The Pensions Regulator's 2024 Annual Funding Statement

The Pensions Regulator (TPR) has issued its 2024 Annual Funding Statement (AFS). It sets out its expectations for Trustees and Employers of Defined Benefit (DB) schemes undertaking actuarial valuations with effective dates between 22 September 2023 and 21 September 2024. Noting that many schemes' funding positions have improved significantly in recent years, it encourages a reassessment of long-term objectives

Background

The actuarial valuations covered by the AFS will be the last to be regulated under the current funding regime. Actuarial valuations with effective dates from 22 September 2024 onwards will be regulated under the new funding regime. This includes TPR's much anticipated (but still to be released) revised DB funding code. With this in mind, the AFS is much shorter than in previous years - perhaps TPR is focusing its resources on finalising its revised code, which is what the pensions industry really wants to see.

TPR notes that the substantial rise in gilt yields from 2022 onwards has seen a significant improvement in funding levels for many schemes. This reduces reliance on the Employer covenant. It also offers the opportunity to reassess long-term objectives and their associated funding and investment strategies, which may have been set in an era of much lower interest rates.

TPR groups schemes broadly into three categories, and comments on them separately as follows:

Group 1: Funding level at, or above, buy-out

These schemes have the option of buying out, running on, or (if eligible) entering a consolidation vehicle. TPR expects Trustees to document their strategy and explain why it is in the best interest of members.

TPR acknowledges that running-on still involves risk and costs. But notes that a buy-out would prevent members and Employers from benefiting from future surplus generation if the scheme were instead to be run on. In practice, we still expect that most Trustees and Employers will see buy-out as their preferred end game. After years (decades?) of struggling with deficits and the ever-increasing burden of legislation, it is understandable that they would favour this solution. It gives finality, settling members' benefits in full and avoiding any future pension liabilities or obligations.

Group 2: Funding level above Technical Provisions but below buy-out

Trustees should review their long-term objective and in particular the timescale for reaching it, which may now be much shorter than previously. Funding level improvements may support a revision to the investment strategy. Aligning the strategy towards the long-term objective, perhaps using triggers for action as the funding level improves or as the scheme matures.

The AFS refers to schemes not just considering running on or buy-out. It also mentions emerging options such as consolidators, capital-backed journey plans and even the recent consultation on a public sector consolidator via the Pension Protection Fund (PPF). It acknowledges that, as many of these options have yet to develop, Trustees may take a 'wait and see' approach. TPR advises that it intends to publish further guidance on DB alternative arrangements for consolidation later this year.

Group 3: Funding level below Technical Provisions

These schemes get rather short shrift in the AFS. TPR simply states that Trustees should focus on bridging this funding gap first. The deficit should be recovered as soon as the Employer can reasonably afford and Trustees should ensure that Technical Provisions are aligned with the long-term funding target.

Comment

This year's AFS can be seen as a "holding" statement, filling the gap until the new funding regime comes into force for valuations from 22 September 2024 onwards. Trustees undertaking valuations at current dates are encouraged (but not obliged) to consider the steps they can take towards this. By broadly aligning now with the new DB funding code (when it is eventually published), they can aim to be compliant with the new requirements at the next valuation without then needing to make significant changes.

If you would like to discuss any of these matters further, please get in touch with your usual contact at Cartwright.

250 Fowler Avenue
Farnborough Business Park
Farnborough GU14 7JP

Marlborough House
Victoria Road South
Chelmsford CM1 1LN

T: 01252 894883
E: enquiries@cartwright.co.uk
W: pensiontrusts.cartwright.co.uk