

# Defined benefit funding code of practice

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29 July 2024

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## Introduction

1. This code of practice is issued by The Pensions Regulator (TPR), under the power given to us in section 90 of the Pensions Act 2004<sup>1</sup>.
2. Our statutory objectives<sup>2</sup> are:
  - to protect the benefits of pension scheme members
  - to reduce the risk of calls on the Pension Protection Fund (PPF)
  - in relation to the exercise of functions under Part 3 of the Pensions Act 2004<sup>3</sup> only, to minimise any adverse impact on the sustainable growth of an employer
  - to promote, and improve understanding of, the good administration of work-based pension schemes, and
  - to maximise compliance with the duties and safeguards in the Pensions Act 2008<sup>4</sup>.
3. We have a number of regulatory tools, including issuing codes of practice, to enable us to meet our statutory objectives.
4. This code provides practical guidance on how to comply with legislation in relation to scheme funding. It applies to scheme valuations with an effective date on or after 22 September 2024.
5. The code does not cover all aspects of pensions legislation. Trustees will be expected to seek the help of advisers and look beyond this code to help them understand all their legal obligations.
6. The code is for trust-based occupational pension schemes providing defined benefits and is primarily for the scheme trustees and the scheme's sponsoring employer. Certain aspects will apply to actuaries and other professional advisers will also find it of interest, including covenant and investment advisers.

## Northern Ireland

7. In this code, references to the law that applies in Great Britain should be taken to include corresponding legislation in Northern Ireland. Footnotes in this code include the corresponding references.

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1 Article 85 of The Pensions (Northern Ireland) Order 2005

2 Section 5 of the Pensions Act 2004 [Article 4 of The Pensions (Northern Ireland) Order 2005]

3 Part IV of The Pensions (Northern Ireland) Order 2005

4 Pensions (No. 2) Act (Northern Ireland) 2008

## Status of codes of practice

8. Codes of practice are not statements of the law and failure to comply with the code does not of itself make a person liable to legal proceedings.
9. However, The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024<sup>5</sup> do provide for certain requirements to be set out by TPR, and it is therefore a legislative requirement that those provisions are followed. The parts of the code with a direct legislative underpin are clearly indicated where referred to.
10. When determining whether relevant legal requirements have been met, a court or tribunal must take any relevant provisions of this code of practice into account.
11. In some scenarios there may be grounds for the regulator to pursue further action in the event of non-compliance with the requirements of Part 3 of the Pensions Act 2004<sup>6</sup>. We may issue a s13 improvement notice<sup>7</sup>, directing a person to take, or refrain from taking, such steps as are specified in the notice, or a s10 penalty notice<sup>8</sup>. We may also use our s231 power<sup>9</sup> to:
  - modify future accrual;
  - direct trustees to revise the scheme's funding and investment strategy, the method and assumptions to be used in calculating the scheme's technical provisions and/or the recovery plan, and/or
  - impose a schedule of contributions
12. Directions in connection to the above may be worded by reference to a code of practice issued by us.

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5 The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024 (SI 2024/462) [The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations (Northern Ireland) 2024 (SR 2024/90)]

6 Part IV of The Pensions (Northern Ireland) Order 2005

7 Section 13 of the Pensions Act 2004 [Article 9 of The Pensions (Northern Ireland) Order 2005]

8 Section 10 of the Pensions Act 1995 [Article 10 of The Pensions (Northern Ireland) Order 1995]

9 Section 231 of the Pensions Act 2004 [Article 210 of The Pensions (Northern Ireland) Order 2005]

## Terms used in this code

13. This code of practice sets out our interpretation of how to comply with relevant legislative requirements. Trustees may choose to follow an alternative approach to that appearing in this code of practice, provided they are satisfied that underlying legal requirements are met.
14. In this code we use the word 'must' when referencing legal duties.
15. Where we use the word 'should' or 'expect', or refer to our expectations, this indicates our view of good practice, rather than an express legal duty.
16. We use 'need' where the process is necessary to allow a scheme to operate even though there is no expectation or legal requirement in place.

## The funding regime

1. The scheme funding regime comprises two separate, but interlinked, requirements for trustees to:
  - a. plan for the long-term funding of the scheme
  - b. carry out valuations showing the current funding position of the scheme
2. This module summarises these legislative requirements. Further details are set out in the rest of this code.

## Long-term planning

3. The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024<sup>1</sup> require trustees to carry out the following steps in planning for the long-term funding of the scheme.
  - a. Determine a funding and investment strategy, setting out how they intend the scheme to provide benefits over the long term.
  - b. Record the funding and investment strategy, and further supplementary matters, in a statement of strategy.

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1 The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024 (SI 2024/462) [The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations (Northern Ireland) 2024 (SR 2024/90)]

## Funding and investment strategy

4. For the purposes of determining their funding and investment strategy, trustees must determine:
  - a. how they intend the scheme to provide benefits over the long term (their long-term objective)
  - b. the low dependency funding target, which will include the funding level they intend the scheme to have reached on a low dependency funding basis at a particular date (known as the relevant date)
  - c. the investments they intend to hold, at the relevant date
  - d. the funding journey plan from the current funding position to the low dependency target, where the relevant date is in the future
5. Trustees must obtain the employer's agreement to the funding and investment strategy, unless both of the following apply:
  - a. The rates of employer contributions are determined by the trustees or managers without the employer's agreement.
  - b. Only the trustees are permitted to reduce those rates or to suspend payment of contributions.
6. In that case, the trustees are required to consult with the employer on the funding and investment strategy, rather than obtaining agreement.

## Providing benefits over the long term

7. Benefits can be provided by schemes in a number of ways, depending on the circumstances of the scheme, including:
  - a. running off the scheme as it matures, paying the benefits from the scheme as they fall due
  - b. buying out members' benefits with an insurer
  - c. transferring the scheme assets and liabilities to a defined benefit (DB) superfund or another consolidation vehicle
8. For the purposes of the funding and investment strategy, trustees of all schemes must set a plan to reach a minimum of low dependency on the employer by the time the scheme is significantly mature.
9. The way trustees intend to provide benefits over the long term (the long-term objective) should be taken into account when considering the other elements of the funding and investment strategy. For example, if the strategy is to buy out benefits, the trustees may adopt a higher low dependency funding target at the relevant date.
10. However, we recognise that there may be scenarios where the long-term objective does not align with the low dependency target set out in the funding and investment strategy.
11. For example, open schemes that are open to new entrants and future accrual may have no intention of ever closing the scheme to new entrants or future accrual. However, trustees need to consider how they would provide accrued benefits for existing members over the long term if the circumstances of the scheme were to change in the future, and comply with the legislative requirement to set the scheme's low dependency target. In practice, at each valuation, that notional date that a scheme will reach that low dependency target will keep being pushed back if the scheme remains open.



## Low dependency funding basis

12. A scheme's liabilities must be calculated in accordance with the low dependency funding basis for the purposes of the funding and investment strategy.
13. A low dependency funding basis must use actuarial assumptions. These are set on the assumption that:
  - a. if the scheme was fully funded on that basis, and
  - b. the scheme's assets were invested in accordance with the low dependency investment allocation, then it would be expected that no further employer contributions would be required.
14. Further details on how trustees should approach these requirements are set out in the **low dependency funding basis module**.
15. By the time the scheme reaches its relevant date, it must be fully funded on a low dependency funding basis. In the funding and investment strategy, trustees are required to target a minimum funding level of at least 100% on a low dependency funding basis by the relevant date. This target funding level must be included in the funding and investment strategy. Trustees may target a higher funding level to support other long-term strategies, including buying out benefits, running on the scheme with a buffer against risks with the aim of providing improved benefits to members, or transferring into a DB superfund.
16. As the regulations require trustees to target low dependency on the employer, not no dependency, even schemes that are fully funded on a low dependency funding basis at and after the relevant date remain exposed to covenant risk if funding levels deteriorate or if there were to be an unexpected employer insolvency event. The **employer covenant module** sets out further detail.

## Investments after the relevant date

17. For the purposes of determining or revising a scheme's funding and investment strategy, trustees need to set an objective that, on and after the relevant date, the assets to which the minimum funding level relates are invested in accordance with a low dependency investment allocation. Trustees must take this objective into account when determining or revising the funding and investment strategy. This objective does not apply to any surplus on a low dependency funding basis. A low dependency investment allocation is an investment strategy under which the value of the assets relative to the value of the scheme's liabilities is highly resilient to short-term adverse changes in market conditions.
18. The low dependency investment allocation is a key element of the funding and investment strategy. It acts as a notional investment allocation from which a suitable low dependency funding basis can be derived. This means a scheme that is fully funded on this basis and invested in line with the low dependency investment allocation can expect no further contributions to be required from the employer. Further detail in relation to this principles-based test is set out in the **low dependency investment allocation module**.
19. Trustees have a legal duty to choose investments that are in the best financial interests of scheme members and are not required to invest in line with the low dependency investment allocation on and after the relevant date. We anticipate that the scheme's actual investment allocation will often be the same or similar to the scheme's low dependency investment allocation, as significantly mature schemes have less capacity to make good negative investment outcomes. However, we recognise this will not always be the case. There may be good reasons not to do so, for example if an employer refuses to agree to a strengthening of the low dependency investment allocation that the trustees consider appropriate being recorded in the funding and investment strategy, or where a scheme has a material surplus after the relevant date.
20. For the purposes of the funding and investment strategy, trustees must ensure that scheme assets will be invested on and after the relevant date in investments with sufficient liquidity. This will enable the scheme to meet expected cash flow requirements and make reasonable allowance for unexpected cash flow requirements.
21. Further details on how trustees should approach these requirements are set out in the **low dependency investment allocation module** of this code.

## The relevant date

22. For the purposes of regulation 4(1)(b) of The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024<sup>2</sup>, we have the power to set the duration in years or other date which defines when a scheme will reach significant maturity and this can be different for different descriptions of schemes.
23. A scheme's relevant date is set by the trustees. For schemes that have not reached significant maturity, it must not be later than the end of the scheme year in which the scheme is expected to reach (or did reach) significant maturity (though it can be any date before this deadline). For schemes that have reached significant maturity, it will be the effective date of the actuarial valuation to which the funding and investment strategy relates.
24. The scheme actuary is responsible for estimating the date of significant maturity. This estimate must be produced by reference to the duration of the scheme's liabilities calculated on an actuarial basis related to the low dependency funding basis. Further detail on this is set out in the **relevant date and significant maturity module** of this code.
25. Where a scheme has not reached the relevant date, the actuary must also estimate the expected maturity of the scheme at that (future) date.
26. Trustees can make an assumption for future accrual and new entrants when determining future maturity. This means that an open scheme can be expected to take longer to reach significant maturity than an equivalent closed scheme. As assumed risk can be taken for a longer period of time, technical provisions (TPs) for an open scheme can be lower than an equivalent closed scheme of the same maturity.

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2 Regulation 4(1)(b) of The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024 (SI 2024/462) [Regulation 3(1)(b) of The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations (Northern Ireland) 2024 (SR 2024/90)]

## Journey plan

27. In the funding and investment strategy, trustees must plan how they intend the scheme to reach its low dependency funding target from the current funding position. This is referred to as the funding journey plan. It encompasses the evolution of the actuarial assumptions used to calculate the scheme's liabilities as it progresses towards the relevant date.
28. When determining the funding journey plan as part of the funding and investment strategy, the actuarial assumptions need to be supportable by a suitable notional investment strategy. While we anticipate the actual investment allocation and the notional investment allocation will be the same or similar for many schemes, trustees are not required to invest in line with this notional investment strategy.
29. When determining the journey plan, trustees must ensure that the level of risk is:
  - a. dependent on their assessment of the employer covenant, where more risk can be allowed for where the scheme has access to sufficient employer cash flows and contingent assets to support this level of risk
  - b. subject to the above, dependent on the maturity of the scheme
30. We expect trustees' investment plans to provide sufficient liquidity to enable the scheme to meet expected cash flow requirements and make reasonable allowance for unexpected cash flow requirements.
31. Further detail is set out in the **journey planning module** of this code.

## Statement of strategy

32. Trustees must prepare a written statement of strategy made up of two parts.
  - a. Part 1, which records the funding and investment strategy.
  - b. Part 2, which records various supplementary matters (including matters related to the journey plan, how well the funding and investment strategy is being implemented, the main risks to the strategy and how they are being managed).
33. The statement of strategy must be submitted in a form set out by us. We have discretion over the level of detail required for some of the information, evidence and explanations required in Part 2 of the statement. The level of detail required will depend on the level and complexity of the risk taken.
34. Trustees must consult with the employer when preparing or revising Part 2 of the statement of strategy.
35. Further detail is set out in the **statement of strategy module** of this code.

## Determination, review and revision

36. A scheme's first funding and investment strategy must be determined within 15 months of the effective date of the first applicable actuarial valuation. The first applicable actuarial valuation is the first valuation with an effective date on or after 22 September 2024.
37. The funding and investment strategy must be reviewed and, if applicable, revised within 15 months of the effective date of each subsequent valuation and any other circumstances outlined in the **reporting and inter-valuation requirements module**.
38. Trustees must record their first funding and investment strategy in a statement of strategy. A copy must be sent to us as soon as reasonably practicable after the funding and investment strategy has been prepared or revised.
39. Whenever the funding and investment strategy is reviewed:
  - a. if that review has led to a revised funding and investment strategy, Part 1 of the statement of strategy must be updated to reflect the revisions, and
  - b. regardless of whether the funding and investment strategy has been revised, Part 2 of the statement of strategy must be reviewed and updated accordingly

## Application

### Valuations

40. Every DB scheme is subject to the statutory funding objective, which is to have sufficient and appropriate assets to cover its TPs. The TPs must be set consistently with the funding assumptions set out in the funding and investment strategy.
41. Under Part 3 of the Pensions Act 2004<sup>3</sup>, trustees must obtain actuarial valuations every year. However, trustees can choose to obtain valuations at up to triennial intervals, provided that they obtain an actuarial report for each intervening year.
42. An actuarial valuation is a written report prepared and signed by the scheme actuary, calculating the scheme's TPs and comparing those to the value of the scheme's assets on a specific date, known as the effective date.
43. Further detail is set out in the **technical provisions module** of this code.

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3 Part IV of The Pensions (Northern Ireland) Order 2005

## Recovery plans

44. Where a valuation shows that a scheme did not meet the statutory funding objective on the effective date, a recovery plan must be put in place to return the scheme to full funding.
45. In determining whether the recovery plan is appropriate, trustees must follow the overriding principle that steps must be taken to recover deficits as soon as the employer can reasonably afford. Trustees must also take certain matters into account, including the impact of the recovery plan on the sustainable growth of the employer.
46. Further detail is set out in the **recovery plan module** of this code.

## Interaction between the funding and investment strategy and valuations

47. There is a close interrelation between actuarial valuations and the long-term planning requirements. We expect trustees to consider the funding and investment strategy and valuation together as one. This is likely to be an iterative process as trustees' understanding of their scheme and employer covenant develops, their plans for managing the scheme risks evolve, and ongoing dialogue with their employers develop. We expect trustees and employers to work collaboratively during this process. More details on this are available in the roles and responsibilities section of this module below.

## Roles and responsibilities

48. It is the trustees who are responsible for taking the decisions on a scheme's funding position and who must be comfortable certain statutory tests are met. However, trustees are required to work closely with other key parties, including the scheme actuary and sponsoring employer.
49. Roles and responsibilities are set out in detail throughout this code of practice. This section summarises our expectations for trustees and employers.

## Trustees and employers

50. Trustees will need information from the employer if they are to comply with the scheme funding requirements.
51. Trustees must normally reach agreement with the sponsoring employer on the contents of the funding documents before finalising the funding approach and submitting documents to us.
52. In some instances, trustees must consult with the employer and are not required to obtain its agreement. Under the governing documentation of some schemes, the rate of contributions payable by the employer is set by the trustees without the employer's agreement. Where that applies to a scheme, and where no person other than the trustees can reduce or suspend contributions, then the requirement to obtain the employer's agreement to the following, under Part 3 of the Pensions Act 2004<sup>4</sup> does not apply to:
  - the funding and investment strategy, as set out in the statement of strategy
  - any decision as to the methods and assumptions to be used in calculating the scheme's TPs
  - any matter to be included in the statement of funding principles
  - any provisions of a recovery plan
  - any matter to be included in the schedule of contributions
53. Instead, trustees are required to consult.
54. We set out our expectations for trustees and employers below.

### Collaborative working

55. Trustees and employers should work together in an open and transparent manner to strike the right balance between the needs of the scheme and those of the employer.
56. Trustees should engage with and obtain relevant information from the employer at an early stage in the process. Employers must provide trustees with information which the trustees and/or their professional advisers reasonably require to perform their respective duties. This includes information to assess the covenant.
57. Trustees should not be refused information to which they are entitled because of concerns over stock exchange requirements or other confidentiality issues. They should be aware of the potentially sensitive nature of the information.
58. It should be possible to address potential employer concerns, for example by trustees entering into a confidentiality agreement or using trustee sub-committees. More detail on our expectations is set out in the **statement of strategy module** of this code.

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4 Part IV of The Pensions (Northern Ireland) Order 2005

## Managing conflicts

59. Managing conflicts of interest and duties properly is vital. Trustees should have a process in place which effectively identifies, documents, monitors and manages conflicts and potential conflicts. Our expectations are set out in the **conflicts of interest module of our code of practice**.
60. A conflicted trustee should consider withdrawing from negotiations, for example where the trustee is also the finance director, member of the scheme, or holds a trade union representative role.

## Agreeing a funding solution

61. It is important that trustees are always able to demonstrate they have acted in line with their fiduciary duties in an impartial, independent manner when complying with the requirements of Part 3 of the Pensions Act 2004<sup>5</sup>. In the unlikely event the trustees are not satisfied that all of the requirements are met, they should not agree the actuarial valuation or funding and investment strategy, as this could risk compromising the scheme's funding position and strategy.
62. Trustees should document their considerations and reasons for decisions and be in a position to be able to evidence and explain in all decisions made whether they are:
  - a. required for the statement of strategy or not
  - b. based on the interplay of the different information and advice strands they have received
63. We may request to see further information that is not required as part of the valuation submission.
64. When performing their duties under Part 3 of the Pensions Act 2004<sup>6</sup>, trustees should not take advantage of the existence of the PPF as a justification for acting in a way which would otherwise be inconsistent with those duties.

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5 Part IV of The Pensions (Northern Ireland) Order 2005

6 Part IV of The Pensions (Northern Ireland) Order 2005



# Long-term planning

## Low dependency investment allocation

1. A low dependency investment allocation is an investment strategy under which the value of the assets relative to the value of the scheme's liabilities is highly resilient to short-term adverse changes in market conditions.
2. The assumed investment strategy must meet the above requirement so that, when considering the overall prudence of the scheme's low dependency funding basis, no further employer contributions are expected to be required.
3. For the purposes of determining or revising a scheme's funding and investment strategy, the following apply:
  - a. Trustees must invest scheme assets so they are sufficiently liquid to enable the scheme to meet expected cash flow requirements, and with reasonable allowance for unexpected cash flow requirements.
  - b. Trustees need to set an objective that, on and after the relevant date, scheme assets up to the minimum funding level will be invested in accordance with a low dependency investment allocation. Trustees must take this objective into account when determining or revising the funding and investment strategy. We expect this objective to be reflected in the intended investment allocation targeted at the relevant date in the funding and investment strategy. This objective does not apply to any surplus on a low dependency funding basis.
4. The low dependency investment allocation is intended to be a notional investment allocation, supporting the low dependency funding basis actuarial assumptions. Targeting such a strategy for the purposes of the funding and investment strategy does not interfere with the trustees' duty to invest in the best interest of members and their powers over the scheme's actual investments as detailed in the scheme's governing documents.

## Mitigating the risk of requiring further employer contributions

5. A scheme that depends on asset sales to meet its cash outflows can be exposed to the risk of selling assets during market volatility and crystallising a drop in the funding level. This could create a need for further employer contributions, going against the low dependency principle.
6. There are two ways to mitigate the risks to the low dependency principle associated with selling assets. Trustees may choose a combination of both.
  - a. 'Cash flow matching' – where schemes hold assets whose expected cash flows to the scheme mirror those of the scheme's expected benefit and expense payments. This gives the trustees confidence that the assets they hold will be able to pay the benefits and expenses as they fall due.
  - b. 'Liquidity and low volatility' – where the scheme's expected benefit and expense payments are met by the sale of liquid assets, which are unlikely to be affected by significant price volatility.

## Matching assets

7. Scheme investments can be classified as being either 'growth' or 'matching' assets. A scheme's low dependency investment allocation can contain a mix of 'growth' and 'matching' assets.
8. For the purposes of defining a low dependency investment allocation, there are two broad categories of 'matching' assets, which align with the two broad ways with which trustees can mitigate the risks to the low dependency principle associated with selling assets detailed above.
  - a. 'Cash flow generative' matching assets.
  - b. 'Liquid and low volatility' matching assets.
9. We expect matching assets to be heavily weighted towards investment grade assets, but some sub-investment grade assets may usefully contribute to meet scheme outgoings.

### Cash flow generative matching assets

10. Assets that meet the below criteria can be considered cash flow generative matching assets:
  - a. The income and capital payments are predictable (this includes assets denominated in a foreign currency, where appropriately hedged back to sterling).
  - b. They provide either fixed cash flows, or cash flows linked to reference rates (such as inflationary indices or floating interest rates).
11. Where an asset is owned indirectly (for example, via a pooled fund), the above criteria should be considered regarding the underlying assets. As such, the specific means of ownership should not limit a scheme's ability to classify suitable assets as 'matching.'
12. The main asset classes that would meet the cash flow generative matching criteria include government bonds, corporate bonds and bulk annuities. Interest rate and inflation derivatives (including gilt repos) can also be deemed as matching where they provide payments to match the liabilities of the scheme. Illiquid and alternative credit including, for example, some property and infrastructure related investments, can also be used for matching purposes if they meet the criteria above.

### Liquid and low volatility matching assets

13. It may be appropriate for schemes to rely on asset sales to meet a portion of their cash flow needs. Where a scheme's assets meet the following criteria, they can be counted as 'liquid and low volatility' matching assets:
  - a. They are expected to be liquid in both unstressed and stressed market environments.
  - b. They are expected to experience low price volatility in both unstressed and stressed market environments.
14. Example asset classes that may, depending on their specific characteristics, meet the liquid and low volatility matching criteria include cash and cash-like securities, short-duration government bonds, short-duration corporate bonds, and floating-rate securities.
15. A scheme's low dependency investment allocation can contain a mix of 'cash flow generative' and 'liquid and low volatility' matching assets. When determining the appropriate mix of matching assets, in particular the degree of reliance on cash flow generation versus disinvestments, the trustees should consider the scheme's specific circumstances, including scheme size. They should also be aware of the governance implications of relying more on cash flow matching (for example, the need to review the expected cash flow needs of the scheme frequently) compared to relying on disinvestments (for example, the need to ensure disinvestments are made in a timely manner to meet liquidity needs).
16. Where a scheme relies on asset sales to meet a significant proportion of its cash flow needs, we expect the 'liquid and low volatility' matching assets used for such disinvestments to be well diversified.

## High resilience to short-term adverse changes in market conditions

17. The low dependency investment allocation must be set out so that the value of the assets relative to the value of the scheme's liabilities (as assessed on a low dependency funding basis) is highly resilient to short-term adverse changes in market conditions.
18. The low dependency investment allocation will contain matching assets, some of which may generate cash flows to match payments from the scheme. Changes in the short-term market value of such cash flow generative matching assets should not affect their ability to continue to meet the liability cash flows. In this scenario, it's expected that the movement in the value of the assets, and the consequential movement in the yield on those assets, may be largely reflected in the movement in the value of the liabilities. More detail on this is available in the **dynamic discount rate approach section** of the **low dependency funding basis module**.
19. Detrimental returns on growth assets would also reduce the level of assets in relation to the liabilities. Trustees should also be cognisant of the market and illiquidity risks of the growth assets. They should consider how this affects the riskiness of the investment strategy relative to the liabilities when considering the proportion of growth assets within any low dependency investment allocation portfolio.

## Hedging considerations

20. Trustees should consider the resilience of the funding level to changes in future interest rates and inflation expectations. For the purposes of their low dependency investment allocation, we expect schemes to target a minimum level of interest rate and inflation hedging of at least 90% on a low dependency funding basis.
21. When determining the low dependency investment allocation, it is important to consider hedging against the shape of the interest rate yield curve or inflation yield curve rather than just the average duration of the liabilities. We expect the degree to which the trustees choose to hedge their interest rate and inflation risks along the yield curve, and the commensurate analysis to test such hedging arrangements, to be proportionate to the scheme's size and time to the relevant date.

## Testing high resilience

22. We expect trustees to carry out a suitable level of analysis to enable them to assess the resilience of their low dependency investment allocation to short-term adverse market changes. The complexity and sophistication of this analysis will depend on the individual circumstances of the scheme, including the complexity of the low dependency investment allocation itself, as well as the scheme's size and time to reaching the relevant date. Trustees need to consider both the asset and liability side when carrying out the analysis.
23. We expect trustees to carry out a suitable test of the funding level resilience of their chosen low dependency investment allocation, by assuming they are fully funded on a low dependency funding basis and looking at the funding level change resulting from a stressed or downside scenario. Trustees should satisfy themselves that the scheme can recover back to full funding from such a stress within a reasonable timeframe, with low dependency on the employer and accounting for expected benefit payments and expenses. For example, where the trustees use a one-year stress with one-in-six likelihood, we expect the timeframe to return to full funding to be six years, with no further contributions from the employer. Where trustees choose a much stronger test, limited contributions from the employer may be considered. Trustees can determine the most appropriate approach for this test, based on the scheme's circumstances.
24. We would also expect trustees to consider other forms of analysis to understand the resilience of their low dependency investment allocation portfolio. For example, where trustees rely on disinvestments from liquid and low volatility matching assets to meet a significant proportion of their cash flow needs, they should consider how market volatility may impact their ability to make disinvestments without crystallising losses in the funding level. Where a scheme relies on cash flow generative assets to meet cash outflows, trustees should consider how the cash flows generated are likely to perform compared to the expected scheme outgo under a range of different scenarios.
25. This could include consideration of alternative scenarios in relation to the matching assets for default rates (net of recovery), the impact of collateral calls for schemes using leverage and how the shape and level of the liability cash flows impact the resilience. When understanding cash flow projections, trustees should discuss with the scheme actuary the key assumptions underlying those projections and whether any adjustments are required to the funding assumptions for this purpose.

## Liquidity

26. When the trustees have identified a portfolio that meets the low dependency investment allocation criteria, they must consider whether the investments would provide sufficient liquidity.
27. We do not expect a detailed assessment of liquidity for the purposes of setting the low dependency investment allocation. Instead, trustees should consider the general characteristics of the asset classes.
28. More detail in relation to the liquidity of scheme assets is set out in the Application module of this code in the **section on security, quality, liquidity and profitability**.

## Proportionality

29. We expect schemes to take a proportionate approach in setting their low dependency investment allocation in line with the above expectations.
30. We expect a greater focus on the granularity of the investment allocation and the risks associated with their low dependency investment allocation as a scheme approaches their relevant date.
31. For a scheme whose relevant date is reasonably far in the future, it would be appropriate to articulate their low dependency investment allocation in terms of expected return, broad investment allocation and level of interest rate and inflation hedging. As a scheme approaches its relevant date, we would expect the level of detail for the low dependency investment allocation to increase.
32. This is because, for the purposes of setting the funding and investment strategy, trustees must consider the objective that scheme assets up to the minimum funding level are invested in accordance with the low dependency investment allocation on and after the relevant date. When it comes to the way the scheme actually invests on and after the relevant date, our expectation is that investment decisions by trustees (and fund managers to whom decision-making has been delegated) will generally be consistent with the low dependency investment allocation from which the low dependency funding basis in the funding and investment strategy is derived. However, this does not interfere with the trustees' duty to invest in the best interest of members. More detail on this can be found in the **investment and risk management considerations module** of this code.

## Low dependency funding basis

1. A low dependency funding basis must use actuarial assumptions that are set so that if:
  - a. the scheme was already funded on a low dependency basis, and
  - b. the scheme's assets were invested in accordance with the low dependency investment allocation, thenit is expected that no further employer contributions would be required (the low dependency test).
2. Trustees should assess whether the low dependency test would be met under most reasonably foreseeable scenarios. Trustees are not required to eliminate the requirement for further employer contributions with certainty. Instead, they should be satisfied that the likelihood of requiring further contributions is small and, to the extent contributions are required, that they are small relative to the size of the scheme.

### Setting individual assumptions

3. We do not expect trustees to stochastically model each assumption or set of assumptions to satisfy themselves that the low dependency test has been met.
4. Trustees should ensure that the assumptions are chosen prudently, and understand the risk in the funding basis so they can be satisfied that further contributions are not expected to be required.
5. Assumptions should refer to statistically credible data where relevant. This is data considered to be accurate, complete and large enough that it can reasonably be used to estimate future experience with a high degree of confidence. Trustees should consider the period the data is collected over, noting that the data should be drawn from a period expected to give a good guide to future experience. We would generally expect this to be the most recent data available, placing lower weight on any period where the data collected may be considered anomalous.
6. We recognise that trustees may choose to include a high level of prudence in some assumptions, while others are closer to a best estimate approach.
7. Some assumptions may also be more uncertain and have a greater effect on the measurement of liabilities than others. For example, scheme mortality is likely to be a material source of uncertainty, particularly for smaller schemes. Therefore, trustees should pay closer attention to the prudence included in these assumptions and ensure it is sufficient for them to be confident it would not undermine the low dependency test.
8. We expect trustees to take a proportionate approach in setting their low dependency funding basis in line with the above expectations. We expect more careful analysis in determining the assumptions to meet the low dependency test as a scheme approaches its relevant date.
9. We expect trustees will need to take advice from their scheme actuary on the actuarial assumptions for the low dependency basis.
10. The following sections set out our expectations for the main individual assumptions in the low dependency funding basis.

## The low dependency discount rate

### Approach to setting the discount rate

11. The main approaches we expect trustees to take when setting the low dependency discount rate are set out below. Trustees may take a different approach, provided they can evidence how their approach meets the legislative requirements.

#### Risk-free rate plus approach

12. Under this method, the discount rate could be expressed allowing for a margin over a risk-free yield.
13. An acceptable risk-free yield includes the:
  - a. gilt yield, or
  - b. yield on swaps if adjusted for the probability of default
14. Any margin added to the risk-free rate should be a prudent estimate of the return on the trustees' low dependency investment allocation. This prudent estimate should have regard to material factors that may affect investment returns over the relevant time horizon, such as climate change and other systemic trends.

#### Dynamic discount rate approach

15. Where the matching assets chosen by the trustees for the scheme's low dependency investment allocation are predominantly cash flow generative (in line with the criteria outlined in the **low dependency investment allocation section** of this code), and the trustees hold such assets in the scheme's actual investment allocation, the discount rate can be based on the observed yield of those assets. The rate should be adjusted to allow for a prudent level of default informed and evidenced by historical data to give a return.

#### A combination of both approaches

16. Trustees may choose to use a combination of the two methods. For example, they may use the risk-free rate plus approach for parts of the liabilities with longer durations and the dynamic discount rate for liabilities backed by matching assets that match the scheme's cash outflows. As and when further cash flow generative matching assets are bought and become appropriate, the associated liabilities can be moved to the dynamic discount rate approach.

#### Use of yield curves for the discount rate

17. Our general expectation is that yield curves should be used in determining the discount rate. If trustees consider it appropriate, they may use a single equivalent discount rate derived from the full curve. Larger schemes are more able to rely on projected cash flows as they are less prone to concentration risk than smaller schemes. This makes the use of the yield curve in deriving assumptions more appropriate for larger schemes.



## Expectations for setting assumptions in the low dependency funding basis

18. Below, we set out our general expectations for trustees setting each individual assumption in the low dependency funding basis. However, when setting individual assumptions the trustees can and should consider the basis in aggregate and should not approach determining prudence for each assumption in isolation if that leads to what they consider excessive prudence overall.

### Retail Price Index (RPI) inflation

19. Under the risk-free plus approach, the RPI assumption should be based on a market-derived assumption for inflation using an approach consistent with that used for setting the discount rate. For example, where a gilt yield curve is used to derive the discount rate, we would expect a yield curve approach based on gilts to be used to derive the inflation assumptions.
20. As the scheme is expected to be significantly hedged at the relevant date, our expectation is that no adjustment, such as an inflation risk premium, would be made to the market implied assumption.
21. If an adjustment is made, we may require further information to understand the justification for it. For the dynamic discount rate approach, an appropriate assumption should be made consistent with the value of the matching portfolio.

### Consumer Price Index (CPI) inflation

22. The CPI assumption should be based on the RPI assumption, adjusted to reflect the expected difference between RPI and CPI, having regard to both historical trends and the planned changes in RPI expected to apply from 2030.

### Inflation-related pension increases

23. The assumptions should be based on the relevant measure of inflation adjusted to allow for caps and floors based on a recognised method, such as, for example the Black or Black-Scholes, SABR, Jarrow-Yildirim, 'hard capping' or Truncated Gamma models, and an appropriate inflation volatility and other assumptions where required by the model.
24. In determining the appropriate assumptions, consideration should be given to past experience and as to whether this provides a guide to the future, given current market conditions, or how that experience should be adjusted to derive an appropriate assumption.

## Cash commutation

25. Members may be assumed to commute part of their retirement pension for a cash lump sum. Where prudent, the proportion commuted should be no higher than recent experience and any projections should allow for any decreasing trend.
26. Also, where prudent, the assumed commutation factor should be no lower than currently agreed factors, and/or, where appropriate, future factors where it has been agreed in principle they will be implemented. This will include market-based factors where it is agreed the factors will be automatically updated.
27. It can be appropriate to assume that a commutation factor is a percentage of the liabilities where such an assumption would be consistent with the previous principles. When appropriate, consideration should be given to making an allowance for future improvements in mortality.
28. For example, where the trustees have the sole power to set cash commutation factors and those factors reflect the actuarial value of the pension commuted, we would expect an allowance for future improvements to factors to be made consistent with the trustees expectations for how mortality will improve in the future.

## Mortality base table

29. This is based on current expectations of mortality using appropriate mortality tools. For example:
  - a. a 'postcode' analysis and/or experience to adjust standard tables where recent credible information is available, or
  - b. a bespoke mortality table based on experience
30. We expect many schemes will want to commission such analysis and would generally expect all trustees to have considered doing so. If this analysis is not done, standard tables may be used and consideration should be given to choosing a table reflecting the size of the pension where this might be appropriate as a guide to the socio-demographic status of the membership.
31. However, where such a standard approach is taken, we would expect the uncertainty of experience to be reflected in a more prudent set of rates being chosen. Different groups of members can have different base mortality tables where there is evidence to justify their different treatment.
32. For example, those qualifying for an ill health pension might exhibit different mortality to those retiring with standard benefits.

## Mortality improvements

33. We expect appropriate assumptions for future mortality improvements should be chosen based on prudent principles allowing for the uncertain nature of future mortality improvements. Consideration should be given to socio-economic factors specific to the scheme and how this should be reflected in the assumptions chosen.

## Salary increases

34. The salary increase assumption can be a single rate or more complex, for example, making allowance for promotional increases. Where not constrained by the rules of the scheme or an established policy communicated to employees, we would expect salary increases to be at least as high as an appropriate inflation assumption.

## Proportion with partners eligible for survivor pensions and age difference

35. Where the scheme provides for survivor pensions, trustees should make appropriate allowance for the proportion entitled to survivor benefits and the age difference with the survivor.
36. When considering each assumption, where there is reliable and statistically credible scheme specific evidence available, we would expect the strength of assumptions chosen to be no lower than that implied by recent experience. Where such evidence is not available, we would expect the assumptions to be:
  - a. based on generic statistical tables, adjusted where necessary to allow for the scheme specific nature of the assumptions and, in the case of proportion married, for the rules of the scheme determining eligibility for survivor benefits, or
  - b. at least as strong as that provided by the Pension Protection Fund (PPF) guidance on relevant assumptions to use in their section on assumptions for contingent benefits when undertaking a valuation in accordance with Section 179 of the Pensions Act 2004<sup>1</sup>

## Discretionary benefits

37. Where there is a reasonable expectation that discretionary benefits will be granted in the long term, trustees should consider whether it is or is not appropriate to make reasonable allowance for these benefits in the low dependency funding basis and set an assumption accordingly.

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1 Article 162 of The Pensions (Northern Ireland) Order 2005

## Other assumptions

38. There may be some assumptions needed as part of the valuation where we have not given our expectations in this module, for example, retirement ages, withdrawal rate, or the allowance for scheme options other than cash commutation. In setting assumptions where we have not given guidance, the following principles should be applied.
- a. Assumptions can draw on scheme experience where statistically credible analysis of recent experience is available, and the expectation is that the past remains a good guide to future experience.
  - b. If this information is not available, standard tables or estimates may be used but the level of uncertainty in respect of scheme-specific factors should be reflected in additional prudence in the assumptions chosen.
  - c. The impact on the liabilities can be considered when choosing assumptions, so for example, a more approximate method would be reasonable where the choice of assumption will not significantly affect the liabilities.
  - d. More generally, if it is an assumption not specific to the scheme and we have provided no guidance, we would expect, where relevant, the derivation to be consistent with the derivation of other assumptions where guidance or specification has been provided.

## Allowance for expenses in low dependency liabilities

39. Our expectations depend on whether at least one statutory employer has a legal obligation under the scheme rules to pay scheme expenses.

### Schemes where there is no requirement under the rules for the employer to pay expenses

40. We expect the low dependency basis to include a reserve for expenses. That expense reserve should be the value of all non-investment related expenses of the scheme, including annual levies and adviser fees, expected to be incurred on and after the relevant date discounted to the valuation date.
41. The expenses should be consistent with the long-term strategy adopted by the trustees. For example:
- a. if the strategy assumes the scheme will run on, it should be all the expenses associated with this
  - b. for a scheme that is targeting buy-out, it should include the expenses associated with that strategy
42. Where an employer has an obligation under the rules to meet part of the expenses, we expect the low dependency basis to include a reserve for at least the expenses not met by the employer.
43. For immature schemes, we recognise the expense reserve will be an approximate estimate. This estimate can reflect that the scheme may incur lower ongoing adviser fees once it achieves its long-term target funding and investment strategies and that the scheme may be smaller by the relevant date. As a scheme approaches its relevant date it should be possible to make that estimate more accurate.

Allowance for expenses in low dependency liabilities continued...

Schemes where there is no requirement under the rules for the employer to pay expenses

44. For schemes at or past the relevant date, the expense reserve should be a more accurate estimate which we expect to be monitored and updated in line with experience.

### **Schemes where there is a requirement under the rules for the employer to pay expenses**

45. We encourage trustees to consider an expense reserve. If the scheme is relying on the employer to pay ongoing expenses in future this generates some dependency on the employer and trustees should carefully consider if this is compatible with a low dependency basis.
46. As a minimum, trustees could consider whether to reserve for expenses beyond the reliability period.
47. We recognise that funding for a reserve might lead to overfunding and the trustees might want to explore ways to reduce the possibility of this happening.
48. For example, by establishing a side agreement and separate account for expected expenses, or allowing a suspension of the requirement for the employer to pay expenses when the scheme is at or beyond relevant date and fully funded on a low dependency basis.
49. If a reserve is used, the guidance above, for schemes where there is no requirement under the rules for the employer to pay expenses, could be an appropriate starting point for determining the amount.

## Relevant date and significant maturity

1. The funding and investment strategy must set out the trustees' long-term objective and the low dependency funding target they intend the scheme to have achieved, and the investments they intend to hold, at the relevant date.
2. A scheme's relevant date is set by the trustees. Unless the scheme is exempt from these requirements (as described in paragraph 30 of this module), it should be set with reference to significant maturity.
3. The scheme actuary is responsible for estimating the date of significant maturity. This estimate must be produced by reference to the 'duration' of the scheme's liabilities.
4. A scheme reaches significant maturity when it reaches the duration of its liabilities (measured in years) specified in this code. The specified duration can be found below.

## Calculating current and projected duration (maturity) for all schemes (including open schemes)

5. Payments in respect of pensions and other benefits will be made from a scheme at different points in time and those payments will have different values. Duration is the weighted mean time until those payments are expected to be made, with the weighting being the discounted value of those payments. Duration is measured in years.
6. The payments should include those from insured assets where they are included in the liabilities. We would expect them to be included in the liabilities where the related assets are included and valued in the relevant scheme accounts.
7. The scheme actuary should calculate the current and, when needed, projected duration of the scheme.
8. The calculation of current duration should use the following formula for the Macaulay duration:

$$\frac{\sum_i t_i cf_i v_i}{\sum_i cf_i v_i}$$

Where:

- $cf_i$  is the  $i$ th projected cashflow
- $t_i$  is the (average) time that  $cf_i$  is expected to be paid
- $v_i$  is the discount factor appropriate at time  $i$
- the denominator in the equation is the value of the low dependency liabilities
- the calculation can be rounded to one decimal place
- cashflows can be aggregated into those expected over a period of a year or less

Calculating current and projected duration (maturity) for all schemes (including open schemes) continued...

9. The calculation of duration must be done using an actuarial basis that is the same as the scheme's low dependency funding basis, except for economic assumptions which must be chosen by reference to the economic conditions prevailing on 31 March 2023.
10. This means for economic assumptions, such as discount rates and inflation (including RPI or CPI), or where assumptions may be inflation-linked, such as those for pension increases, the methodology used should be the same as in the scheme's low dependency funding basis. For example, where a discount rate is set using an addition to a market-based yield, either implicitly or explicitly, the same addition should be used. For all other assumptions, we would expect them to be the same as in the scheme's low dependency funding basis.
11. We expect that for the first and each subsequent valuation, the scheme takes a consistent approach to this calculation, except when justified by a change in the low dependency assumptions, regulations or the code. We expect the economic assumptions at each valuation will be set based on the economic conditions that applied on 31 March 2023, as if that were the valuation date.
12. Except where noted in this code, in the section on **determining period to significant maturity for certain schemes**, a projected duration, used to determine a future point of significant maturity, should be calculated using the same formula and using the same assumptions as described here. For example, we do not expect the projection needs to allow for the recalculation of duration at future valuations.

### Calculating projected duration (maturity): additional guidance for open schemes

13. The calculation of duration should be based on liabilities in respect of accrued benefits. However, when projecting what the scheme duration is expected to be in the future, trustees can make an assumption for future accrual and new entrants. Trustees can then allow for any liabilities that would have been earned from accrual at that future time in their projected duration calculations.
14. The assumptions used for future accrual and new entrants (when appropriate) must be based on the employer covenant.
15. The use of such assumptions will mean that an open scheme can be expected to take longer to reach significant maturity than an equivalent closed scheme. This extra time can be allowed for in the de-risking plan set out in the journey plan, and reflected in the technical provisions' (TPs) assumptions discussed in the parts of this code on **journey planning** and **technical provisions**.
16. This means it can be assumed that risk will be taken for a longer time, compared to an equivalent closed scheme. When this is reflected in the discount rates, it will mean that the TPs assumed for an open scheme can be lower than for an equivalent closed scheme of the same maturity.

Calculating projected duration (maturity): additional guidance for open schemes continued...

17. Therefore, we would expect trustees to robustly consider how reasonable it is to make allowance for this continued accrual and, where appropriate, new entrants, when projecting the development of the scheme's duration. We expect the chosen assumptions to be prudent.
18. For this reason, we would expect the period of future accrual and, where appropriate, the period where new entrants are assumed to enter the scheme, to be set by reference to the period where the trustees have reasonable certainty over key aspects of covenant such as employer cash flows. Therefore, the reliability period will be a key determinant of this assumption.
19. We do recognise that, for most employers, the end of the reliability period is unlikely to be because of a predicted issue with the robustness of the employer. Instead, it reflects a limit in the ability to forecast cash flows with reasonable certainty any further into the future. Where this is the case, and there is an expectation that, in the future, the reliability period is likely to continue to be rolled forward year on year, we would consider it acceptable for the period assumed for future accrual and new entrants to exceed the reliability period by a limited time, with the length of that period reflecting the uncertainty of the cash flows after this period and the additional risk of assuming future accrual and new entrants. However, we would never expect this assumption to exceed the period of covenant longevity and we would usually expect it to be less than this, recognising that accrual and the acceptance of new entrants should cease before an employer can no longer support a scheme.
20. In addition to considering the period above, trustees should consider to what extent it is reasonable to assume that the defined benefit (DB) pension will continue to be offered. In doing so, they should consider, among other elements, contractual entitlements and any statements or commitments made by the employer. Allowing for this issue may reduce the period that it is appropriate to allow for future accrual and, where relevant, new entrants.
21. The assumptions for new entrants should be evidence-based and prudent. Past experience could be relevant, but the trustees should consider any general trends or plans by the employer. Where allowance is being made for future occurrences that will increase the time to significant maturity (for example an increase in the number of new entrants to the scheme), the trustees should be satisfied that making such an assumption can be justified and is prudent.



## Significant maturity

22. For the purposes of regulation 4(1)(b) of The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024<sup>1</sup> we have the power to set the duration in years which defines when a scheme will reach significant maturity and this can be different for different descriptions of schemes. The duration at which the following descriptions of schemes reach significant maturity is as follows.
  - a. For schemes with no cash balance benefits<sup>2</sup>, the duration is 10 years.
  - b. For a scheme that only provides cash balance benefits, the duration is eight years.
  - c. For schemes that provide a mix of cash balance and other benefits to which the scheme funding requirements apply, the duration should be the weighted average of the durations described above. The weighting to be applied is that of the relevant liabilities calculated on the basis used to determine duration.
23. The estimate of the date on which the scheme is expected to (or, if applicable, did) reach significant maturity must be reviewed every time the funding and investment strategy is reviewed.
24. However, where a previously determined relevant date has passed, and the trustees have no reason to believe that the date of significant maturity has materially changed, trustees may choose to instruct the scheme actuary to carry out a broad approximate estimate of the date of significant maturity. In these circumstances, we would not expect any detailed calculations to be carried out to determine this date.

## Determining period to significant maturity for certain schemes

25. Under the regulations, we have the power to set a date when significant maturity will be reached for different descriptions of schemes.
26. To reduce administrative burdens for smaller schemes, trustees of such schemes that submit through the Fast Track submission route can assume that the date the scheme reaches significant maturity is either:
  - a. the date the scheme reaches duration 10 years
  - b. the date set out in the section on **time to significant maturity for certain schemes** below
27. For these purposes, schemes must have a current duration greater than 10 years and smaller schemes are defined to be schemes with 200 members or fewer, excluding members who are eligible for lump sum death benefit only, for hybrid schemes those members with defined contribution (DC) benefits only and fully insured annuitants where they are not included in the calculation of the TP liabilities (as they are not included or valued in the scheme accounts).

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1 Regulation 4(1)(b) of The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024 (SI 2024/462) [Regulation 3(1)(b) of The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations (Northern Ireland) 2024 (SR 2024/90)]

2 Section 51ZB of the Pensions Act 1995 [Article 51ZB of The Pensions (Northern Ireland) Order 1995]

## Relevant date

28. Trustees must determine their relevant date.
29. We would not expect the relevant date to be before the effective date of the actuarial valuation to which the funding and investment strategy relates.
30. Paragraphs 31 to 34 below do not apply to cash balance sections of collective defined contribution (CDC) schemes with all active members accruing benefits in both sections concurrently, who are exempted from certain regulations in respect of choice of relevant date.
31. For schemes that have not passed significant maturity on the effective date of the actuarial valuation to which the funding and investment strategy relates, the relevant date cannot be later than the end of the scheme year in which the scheme reaches significant maturity, though it can be earlier (noting our expectation in paragraph 29 above).
32. For schemes that have passed significant maturity on the effective date of the actuarial valuation to which the funding and investment strategy relates, the relevant date is the effective date of that valuation.
33. When setting the relevant date, trustees should assume that the scheme year will remain as it is at the time the funding and investment strategy is being set or revised.
34. Where a scheme has not reached the relevant date, the scheme actuary must estimate the expected maturity of the scheme at the relevant date. If helpful, the actuary may use the maturity as at any date within the scheme year in which the relevant date will fall, as being representative of the maturity as at the relevant date.

## Time to significant maturity for certain schemes

35. Table 1 on page 35 can be used to determine the date of significant maturity for certain schemes. It can only be used by schemes who satisfy both of the following criteria:
  - a. The scheme is submitting its valuation through the Fast Track route.
  - b. The scheme has 200 members or fewer, excluding members who are eligible for lump sum death benefit only, for hybrid schemes those members with DC benefits only and fully insured annuitants where they are not included in the calculation of the TP liabilities.

**Table 1: Duration and time to significant maturity**

Duration	Time to significant maturity in years
25	33
24	32
23	31
22	30
21	29
20	28
19	27
18	25
17	23
16	21
15	18
14	15
13	12
12	8
11	4
10	0

36. Table 1 above is intended for schemes whose current duration is greater than 10 years. For durations above 25 years add one year to the time to significant maturity of 33 years for each year of increase in duration above 25. For example, a duration of 28 years should have a time to significant maturity of 36 years.
37. To determine the date of significant maturity, first, based on the current duration of the scheme calculated in accordance with this code, determine the time to significant maturity from the table above. Then the date of significant maturity is found by adding that time to the effective date of the actuarial valuation to which the funding and investment strategy relates.
38. The appropriate time for non-integer durations should be found by interpolation.

## Employer covenant

1. A scheme's journey plan is its planned progress in accordance with the funding and investment strategy as it moves towards the relevant date.
2. To determine the actuarial assumptions that would be appropriate for calculating the liabilities of a scheme during this period, trustees must take into account in a proportionate way the employer covenant. In particular, that the level of risk that can be taken should be:
  - a. dependent on the trustees' assessment of the employer covenant, where more risk can be taken where the scheme has access to sufficient employer cash flows and contingent assets to support this level of risk
  - b. subject to the above, dependent on how near the scheme is to reaching the relevant date
3. This section sets out how we expect trustees to assess the employer covenant. This assessment should be proportionate to the specific circumstances of the scheme and employer. The journey planning section gives more details of this proportionality.

## Covenant assessment

4. An assessment of the employer covenant must consider:
  - a. the financial ability of the employer, in relation to its legal obligations to the scheme, to support the scheme
  - b. the expected scheme support from any contingent assets to the extent the trustees reasonably expect these to be:
    - legally enforceable, and
    - sufficient to provide the specified level of support when required
5. Trustees must consider the following matters when assessing the employer's financial ability to support the scheme:
  - a. the employer's current and expected future cash flow
  - b. other matters that are likely to affect the employer's future ability to support the scheme, including but not limited to the performance, future development, and resilience of the employer(s) business, and the likelihood of an employer insolvency event<sup>1</sup> occurring (the employer's prospects)

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1 Section 121 of the Pensions Act 2004 [Article 105 of The Pensions (Northern Ireland) Order 2005]

Covenant assessment continued...

6. When assessing the employer's financial ability to support the scheme, trustees or managers of the scheme must consider:
  - a. how long they can be reasonably certain that they can rely on an assessment of the employer's cash flows and prospects, and in doing so determine the period over which they have reasonable certainty over the employer's cash flow to fund the scheme (the reliability period)
  - b. how long they can be reasonably certain that the employer will be able to continue to support the scheme (covenant longevity)
7. The nature of the trustee's covenant assessment will depend on the circumstances of the scheme and employer, and must be considered relative to both the scheme's:
  - a. low dependency deficit
  - b. solvency deficit
8. For employers where insolvency is highly unlikely over the short to medium term, the employer support relative to the low dependency deficit will help the trustees understand the support available for their journey plan. The higher the risk of insolvency, which would trigger a debt due under section 75 of the Pensions Act 1995<sup>2</sup>, the more weight there should be on employer support relative to the solvency deficit.

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2 Article 75 of The Pensions (Northern Ireland) Order 1995

## General principles and expectations

9. Trustees are required to carry out an employer covenant assessment to understand the extent to which the employer can support the scheme now and in the future. In general, trustees should focus on the ability of the employer to make cash contributions to the scheme to eliminate any funding deficit and address downside investment risk. Contingent assets can also be valuable where the trustees can evidence that the contingent asset is reasonably expected to be legally enforceable and will be sufficient to provide a specified level of support when required.
10. At a minimum, we expect trustees of all defined benefit (DB) schemes to assess covenant support at each valuation. However, the required depth and frequency thereafter of an assessment should be proportionate to the circumstances of the scheme and employer. The approach taken should be documented and trustees should be able to justify why it is reasonable and appropriate.
11. The covenant should be assessed in the context of, and relative to, the scheme's funding risk. Trustees should consider the following factors:
  - a. the size of the scheme's assets and low dependency liabilities relative to the covenant support.
  - b. the level of investment and funding risk, providing an indication of how the scheme's funding requirements and reliance on covenant support could change over time with changes in market and financial conditions.
  - c. the maturity and the expected cash flows of the scheme, as this will affect the timing of the scheme's reliance on the covenant.
12. Even schemes that are fully funded on a low dependency funding basis remain exposed to covenant risk if funding levels deteriorate or if there were to be an unexpected employer insolvency event. Consequently, trustees should continue to monitor the covenant once low dependency has been reached, before and after the relevant date. In general, given the well-funded position of the scheme, we would expect any assessment to be light touch and should aim to identify any material risks that could lead to the scheme not providing promised benefits to members.
13. We expect employers (and, where relevant, third parties that have provided contingent assets) to provide trustees with the information required to assess the covenant<sup>3</sup>. If appropriate information is not provided, trustees are unlikely to be able to demonstrate how the covenant can support the risks the scheme is taking. Consequently, where appropriate, trustees should reduce their reliance on covenant when setting investment and funding strategies in their funding and investment strategy.

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<sup>3</sup> Regulation 6 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715) [Regulation 6 of The Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997 (SR 1997/94)]

## The financial ability of an employer to support the scheme

### Identifying employers

14. Trustees should identify which entities are employers for the purposes of Part 3 of the Pensions Act 2004<sup>4</sup>.
15. Entities that are not employers for these purposes (with the exception of certain non-statutory employers as described in paragraph 16 of this module below) should not be directly considered when assessing the employer covenant. However, where the employer's financial performance is heavily dependent on a third-party or group obligation (for example under a cost-sharing agreement), or the overall performance of the wider group, trustees should consider the implications of this when assessing an employer's cash flow forecasts and prospects.
16. Some schemes may have non-statutory employers with direct funding obligations to the scheme under their scheme rules. Trustees should assess the legal obligation of any non-statutory employer to provide support to the scheme when it may be required. This will determine whether it is appropriate to take the covenant support provided by the non-statutory employer into account when assessing affordability or overall covenant support to the scheme, or both.
17. If a group entity or other third party provides contractually-binding support directly to the scheme, this may amount to a contingent asset. This should be considered as set out in the section on **contingent asset support** further down in this module of the code.

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4 Part IV of The Pensions (Northern Ireland) Order 2005

## Assessing the employer's current and future cash flow

18. An assessment of the employer's current and future cash flow will help trustees determine the following.
  - a. The level of cash over the employer's reliability period that could be paid to the scheme, if required, to remedy any deficit from a downside scenario (known as maximum affordable contributions). This should feed into trustees' decisions around the level of risk that is supportable by the employer covenant when setting the scheme's journey plan. The **journey planning module** has more details on this.
  - b. What deficit repair contributions (if required) are reasonably affordable. The **recovery plan module** has more details on this.
19. Trustees' assessment of the employer's cash flow should primarily be based on management forecast cash flow information rather than historic cash flow information.
20. An employer's cash flow means the free cash flow generated by the employer after taking account of reasonable operational and committed finance costs (for example, utility costs, essential maintenance, staff costs, committed debt service costs), but before deficit repair contributions to the scheme or other possible uses of free cash, as set out in the recovery plan section. These include:
  - a. investment in the sustainable growth of the employer
  - b. payments that result in covenant leakage
  - c. discretionary payments to other creditors
21. The employer's cash flow should also be considered before contributions made to other DB schemes sponsored by the employer. Although these payments may already be agreed under a schedule of contributions, if cash is not allocated fairly between DB schemes, one scheme might be favoured over another.
22. Trustees and the employer should work together to make the above adjustments.
23. When reviewing the reasonableness of employer cash flow forecasts, trustees should be mindful of the employer's position in its wider group, its interactions with other group companies (for example through transfer pricing, intragroup trading and/or intragroup financing) and the impact this may have on cash flows.
24. Trustees should consider the appropriateness of management assumptions underpinning the employer's cash flow forecasts (relative to the risks and opportunities identified when assessing the employer's market and overall prospects, as discussed below) and the sensitivity of these assumptions to future events, making appropriate adjustments where necessary.
25. Where cash flow information is not produced for the employer (or it is not proportionate to produce for covenant assessment purposes), trustees should work with the employer to find a suitable proxy (for example, earnings before interest, tax, depreciation and amortisation (EBITDA), profit before tax or consolidated cash flow), adjusted as necessary to best reflect the employer's cash flow position.



Assessing the employer's current and future cash flow continued...

26. Where the employer's cash flow is cyclical or subject to variance, trustees should consider using an average free cash flow over an appropriate period.
27. Trustees should consider employer cash flows beyond the forecast period, with reference to the trustee's assessment of the employer's prospects.

### Assessing an employer's prospects

28. An assessment of the employer's prospects will help trustees determine the extent and duration of reliance that can be placed on the employer to continue providing scheme support and will highlight the risks to that support deteriorating. This will feed into trustees' assessment of the reliability period and covenant longevity, as outlined below, and will ultimately feed into trustees' decision making around journey planning.
29. The matters the trustees should proportionately consider when assessing the employer's prospects are as follows.

#### 1. The employer's market outlook

- a. All material markets in which the employer operates, in terms of the relevant product or service market and the geographical market.
- b. General market trends (for example whether it is a growing, stable or declining market, whether it is cyclical), the economic outlook for the countries that the employer or group operates in, and any potential risks to these markets.
- c. Current regulatory requirements and expected future developments.

#### 2. The employer's position within its market

- a. The employer's current market position, the key strengths and weaknesses facing the employer, and how these may impact the employer's market position in the future.

#### 3. The strategic importance of the employer within its group (if applicable)

- a. The employer's position within the group and its interactions with other group companies.
- b. If the employer has strong operational or financial ties to the wider group, or the risks and opportunities associated with the wider group.

#### 4. The diversity of the employer's operations

- a. The products or services offered by the employer, the regions and markets they operate in, and the reliance or diversity of key customers and suppliers of the employer.

Assessing an employer's prospects continued...

**5. Environmental, social and governance (ESG) factors**

- a. Whether the employer's business model is resilient to a transition to a low carbon economy.
- b. Other ESG-related risks and opportunities facing the employer and how these may impact on the employer's prospects.

**6. The resilience of the employer and the wider group (where applicable)**

- a. The ability of the employer (and where applicable the group) to withstand market shocks or unanticipated events based on:
  1. the employer's balance sheet, capital structure and other financial information
  2. the group's financial resources to the extent that these are available to support the employer
  3. other non-financial indicators of resilience

**7. The risk of an employer insolvency event**

- a. The employer's insolvency risk and the likely flow of value to the scheme at the time of an insolvency event.
- b. We expect trustees to take into consideration the matters, as set out above, in determining the likelihood of an employer insolvency event.
- c. The level of detail should be proportionate to the risk of insolvency, and the reliance placed by trustees on realising value from assets to fund the scheme and support risk.
- d. Where insolvency is deemed highly unlikely over the short to medium term, less scrutiny and weighting should be placed on the outcome to the scheme in such a scenario. Conversely, the higher the risk of insolvency, or where trustees place significant reliance on realising value from assets to fund the scheme and support risk, trustees should undergo a more extensive exercise to demonstrate with reasonable certainty what value would flow to the scheme.

**8. Any other relevant factors**

- a. Other factors (including more general macroeconomic and geopolitical factors) that may be relevant to the circumstances of the employer's business or market that may impact on the employer's prospects.

30. Trustees should consider how these matters might affect the reasonableness of the employer's forecasts, and the employer's profitability, cash flow generation and balance sheet strength (including financing arrangements) beyond the forecast period.

## Assessing the reliability period and covenant longevity

31. An assessment of the employer's financial ability to support the scheme is primarily forward-looking and should consider the following:
- a. **The period over which trustees can be reasonably certain of the employer's cash flow to fund the scheme (the reliability period)**
    - When assessing the reliability period, trustees should consider the employer's current and forecast cash flows, to the extent that these are available and deemed reasonable, and the employer's prospects. This includes (but is not limited to) assessing the stability of the employer's market and its position within that market, its capital structure and overall resilience, and any foreseeable events that may reduce the level of certainty over future cash flows, either on a standalone basis or cumulatively. Such events may include a material refinancing or a potential change in regulations that could negatively impact the employer's market.
    - Most employers will only have reliability over the short to medium term (three to six years). However, some employers' reliability periods may extend to the longer term based on employer-specific circumstances.
    - Trustees should take a proportionate approach to assessing the reliability period. For example, a high-level assessment may be sufficient when the scheme has a short recovery plan and is running a lower level of risk relative to the level of covenant support. A more detailed assessment will be needed where the scheme is relying on a longer reliability period for recovery plan purposes, or to enable the scheme to take higher levels of supportable risk.
  - b. **How long the trustee can be reasonably certain (based on information available at the time) that the employer will be able to continue to support the scheme (covenant longevity)**
    - For the purposes of this assessment, support refers to the longer-term ability of the employer to support the scheme along its journey plan to low dependency and beyond, even when that level of support may be uncertain or fluctuate over time.
    - Covenant longevity will end when trustees do not have reasonable certainty that the employer, or its market will continue. Covenant longevity would also cease where uncertainty over the viability of the employer exists, which could lead to an insolvency or other event that could trigger the crystallisation of the scheme's solvency deficit.
    - For some schemes, covenant longevity may be finite, making it easier for trustees to pinpoint an exact timeframe for this period. For example, if an employer provides a single product or service that will no longer be required due to legislative changes in eight years and there are limited plans for the employer to diversify, the maximum longevity period would be eight years. For most employers, reasonable certainty over covenant longevity will not exceed ten years. However, some employers may be able to demonstrate a longer period. Trustees should be proportionate when assessing covenant longevity, particularly when this period is expected to exceed the relevant date.

Assessing the reliability period and covenant longevity continued...

32. Trustees should reassess these periods at each triennial valuation, as a minimum, and adjust the scheme's journey plan accordingly, where appropriate.

## Contingent asset support

33. A contingent asset contributes to the covenant support to the extent that these are reasonably expected to be:
  - a. legally enforceable
  - b. sufficient to provide the specified level of support when required
34. A contingent asset's legal enforceability is determined by the terms and conditions of the relevant agreement and the applicable law. Trustees should be satisfied that they have sufficient legal advice in relation to the enforceability of proposed contingent assets for both the UK jurisdiction and any relevant overseas jurisdictions. They should then consider whether, on balance, taking into account any qualifications in the legal advice, if this supports taking additional risk.
35. Common types of contingent asset are:
  - a. charges over cash, real estate and securities
  - b. letters of credit and bank guarantees
  - c. guarantees from related and third parties, such as parent and group companies
  - d. contingent funding mechanisms from related and third parties, such as parent and group companies
36. Typically, asset backed contributions (ABCs) should not be used to take additional funding or investment risk, as they already enable a scheme to increase its asset position and therefore reduce or eliminate the scheme's technical provisions (TPs) deficit.
37. To understand whether a contingent asset will provide a particular level of support when required, trustees should identify the following.
  - a. The scenario in which the contingent asset is likely (or able) to be called upon (for example in the event of insolvency of the employer).
  - b. An appropriate method to assess the expected realisable value of the contingent asset. This will primarily be driven by the type of contingent asset, such as whether it's a security arrangement (for example security over an asset, cash in escrow, letter of credit) or a group or parental guarantee.

## Valuing security arrangements

38. Some assets have clear, demonstrable, readily recoverable value (for example cash in escrow or a letter of credit or surety bond provided by a recognised financial institution), allowing trustees to recognise this value in full, subject to any limitations in the scheme's legal access.
39. Other assets have less certain value. For example, the value that would be returned to the scheme from security over a tangible asset such as a building or machinery will depend on the market value for that asset and its condition at the time it is called upon. Trustees must determine the most appropriate valuation methodology, considering the scenario and the timing in which any asset value is likely to be realised (for example insolvency). They must also consider how the relevant market is likely to develop for that asset in the future.
40. Where the contingent asset is provided by the employer (rather than a third-party), trustees must be mindful of the impact enforcing the security may have on the employer's continued performance and financial ability to support the scheme. Where enforcement will have a material negative impact on the employer's financial ability to support the scheme, trustees must also factor that cost into its valuation.
41. Trustees should reassess the value of a security arrangement at each valuation as a minimum.

## Valuing guarantees

42. Some guarantees are structured in such a way that they largely replicate the obligations placed on a statutory employer. This includes providing a formal look through to the guarantor for affordability purposes. These guarantees provide an ability for trustees to claim against the guarantor in respect of all monies owed by the employer to the scheme without restrictions or qualifications once a trigger event has taken place. They cannot be revoked without trustee agreement. These are referred to as 'look through' guarantees.
43. Where trustees benefit from a look through guarantee, when assessing the employer covenant, they should assess the guarantor's financial ability to support the scheme as if it was a statutory employer.
44. However, if a guarantee doesn't meet the criteria of a look through guarantee, trustees should determine the level of support a guarantee can provide by considering the following factors.
  - a. The guaranteed amount (including whether the amount is capped and, where the amount is calculated by reference to the scheme's funding position on a particular basis, how that funding position may develop over time).
  - b. The duration of the guarantee and any termination clauses.
  - c. The circumstances in which a claim can be made under the guarantee (or, where the guarantee provides for a variety of triggers, the most likely scenario in which the guarantee would be called upon).
  - d. The guarantor's financial ability to provide that support at the time it may be required.

Valuing guarantees continued...

45. Generally, we expect the level of reliance trustees place on a guarantee that can only be triggered by an unexpected future event, such as employer insolvency, to reduce the more unlikely the event is, unless trustees can demonstrate with reasonable certainty what value would flow to the scheme.

### Valuing a related or third-party contingent funding mechanism

46. A related or third-party contingent funding mechanism comprises a legally binding arrangement where a related party, such as a parent or group company or third party will commit to make a payment into the scheme under certain pre-defined triggers. This might be, for example, where the scheme's funding position falls below a set threshold.
47. When determining the level of support a related or third-party contingent funding mechanism can provide, trustees should consider the following factors:
  - a. the quantum of the agreed payments
  - b. the circumstances in which the scheme will have access to these payments (we would expect a trigger event to provide access to value in advance of an employer insolvency)
  - c. the likelihood of the additional payments being triggered
  - d. the third-party's financial ability to make the payments when required
48. Trustees should ensure that they do not double count the support provided by a contingent funding mechanism, particularly where the arrangement is with the employer or another party (such as a look through guarantor) whose cash position is already factored into the trustees' covenant assessment or supporting the value of another contingent asset.

## Multi-employer schemes

49. Schemes frequently have more than one employer. The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024<sup>5</sup> do not make any special provision for multi-employer schemes, but we recognise that it may be unnecessary for many multi-employer schemes to carry out a full assessment for each employer to comply with the legislation. Trustees must consider the extent to which it is appropriate to analyse the financial ability of every employer to support the scheme and how to reach an overall view on the covenant provided by the pool of employers as a whole.
50. Where trustees determine it is not proportionate to review all employers, they should consider if alternative approaches are appropriate. For example, this could include pooling employers into sub-groups with varying levels of review for each.
51. In considering which employers to assess in detail and the weight to be given to each, trustees should consider the following factors.
  - a. The number of members of the scheme attributable to each employer, and an estimate of the size of each employer's liability to the scheme. This should be based on an understanding of each employer's share of the scheme's liabilities, including orphan liabilities (such as those that are not attributable to any specific employer).
  - b. Whether the scheme is classed as an associated multi-employer scheme or non-associated multi-employer scheme.
  - c. The position of the scheme in the event of an insolvency or withdrawal of an employer, for example whether the scheme has segregation provisions or 'last man standing' arrangements.
  - d. The trustees' powers under the trust deed and rules to impose contributions.
  - e. The likelihood of employer withdrawal and its impact and the treatment of any orphan liabilities.
  - f. Any restrictions that might apply under the trust deed and rules to the allocation or payment of contributions due to the scheme, for example where member contribution rates constrain the level of overall contributions to the scheme.

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5 The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024 (SI 2024/462) [The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations (Northern Ireland) 2024 (SR 2024/90)]

## Not-for-profit covenant assessments

52. Not-for-profit organisations are organisations:
  - a. where some (or all) of their activities are of a non-commercial nature
  - b. that rely on donations (or other discretionary income or subscriptions) to fund their activities
53. Where not-for-profit organisations have material commercial operations, these operations should be analysed in accordance with the general principles set out above in determining employer covenant support. The non-commercial operations of a not-for-profit should be assessed in accordance with the modifications below.

### Assessing cash flow

54. Where a not-for-profit organisation's cash flow is generated largely from donations, when assessing the reliability over the employer's cash flow and covenant longevity, trustees should recognise that the cash flow may be volatile and subject to reputational risk.
55. Trustees should ascertain the extent and nature of any restrictions on the use of the employer's cash flow (restricted funds) and consider the extent to which restricted funds are permitted to be used as contributions to the scheme.
56. To the extent that an employer's restricted funds are not permitted to be used as contributions to the scheme, those funds should be disregarded when assessing the financial ability of the employer to support the scheme.

### Assessing prospects

57. When assessing the outlook for the sector and the position of the employer within the sector, trustees should, in addition to considering the factors set out in paragraph 29 above, specifically consider:
  - a. the reputation and public profile of the employer and the impact of any changes to that on future donations
  - b. the quality of governance of the organisation including its efficiency, management of reputational risks, and contingency plans for potential shocks to income (for example reputational damage), or demand for services
  - c. the competition for income from other organisations
  - d. the demand for the services it offers, including the impact of government policy and social factors (for example demographic assumptions) on potential revenue, or both
  - e. the macroeconomic environment

### Contingent assets

58. Where a contingent asset is provided by a not-for-profit organisation, trustees should consider whether the entity is subject to any restrictions that would prevent the trustees realising value in relation to the asset.



## Journey planning

1. For schemes that have not yet reached the relevant date, the second element of the funding and investment strategy is the trustees' plan to bridge from the current funding position to the low dependency funding target set in the funding and investment strategy (known as the funding journey plan). This encompasses the evolution of all actuarial assumptions used for the purposes of calculating the scheme's liabilities, as it progresses towards the relevant date. Trustees should plan for how the scheme will reach a position of being at least 100% funded on a low dependency funding basis on and after the relevant date<sup>1</sup>.

## Notional investment allocation

2. All relevant actuarial assumptions need to be supportable by a suitable investment strategy. Where the trustees choose an investment strategy for the purposes of deriving and supporting actuarial assumptions, we refer to this as a 'notional investment allocation'. For example, the current notional investment allocation refers to the investment strategy used to support the scheme's current funding assumptions. Similarly, the low dependency investment allocation targeted in the funding and investment strategy (also a notional allocation) supports the scheme's low dependency funding assumptions. We expect that, for most schemes, the actual investment allocation will be the same or similar to the scheme's notional investment allocation. However, the trustees must invest in the best interest of members and as such actual and notional allocations may differ in some circumstances. This is covered in further detail in Investment and risk management considerations.
3. To determine a suitable funding journey plan, we expect trustees to formulate a concurrent journey plan for the evolution of the scheme's notional investment allocation over the period to the relevant date (this is known as the investment journey plan). Together, the investment journey plan and the funding journey plan form the whole 'journey plan', of which only the funding element is formally part of the funding and investment strategy. As the level of risk taken in deriving actuarial assumptions cannot be meaningfully isolated from the investment risk assumed in deriving them, trustees will need to consider the aggregate risk arising from both the funding and investment journey plans when assessing risk along the journey plan.
4. The investment journey plan should set out a transition from the scheme's current notional investment allocation to the low dependency investment allocation from which the low dependency funding basis in the funding and investment strategy is derived.

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1 Regulation 9 of and paragraph 3 of Schedule 1 to The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024 (SI 2024/462) [Regulation 8 of and paragraph 3 of Schedule 1 to The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations (Northern Ireland) 2024 (SR 2024/90)]

## Supportability principle

5. When determining the journey plan, trustees must consider the supportability principle for the level of risk.
  - a. The level of risk should be dependent on the trustees' assessment of the employer covenant. More risk can be allowed for if the scheme has access to sufficient employer cash flows and contingent assets to support this level of risk.
  - b. Subject to the above, the level of risk should also be dependent on how near the scheme is to reaching the relevant date. This is so that, subject to the covenant assessment, more risk can be allowed for if a scheme is a long way from reaching the relevant date, and less risk can be allowed for if a scheme is near to reaching the relevant date.

## Proportionality

6. The journey plan should reflect the circumstances of the scheme and the employer. The approach that trustees take when assessing the level of risk that can be supported over their journey plan should be proportionate to these circumstances. Trustees of schemes that have one or more of the following characteristics should be able to conclude that the risks being run are supportable without much analysis or a detailed covenant assessment, provided no material concerns with the scheme's covenant longevity are identified.
  - a. The size of the employer is very large in comparison to the size of scheme.
  - b. The scheme is already well-funded on a low dependency funding basis, solvency basis, or both.
  - c. The journey plan relies on only a small amount of funding and investment risk being taken in the period before their relevant date.
7. Where those circumstances don't apply, trustees will need to carry out a fuller assessment of the covenant and a more detailed analysis of the level of risk to allow for in the journey plan. Further details of how to assess the covenant are provided in the **employer covenant module**.

## Journey planning periods

8. When considering the level of risk that is appropriate for the journey plan, trustees should consider separately the following two periods of time:
  - a. the period over which trustees can be reasonably certain of the employer's cash flow to fund the scheme (known as the reliability period)
  - b. the period from the end of the reliability period and up to the relevant date (known as the post-reliability period)
9. The below sections on journey planning during the reliability period and journey planning in the post-reliability period set out our general expectations for how trustees should approach these two periods of time for their journey plan.

### **Journey planning during the reliability period**

10. During this period, trustees need to satisfy themselves that the level of risk in the journey plan is supportable by the employer covenant.
11. Trustees should consider both the likelihood and monetary impact of risks crystalising, the actions they could take in such situations, and the ability of the employer, or any contingent asset support to be used, to repair any increase in deficit.
12. All trustees should carry out suitable and proportionate analysis to help them understand plausible impacts on scheme assets and liabilities from risk inherent in the journey plan.

### **Principles for assessing supportable risk over the reliability period**

13. We expect trustees to make an assessment of whether the scheme has access to sufficient employer cashflows and contingent asset support over the reliability period to recover both the existing deficit (if any) and any further deficit that could arise from a scheme-related stress event during this period.
14. By doing this assessment, trustees can be confident that they are planning to achieve a fully-funded position on a technical provisions (TPs) basis by the end of the reliability period. If the assessment shows the risk cannot be supported, they should consider changing their funding and investment strategy or seek additional forms of covenant support to ensure that the risk taken is consistent with the supportability principle.
15. The assessment should be based on the investment journey plan and should allow for the expected investment risk and return in that plan, taking account of all contributions and expected benefit payments during that period and include the effects of a stress test consistent with what the scheme uses for its risk management purposes. At the minimum, we expect the test to reflect a downside event with a probability of one-in-six, applying over the reliability period.
16. If trustees are relying on the employer to make future payments to the scheme following a scheme-related stress event, they need to ensure that these payments would be less than or equal to the employer's maximum affordable contributions over the reliability period.

Principles for assessing supportable risk over the reliability period continued...

17. Maximum affordable contributions are defined as the employer's cash flows (as defined in **assessing the employer's current and future cash flow** in the employer covenant module of this code) after the following has occurred.
  - a. Reasonable adjustments have been made, where appropriate, for alternative uses of cash to reflect the level of cash flows that are expected to be available to the scheme to recover the additional deficit from a scheme-related stress event. For example, deducting for investment in sustainable growth over the reliability period when such payments are unlikely to be impacted in this scenario.
  - b. Deducting deficit repair contributions (DRCs) payable to the scheme and other DB schemes the employer sponsors.
18. To the extent that the employer has agreed to pay some or all DRCs from its liquid assets (such as where cash generation is insufficient to cover annual DRCs), these amounts committed to support the payment of DRCs should also be factored into the calculation of maximum affordable contributions. This will prevent maximum affordable contributions being understated once DRCs are deducted.
19. If trustees are relying on contingent asset support to provide additional funding to the scheme following a scheme-related stress event, they should ensure it satisfies the relevant criteria outlined in the **contingent asset support section** of the employer covenant module. This should be accessible to the scheme if a scheme-related stress event arises over the reliability period. Examples include, but are not limited to, a third-party contingent funding mechanism that underpins the scheme's investment risk, or cash in escrow that is accessible if a downside investment scenario arises.
20. There may be limited circumstances where trustees are able to take additional risk based on contingent asset support that is only likely to be accessible after the reliability period, including those that provide an underpin in insolvency. For this to be the case, trustees need to evidence why they are reasonably confident of the value this support would provide when called upon. When deciding whether to take additional risk on this basis, trustees should consider the circumstances in which they can access this value and the likelihood of these circumstances arising. The more remote the circumstances in which the value can be accessed, and the lower the confidence in the value it would provide when called upon, the less reasonable it will be to take additional risk.

### Journey planning in the post-reliability period

21. After the reliability period, trustees will need to consider what level of risk is appropriate, and the timing and pace at which the scheme should transition to low dependency by the relevant date. To do this, they should consider the following factors.
  - a. The extent to which the employer will be able to continue to support the scheme in the future.
  - b. The level of risk being taken during the reliability period.
  - c. The extent to which the scheme can rely on contingent asset support in the post-reliability period.
  - d. How close the scheme is to the relevant date.

### **The extent to which the employer will be able to continue to support the scheme in the future**

22. When setting an appropriate journey plan after the reliability period, trustees should understand how long they can be reasonably certain the employer will be able to continue to support the scheme (covenant longevity). How the trustees should approach this depends on whether covenant longevity is expected to be longer or shorter than the period to the relevant date and, if it is shorter, the reasons driving this assessment.
23. Where covenant longevity is expected to be longer, more focus should be placed on the other factors set out below when determining an appropriate journey plan in the post-reliability period.
24. Where covenant longevity is expected to be shorter and is driven by a specific event or foreseeable limitation to the covenant, making it unlikely that this assessment will be extended in the future, trustees should plan to move to low dependency by no later than the end of the covenant longevity period.
25. Where covenant longevity is expected to be shorter but is not driven by a specific event or limitation to covenant and therefore there is a reasonable expectation that the trustees' assessment of covenant longevity will be extended in the future, trustees are not expected to plan to move to low dependency by the end of covenant longevity. However, trustees should be able to demonstrate why the level of risk being run after the period of covenant longevity is appropriate based on the other factors set out below.

### **The level of risk being taken in the reliability period**

26. Where a scheme chooses to run a high level of risk relative to what the employer can support during the reliability period, we expect trustees to assume that the level of risk will reduce starting from the end of the reliability period. However, where a scheme chooses to run a low level of risk relative to what the employer can support during the reliability period, trustees may wish to run this lower level of risk for longer.
27. Some examples of different journey plan shapes are available in paragraph 33 of this module.

### **The extent to which the scheme can rely on contingent asset support during the post-reliability period**

28. Where trustees are placing reliance on contingent asset support during the reliability period to take additional risk, trustees must consider if this should change after the reliability period. This should be considered on a case-by-case basis. It will be dependent on the type of contingent asset and the extent to which the value this support can provide to the scheme may change over time.
29. In most circumstances, we expect reliance on contingent asset support to reduce over time, and therefore the level of risk to reduce. However, there may be limited circumstances where reliance can remain at the same level, particularly where, among other things, the contingent asset has a clear, demonstrable, and readily recoverable value that is not expected to fluctuate materially over time and is not linked to the reliability of employer (or other entity) cash flows. An example of this is security over cash in escrow.
30. Where trustees are relying on contingent asset support to take risk in this period, they need to fully evidence and justify why this is appropriate.

### **How close the scheme is to the relevant date**

31. When deciding on the appropriate level of risk, more immature schemes will be able to justify holding risk for longer, which can be reflected through their de-risking journey plan. Trustees should ensure that the level of risk remains appropriate in the context of the other factors set out above.

### **Investment de-risking considerations**

32. The investment journey plan is intended to bridge the difference over time between the current notional investment allocation (which supports current actuarial assumptions) and a low dependency investment allocation (which supports the low dependency funding basis assumptions), while supporting the evolution of actuarial assumptions along the funding journey plan. Therefore, it is likely that, for most schemes, the investment journey plan will incorporate de-risking based on the change in duration of the scheme as it approaches the relevant date. Trustees should consider the types of assets they plan to disinvest from and those they plan to invest in. Actions associated with de-risking may include:
  - a. reducing the level of risk associated with the growth assets
  - b. decreasing the overall percentage of assets held in growth assets
  - c. increasing the level of matching assets, and reviewing the level of duration and inflation matching between the assets and liabilities
  - d. increasing the amount of cash flow generation from matching assets

## Choice of journey plan shapes

33. If the investment journey plan involves de-risking, trustees should plan a de-risking approach that suits their scheme-specific characteristics. The following are some examples of common de-risking strategies.
- a. Linear de-risking – where the notional investment risk and return reduce at a constant rate as the scheme matures, creating a smooth path towards low dependency.
  - b. Horizon (or ‘lower for longer’) – where the notional investment risk and return before the relevant date is constant (typically lower initially than under the linear de-risking approach), and de-risking to low dependency is expected to occur at once, at the relevant date.
  - c. Stepped de-risking – where the time before the relevant date is split into a number of periods, during which notional investment risk and return is constant, reducing each time the scheme transitions from one period to the next.

## General considerations

### The journey plan and choice of relevant date

34. In determining their journey plan, the trustees should bear in mind that the choice of relevant date will affect the risk in the journey plan. For example, where trustees choose a relevant date well in advance of the date of significant maturity, they will have flexibility to push back the relevant date in the event of adverse experience. The trustees will then have longer to reach full funding and the risk of not being fully funded by the time of significant maturity is reduced.

### Journey planning for open schemes

35. For the purposes of journey planning, open schemes can assume an allowance for future accrual and new entrants, which will extend the time the scheme takes to reach significant maturity. This means we would expect that open schemes can allow for taking investment risk over a longer period of time than an equivalent closed scheme with an equivalent employer.
36. We expect any allowance for new entrants and/or future accrual to be reasonable. Our expectations for how trustees will project what the duration of a scheme is expected to be in the future, allowing for new entrants and/or future accrual, are set out in this code’s **module on relevant date and significant maturity**.
37. In assessing the supportable risk for the scheme over the reliability period, open schemes should include contributions in respect of future accrual and include an allowance for that accrual when considering the TPs at the end of the reliability period.



General considerations continued...

### Journey planning for limited affordability schemes

38. Some schemes will have employers with very low levels of affordability and/or will be poorly funded with a substantial deficit relative to the support that can be reasonably expected from the employer. These schemes may not be able to meet all the principles for assessing supportable risk over the reliability period.
39. This could be because the employer's affordability is being used to support the existing deficit and there may be no other support available for investment risk. Or the employer's affordability might be so low that it cannot support the scheme taking any material investment risk.
40. In such situations, we expect trustees to set their journey plan to reflect low reliance on the employer, with limited risk-taking based on the scheme's maturity, in line with the supportability principle described in paragraph 5 of this module. At the same time, we recognise that in practice the trustees of such schemes may conclude that it is in the best interest of members for them to take some unsupported risk (in their actual investment strategy) to target payment of full benefits, subject to the constraints set out in the **module on investment and risk management considerations**.

### Other considerations

41. Trustees should consider the feasibility of their investment journey plan, especially where it is likely to drive the evolution of the scheme's actual investment allocation. For example, we would expect the trustees to consider the following factors.
  - a. Their investment governance model and whether it can support the planned de-risking strategy, for example the frequency of reviews and changes to investment allocations incorporated in their plan.
  - b. The timeframes for material de-risking, especially at the relevant date. Assuming material de-risking will occur instantaneously or over short timeframes may not be appropriate where, in practice, investment allocation changes may take longer to control risk. This might be the case if the trustees are planning to reduce exposure to illiquid investments, which may require a prolonged transition period.
42. As the scheme's relevant date is to be assessed using duration, we expect the de-risking in the journey plan to be measured, to some extent, against duration. The journey plan should therefore, as a minimum, plan for transitioning the notional investment allocation to a low dependency investment allocation no later than the relevant date, regardless of the scheme's expected funding level. In practice, planned de-risking based on duration does not constrain the trustees' actual de-risking decisions. For example, actual de-risking may be based around 'triggers', which are engaged when a scheme reaches a particular funding level.



Other considerations continued...

43. While we expect a scheme's journey plan to be measured against duration, where the risk taken during the reliability period is supportable, trustees may choose to assume no de-risking until after the end of that reliability period. This is subject to the other factors discussed above and whether the scheme will reach its relevant date during that period. However, if events lead to a material change in the supportability of risk during the reliability period (for example, a material deterioration in covenant), trustees should carry out a prompt review of the funding and investment strategy.
44. At a future valuation, if the assessment of covenant does not change (for example the reliability period remains constant), and the relevant date has not been brought forward, the period before de-risking needs to start can be lengthened.
45. In assessing the supportable risk for the scheme over the reliability period, open schemes should include contributions in respect of future accrual and include an allowance for that accrual when considering the TPs at the end of the reliability period.

### Detail of the journey plan in the funding and investment strategy

46. The funding journey plan forms part of the funding and investment strategy, which is subject to employer agreement. It will therefore be reviewed (and, where appropriate, revised) whenever the funding and investment strategy is reviewed as a whole. While the investment journey plan does not constitute a formal part of the funding and investment strategy, we still expect it to be reviewed whenever the funding journey plan is, to ensure that the latter remains supported by the scheme's planned evolution of its notional investment allocation.
47. The funding and investment strategy will record the funding journey plan, including the current funding level and the funding level trustees intend to achieve on the relevant date, both calculated on a low dependency funding basis. It will also show how the funding assumptions will evolve over the journey plan to the relevant date. Detail on the investment journey plan underpinning the funding will be provided in Part 2 of the statement of strategy. Information required in the statement of strategy on the funding and investment journey plan is set out in the **statement of strategy module** of this code.

## Statement of strategy

1. Trustees must prepare a written statement of strategy made up of two parts.
  - a. Part 1, which records the funding and investment strategy.
  - b. Part 2, which records supplementary matters, including how well the funding and investment strategy is being implemented, the main risks to the strategy and how they are being managed, and reflections on significant decisions and lessons learnt, and various other matters.
2. Part 1 of the statement must be prepared as soon as reasonably practicable following any determination or revision of the scheme's funding and investment strategy. Part 2 of the statement must be reviewed and if necessary revised as soon as reasonably practicable after a review of the funding and investment strategy, whether or not it is revised.
3. The statement of strategy must also be submitted to us. In most cases it must be submitted to us as soon as reasonably practicable after the funding and investment strategy has been prepared or revised. We would normally expect this be within 10 working days. Trustees may use their judgment and apply "reasonably practicable" to their own circumstances, though we would encourage them to record their reasons if a longer period can be justified. Further information about the statement of strategy and other key funding documents are set out in **reporting and inter-valuation requirements by documentation type**. Different timescales apply where the revision is a consequence of our giving directions for the statement of strategy or technical provisions to be revised.
4. A trust scheme's statement of strategy must be signed on behalf of the trustees by the chair of trustees. If the scheme does not have a chair, the trustees must appoint one. A chair must be:
  - a. an individual who is a trustee of the scheme
  - b. a professional trustee body which is the trustee of the scheme, or
  - c. where a company which is not a professional trustee body is a trustee of the scheme, an individual who is a director of the scheme or a professional trustee body which is a director of that company

## Code principles for approaching the statement of strategy

### Form of statement of strategy

5. The statement of strategy must be submitted in a form set out by us. We also have discretion over the level of detail required on certain supplementary matters. Trustees must, therefore, follow our guidance on how to prepare and submit the statement of strategy, including using any templates we may provide.

### Proportionality

6. Information collected in Part 1 of the statement of strategy will be required regardless of the scheme's circumstances. We have discretion over the level of detail required for much of the information, evidence and explanations required in Part 2 of the statement. The amount of detail we require will depend on the scheme's circumstances and the level and complexity of the risk being taken.
7. Where trustees are asked to provide explanations or commentary, we expect trustees to take a proportionate approach, taking account of the:
  - a. size of the scheme (in absolute terms and relative to the size of the sponsoring employer)
  - b. maturity and funding level of the scheme
  - c. level and complexity of the funding and investment risk being taken, and the amount of reliance being placed on the employer covenant
8. The greater the complexity or risk, the greater the level of detail and explanation we will expect to see.

### Working collaboratively

9. Trustees will need information from the employer if they are to comply with the scheme funding requirements, and complete all the supplementary matters in Part 2 of the statement of strategy.
10. We expect trustees and employers to work together in an open and transparent manner. Trustees should engage with the employer early and often, and obtain relevant information from them at an early stage. Employers must provide trustees with information which the trustees and/or their professional advisers reasonably require to perform their respective duties. This includes the duty to prepare the statement of strategy.
11. Trustees should not be refused information they are otherwise entitled to because of concerns over stock exchange requirements or other confidentiality issues. The statement of strategy is not a public document. It should be possible to address potential employer concerns, for example by trustees entering into a confidentiality agreement.

Working collaboratively continued...

12. As we expect that most of the information contained in the statement of strategy will be 'restricted information' as defined in section 82 of the Pensions Act 2004<sup>1</sup>, we will treat that information as confidential and not disclose it to any other person unless specifically permitted to do so in the limited circumstances provided for under the legislation.
13. Trustees must obtain the agreement of the sponsoring employer to the funding and investment strategy set out in Part 1 of the statement of strategy, unless the rates of contributions payable to the scheme by the employer are determined by the trustees or managers without the agreement of the employer, and no person other than the trustees is permitted to reduce those rates or to suspend payment of contributions. In that case, the trustees are required to consult the sponsoring employer (or their representative) on the funding and investment strategy, not obtain agreement. Employers in multi-employer schemes may choose to appoint a representative for this purpose, or to waive their right to agree or be consulted.
14. Trustees must consult with the employer in relation to Part 2 of the statement of strategy. We recognise that employers in multi-employer schemes may also choose to waive this requirement or consult via a representative.

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1 Article 77 of The Pensions (Northern Ireland) Order 2005

## Part 1: Funding and investment strategy

15. Trustees must record their funding and investment strategy in Part 1 of the statement of strategy, detailing their plan for delivering benefits over the long-term.
16. As set out above, the funding and investment strategy must be agreed with the employer, apart from in the limited circumstances where the employer must be consulted. We expect confirmation of this agreement or consultation in Part 1 of the statement of strategy.
17. In the funding and investment strategy, trustees must provide the following information.
  - a. The way in which they intend pensions and other benefits under the scheme to be provided over the long term. This is the long term objective and can be changed over time.
  - b. The expected maturity of the scheme at the relevant date, where the relevant date is in the future. The expected maturity must be expressed as the duration of liabilities calculated on a low dependency funding basis. The form of the statement of strategy will require trustees to provide their chosen relevant date.
  - c. The current funding level of the scheme on a low dependency funding basis, as shown in the actuarial valuation to which the funding and investment strategy relates.
  - d. The funding level the trustees intend to achieve by the relevant date, calculated on a low dependency funding basis. The scheme must be at least fully funded on a low dependency basis by the relevant date, but the trustees can target a higher level of funding.
  - e. Information about discount rates and other assumptions used to calculate the scheme's liabilities - in particular how discount rates will change over time. For a scheme that has not yet reached the relevant date, this will illustrate how the scheme's funding assumptions will evolve over the journey plan to the low dependency funding basis at the relevant date. Where a scheme's relevant date is in the past, this will illustrate how the funding assumptions will continue to comply with the low dependency principle as the scheme continues to mature.
  - f. The proportion of scheme assets the trustees intend to allocate to different categories of investments at the relevant date. We expect the proposed investments to reflect the low dependency investment allocation, to comply with the objective that assets of at least the minimum funding level should be invested in this way after the relevant date. As surplus assets are not subject to the same objective, if trustees plan to invest surplus assets differently to the low dependency investment allocation at the relevant date, we also ask the trustees to show how they intend to invest these assets separately.

## Part 2: Supplementary matters

18. Trustees must record supplementary matters in Part 2 of the statement of strategy. Trustees must consult with the employer when preparing or revising Part 2 and include confirmation of this in the statement of strategy, together with any comments that the employer has asked to be included.
19. In Part 2 of the statement of strategy, trustees must provide the following information.
  - a. The extent to which, in their opinion, the funding and investment strategy is being successfully implemented. Trustees must set out any areas where the funding and investment strategy is not being successfully implemented, and any steps they propose to take to address them.
  - b. An assessment of the main risks to implementing the funding and investment strategy. We expect trustees to outline these risks, how they are being monitored and explain how they intend to mitigate them.
  - c. Reflections on any significant past decisions taken by the trustees relevant to the funding and investment strategy, including lessons learned and how those lessons have impacted other decisions, or are being taken into account. Trustees should focus on matters that have materially affected their thinking and/or approach to funding or governance.
20. Trustees must also be prepared to record the following additional matters, but the level of detail provided will be determined by us. Generally, we will expect a greater level of detail where there is greater complexity, or a higher level of risk is being taken. In some instances, we may determine that no information is required.
  - a. A summary of the actuarial valuation to which the funding and investment strategy relates, and any related recovery plan.
  - b. The actuary's estimate of the maturity of the scheme at the effective date of that valuation.
  - c. For a scheme which has assumed an allowance for new entrants/and or future accrual, a calculation of the duration of liabilities and future accrual based on those assumptions and confirmation of how long future accrual has been allowed for.
  - d. Where the scheme's relevant date is in the future, trustees must provide evidence of how maturity is expected to change over time.
  - e. An assessment of the employer covenant outlining the financial ability of the employer to support the scheme. The **employer covenant module** of this code provides more details on how to assess the covenant. We expect the description of how the employer covenant supports risk to be proportionate to the level of risk being taken and to reference the employer's cash flows, prospects and contingent asset support. However, the level of detail required may differ. Trustees must also be prepared to provide their assessment of the employer's reliability period and covenant longevity to support their assessment of how long the employer covenant can reasonably be relied upon.

Part 2: Supplementary matters continued...

- f. The current level of risk in relation to the investment of the assets of the scheme. As a minimum, we expect the trustees to provide a breakdown of the current notional investment allocation.
- g. An explanation of how the trustees intend to comply (or, if the relevant date is in the past, do comply in the actuarial valuation to which the funding and investment strategy relates) with the objective to have a low dependency investment allocation (LDIA) on or after the relevant date.
- h. Where the relevant date is in the future, our expectation is that trustees will set out an investment journey plan for how their notional investment allocation will change over time to reach an LDIA by the relevant date.
- i. Where the relevant date is in the past, we expect trustees to confirm that the calculation of TPs in the actuarial valuation to which the funding and investment strategy relates assumes a notional investment allocation in line with the LDIA.
- j. An explanation of how investments comply with the liquidity principle.
- k. An explanation of the extent to which the funding and investment strategy is appropriate, or remains appropriate, including why the trustees have reached that conclusion.

## Application

1. In the long-term planning section of this code, we set out our expectations of trustees in relation to their funding and investment strategy, and statement of strategy. In this part of the code, we set out our expectations of how trustees should approach other aspects of their valuations and how the elements in the long-term planning section should be integrated into their funding solutions.
2. Many of our expectations across these areas are linked and overlap. Where there is overlap, we have not repeated our expectations but referenced the relevant sections in other parts of this code.
3. The valuations section of the code covers:
  - technical provisions
  - recovery plans
  - investment, risk management and liquidity

## Technical provisions

1. At each valuation the scheme's technical provisions (TPs) must be determined. This is the amount required, on an actuarial calculation, to make provision for the scheme's liabilities.
2. The assumptions to be used for the purpose of calculating the TPs are determined by the trustees, which must be consistent with the scheme's funding and investment strategy. The extent of this requirement is set out below.
3. The scheme actuary will determine the TPs using those assumptions and the scheme data.
4. The trustees and actuary should discuss any concerns they have over the quality of the valuation data.

## Role of the scheme actuary

5. The trustees must take advice from the actuary on the assumptions to be used.
6. The actuarial valuation must incorporate the actuary's certification of the TPs calculation. The actuary is not responsible for choosing the method and assumptions or certifying that they are appropriate.
7. The trustees should have good reasons if they decide not to follow the actuary's advice. If they instruct their actuary to certify the TPs using an approach the actuary considers a clear failure to comply with Part 3 of the Pensions Act 2004<sup>1</sup>, we expect the actuary to report that certification to us.
8. In addition, if the actuary does not believe that the assumptions chosen for the TPs could be considered consistent with the associated funding and investment strategy, we would also expect them to report that to us.

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1 Part IV of The Pensions (Northern Ireland) Order 2005



## Setting the assumptions for TPs

9. The economic and actuarial assumptions used to calculate the TPs must be chosen prudently, allowing an appropriate margin for adverse experience. The mortality assumptions and demographic assumptions must be chosen using prudent principles.
10. The TPs must be calculated in a way that is consistent with the funding and investment strategy<sup>2</sup>.
11. Where the effective date for the valuation falls after the relevant date, the assumptions used for the TPs should be the same as or stronger than those in the low dependency funding basis.
12. Where the effective date for the valuation falls before the relevant date, the TPs must reflect the funding and investment strategy. We expect this to happen in two ways.
  - a. In relation to the period following the relevant date, the assumptions should be determined so that they are consistent with the use of the same or stronger assumptions than those used in the low dependency funding basis.
  - b. In relation to the period before the relevant date, the assumptions should be consistent with the planned evolution of the notional investment allocation, as set out in the journey plan.
13. The relevant date should be determined with reference to the principles explained in the **relevant date and significant maturity module**.
14. As noted in that section, where an open scheme has not reached significant maturity, the trustees can use assumptions for future accrual, new entrants, or both to estimate when significant maturity will be reached. Using such assumptions will mean that an open scheme can be expected to take longer to reach significant maturity than an equivalent closed scheme. Trustees of such schemes can choose to reflect this in the relevant date, journey plan and the assumptions used to calculate TPs. As a result of the longer time periods, the TPs for an open scheme can be lower than those of an equivalent closed scheme.
15. The principles in this section do not limit trustees that are adopting more prudent TPs from adopting the low dependency funding basis at a point before the relevant date.
16. The individual assumptions used should be chosen consistently with the overall level of prudence targeted for the TPs. The trustees must consider whether, and to what extent, account should be taken of a margin for adverse deviation when choosing individual assumptions.
17. We would expect the TPs to include any liabilities expected to be paid by insured assets, where these assets are included and valued in the relevant scheme accounts.

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2 Section 222(2A) of the Pensions Act 2004 [Article 201(2A) of The Pensions (Northern Ireland) Order 2005]

## Individual assumptions

18. The economic assumptions assumed in the TPs may include:
  - a. discount rates
  - b. RPI and CPI inflation
  - c. inflation-related pension increases – these are pension increases related to inflation but with a maximum level, minimum level, or both
19. In addition, assumptions for pay increases in open schemes are often linked to the RPI or CPI assumptions.
20. The economic assumptions should be set consistently with each other.
21. The factors that need to underlie economic assumptions, the investment returns on individual asset classes or inflation assumptions are almost entirely independent of the scheme. They are driven by the return on risk-free assets or broader economic and financial factors.
22. When determining the discount rates, the expected future return on the assets presumed to be held for the purposes of the statement of strategy over the entire period of the scheme's journey plan and after relevant date, should be allowed for.
23. The discount rates chosen should have regard to material factors that may affect investment returns over the relevant time horizon, such as climate change and other systemic trends.
24. Our general expectation is that yield curves should be used in determining economic assumptions. If the trustees consider it appropriate, the assumptions derived in this way can be summarised as single equivalent discount rates. This general expectation applies particularly to larger schemes where they are more able to rely on projected cashflows, as these schemes are less prone to concentration risk than smaller schemes. This makes the use of the yield curve in deriving assumptions more appropriate. It also applies particularly to schemes before the relevant date where the journey plan expects gradual de-risking over time, and this is reflected in the discount rates, and to schemes that have a high level of hedging.
25. Where the inflation assumption is derived from market expectations of future inflation, the trustees may adjust the market derived value to set the future inflation assumption, for example by using an 'inflation risk premium'. The level of such an adjustment should depend on the investment strategy and the extent to which the liabilities are matched against movements in inflation.

Individual assumptions continued...

26. The principles used in setting salary increases, CPI inflation and pension increases in the low dependency funding basis (see the **expectations for setting assumptions in the low dependency funding basis section**) may also be relevant for the TPs, although the assumptions themselves may be set differently. Therefore, the trustees may also want to refer to this section.
27. In addition, we would expect that many of the demographic assumptions used in the low dependency funding basis will also be used in the TPs. Therefore, the trustees should also consider our expectations on setting demographic assumptions in the section of this code on expectations for setting assumptions in the low dependency funding basis. Trustees should pay particular attention to assumptions about future mortality.

### Assets

28. For the purposes of determining the funding level, the scheme should use the assets from the relevant accounts.
29. Where these include and value insured assets, a value for those assets should be included and calculated using the TPs assumptions.

### Cost of future accrual

30. When deciding on the appropriate level of contributions in respect of future accrual, we expect trustees to consider the risks to the scheme in allowing for future service, noting that once earned, accrual becomes additional TPs. Therefore, we expect trustees to be satisfied that the level of contributions paid for the provision of future accruals should not compromise the security of accrued benefits.
31. Trustees should be satisfied that, based on the level of contributions agreed for future service, the overall risk of the scheme is supportable, including allowing for the level of future accrual being earned. We would expect that, after considering the provision of future service, the trustees would be satisfied that the scheme would still be expected to be compliant with legislation and continue to meet the principles of this code for funding and investment in the future.
32. For open schemes in surplus, the surplus may be able to be used to fund or part fund future accrual in the scheme. However, we would expect the trustees to carefully consider whether allowing the surplus to be used in this way is appropriate, noting their powers and what is allowable under the scheme rules and considering the equitable treatment of their membership.

## Recovery plans

1. When the scheme is in deficit on a technical provisions (TPs) basis as at the effective date of a valuation, trustees must put in place a recovery plan (or review or revise the existing plan) to restore the scheme to full funding on a TPs basis. They should set out the period over which this will be achieved.
2. In addition to complying with the matters set out below, a recovery plan must be appropriate, having regard to the nature and circumstances of the scheme. In determining whether a recovery plan is appropriate, trustees must follow the overriding principle that steps must be taken to recover deficits as soon as the employer can reasonably afford. Trustees should assess future reasonable affordability at least on a year by year basis, with steps taken to reduce the deficit set in line with this assessment. This is discussed in more detail in the **section on reasonable affordability and the pace of funding** below.
3. The matters that trustees must consider are:
  - a. the impact of the recovery plan on the sustainable growth of the employer
  - b. the asset and liability structure of the scheme
  - c. its risk profile
  - d. its liquidity requirements
  - e. the age profile of the members
  - f. in schemes where (a) the rates of contributions payable by the employer are determined under the scheme rules in accordance with the advice of a person other than the trustees (for example, the scheme actuary), and (b) the employer's agreement is not required, the recommendations of that third-party must be taken into account
4. Trustees should follow our general principles and expectations below for determining the appropriateness of a recovery plan, which take the first five matters into account. Where appropriate, the trustees must also consider factor 3 (f) as they are determining the recovery plan.

## General principles and expectations

5. When determining the appropriateness of their recovery plan, trustees should consider:
  - a. the employer's reasonable affordability
  - b. whether to allow for investment outperformance
  - c. whether to account for post-valuation experience
6. In practice, these factors are inter-related but can be considered in reverse order.
  - a. If the trustees allow for post-valuation experience, this may change the deficit the recovery plan has to address.
  - b. If the trustees allow for investment outperformance, this may reduce the deficit the trustees need to be made good via contributions from the employer.
  - c. The deficit (or remaining deficit, if both or either of the above steps have been taken) that has to be recovered is subject to the overriding principle that steps must be taken to recover deficits as soon as the employer can reasonably afford.

## Post-valuation experience

7. Post-valuation experience refers to the experience that has already happened between the valuation date and the date of finalising the recovery plan (which may be up to 15 months later under legislation). Actual changes in financial markets and their impacts on both investment returns and scheme liabilities will be known and measurable by the date the recovery plan is finalised, as well as other aspects of the scheme's funding.
8. Trustees can take post-valuation experience into account in the recovery plan. If they choose to do so, they should:
  - a. take account of favourable and unfavourable changes
  - b. consider changes to scheme assets, scheme liabilities and covenant, including any changes to the assumptions that should be used to calculate the liabilities
  - c. assess changes over the bulk of the period since the effective date of the valuation
  - d. consider taking only a proportion of the post-valuation experience into account given that some of it could reverse before the next valuation due to the volatile nature of the underlying items
9. Trustees should consider whether it is appropriate to take a different approach to post-valuation experience than that adopted in the previous valuation.

## Investment outperformance

10. Trustees may make allowance for investment outperformance in the recovery plan, meaning they may assume higher investment returns over the recovery period than has been assumed in the discount rates used to calculate TPs. This has the effect of reducing the part of the deficit that has to be made good via deficit repair contributions (DRCs).
11. If the scheme assets fail to achieve the higher return assumed, the deficit will not reduce as expected, and higher DRCs than planned for may be required in the future. Allowance for investment outperformance in the recovery plan could, therefore, remove some or all the prudence in the overall funding strategy, increase funding risk and reduce transparency around how much risk is being taken or assumed.
12. Before the relevant date, investment outperformance should only be allowed for to the extent it is supported by the employer covenant and is consistent with the principles of taking supportable risk over the journey plan, except where there is an 'Inability to support risk' as described in the **investment and risk management considerations module** of this code applies.
13. We would expect that the level of the investment outperformance and how long it is allowed for during the recovery plan should reflect no more than the best estimate return of the expected asset strategy over the period of the recovery plan. This would include allowing for any planned de-risking. However, we would generally not expect that any investment outperformance should be allowed for after the reliability period, unless the scheme has a sufficient employer covenant to support it.
14. The DRCs must be determined using the principle of reasonable affordability, as discussed below, and the timing and amount of those DRCs will determine how much of the deficit must be made good by DRCs when allowing for investment outperformance. Therefore, these factors are closely interrelated and we would expect trustees in many cases will need to consider the impact of investment outperformance in tandem with their assessment of reasonable affordability.
15. Once a scheme reaches its relevant date, we expect trustees to be running a prudent level of risk in their investment strategy, in line with a low dependency investment allocation. This will help limit any future reliance on the employer covenant. Given this, we would expect any investment outperformance in a recovery plan post significant maturity to be small.

## Reasonable affordability and the pace of funding

16. The deficit shown in the valuation (subject to post-valuation experience and investment outperformance adjustments, where relevant) must be recovered as soon as the employer can reasonably afford.
17. Trustees should assess future reasonable affordability at least on a year by year basis, with steps taken to reduce the deficit set in line with this assessment.
18. There are three considerations to take into account when determining what contributions the employer can reasonably afford.
  - a. Assessing the employer's available cash.
  - b. Assessing the reliability of the employer's cash flows.
  - c. Determining whether any of the available cash could reasonably be used by the employer other than to make contributions to the scheme (known as reasonable alternative uses).

## Assessing available cash

19. Trustees should assess an employer's available cash by aggregating:
  - a. the employer's cash flow (see **assessing the employer's current and future cash flow** for more details on this), and
  - b. its liquid assets
20. Liquid assets for these purposes are balance sheet assets after reasonable working capital requirements that can be readily converted into cash. For example, cash, intercompany debtor balances that relate to pooled or swept cash, proceeds of debt or equity raises to the extent that these are on the balance sheet and not already factored into cash.

## Assessing the reliability of the employer's cash flows

21. When determining an appropriate recovery plan, we expect trustees to consider the extent to which they have reasonable certainty over the employer's cash flows to fund the scheme (the reliability period). The **assessing the reliability period and covenant longevity section** of the employer covenant module provides details on how we expect trustees to assess the reliability period.
22. Where a recovery plan extends beyond the reliability period, there is an increased risk that the employer may not have sufficient available cash to meet the funding needs of the scheme.
23. The reliability period is therefore key in determining the reasonableness of alternative uses of cash, as discussed below, which in turn will determine an appropriate pace of funding and recovery plan length.

Reasonable affordability and the pace of funding continued...

### Determining reasonable alternative uses of cash

24. The legislation does not necessarily require the entirety of an employer's available cash to be used to pay down the deficit. The extent to which available cash may reasonably be used for purposes other than to pay down the scheme's deficit depends on the circumstances of the scheme and the employer.
25. Trustees will typically have to consider three types of alternative uses for an employer's available cash:
  - 1. Investment in sustainable growth**
    - a. This involves the employer using available cash to finance investment in its business.
    - b. Sustainable growth refers to the growth a business could realistically achieve and maintain without creating a heightened risk of running into difficulty.
  - 2. Covenant leakage**
    - a. Covenant leakage occurs when available cash leaves the employer in situations where no clear return of monetary value is due.
    - b. Examples of covenant leakage are distributions to shareholders or intercompany loans that are unlikely to be paid back.
  - 3. Discretionary payments to other creditors**
    - a. Discretionary payments are made when the employer elects to make payments to creditors other than the scheme at a time when those payments aren't due. An example of a discretionary payment is the early repayment of a loan.
    - b. Discretionary payments may be balance sheet neutral. However, they likely favour other creditors over the scheme (by exposing the scheme to the risk of available cash not being as reliable as expected) and will, therefore, only be a reasonable alternative use of cash in limited circumstances.
26. A fourth, less common type of alternative usage for available cash is making contributions to other defined benefit (DB) schemes sponsored by the employer. Although these payments may already be agreed under a schedule of contributions, if available cash is not allocated fairly between DB schemes, one scheme might be favoured over another.
27. Employers may identify other alternative uses of cash beyond what is set out above. We would expect employers to fully evidence and justify why the alternative uses are reasonable and should be preferred to repaying the scheme's deficit. When assessing the reasonableness of these alternative uses, trustees should apply the same principles as discussed below and ensure that their approach is well documented.



Determining reasonable alternative uses of cash continued...

28. When assessing the reasonableness of the employer's alternative uses for available cash, trustees should pay particular attention to the:
- a. sustainable growth of the employer
  - b. scheme's funding level and level of funding risk
  - c. reliability of available cash in the future
  - d. maturity of the scheme
  - e. fairness of treatment between the scheme, other creditors and shareholders
29. With this in mind, we would expect trustees to adopt the following reasonable affordability principles:

**In general, investment in the employer's sustainable growth may be a reasonable use of available cash where the trustees are confident of the resulting benefit to the scheme and employer**

30. Where the employer is proposing to use some of its available cash to finance investment in sustainable growth, trustees should obtain from the employer clear and persuasive evidence around how the proposed investment will produce the anticipated sustainable growth and ensure they understand the risks and benefits to the employer's business and the scheme.
31. The level of information provided by the employer and the complexity of the trustees' assessment should be proportionate to the amount of available cash to be utilised in the investment. This is particularly important where this results in the recovery plan exceeding the reliability period, where there is a higher level of risk or underfunding in the scheme.
32. Where investment in sustainable growth results in the recovery plan exceeding the reliability period, this investment will generally be reasonable where the following apply:
- a. The benefits of doing so to the employer and scheme are reasonably certain; or
  - b. A suitable contingent asset is obtained that:
    - meets the relevant criteria of a contingent asset as set out in the **section on contingent asset support** in the employer covenant module; and
    - is sufficient in value to cover at least the expected remaining deficit at the end of the reliability period generated by the investment in sustainable growth, and the trustees are reasonably certain that they will be able to access this value during the recovery plan period should the employer not be able to meet its obligations under the recovery plan

Determining reasonable alternative uses of cash continued...

33. The use of available cash for sustainable growth will become less reasonable:
- the lower the scheme's funding level
  - the more mature the scheme
  - the greater the level of risk being run
  - the longer the extension to the recovery plan; and
  - where no contingent asset is provided or where it does not meet the criteria of being a suitable contingent asset, as set out in the **contingent asset support section** of the employer covenant module
34. Once the scheme has reached significant maturity, DRCs should be prioritised over the use of available cash for investment in sustainable growth where the trustees are not confident that this investment will result in growth within a period consistent with the scheme's liability profile.

**The lower the funding ratio and the more funding risk, the less reasonable it will be to use available cash for discretionary payments or to effect covenant leakage**

35. Where a scheme has a lower funding level, the scheme is choosing to take more funding risk by adopting a less prudent funding basis, or both of these apply, the risks to the scheme are increased. We recognise these issues are interlinked and should be considered holistically.
36. For example, a scheme before the relevant date adopting its low dependency funding basis for TPs might be underfunded on that basis. However, if the scheme were to adopt a less prudent funding basis that was still supportable by the employer's covenant, then it would be better funded (and possibly even fully funded) on that less prudent basis. Nonetheless, adopting the low dependency funding basis for its TPs, where the scheme would have a lower funding level, is likely to be the lower risk strategy overall.
37. Where the funding risks to the scheme are higher, we expect the scheme to receive more of the available cash by way of DRCs rather than for it to be made available for discretionary payments or to effect covenant leakage. If the scheme is running risks that are not supportable (according to the principles and approach set out in the **journey planning module**), then we would not expect any discretionary payments or covenant leakage. As the funding level improves or the level of funding risk declines, the use of available cash for those purposes is more likely to be reasonable (subject to the other applicable reasonable affordability principles).

Determining reasonable alternative uses of cash continued...

**Available cash should not be used for discretionary payments or to effect covenant leakage where this would require DRCs to be paid after the reliability period**

38. Trustees cannot be reasonably certain that cash will be available to pay DRCs beyond the reliability period. Covenant leakage and discretionary payments are unlikely to be reasonable alternative uses of available cash if that would result in DRCs being required outside the reliability period.
39. Trustees may consider the use of available cash to make such payments to be reasonable if a suitable contingent asset is provided. In addition to meeting the relevant criteria for a contingent asset as set out in the **section on contingent asset support** in the employer covenant module, the contingent asset should cover at least the expected deficit remaining at the end of the reliability period. The trustees should be reasonably certain that they will be able to access this value during the recovery plan period if the employer can't meet its obligations under the recovery plan.

**The more mature the scheme, the greater the need for available cash to be paid to the scheme in the near term**

40. As a scheme approaches significant maturity, the use of available cash to make discretionary payments or to enable covenant leakage is less reasonable. This is particularly the case if it could lead to DRCs being insufficient to enable the scheme to be fully funded on a low dependency basis by the time the scheme reaches significant maturity.
41. Once the scheme has reached significant maturity, DRCs should be prioritised over the use of available cash to make discretionary payments, enable covenant leakage or to invest in sustainable growth if the trustees are not confident that this investment will result in growth within a period consistent with the scheme's liability profile.

**Allocation of available cash between DB schemes sponsored by the employer should be fair, considering the position of those schemes**

42. Each scheme sponsored by the employer will have a particular need for cash contributions, considering the respective funding levels and proximity to the respective relevant date.
43. Trustees should request information in relation to the other schemes sponsored by the employer to understand the extent of other schemes' reliance on the covenant and to assess fair treatment.

## Dealing with short-term employer affordability constraints

44. Trustees should assess future reasonable affordability on at least a year by year basis, with DRCs set in line with this assessment, even if this leads to an unusual recovery plan structure.
45. Back-end loaded recovery plans are therefore only acceptable where trustees:
  - a. can evidence that annual DRCs are set in line with the reasonable affordability principles; and
  - b. consider with reasonable certainty that the higher level of DRCs factored into the recovery plan will be affordable in the later years and that no more is reasonably affordable in earlier years
46. Where available cash is limited in the short term, we would expect the trustees to take steps to manage this risk such as:
  - a. requesting DRCs to be prioritised ahead of covenant leakage and discretionary payments
  - b. seeking further protections where available, such as security or a guarantee, to mitigate the short-term risk of not receiving cash or receiving less cash into the scheme

## Guarantors

47. Where a third party has provided a look-through guarantee, trustees should additionally assess the reasonable affordability of DRCs to the guarantor.

## Employers' obligations

48. We expect employers to provide trustees with the information they require to enable an assessment of reasonable affordability.
49. Where the employer wishes to use available cash to invest in sustainable growth, the employer should provide sufficient information to the trustees so they can make an informed assessment of the risks and potential benefits to the employer and the scheme.
50. This is particularly important where an appropriate contingent asset has not been provided and where:
  - a. the investment in sustainable growth results in the recovery plan exceeding the reliability period; and/or
  - b. the scheme's funding level is low, and/or
  - c. more funding risk is being taken

## Investment and risk management considerations

### Implementing an investment strategy

1. For the purposes of the funding and investment strategy, trustees must take into account the objective that scheme assets up to the minimum funding level will be invested in accordance with a low dependency investment allocation from the relevant date. This objective does not apply to any surplus on a low dependency funding basis. More detail on this is available in the **low dependency investment allocation module** of this code.
2. Trustees must also formulate a journey plan, which should consist of both a funding journey plan (formally a part of the funding and investment strategy) and an investment journey plan. More detail on this is available in the **journey planning module** of this code.
3. While the funding and investment strategy and the investment journey plan do not limit trustees' discretion over actual investment matters, we expect that investment decisions by trustees (and fund managers to whom decision-making has been delegated) will generally be consistent with the planned evolution of the notional investment allocation.
4. That is because the rationale behind the requirements for the funding and investment strategy and the journey plan should also underpin trustees' actual investment decisions. These are some examples of the kinds of considerations trustees should have:
  - a. When the scheme is significantly mature, there is less time to make good investment losses. Therefore, a low-risk investment strategy would generally be appropriate to mitigate against sudden and unexpected investment volatility.
  - b. Trustees need to plan how they would transition to that low-risk investment strategy over time, generally requiring consideration of de-risking strategies.
  - c. Investment risk should be dependent on the extent to which the employer covenant can support downside risks on the path to significant maturity.
5. The funding and investment strategy must be reviewed and, if applicable, revised whenever an actuarial valuation is undertaken under Part 3 of the Pensions Act 2004<sup>1</sup>. This is because actual investment decisions may differ from the funding and investment strategy or the investment journey plan over the short term. For example, opportunities in the markets might arise that would enable the trustees to accelerate their plans for de-risking and take advantage of advantageous market opportunities such as increased bond yields. More detail on this is available in the **risk management and governance section** of this module of the code.

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1 Part IV of The Pensions (Northern Ireland) Order 2005

Implementing an investment strategy continued...

6. Other circumstances where investment decisions may not mirror the funding and investment strategy include the following.
  - a. An employer refuses to agree to changes to the investment strategy set out in the funding and investment strategy, despite the trustees considering it appropriate. Employer agreement is required for the funding and investment strategy<sup>2</sup> but not for the investment elements in Part 2 of the statement of strategy (where consultation with the employer is required)<sup>3</sup>. However, the power to take actual investment decisions lies with the trustees<sup>4</sup> (subject to the scope of their powers in the scheme's trust deed and rules). While we would expect trustees and employers to work collaboratively to agree the funding and investment strategy, where agreement cannot be reached, this does not inhibit the trustees in exercising their investment powers.
  - b. A material surplus exists on a low dependency funding basis. The existence of the surplus may significantly reduce the risk of further employer contributions being required in the event of funding level volatility. Therefore, the trustees may be able to invest all scheme assets, not just the surplus, in a manner different from a low dependency investment allocation, without affecting low dependency on the employer. This could result in an overall greater allocation to growth assets, which may allow the trustees to meet their long-term objectives.
7. Although the examples set out above show that there might be good reasons for the actual investment allocation to differ from the notional investment allocation set out in the investment journey plan or the funding and investment strategy, our general expectation is that investment decisions by trustees (and fund managers to whom decision-making has been delegated) will be consistent with the investment journey plan and the funding and investment strategy.
8. Where this is not the case, trustees should recognise that material differences between the actual investment allocation and the notional investment allocation set out in the investment journey plan or the funding and investment strategy may result in additional risk. This may affect the scheme's ability to successfully implement the funding and investment strategy. Trustees should consider as part of their effective system of governance whether this is a key risk and, if so, they should put in place an appropriate policy to manage it (see the risk management and governance section for more detail).

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2 Section 229(1)(za) of the Pensions Act 2004 [Article 208(1)(za) of The Pensions (Northern Ireland) Order 2005]

3 Section 221B(5) of the Pensions Act 2004 [Article 200B(5) of The Pensions (Northern Ireland) Order 2005]

4 Section 34(1) of the Pensions Act 1995 [Article 34(1) of The Pensions (Northern Ireland) Order 1995]

Implementing an investment strategy continued...

9. While the additional risk arising from differences between the actual and notional investment allocations may not feature in the assessment of supportable risk (as detailed in the **journey planning module**), we would generally expect that where this is material, trustees should ensure that it remains supportable by the covenant. However, this expectation is relaxed in the event of short-term employer stress (more detail is available in the short-term employer stress section below) or inability to comply with the principles for assessing supportable risk detailed in the **journey planning module** of this code. This is outlined further in the section of this module below on inability to support risk.

### Short-term employer stress

10. In some situations, an employer might experience a sudden deterioration in covenant. An example of this for some employers was the COVID-19 pandemic. Trustees should consider whether the stress is likely to be short-term or permanent. If they think the deterioration is permanent, current investment allocations (both actual and notional) and the journey plan should be revised appropriately.
11. However, if they think the deterioration is likely to be short-term, trustees could decide to preserve their existing investment allocations (both actual and notional) and the journey plan. Trustees may choose to make this preservation contingent on the employer providing additional support to the scheme. Examples of this kind of support include:
  - a. providing contingent assets and formalising wider group support
  - b. ensuring the scheme is treated fairly
  - c. putting in place protections against covenant leakage (for example, negative pledges)
  - d. improving the insolvency priority of the scheme
12. Trustees should regularly monitor the employer covenant and if they form the view that the deterioration in covenant is not likely to be short-term, they should revise current investment allocations (both actual and notional) and the journey plan accordingly.
13. Where insolvency is considered highly likely in the short term, trustees should review their actual investment allocation and consider changes, where reasonable, to ensure that their existing funding position is protected.



### Inability to support risk

14. We recognise that there are likely to be a limited number of schemes whose circumstances prevent them from complying with the principles for assessing supportable risk over the reliability period set out in the **journey planning module**. For these schemes, the level of risk which could be supported by the employer covenant is such that, if it were reflected in the scheme's actual investment allocation, it would severely limit the chances of paying full benefits to members. This is because the covenant or the investment strategy would not be able to produce the necessary funds or returns to enable the scheme to reach full funding on a low dependency basis.
15. In these circumstances, we expect that the trustees will reflect only the supportable risk (limited as it may be) in the scheme's notional investment allocation along the journey plan, consistent with the supportability principle described in paragraph 5 of the **journey planning module** of this code. Consequently, when setting the technical provisions (TPs), we expect the trustees to place low reliance on the employer and only reflect the scheme's maturity. This means the difference between low dependency and TPs will be limited.
16. Nonetheless, trustees may find it appropriate to hold unsupported investment risk in the scheme's actual investment allocation, since it has a potential reward for the members. In these circumstances, we would always expect the trustees to seek to maximise the covenant support to the scheme by seeking to:
  - a. stop the flow of value away from the employer (for example, through restrictions on dividends and other forms of covenant leakage)
  - b. prevent detriment to the scheme's claim on the covenant caused by any employer debt financing and other corporate events
  - c. improve the scheme's security
  - d. provide contingent assets and formalise wider group support
17. Other actions we expect the trustees to consider, in collaboration with the employer, include the following.
  - a. Stopping accrual of future service benefits, subject to any restriction in the scheme rules. In these circumstances, we think it is unlikely to be appropriate to allow new, additional, liabilities to be built up when the level of security provided to the existing accrued liabilities is inadequate.
  - b. Winding up the scheme. In certain circumstances, the trustees or the employer may consider this is the best option for protecting members' benefits. This would involve taking appropriate advice and would require careful consideration of the extent to which the employer might be expected to continue in the longer term, which could allow the scheme more time to recover and members' benefits to be provided in full.



Inability to support risk continued...

18. If trustees take unsupported investment risk in this scenario, they should seek to strike an appropriate balance between taking enough risk to stand a reasonable chance of reaching full funding on a low dependency funding basis while ensuring that member security is not unnecessarily compromised. In general, our expectation is that trustees should take unsupported risk only when necessary to get from the current funding position to full funding on a low dependency funding basis at the relevant date.
19. In circumstances where the risk implied by this approach is unreasonable (for example, the scheme is poorly funded and only a few years away from significant maturity), we accept that trustees may conclude that it is in the best interests of members for them to continue to take unsupported risk in their actual investment allocation, potentially beyond the relevant date. If taking unsupported risk for any material length of time, we expect trustees to put in place a suitable de-risking framework to reduce the unsupported investment risk when opportunities arise.
20. Trustees should document their considerations and be able to justify their decisions as being in the best interest of members. When performing their duties under Part 3 of the Pensions Act 2004<sup>5</sup>, trustees should not take advantage of the existence of the Pension Protection Fund (PPF) as a justification for acting in a way which would otherwise be inconsistent with those duties.

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5 Part IV of The Pensions (Northern Ireland) Order 2005

## Risk management and governance

21. Good governance, including risk management, is a central tenet of managing a scheme.
22. Trustees must consider the main risks to implementing the funding and investment strategy successfully and how they plan to mitigate these risks. This includes material differences between actual investments and the investment journey plan or the low dependency investment allocation from which the low dependency funding basis in the funding and investment strategy is derived. As the scheme progresses towards the relevant date, trustees should identify and monitor any such differences and consider the risks these may pose to their ability to successfully implement the funding and investment strategy, and consider whether corrective action is appropriate.
23. Trustees will be required to outline the key risks to the scheme and how these are being managed in the statement of strategy. The amount of detail we require will depend on the scheme's circumstances and the level and complexity of the risk being taken. More detail can be found in the **statement of strategy module** of this code.
24. The general code of practice sets out the expectation for defined benefit (DB) trustees to have written policies on their risk management, the necessary governance to embed them into their decision-making, to carry out regular reviews to assess their effectiveness, and to take remedial action as necessary. More specifically, all schemes are required to have an effective system of governance<sup>6</sup> and, for schemes with 100 or more members, to carry out an own risk assessment. More detail can be found in the general code of practice.
25. The trustees' strategy for delivering member benefits in the long term is a key aspect of scheme governance and is covered by the requirements of the general code. The expectations set out in this code will help trustees focus on the risks from a funding perspective and assist them in complying with the governance and documentation requirements of the general code. More detail on this is available in the general code modules on **systems of governance** and **own risk assessment**.

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6 Section 249A of the Pensions Act 2004 [Article 226A of The Pensions (Northern Ireland) Order 2005]

## Integrated risk management (IRM)

26. Trustees should adopt a proportionate integrated approach to risk management when developing an appropriate scheme funding solution. The resources committed to this should be commensurate with the benefits the approach is expected to deliver for the scheme and employer.
27. Schemes face many risks to achieving their funding plans. Although interconnected, the risks broadly fall into three categories.
  - a. Employer covenant related. This includes the risk that the employer covenant supporting the scheme deteriorates over time (or, in extreme scenarios, disappears due to the employer's insolvency), resulting in the employer being unable to provide sufficient support to the scheme when it is needed.
  - b. Investment related. This includes the risk that the investments do not provide the returns expected.
  - c. Funding related. This includes the risk that the scheme experience is materially different to that assumed, for example, in relation to inflation or mortality.
28. Trustees should understand the risks across each of these categories and, as required by the general code, assess which are key risks and define acceptable parameters within which they seek to manage them. In doing so, they should recognise the interconnectedness of risks across the three categories. For example, scenario analysis of alternative economic conditions should consider not just the impact on the key risks to the scheme's assets and liabilities, but also on the support available from the employer covenant. They should also consider events that could lead to significant losses, even though their likelihood may be small (these are known as tail risks).
29. Trustees should then put in place appropriate policies to mitigate and manage all the key risks. These can include contingency plans, which should set out specific actions for employers, trustees, or both to take. Contingency plans may also include requirements to:
  - a. provide additional funding to the scheme
  - b. improve the support provided by the employer covenant (for example, improving access to employer assets or through legally binding support)
  - c. realign investment risk for consistency with the support available from the employer
  - d. realign other elements of the funding and investment strategy
30. Trustees should regularly monitor the key risks they have identified and ensure that their funding and investment strategy remains appropriate.

Integrated risk management (IRM) continued...

31. We expect trustees to develop suitable risk metrics to monitor, agree the frequency with which they will monitor them, and decide on appropriate thresholds and triggers for action. Trustees may find it helpful to develop a dashboard showing the performance of the key metrics against their risk thresholds. They may want to discuss these regularly at trustee meetings or with individuals and committees to whom appropriate decision-making has been delegated.
32. Trustees should also carry out an own risk assessment, which is a requirement for most schemes but encouraged for all, to test the effectiveness of their risk management policies and document the learnings.
33. This process should enable effective decision-making and will help the chair of trustees obtain the necessary assurances about how the key risks are being managed, as well as the quality of the governance they have in place to accomplish this. This should include statements about what the key risks are and how they have been factored into the scheme's monitoring systems, including:
  - a. what trustees do with the monitoring reports
  - b. who is responsible for them
  - c. how trustees determine their responses to the risks

### Security, quality, liquidity and profitability

34. The Investment Regulations<sup>7</sup> require trustees to exercise their powers of investment to ensure the security, quality, liquidity and profitability of the portfolio as a whole.
35. An appropriate investment strategy should balance the investment risk (security and quality) and return (profitability), considering the scheme circumstances and objectives and how these evolve over time.
36. The key considerations in how trustees should approach this balance are discussed in the sections of this code on **implementing an investment strategy**, **short-term employer stress** and **inability to support risk**. These sections highlight our expectation that trustees' investment decisions will generally follow their funding and investment strategy and the expectations set out in this code for a scheme's journey plan and low dependency investment allocation.
37. It is also important to consider liquidity as a separate (although related) consideration. Below are the key aspects we expect trustees to consider in relation to liquidity. Trustees should take into account the expectations set out in the remaining sub-sections of this module when considering how the scheme assets comply with the principle of being invested with sufficient liquidity to enable the scheme to meet expected cash flow requirements and make reasonable allowance for unexpected cash flow requirements.

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<sup>7</sup> Regulation 4(3) of The Occupational Pension Schemes (Investment) Regulations 2005 (SI 2005/3378) [Regulation 4(3) of The Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005 (SR 2005/569)]. This requirement does not apply to schemes with fewer than 100 members.

## Benefit payments and collateral requirements

38. It is important that trustees ensure there are appropriate levels of liquidity to meet their expected benefit and expense payments, including pensions in payment and cash commutation lump sums on retirement. They should also keep an appropriate amount of liquidity for more unpredictable cash flows, for example, the payment of cash equivalent transfers values (CETVs), lump sum payments on death, or collateral calls for derivative instruments.
39. These issues will be more prevalent for more mature schemes as benefit payments increase where members approach retirement age and start to take their pensions or consider their options.
40. Trustees should undertake forecast cash flow needs over at least three to six months, including an allowance for new retirees and transfer value requests. The cash flow forecast should make allowance for contributions to the scheme and investment income paid to the scheme (as opposed to being reinvested). As cash flow experience may differ from forecasts, adequate governance arrangements should be in place to ensure that trustees (and fund managers to whom decision-making has been delegated) are informed of liquidity needs as soon as they are known.
41. In smaller schemes, the trustees should be aware of the idiosyncratic risks where a few members might account for a significant proportion of the liabilities and assets. For these schemes, understanding the retirement plans for these few members will be key in cash flow planning.
42. Liquidity issues can vary depending on scheme maturity. As schemes mature, the predictability of outgoing cash flows may increase (as the number of deferred members decrease), while the size of such cash flows increases in relation to the size of the scheme. The trustees will need to balance these factors carefully when assessing suitable levels of liquidity for their scheme. Conversely, more immature schemes may have less need for liquidity as the majority of their benefit cash flows are further into the future. However, trustees should be aware that cash flows may be accelerated where members may exercise the option to transfer out or, depending on the scheme rules, retire early.
43. More immature schemes may, on balance, have greater scope to invest in illiquid assets. However, more mature schemes can also invest in illiquid assets as they can, for example, be a useful investment to cash flow match the expected benefit payments. Trustees will have to manage these issues closely to minimise the risk of needing to sell illiquid assets to raise cash if events cause an unexpectedly high number of transfers out or early retirements.
44. Immature schemes might have greater exposure to leveraged liability-driven investment (LDI) funds as they seek to manage their interest rate and inflation risks in relation to the longer duration of their liabilities. The use of leveraged LDI will bring additional liquidity risks and requirements due to the nature of collateral demands over short periods when interest rates change.

Benefit payments and collateral requirements continued...

45. Trustees should ensure there is sufficient liquidity to meet margin payments and cash calls following re-collateralisation events in relation to their allocation to leveraged LDI funds, or other leveraged investments. Concurrently, trustees should ensure that adequate governance arrangements exist to deliver this liquidity within the timelines required by their fund managers.
46. In ensuring sufficient liquidity, trustees should consider the impact of changes in key variables such as real and nominal interest rates, currency and credit spreads. They should ensure that their leveraged investments are suitably resilient to sharp changes in these variables. We may issue guidance on relevant benchmarks as appropriate.

### Interaction with schemes' long-term objectives

47. A scheme's long-term objective will also impact on the appropriate asset mix and balance of liquid and illiquid investments.
48. For example, a scheme with a long-term objective to buy out will likely need to start to better match their asset portfolio with that of an insurer as they approach their planned date or timeframe for transacting with an insurer. This can put them in a better position both in terms of being a more attractive prospect for the insurance company (since the assets they own will be desirable to the insurer) and to better hedge the buy-out price to limit significant differences due to market movements leading up to the transaction.
49. Schemes with high allocations to illiquid assets, which are not desirable for insurance companies, may find that they need to unwind their position earlier than planned if they had not factored in these issues within their planning.
50. These issues are also prevalent when considering a transfer to a DB consolidation vehicle, including a master trust or superfund, although these vehicles may have differing requirements or preferences to those of an insurer when it comes to the investment strategy and asset portfolio of a scheme transferring.
51. For schemes planning to run on, their focus should align with the cash flow requirements of the benefits payable under the scheme.

## Liquidity governance

52. Trustees should keep aside a bank float to meet benefit payments. A bank float has an opportunity cost and is exposed to credit risk (especially where bank floats exceed any applicable deposit insurance scheme). However, too little cash also creates operational risks of not being able to meet payments as they fall due. Therefore, trustees should consider how much float is kept in the bank account, for example, three months of pension payments plus any allowance for other expected payments such as cash commutation lump sums or CETVs.
53. Where liquidity needs change at short notice, for example, due to changing interest rates leading to collateral demands, trustees should also consider the protocols to meet cash demands.
54. These protocols can be documented in the statement of investment principles (SIP). The protocols can cover the order in which assets need to be sold to meet cash needs, whether the trustees have pre-agreed or not to meet cash demands, how long it would take to sell the investments for cash and if the cash call process is different to the cash distribution process.
55. As part of this process, it will be necessary for trustees to assess the liquidity of their investments.
56. If trustees use third parties such as fiduciary managers, outsourced chief investment officers or investment platforms, they should regularly review the operational processes for meeting the required cash demands. These operational processes can include ensuring the SIP is up to date, the level of delegation is appropriate, signatory lists are up to date, and signatory processes are understood. Trustees should ensure that compliance with service standards relating to these processes is addressed in the service contracts, with appropriate measures for breaches.

## Assessing liquidity

57. Ongoing monitoring is an important part of trustees' assessment of the liquidity of scheme assets. This can be done in several ways and will depend on the importance of liquidity for the pension scheme, including their long-term objective and level of investment in leveraged LDI or other exposures involving collateral. In their assessment, the trustees should be careful to consider the possible mismatch between the liquidity of an asset class, and the liquidity of the investment vehicle (for example, a pooled fund) with which they access said asset class. The trustees may find it beneficial to receive advice (including legal advice) on liquidity risks pertaining specifically to their chosen investment vehicles.
58. Trustees should quantify the supply of liquidity under normal and adverse market conditions, noting that stressed market conditions change both the speed and cost of liquidating assets, including assets that would normally be considered very liquid. For example, trustees can carry out scenario testing of their portfolio's liquidity under a variety of stresses, including considerations of how the behaviour of other DB pension schemes may affect the liquidity of their assets. Under adverse market conditions, some investments are likely to become less liquid and asset valuations may deteriorate. By quantifying liquidity in normal and adverse market conditions, trustees can assess the resilience of the investments to meet cash flow demands from, for example, benefit payments, margin payments, and re-collateralisation events in LDI funds.
59. An example of this is in relation to property funds. In normal market conditions, property funds may deal monthly. However, under adverse market conditions, property fund managers can stop withdrawal of investments if the demand for disinvestment is significantly higher than expected. In such situations, it will take longer to obtain cash for the investments as the investment manager will need to use discretion and liquidation processes to meet investor demands.



## Open schemes

1. Open defined benefit (DB) schemes, that is schemes that are open to future accrual, are a key part of the pensions landscape, playing a vital role in continuing to provide new accrual of benefits to active members of those schemes.
2. Open schemes may be open or closed to new entrants. However, even within those classifications there is a wide range of open schemes. The spectrum can range from schemes which closed to new members some time ago, where future accrual is small compared to past service liabilities, to schemes which remain open to new entrants, where future accrual is significant and anticipated to remain so.
3. Open schemes will have some different characteristics from those schemes that are closed to future accrual. For example, when considering the maturity of the scheme, while a closed scheme would be expected to mature, an open scheme that is open to new members might remain in a 'steady state' and therefore not mature if there is a sufficient flow of new members into the scheme. Also, an open scheme that is closed to new entrants might be expected to mature more slowly than an otherwise similar closed scheme.
4. This means relevant guidance is required for open schemes reflecting their unique characteristics and this has been included throughout this code.
5. This section summarises guidance specific for open schemes, and signposts where this can be found in the code. It is intended as an additional resource for those involved with open schemes. It is still important to read the whole code, which contains guidance applicable to all schemes (open and closed).

## Low dependency

6. We recognise that for many open schemes that are open to new entrants there is no intention to close in the foreseeable future. However, to comply with the legislative requirement to set the scheme's low dependency target in the funding and investment strategy, the trustees will need to consider how they would provide accrued benefits for existing members over the long term if the circumstances of the scheme were to change. For more detail on this, see paragraphs 10 and 11 of **the funding regime**.

## Significant maturity

7. In the **relevant date and significant maturity module** of this code, we set out our guidance for projecting maturity for all schemes with additional guidance for open schemes. This guidance reflects the regulations which allow for an assumption to be made for future accrual and new entrants when projecting the maturity of open schemes. These projections will be used to determine when the scheme is expected to reach significant maturity using these assumptions.
8. Our expectations regarding this can be found in the section on **calculated projected duration (maturity): additional guidance for open schemes** from paragraph 13 of our relevant date and significant maturity module in this code.
9. As explained in that section, the use of such assumptions will mean that an open scheme can be expected to take longer to reach significant maturity than an equivalent closed scheme. This extra time can be allowed for in the de-risking plan set out in the journey plan and reflected in the section of this module on technical provisions (TPs) assumptions below.
10. This will mean it can be assumed that risk will be taken for a longer period of time, compared to an equivalent closed scheme. When this is reflected in the discount rates, it will mean that the TPs assumed for an open scheme can be lower than for an equivalent closed scheme of the same maturity.

## Journey planning

11. When open schemes are carrying out their journey planning and determining when they will reach significant maturity, they can allow for an assumption for new entrants and future accrual.
12. In addition, when carrying out the analysis to determine the supportable risk over the reliability period, open schemes should make allowance for future accrual and the contributions that are being paid in respect of that future accrual.
13. The specific guidance for open schemes can be found in the section **journey planning for open schemes** from paragraph 35 onwards.

## Statement of strategy

14. The specific characteristics of open schemes are reflected in the regulations. This means that additional information is required from open schemes in the supplementary matters of the statement of strategy. This is referred to in paragraph 20(c) section of the **statement of strategy module** of this code.

## Technical provisions and cost of future service

15. Paragraph 14 of the **technical provisions module** of this code reiterates that assumptions can be used for future accrual and new entrants when projecting the point of significant maturity. This can be reflected in the journey planning for the scheme and then the assumptions underlying the TPs.
16. The **cost of future accrual section** of the code from paragraph 30 onwards also contains information for open schemes. It sets out areas we expect trustees to consider when determining the cost of future accrual for open schemes. It also makes clear that trustees can consider using surplus to fund that accrual where appropriate.

## Assumptions

17. **Expectations for setting assumptions in the low dependency funding basis** sets out our expectations for assumptions, which are also relevant to consider when setting the TPs. It includes our expectations for salary increase assumptions, which may be relevant for many open schemes.

## Reporting and inter-valuation requirements by documentation type

1. This section covers reporting and inter-valuation requirements by documentation type. This section includes reporting of:
  - Any failure by the trustees and employer to agree the funding and investment strategy, methods and assumptions used in calculating the technical provisions (TPs), a recovery plan, content of the statement of funding principles, or content of the schedule of contributions, in line with the scheme funding requirements contained in Part 3 of the Pensions Act 2004<sup>1</sup>.
  - Any failure by the actuary to certify technical provisions or a schedule of contributions.
2. For the purposes of submitting any of the funding documents or reporting to us, legislation may require these be submitted to us as 'soon as reasonably practicable' or within a 'reasonable period'. In both cases, we would usually expect the submission or reporting to be made within 10 working days from the relevant submission, agreement or certification deadline.
3. Unless specified, the use of 'trustees' refers to trustees and managers.

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1 Part IV of The Pensions (Northern Ireland) Order 2005

## Reporting

### Actuarial valuation

#### Responsible parties

- Trustees are responsible for obtaining actuarial valuations in accordance with the legislative requirements<sup>2</sup>.

#### Deadline

- Where trustees have obtained an actuarial valuation, this must be received by them within 15 months of the effective date of the valuation<sup>3</sup>.
- Alternative deadlines may apply if we make directions under section 231 of the Pensions Act 2004<sup>4</sup>.

#### Frequency and circumstances

- The effective date of the valuation must be no more than three years from the effective date of the previous actuarial valuation, where trustees have obtained actuarial reports for the intervening years<sup>5</sup>. If no actuarial report is obtained for an intervening year, then the effective date will be no later than the anniversary of the effective date of the last completed actuarial valuation. Other circumstances may apply. Trustees can obtain actuarial valuations more frequently if they choose.

#### Reporting requirements

- Trustees of all schemes must submit the actuarial valuation to us as soon as reasonably practicable after receiving the actuarial valuation<sup>6</sup>.

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2 Section 224 of the Pensions Act 2004 [Article 203 of The Pensions (Northern Ireland) Order 2005]  
3 Regulation 7 of The Occupational Pension Schemes (Scheme Funding) Regulations 2005 (SI 2005/3377) [Regulation 7 of The Occupational Pension Schemes (Scheme Funding) Regulations (Northern Ireland) 2005 (SR 2005/568)]  
4 Article 210 of The Pensions (Northern Ireland) Order 2005  
5 Section 224(1) of the Pensions Act 2004 [Article 203(1) of The Pensions (Northern Ireland) Order 2005]  
6 Section 224(7A) of the Pensions Act 2004 [Article 203(7A) of The Pensions (Northern Ireland) Order 2005]

## Funding and investment strategy

### Responsible parties

9. Trustees are responsible for determining the funding and investment strategy<sup>7</sup>. It must be agreed with the employer except in the limited circumstances where the employer must only be consulted.

### Deadline

10. The first funding and investment strategy must be determined within 15 months of the effective date of the first valuation on or after 22 September 2024<sup>8</sup>.
11. Alternative deadlines may apply if we make directions under section 231 of the Pensions Act 2004<sup>9</sup>.

### Frequency and circumstances

12. The funding and investment strategy must be reviewed and if necessary revised within 15 months of the effective date of each subsequent valuation.
13. It must also be reviewed and, if necessary revised as soon as reasonably practicable after any material change in the circumstances of the scheme or its employer.

### Reporting requirements

14. Trustees must set out the funding and investment strategy in Part 1 of the statement of strategy, which is submitted to us. See the following statement of strategy section for more detail.

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7 Section 221A(1) of the Pensions Act 2004 [Article 200A(1) of The Pensions (Northern Ireland) Order 2005]

8 Regulation 13 of The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024 (SI 2024/462) [Regulation 12 of The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations (Northern Ireland) 2024 (SR 2024/90)]

9 Article 210 of the Pensions (Northern Ireland) Order 2005 [SI 2005/255 (N.I. 1)]

## Statement of strategy

### Responsible parties

15. Trustees are responsible for the preparation of the statement of strategy, which includes both the funding and investment strategy (Part 1) as well as supplementary matters (Part 2)<sup>10</sup>. The Chair of Trustees must sign the statement of strategy on behalf of the trustees. The trustees must consult the employer when preparing or revising Part 2 of the statement of strategy.

### Deadline

16. Trustees must prepare a statement of strategy as soon as reasonably practicable after determining or revising the funding and investment strategy.
17. Even if the scheme's funding and investment strategy is not revised following its review, the trustees must review and, if necessary, revise Part 2 (supplementary matters) of the statement of strategy<sup>11</sup>. Any part 2 revisions must be incorporated in a replacement statement of strategy as soon as reasonably practicable after the review of the scheme's funding and investment strategy.
18. Alternative deadlines may apply if we make directions under section 231 of the Pensions Act 2004<sup>12</sup>.

### Frequency and circumstances

19. As set out above.

### Reporting requirements

20. Trustees of all schemes must submit the statement of strategy in a form set out by us, as soon as reasonably practicable after the funding and investment strategy has been prepared or revised<sup>13</sup>.
21. Alternative deadlines may apply if we make directions under section 231 of the Pensions Act 2004<sup>14</sup>.

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10 Section 221B of the Pensions Act 2004 [Article 200B of The Pensions (Northern Ireland) Order 2005]

11 Regulation 15 of The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) (SI 2024/462) Regulations 2024 (SI 2024/462) [Regulation 14 of The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations (Northern Ireland) 2024 (SR 2024/90)]

12 Article 210 of The Pensions (Northern Ireland) Order 2005

13 Regulations 18 and 19 of The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024 (SI 2024/462) [Regulations 17 and 18 of The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations (Northern Ireland) 2024 (SR 2024/90)]

14 Article 210 of The Pensions (Northern Ireland) Order 2005

## Certifying the calculation of the technical provisions

### Responsible parties

22. The scheme actuary is responsible for certifying the calculation of the technical provisions<sup>15</sup>. The actuary is not responsible for choosing the methods and assumptions or certifying that they are appropriate.

### Deadline

23. The scheme actuary must certify the calculation of the technical provisions as part of the actuarial valuation, within 15 months of actuarial valuation effective date.
24. Alternative deadlines may apply if we make directions under section 231 of the Pensions Act 2004<sup>16</sup>.

### Frequency and circumstances

25. This will depend on the frequency of actuarial valuation.

### Reporting requirements

26. Any failure to certify by 15 months of actuarial valuation effective date must be reported by the actuary to us within a reasonable period<sup>17</sup>.
27. If the trustees instruct their actuary to certify the TPs using an approach the actuary considers a clear failure to comply with Part 3 of the Pensions Act 2004<sup>18</sup>, the actuary should report that certification to us.

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15 Section 225(1) of the Pensions Act 2004 [Article 204(1) of The Pensions (Northern Ireland) Order 2005]

16 Article 210 of The Pensions (Northern Ireland) Order 2005

17 Section 225(3) of the Pensions Act 2004 [Article 204(3) and (4) of The Pensions (Northern Ireland) Order 2005]

18 Part IV of The Pensions (Northern Ireland) Order 2005



## Actuarial reports

### Responsible parties

28. Trustees are responsible for obtaining actuarial reports in accordance with the requirements.

### Deadline

29. Where trustees have obtained an actuarial report, this must be received by them within 12 months of the effective date.
30. The effective date of the actuarial report must be no more than one year after the effective date of the last actuarial valuation or, if more recent, the last actuarial report.

### Frequency and circumstances

31. If an actuarial valuation is not obtained every year, an actuarial report must be obtained for the intervening years. Other circumstances may apply. Trustees can obtain actuarial reports more frequently if they choose.

### Reporting requirements

32. None.

## Reviewing and revising statement of funding principles

### Responsible parties

33. Trustees are responsible for reviewing, and if necessary revising, a written statement of funding principles.

### Deadline

34. The statement of funding principles must be reviewed, and, if necessary, revised within 15 months of the effective date of the actuarial valuation<sup>19</sup>.
35. If we make directions under section 231 of the Pensions Act 2004<sup>20</sup>, the statement of funding principles must be reviewed, and, if necessary, revised within a reasonable period.

### Frequency and circumstances

36. This will depend on the frequency of actuarial valuation if other circumstances do not apply.

### Reporting requirements

37. None.

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19 Regulation 6(3) of The Occupational Pension Schemes (Scheme Funding) Regulations 2005 (SI 2005/3377) [Regulation 6(3) of The Occupational Pension Schemes (Scheme Funding) Regulations (Northern Ireland) 2005 (SR 2005/568)]

20 Article 210 of The Pensions (Northern Ireland) Order 2005

## Reviewing and revising the statement of investment principles

### Responsible parties

38. Trustees are responsible for preparing, maintaining and revising a written statement of investment principles. See the **module on statements of investment principles** in our general code for more details.

### Deadline

39. No reporting deadline. Frequency of review set out below.

### Frequency and circumstances

40. The SIP must be reviewed every three years and without delay after any significant change in investment policy.

### Reporting requirements

41. None.

## Reviewing and revising recovery plan

### Responsible parties

42. Trustees are responsible for preparing or reviewing and, if necessary, revising a recovery plan where the statutory funding objective was not met on the effective date of the actuarial valuation.

### Deadline

43. Where a recovery plan is required, it must be reviewed and, if necessary, revised within 15 months of the effective date of the actuarial valuation<sup>21</sup>. Alternative deadlines may apply if we make directions under section 231 of the Pensions Act 2004<sup>22</sup>.

### Frequency and circumstances

44. This will depend on the frequency of the actuarial valuation if other circumstances do not apply. A recovery plan can be revised and, if necessary, revised where trustees consider there are reasons that may justify a variation to the recovery plan.

### Reporting requirements

45. Trustees must send a copy of any recovery plan to us within a reasonable period after it is prepared or revised. Where it is revised between valuations, it must be accompanied by an explanation of the reasons for the revision.

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21 Regulation 8(1)(a) of The Occupational Pension Schemes (Scheme Funding) Regulations 2005 (SI 2005/3377) [Regulation 8(1)(a) of The Occupational Pension Schemes (Scheme Funding) Regulations (Northern Ireland) 2005 (SR 2005/568)]

22 Article 210 of The Pensions (Northern Ireland) Order 2005

## Reviewing and revising schedule of contributions

### Responsible parties

46. Trustees must prepare, review and, if necessary, revise a schedule of contributions.

### Deadline

47. Once the schedule of contributions has been prepared, it must be reviewed and, if necessary, revised within 15 months of the effective date of the actuarial valuation<sup>23</sup>.

48. Alternative deadlines may apply if we make directions under section 231 of the Pensions Act 2004<sup>24</sup>.

### Frequency and circumstances

49. The schedule of contributions will be prepared within 15 months of the effective date of the first actuarial valuation. Subsequent review and, if necessary, revision depends on frequency of actuarial valuation if other circumstances do not apply.

### Reporting requirements

50. Where the statutory funding objective was not met on the effective date of the last actuarial valuation, the trustees must send a copy of the schedule of contributions to us within a reasonable period after it is prepared or, as the case may be, revised. This does not apply where a schedule of contributions has been imposed by us under section 231 of the Pensions Act 2004<sup>25</sup>.

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23 Regulation 9 of The Occupational Pension Schemes (Scheme Funding) Regulations 2005 (SI 2005/3377) [Regulation 9 of The Occupational Pension Schemes (Scheme Funding) Regulations (Northern Ireland) 2005 (SR 2005/568)]

24 Article 210 of The Pensions (Northern Ireland) Order 2005

25 Article 210 of The Pensions (Northern Ireland) Order 2005

## Certifying the schedule of contributions

### Responsible parties

51. The scheme actuary is responsible for certifying the schedule of contributions<sup>26</sup>. The actuary is not responsible for certifying that the assumptions used in the schedule of contributions are appropriate.

### Deadline

52. The deadline for the schedule of contributions applies.

### Frequency and circumstances

53. This depends on the frequency of any review or necessary revision of the schedule of contributions.

### Reporting requirements

54. Any failure to certify the schedule of contributions must be reported by the actuary to us in writing within a reasonable period of the deadline for the schedule of contributions<sup>27</sup>.
55. If the trustees instruct their actuary to certify the schedule of contributions, using an approach the actuary considers a clear failure to comply with Part 3 of the Pensions Act 2004<sup>28</sup>, the actuary should report that certification to us.

## Reporting failure to agree

### Responsible parties

56. Trustees must report a failure to agree to us<sup>29</sup>.

### Deadline

57. Where applicable, trustees have 15 months from the effective date of the actuarial valuation to agree with the employer the funding and investment strategy, methods and assumptions to be used in calculating the scheme's technical provisions, statement of funding principles, recovery plan and schedule of contributions. Trustees must report any failure to agree in writing to us within a reasonable period.

### Frequency and circumstances

58. A failure to agree is to be reported as required.

### Reporting requirements

59. As set out above, trustees must report any failure to agree in writing to us within a reasonable period.

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26 Section 227(5) of the Pensions Act 2004 [Article 206(5) of The Pensions (Northern Ireland) Order 2005]

27 Section 227(9) of the Pensions Act 2004 [Article 206(9) and (10) of The Pensions (Northern Ireland) Order 2005] Part IV of The Pensions (Northern Ireland) Order 2005

28 Article 210 of The Pensions (Northern Ireland) Order 2005

29 Section 229(5) of the Pensions Act 2004 [Article 208(5) of The Pensions (Northern Ireland) Order 2005]

## Intervaluation actions

### Actuarial Reports

60. The purpose of the actuarial report is to provide an update of the funding position of the scheme since the last actuarial valuation. Actuarial reports prepared using a quantitative or a purely narrative approach may be acceptable to the trustees. In either case, trustees should question the actuary to understand the factors taken into account in preparing the report. While we do not expect this report to be submitted to us, we may ask to read the report in certain circumstances and expect trustees to provide this within a reasonable period.

### Changes in circumstances

61. Trustees should be alert to material changes which may lead them to review and, if necessary, revise their funding approach. Where, having taken advice from the actuary, it seems to the trustees that these material changes make it unsafe to continue to rely on the chosen assumptions used in the funding documents most recently submitted, they should review and, if necessary revise, those documents (bearing in mind that they would usually need to agree a revised recovery plan with the employer). Commissioning an early actuarial valuation is one technique for doing this but may lead to unnecessary cost and delay when a revision of the existing recovery plan can achieve the necessary results. Trustees should adopt a proportionate approach when deciding how to proceed.

### Summary funding statements

62. Trustees must issue a summary funding statement to all members and beneficiaries of their scheme (who are neither excluded persons nor persons whose only entitlement to benefits under the scheme is, or will be, to money purchase benefits) within a reasonable period following the date by when the trustees must receive each actuarial valuation or actuarial report. The reasonable period is three months from the date by when valuations or reports must be obtained.

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<https://www.thepensionsregulator.gov.uk/>

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**Defined benefit funding code of practice**

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