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PRESS RELEASE

COMMENT ON THE PENSIONS REGULATOR'S ANNUAL FUNDING STATEMENT

5 March 2019: The Employer Covenant Working Group notes the publication today by the Pensions Regulator of its annual funding statement for defined benefit pension schemes.

ECWG Chair, Donald Fleming commented:

We note that tPR highlights in the statement that it has completed a review of its entire approach to regulation and it continues to roll out a new regulatory model to drive up standards and improve its effectiveness. As part of this, tPR will be consulting this summer on various options for a revised funding framework. The ECWG will be engaging with tPR on this consultation.

The regulatory expectation on trustees continues to be about focusing on integrated management of covenant, investment and funding risks. In addition, tPR expects trustees to take account of the risks that arise from scheme maturity. The statement sets out in some detail what tPR expects from trustees and employers to consider, depending on the key risk characteristics. This should provide a useful framework, grounded in the assessment of covenant risk. We welcome the expectation that trustees and employers should work together to agree a clear strategy for achieving their long-term goal of paying the promised benefits.

As with last year's statement, tPR also emphasises the need for the pension scheme to be treated equitably with other stakeholders and highlights concerns about the disparity between dividend growth and stable deficit contributions; it now goes further and sets the average length of recovery plans (currently 7 years) as a benchmark for regulatory engagement and the application of what tPR considers to be an acceptable recovery plan length. The ultimate decision is a matter for trustees and sponsors, based on their specific circumstances and, in particular, assessment of covenant risk being taken over the course of the long-term funding plan.

For further comment:

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