

Industry Update

TPR's New Strategy for Smaller DB Schemes

The Pensions Regulator (TPR) have recently announced that they will be increasing their scrutiny of the actuarial valuations of smaller Defined Benefit (DB) pension schemes. They believe that this new strategy will meet the new criteria under which they intend to operate, namely that they will be:

- clearer on their expectations of trustees around their triennial valuations;
- quicker with their responses to trustees; and
- tougher on trustees where warranted, and publicly demonstrate that they have taken such action.

If an actuarial valuation reveals a deficit, then details of the valuation (including the agreed recovery plan for funding the deficit) had to be submitted to TPR. This submission is reviewed at TPR by both an actuary and a covenant advisor. TPR states that the issues which most commonly arise in smaller DB schemes which trigger their interest are, when viewed in the light of their assessment of the strength of the employer covenant, inappropriate technical provisions, recovery plan lengths or investment strategies. Cases triggered by their review have also tended to throw up other issues such as conflicts of interest between being a trustee and a company director, poor governance, and limited adoption of investment or actuarial advice. TPR's view is that the overarching issue appears to be poor trustee knowledge and understanding along with a lack of engagement with advisors.

Their new strategy for small schemes will run alongside their main approach. They are running a pilot in which, this year, 100 small schemes will be sampled based on covenant, recovery plan length and their investment strategy. The vast majority of these schemes will have assets of under £50 million. Of the 100 sampled schemes, 50 will be singled out to be run on their new small scheme approach and the remaining 50 will be run as a control group. The latter group will be reviewed on a similar basis but without engaging directly with the trustees.

The trustees of the 50 schemes run on the new approach will all receive an initial engagement letter from TPR. This letter will set out TPR's expectations of the trustees in advance of the valuation and any concerns that TPR may have. It will also include comments on TPR's own high level desktop covenant review of the sponsoring employer, which will give their concerns context, and then set out what TPR expects of trustees in these circumstances. The letter will also include a questionnaire for trustees to complete at the end of the valuation process.

Initial letters are going out in February 2018 with a copy to the scheme actuary. They also intend sending out a general communication to all schemes. If you don't get a targeted letter, your scheme may still be part of the control group.

They will also be calling and engaging with the trustees during the valuation period to find out how the valuation is progressing.

The valuation submission will be reviewed in the usual way. They will also review the questionnaires which will need to be completed and submitted at the same time.

TPR's decision on the outcome of the valuation will be similar to the existing process. There will either be no action, or further engagement with the trustees. Engagement with trustees is expected to be much speedier because they have already initiated that process. There may also be a need for enforcement if the valuation cannot be appropriately agreed.

Action is required if you do receive one of the initial pilot letters. We would encourage you to discuss it with us at your earliest convenience.

Cartwright's view is that this is a sensible extension of the process that TPR already adopts for larger stressed schemes. If the outcome is better trustee knowledge and understanding and better engagement between trustees and advisors then this will be welcomed within our industry.

If you would like to discuss this further, please get in touch with your usual contact at Cartwright:

Mill Pool House
Mill Lane Godalming
Surrey GU7 1EY

T: 01483 860201
E: enquiries@cartwright.co.uk

250 Fowler Avenue
Farnborough Business Park
Farnborough
Hampshire GU14 7JP

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

Marlborough House
Victoria Road South
Chelmsford
Essex CM1 1LN

T: 01245 293300
E: enquiries@cartwright.co.uk

The Mansley Business Centre
Timothys Bridge Road
Stratford Enterprise Park
Stratford-upon-Avon CV37 9NQ

T: 01245 293300
E: enquiries@cartwright.co.uk

