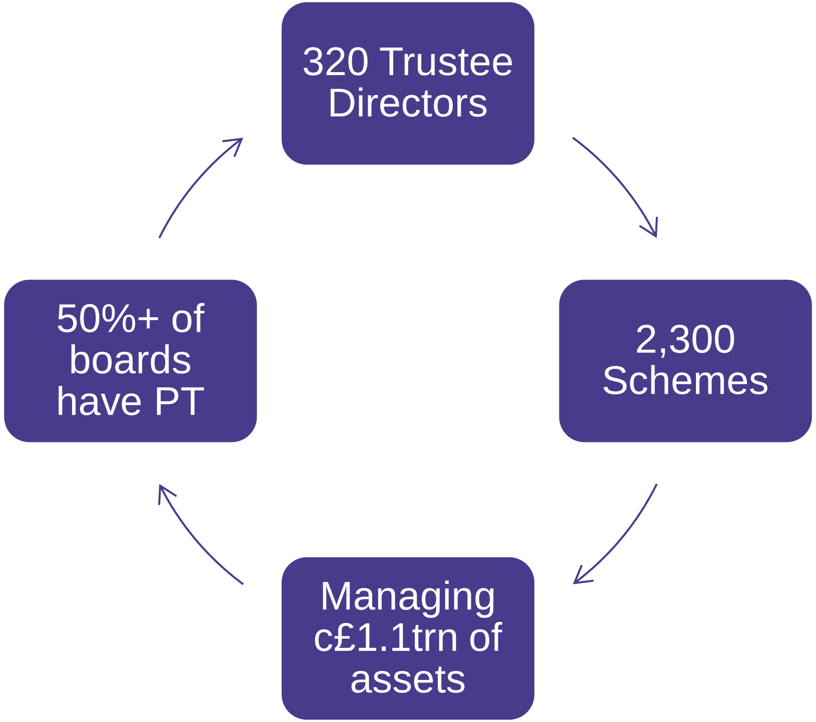


Trusteeship – engagement and strategy



- Engaged with 11 professional trustee firms to better understand
- Areas where risks to saver outcomes could arise:
  - relationships with employers
  - profit and remuneration models
  - sole trusteeship
  - in-house advisers
  - scheme decision maker
- Building supervisory relationships over rest of 2025

Growth Agenda

The Pensions Regulator

By autumn 2025

- Develop an innovation framework and launch an innovation hub

End of 2025/26

- Review capital reserving for MTs trusts
- Review scheme return and supervisory return data collection requirements

Over 2025/26

- Monitor engagements and seek to reduce unnecessary regulatory burden
- Encourage consolidation & productive investments: VFM framework

Summary

- DB funding positions strong for most, leading to focus on end-game strategies
- First valuations under new regime, open to submissions soon
- TPR publications and communications across different areas
- Changes in our structure: greater focus on DC, administrators and trusteeship
- TPR commitments to reduce regulatory burden and support growth

Questions