Quattro Pensions
CONSULTING ACTUARIES

news bulletin

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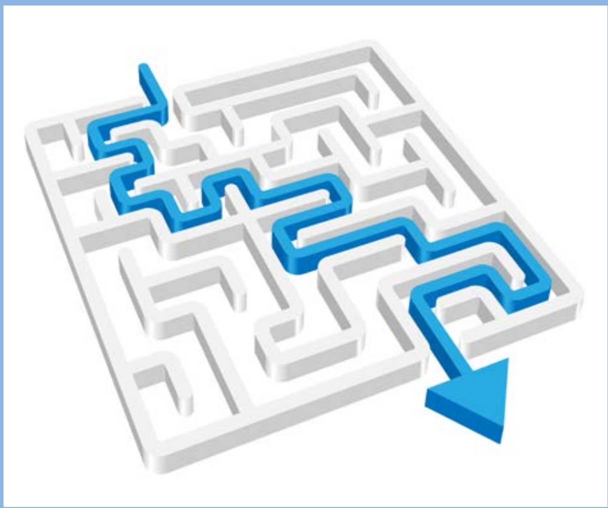

It's about the journey, as well as the destination.

Trustees need to think about their approach to Integrated Risk Management as part of the valuation process.

Gilt and bond yields lower now than three years ago

If you've linked to gilt or bond yields then deficits are likely to have increased, again.

TPR's funding statement 2016

The Pensions Regulator (tPR) has issued its 2016 funding statement, aimed primarily at schemes with valuation dates between September 2015 and September 2016. The key themes, in our opinion, are:

Discount rates

- tPR expects trustees' assumptions for future returns on asset classes to have decreased compared to those you might have used three years ago.
- tPR urges trustees who have previously incorporated an allowance for gilt yield reversion into their funding plan to reconsider their position.

Investments

- Trustees should be aware of the cashflow needs of their scheme, and the implications this can have for investment strategy.

  In our opinion, this means that schemes may need to consider an investment strategy that targets reducing volatility over time; although this does not necessarily mean you need to target being fully invested in annuities, gilts, or bonds. Nor does it mean you must automatically de-risk your investments immediately.

Integrated Risk Management

- tPR encourages trustees to consider the potential impact of different economic scenarios and what this could do to their funding requirements, and then to consider with employers how these risks can be managed.
- tPR stresses the need to consider the risks of a scheme's investment strategy in the light of the employer's covenant.

  This naturally reinforces the importance of a "proper" employer covenant review. Although there is no legal requirement for an independent covenant review to be done, many trustees will need to increase the level of detail involved in their covenant review and make it part of their risk management plan – in practice we think many trustees will feel that an independent review is now advisable.

Contributions

- tPR's starting position is that contributions should increase, if necessary, in order to keep to the same recovery end date as for the previous valuation.
- Modest extensions to recovery plan length may be permitted if this is not affordable. tPR's analysis considers extensions to recovery plans by 3 years.
- tPR's report shows that the average level of deficit repair contributions for companies outside of the FTSE350 is around 50% of dividends paid.
- tPR stresses that in assessing what level of contributions are affordable, trustees should ensure that the scheme is treated fairly compared to other parties.

Useful links:
www.thepensionsregulator.gov.uk/docs/db-annual-funding-statement-2016.pdf
www.thepensionsregulator.gov.uk/docs/guidance-integrated-risk-management.pdf