

# Institute and Faculty of Actuaries

## Regulatory Board

### Steer report

<b>Subject</b>	The implications for actuaries from TPR proposed 'fast-track' DB scheme funding route
<b>Regulatory Board meeting</b>	10 November 2021
<b>Previous Board Steer</b>	This topic is on the Board's Horizon Scanning Register.
<b>International issues considered?</b>	UK-specific proposals
<b>Author</b>	IFoA Executive
<b>Purpose</b>	Steer

#### A: Executive summary

1. This paper introduces the 'deep dive' on the Pensions Regulator's (TPR's) proposed 'fast track' DB Scheme funding route.
2. The Regulatory Board (the Board) identifies a topic from its Horizon Scanning Register (HSR) to explore in more detail at each of its Board meetings.
3. The public interest regulatory risk in the HSR selected for consideration at this meeting is that relating to the implications for actuaries from the UK Pensions Regulator's (TPR) proposed 'fast track' defined benefit (DB) scheme funding route. That risk is as follows:  
*'Proposed fast-track funding basis is inappropriate for certain schemes but increased competition/fee pressure reduces opportunities for actuaries (applying professional judgment) to devise bespoke methodologies for their clients which would be better for those clients/public interest, and/or actuaries do not appropriately highlight limitations where a fast-track approach is adopted.'*
4. This paper provides background information, as well as some key issues for the Board to consider during their deep dive.
5. **Mouna Turnbull, Policy Lead, and Andrew Dodd, Business Lead - Actuarial, from TPR, have been invited to the meeting to provide a background into the TPRs key proposals and help to inform the Board's discussion.**

#### B: Background

##### 6. Background to TPR DB funding code

6.1 The UK Government previously [announced](#) a package of measures to improve DB funding, including a revised TPR code of practice on scheme funding. Under Part 3 of the UK Pensions Act 2004, TPR have a role to regulate trustees' funding process and the outcome of that process, and are required to issue and review a code of practice on DB funding.

6.2 In 2020, TPR set out for [consultation](#) a revised DB funding code including their proposed 'twin track' regulatory approach – Fast Track and Bespoke. They describe both as follows:

- **Fast Track:** 'We set straightforward quantitative compliance guidelines for trustees to assess whether we would consider their valuation compliant with the legislation. If all

aspects are satisfied, trustees can expect minimum regulatory involvement on DB funding.’

- **Bespoke:** ‘This option provides trustees and employers with more flexibility to account for scheme and employer-specific circumstances. Decisions in this route will need to be fully articulated and evidenced, and may mean higher regulatory involvement.’<sup>1</sup>

6.3 TPR published its [interim response](#) to the consultation feedback on 3 March 2021, with a second consultation on the draft code expected in late 2021 or early next year.

## C: Discussion

### 7. IFoA Policy work

7.1 The IFoA responded to TPR’s Defined Benefit Funding Code of Practice consultation in September 2020. In principle, the IFoA’s policy is that we are supportive of the TPR’s twin-track approach and welcome that the Fast Track option provides clarity, for smaller schemes in particular.

7.2 However, we think it is essential that sufficient flexibility should be retained for those schemes for whom adopting a Bespoke funding and investment strategy is in the best interests of the scheme and its members.

7.3 Whilst we support the overarching twin-track approach, we have highlighted areas which, in our view, require further consideration, including those where unintended consequences may well arise. These unintended consequences could include:

- an increase in the cost of compliance without improving member security;
- a ‘levelling down’ of funding strategies;
- schemes reducing their achievable investment returns too quickly, leading to worse long-term outcomes;
- undue pressure on corporate finances, leading to insolvencies; and
- the closure of otherwise viable open schemes.

7.4 In the period since the consultation response in September 2020, the IFoA Pensions Board has been engaging productively with TPR and with DWP on the details arising from DB funding code considerations and on TPR’s anticipated second consultation due later this year/early next year.

7.5 For full details on the IFoA policy position, please consult the September 2020 consultation [response](#).

### 8. Issues for the Board to consider

8.1 The IFoA Resource and Environment Board (now Sustainability Board) flagged a potential regulatory risk from actuaries not adequately covering key funding risks under a fast-track approach. This risk is flagged as high (major impact, possible likelihood) with a timescale from between 2022-25. The potential impact will require to be updated when TPRs code of practice is finalised and the extent to which the final Code leaves any ongoing concerns which may be of a lower level of risk assessment.

---

<sup>1</sup> To hear about TPR’s proposals in more detail, please view their consultation [webinar](#) from August 2020.

**8.2** TPR describe the proposed fast-track route as more prescriptive, with less evidential burden and minimum regulatory involvement – while the bespoke route provides more flexibility, with greater evidential burden and regulatory involvement.

**8.3** The aim of fast track funding is to create a single basis for the majority of schemes. It is not clear how risks such as climate change and the specific circumstances of individual schemes will be allowed for and there may be a risk that the more challenging elements of risk to codify are ignored, although the risks remain.

**8.4** The Board's HSR comments that Board could work with TPR and the IFoA Pensions Board to highlight this issue and find ways to address appropriate levels of professional judgement within a fast-track framework.

#### **D: Conclusions and Recommendations**

**9.** The Board is asked to consider whether any of the issues raised during the course of its deep dive demonstrate the need for regulatory intervention to address any perceived risks.

**10.** In particular:

- Are there any specific requirements that ought to be imposed by way of an APS (or TAS if relating to a technical issue)? If so, what might these be?
- Would non-mandatory guidance be appropriate and helpful for members in relation to any technical or ethical issues relating to the fast track route (recognising that any technical guidance would require the consent of the FRC)?
- Are there any specific issues identified that the Board considers should be communicated to Members by way of a Risk Alert?
- Is there other educational or CPD material that could be developed to provide support to Members working in this area?