

# Pension Schemes Act 2021 requires long-term strategy from trustees and employers



## What you need to know

- The Pension Schemes Act 2021 (the Act) puts in place the legislative framework for the new defined benefit (DB) scheme funding regime.
- The Act requires that trustees produce a 'statement of strategy' (also known as a DB chair's statement).
- Part 1 of the statement of strategy must be agreed with the employer and sets out the long term funding and investment target for the scheme (the 'funding and investment strategy'). Technical provisions must be calculated consistently with this strategy.
- Part 2 of the statement will require trustees to reflect on the success of their funding and investment strategy, including how risks are being managed or mitigated and a reflection on past decisions where relevant.
- Implementation of these changes and greater detail on the requirements will require further regulations and a new code of practice from The Pensions Regulator (TPR).



## Actions you can take

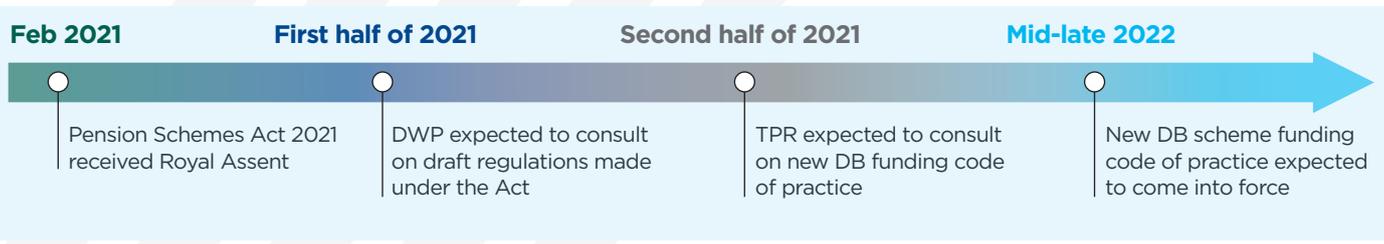
- **Understand** the likely changes to funding rules now to inform discussions about funding and investment strategies for DB schemes and to give more time to prepare for the changes.
- **Read** the [quick guide](#) to the associated March 2020 TPR consultation for detail of the principles of the new funding regime.
- **Benchmark** your existing strategy against likely best practice under the new regime.
- **Start discussions** between relevant parties so employers and trustees can review or start to agree their future funding and investment strategy.
- **Look out** for the upcoming regulations and TPR's 2021 annual funding statement and second consultation, which will provide further insights (particularly for those undertaking valuations).

## Why you should consider acting now

Reason	Description
<b>Maximise options</b>	Acting early will maximise the time to implement a successful strategy, giving more options.
<b>Protect against new TPR powers</b>	A long-term strategy will act as a reference point for trustees and employers to assess the impact of key decisions, crucial following the introduction of new TPR powers.
<b>TPR guidance</b>	To comply with TPR's guidance, including their guidance on integrated risk management and employer covenant assessment.
<b>Annual funding statements</b>	For a number of years TPR's annual funding statements have shown an increasing focus on encouraging pension schemes to plan for the long term.
<b>Assessing strategic options</b>	De-risking or risk transfer options can be assessed against a long-term strategy to ensure they fit with the scheme's long-term journey.
<b>COVID-19 pandemic</b>	The COVID-19 pandemic has demonstrated just how quickly things can change - a robust long-term strategy should guide trustees and employers in turbulent times.

# The finer detail: Funding implications of the Pension Schemes Act 2021

## Expected timeline for the new funding regime



## Statement of strategy part 1 – Funding and investment strategy

### Contents

Trustees will be required to set (and keep under review) a strategy for ensuring that pensions can be provided over the long term. As part of this trustees need to consider the future journey of the pension scheme, as the strategy will state the **target funding level** and **investment strategy** at specified future dates.

### Employer engagement

A scheme's funding and investment strategy must be **agreed with the employer**.

### Funding valuations

**Technical provisions** (liabilities in a triennial scheme funding valuation) must be **consistent** with a scheme's funding and investment strategy. This will introduce a real focus on long-term targets and journey planning into valuation discussions.

## Statement of strategy part 2 – Supplementary matters

### Contents

Trustees will need to provide comments on at least the following:

- Whether the trustees believe their funding and investment strategy is being **implemented successfully** and any **remedies** where necessary;
- The main risks faced by the scheme and how these will be **managed or mitigated**; and
- Reflections on significant past decisions and lessons learned.

### Employer engagement

Trustees must **consult with the employer** on part 2 of the statement of strategy.

### Other considerations

### Further regulation

Regulations may require trustees to **share this document with TPR**. Although the detail is still to be confirmed, perhaps we could see this as part of the information submitted when a scheme funding valuation is completed.

### Chair of trustees

The statement of strategy will have to be signed by the **chair of a scheme's trustees**, meaning that a chair must be appointed for any scheme currently without one.

### Civil penalties

Where requirements in relation to the funding and investment strategy or statement of strategy is not complied with, **civil penalties will apply to trustees**.

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