

60-second summary

How the SoS package is made

The Pensions Regulator has [published](#) information about the statements of strategy (SoS) that trustees of private sector defined benefit (DB) schemes will soon be required to produce with their actuarial valuations. It seems that, in many cases, less info will have to be provided than initial proposals had predicted.

The details have been published in the form of an interim response to the consultation exercise that the Regulator ran from 5 March to 16 April 2024. The purpose of the interim response is to allow trustees to plan ahead and make progress with valuations. A full response about the consultation will be given *'in the winter'*. The first statements won't be submitted until spring 2025, when a new digital service is launched.

The meat of the matter

Under reforms to the funding legislation, due to take effect for valuations with dates on and after 22 September 2024, the trustees of a DB scheme will be required to formulate a *funding and investment strategy* (FIS)—a long-term plan for providing the scheme's benefits. The trustees must set out their FIS and various supplementary matters in a *statement of strategy* that they will have to send to the Regulator, which has discretion over the form in which SoS are submitted, and the level of detail that they must contain.

Preparation, review or revision of SoS will generally occur as part of the usual valuation cycle. The Regulator will operate a two-lane system for assessing compliance. Valuations that meet relatively prescriptive 'Fast Track' conditions are likely to receive minimal regulatory scrutiny. Those trustees who cannot, or do not wish to meet the Fast Track requirements will be able take a more flexible 'Bespoke' route, whilst accepting that the Regulator will take a closer look at their valuations.

The new SoS recipe

The Regulator has published four SoS templates with the interim response (plus a [reference list](#) of all of the data that might be required). Each template is relevant to one of the permutations of Fast Track or Bespoke compliance and whether the valuation date is before or after the scheme reaches *'significant maturity'*. Although the cosmetic presentation of the SoS variants is likely to be different when the new online portal (see below) goes live, the Regulator says there will be no changes to the information required, which should give trustees the confidence to plan ahead.

There was widespread agreement, among respondents to the consultation exercise, that the information that Regulator proposed to capture was excessive, disproportionately burdensome, and did not make sufficient allowance for individual scheme characteristics and circumstances. In response, the Regulator has streamlined the templates by cutting unnecessary narrative, included more opportunities for trustees to explain their own situations in free text, and accommodated schemes with particular features, such as cash balance benefits and remaining open to accrual.

Other changes include the following:

- The Regulator has adopted a single definition of ‘small scheme’, having initially proposed to apply one of two definitions, depending on context. It captures schemes with no more than 200 members, but doesn’t count death-benefit- and DC-benefit-only members, nor people whose benefits have been fully bought in and excluded from valuation liabilities. The Regulator thinks that about half of all schemes will fall within the new definition, and will consequently benefit from reduced information requirements.
- Schemes considered ‘low-risk’ won’t need to submit detailed covenant information. This category covers fully bought-in Fast Track schemes, and those that are in surplus on a low-dependency funding basis after the application of a stress test.
- Trustees will be able to describe their long-term objectives in their own words, rather than being forced to pick from a list (the options were originally buy-out, run-off, move to a superfund or alternative consolidator).
- The Regulator has reduced the cash-flow information that it will require schemes to submit, and removed the requirement altogether for small schemes and those using the Fast Track.
- The templates will allow for a greater range of possible discount-rate and yield-curve methodologies (with, in the latter case, the opportunity to explain other approaches). Only 40 (not 100) years’ forward yields will be required.
- The Regulator has simplified the information it requires about the notional investment allocation, and how trustees expect it to evolve over the period until the scheme reaches significant maturity (they’ll also have the opportunity to explain their approach). The templates now accommodate schemes that have specific target interest rates and inflation-hedging ratios. There’s no requirement to submit currency-hedging information.
- There’s more flexibility about the framing of covenant information. Trustees of multi-employer schemes will be able to aggregate covenant data, where appropriate (and explain their approach). The templates now make allowance for un-segregated, non-associated multi-employer (NAME) schemes to summarise their assessment of supportable risk, rather than submitting the cash-flow information expected for other schemes.

Serving up the SoS

A new online system for submission of SoS, actuarial funding valuations, and (where applicable) schedules of contributions and recovery plans is scheduled to go live in the of spring of 2025. Trustees with valuation dates on or after 22 September 2024 won’t be expected to submit valuation documentation or SoS until the new system is available. (Documentation associated with valuations at earlier dates should be submitted using the existing Exchange facility.)

Overall, we’re glad to see that TPR has taken on board feedback on the original proposals, streamlining the templates and scaling back some of the detail. Noting that an increasing number of DB schemes are well-funded and relatively low risk, the concessions for those in surplus and on Fast Track are particularly welcome. Trustees and sponsors will need to familiarise themselves with the new compliance requirements, but at least now they have the certainty to meaningfully prepare to write up plans in the format required.

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