New DB Funding Code Checklist

This checklist sets out some of the points that trustees and sponsors should check/consider ahead of the **new DB funding code** and underpinning regulations coming into force.

A joined-up approach between **funding**, **covenant** and **investment** will be key – as will early engagement between trustees and sponsors.

Key points in the short term

1. **Understand how the draft code will affect your pension scheme or business** and decide whether to respond to the consultation (deadline is 24 March).
2. **Check the date of your next actuarial valuation**. How long do you have before you need to start complying with the new requirements in full?
3. **Understand your scheme's duration and timescales** – how far is your scheme from being significantly mature? What does this mean in terms of setting your relevant date for targeting at least full funding on your low dependency funding basis, and a low dependency investment strategy.

Long-term actions

Funding

- **Do you have in place a long-term target for funding?** How compatible is this with the new requirement for schemes to target low dependency on the sponsor by at least the time they are significantly mature?
- **Does your current funding strategy include a journey plan** towards a lower risk position in future?
- **Consider your current funding basis and recovery plan** – are these both supportable in the context of your timeframe to significant maturity and the covenant support available now and in the future?

Investment

- **Review the current level of risk being run in your scheme's investment strategy** – is this supportable in the context of your timeframe to significant maturity and the covenant support available now and in the future?
- **Review your current long-term investment plan** – is it consistent with the requirements of a low dependency investment allocation? There may be more options and flexibility with the end portfolio than previously expected.
- **Do you have a plan in place to transition to a lower risk investment strategy** in future as your scheme becomes more mature?

Covenant

- **Consider whether you need to take covenant advice** if you have not done so before.
- **Review your current covenant assessment in light of the new requirements** – can you break down your rating into the component parts and timescales i.e. visibility, reliability, longevity? Do you need to expand your current advice?
- **Consider whether you have access to the right information** to enable you to address these requirements; consider other sources in addition to the employer.
- Given the relative scale of the sponsor and the scheme, its funding position and the level of risk, **consider what 'proportionate' assessment of the covenant might look like**.

More detail on what to look at for covenant

- **What cash flows are being generated** by the employer and what are the constituent parts? If cash flow is not available, what is a reasonable proxy?
- **How long can you rely on these cash flows**, as informed by your assessment of prospects – what is your 'reliability period'?
- **Review contingent assets** and how they are being factored into your assessment.
- In particular, **review the terms of any guarantees** – do you have a 'look through' clause?; when would you be seeking to claim on the guarantee and how much value would it have in those circumstances (e.g. insolvency)?
- **What is the likelihood of insolvency?** How does that inform your 'longevity period'? How much work do you need to do in this regard?
- **Consider the specific guidance** for multi-employer schemes, not-for-profit schemes, open schemes and stressed schemes where relevant.

Sponsors

- **Be prepared to engage proactively with your scheme trustees** – you may need to agree aspects of the long-term strategy which might previously have been areas controlled by the trustees, including your eventual end-game aspirations for the scheme, which will inform the long-term strategy.
- **Consider what support you can give to trustees** in assessing the employer covenant, in particular through cashflow forecasts and information on long term prospects.

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