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DB Funding Code Team
The Pensions Regulator
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Trafalgar Place
Brighton
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24 March 2023

Dear Sir / Madam

THE NEW FUNDING CODE OF PRACTICE

I write on behalf of The Association of Professional Pension Trustees (APPT) in response to your Defined Benefit Funding Code consultation. The comments below are in the form of general comments. More detailed responses to each of the detailed questions have been submitted using the online survey.

The APPT acts as the representative body for trustees of occupational pension schemes who fall within the Pension Regulator's description of professional trustee as set out in its August 2017 policy document. The APPT maintains a set of standards for professional trustees to improve and provide assurance on the quality of professional pension trustees. The APPT also oversees the process by which members may become Accredited professional pension trustees.

The APPT acts as the collective voice of the profession and we estimate that our members work as trustees on over 1,500 defined benefit (DB) schemes. Our members also sit on a large number of trustee boards for defined contribution (DC) schemes including DC master trusts. Our members each typically work on multiple appointments and in total are responsible for managing schemes with assets of over £750 bn.

General Comments

We appreciate that TPR will receive significant amounts of feedback from the advisory community. Our role as Trustees means our experiences of working with schemes and sponsors will be different to advisers. Therefore our feedback will have a different emphasis. In particular, our role bridges the requirements of schemes (including the technical requirements set out in the new Code of Practice) and the constraints faced by the different sponsors we work with. Doing this means we can ensure the good running of the scheme and the security of our members' benefits.

We note that Fast Track has been separated from the main consultation process. We support this separation as we believe a significant proportion of DB schemes will use Fast Track which therefore supports its own process. It would help our members to have clarity on the matters they should consider when deciding to use Fast Track particularly as some may come under pressure from sponsors to use Fast Track. This pressure will likely be linked to the wider costs of compliance with the Code (see comments below).

Our experience is that a significant proportion of the requirements set out in the draft Code are already followed by the schemes we work with particularly larger schemes and/or schemes with material governance budgets. For these schemes, the changes set out in the draft Code should be relatively straight forward to implement.

Many of our members work with "small" schemes and /or schemes supported by small to medium sized enterprises. More than half of all DB pension schemes in the UK have assets below £50m (equivalent to c500 lives) with many of these schemes being at the smaller end of that spectrum. The totality of the new funding code will place significant additional costs on these schemes. There are some references in the Code to proportionality which may help our members to manage these costs. However, the Code includes many pages of technical commentary but only a handful of references to proportionality. Our members, particularly those working with small schemes, believe that proportionality should be given primacy throughout the Code. Without this, we believe there will necessarily be significant increases in advisory and governance requirements for smaller schemes without an equivalent overall increase in security of members' benefits.

There are a number of additional metrics and paperwork items required for compliance purposes. These include significant maturity, the use of a "Macaulay formula" in duration, the relevant date, statement of strategy, investment stress tests, covenant visibility/reliability/longevity etc.. We believe all schemes can provide these additional requirements albeit it is not clear to us that all these items will be valuable to us in securing members benefits. We therefore request, as experience develops over time, TPR keeps

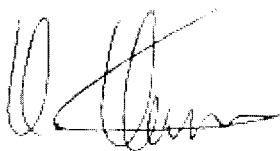
these metrics and requirements under review and provides additional support to Trustees so that they know which of this long list of requirements they should be focussing on the most.

Many of our members have worked hard to agree additional funding targets for their schemes beyond the separately agreed long-term funding obligation (referred to as the LTO in the Code). An example of this is achieve buy-out through additional funding but with no fixed target date. This provides additional security for member benefits beyond that provided in the LTO. Sponsors (and their advisers) may view the Code as all that is needed for their scheme and therefore use the Code to argue for the removal of this additional funding. We are keen that this should not happen as this would effectively mean that the Code undermines the good work that some of our members have completed. The Code should be clearly supportive of such cases so that such agreements are retained rather than reviewed or removed.

We also note that many of the schemes our members work with are now in a better funded position than when the draft Code was first released. This is generally as a result of the "LDI crisis" in 2022. The requirements for covenant assessment are extensive in the draft Code yet there does not seem to be a recognition that many schemes are well funded with well-matched investment strategies and therefore the reliance on sponsor covenant in future has diminished. As schemes approach full funding on buy-out, the draft Code should recognise that the amount of time they spend on assessing the sponsor covenant should reduce to reflect lower value this provides to scheme members. At this late stage of the journey plan, the covenant is primarily supported by the high level of funding, the low dependency investment strategy and the immediacy of the option to purchase an insurance policy as appropriate.

We have provided detailed responses to the questions raised in the consultation using the online survey. We have focussed on questions that directly affect the work our members do rather than the questions that focus on technical or legal suitability and accuracy of the Code.

Yours faithfully



Vassos Vassou
Council Member, on behalf of the APPT Council
Association of Professional Pension Trustees

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24 March 2023

Dear Sir / Madam

FAST TRACK CONSULTATION RESPONSE

I write on behalf of The Association of Professional Pension Trustees (APPT) in response to your Defined Benefit Funding Code consultation. The comments below are in the form of general comments. More detailed responses to each of the detailed questions have been submitted using the online survey.

The APPT acts as the representative body for trustees of occupational pension schemes who fall within the Pension Regulator's description of professional trustee as set out in its August 2017 policy document. The APPT maintains a set of standards for professional trustees to improve and provide assurance on the quality of professional pension trustees. The APPT also oversees the process by which members may become Accredited professional pension trustees.

The APPT acts as the collective voice of the profession and we estimate that our members work as trustees on over 1,500 defined benefit (DB) schemes. Our members also sit on a large number of trustee boards for defined contribution (DC) schemes including DC master trusts. Our members each typically work on multiple appointments and in total are responsible for managing schemes with assets of over £750 bn.

General Comments

We appreciate that TPR will receive significant amounts of feedback from the advisory community. Our role as Trustees means our experiences of working with schemes and sponsors will be different to advisers. Therefore our feedback will have a different emphasis. In particular, our role bridges the requirements of schemes and the constraints faced by the different sponsors we work with. Doing this means we can ensure the good running of the scheme and the security of our members' benefits.

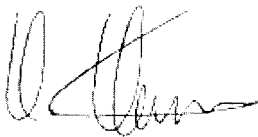
We are generally supportive of the Fast Track approach set out in the consultation document. We believe this will help APPT members working with schemes and sponsors in agreeing appropriate valuations and long-term funding for pension schemes. We feel this will be particularly helpful for smaller schemes and/ or schemes with relatively low governance budgets.

We have provided detailed responses to the questions raised in the consultation using the online survey. We have focussed on questions that directly affect the work our members do rather than the questions that focus on technical or legal suitability and accuracy of the Fast Track consultation. With this in mind, the main suggestions we have set out include:

- the provision of template documents such as the Funding and Investment Strategy. This is simplify compliance with Fast Track and help manage overall fees and costs, especially for smaller schemes.
- the retention of responsibility of assumptions by the trustees instead of certification by the actuary. Trustees already take advice on assumptions so not clear why we need an additional layer of governance (and cost) for Fast Track compliance.

These comments are made with high consideration for simplicity and efficiency under the Fast Track approach.

Yours faithfully



Vassos Vassou
Council Member, on behalf of the APPT Council
Association of Professional Pension Trustees

Response ID ANON-KD4F-192M-J

Submitted to DB funding code and regulatory approach
Submitted on 2023-03-24 09:34:52

Your details

What is your name?

Name:
David Robertson

What is the name of your organisation (if applicable)?

Organisation:
Association of Professional Pension Trustees

Who are you responding on behalf of?

Your organisation

What is your email address?

Email:
secretariat@appt.org.uk

What is your telephone number?

Telephone number:
02031026763

Which category best describes your organisation (if applicable)?

Organisation category:
Professional trustee

Other category:

Can we include your name or organisation on the list of respondents to this consultation?

Your organisation

Do you wish your response to remain confidential?

Yes, I wish my response to remain confidential:
Yes

Comments:

Code chapter 2: An outline of the funding regime

Are there any areas of the summary you disagree with or would like more or less detail?

No

Comments, including where and why you disagree:

Code chapter 3: Low dependency and maturity

Do you agree with the principles for defining a matching asset that i) the income and capital payments are stable and predictable and ii) they provide either fixed cash flows or cash flows linked to inflationary indices?

Yes

Comments:

Trustees have recent experience of extreme market volatility. This has made APPT members wary of the way investment markets can move even relatively safe / matching assets.

Some trustees question why safe, matching assets have fallen in value by up to 40% in the space of a few weeks. Cashflow payments to members are still the same and equating these two facts is not straight forward. The principles referred to in the Code and in this question should highlight why this

apparent discrepancy arises and whether Trustees should take any actions to correct or mitigate this outcome.

Do you agree with our approach for defining broad cash flow matching?

Yes

Comments:

Matching cashflows for small schemes or schemes with lumpy liabilities can be a futile exercise. Predicting the cashflows for such schemes and then using those predictions to set investment strategy can lead to significant mismatching, errors and funding strains. This should be recognised in the Code especially as this issue may become more prevalent as schemes run off their liabilities.

Do you think draft adequately describes the process of assessing cash flow matching?

Yes

Comments:

Comments for small schemes apply here too.

Should the code set out a list of the categories of investments into which assets can be grouped for the purposes of the funding and investment strategy?

No

Comments:

Providing a broad split of asset categories provides Trustees with support in their broader governance role. However, in practice, these splits will need to be arbitrary as many assets classes straddle the different definitions of matching/growth, high/ low risk etc.

Do you agree that 90% is a reasonable benchmark for the sensitivity of the assets to the interest rate and inflation risk of the liabilities?

No

Comments:

Recent experience makes our members wary of setting prescribed hedge ratios.
It is also not clear the liability basis that should be used for this assessment.

Should we make this approach to broad cash flow matching more proportionate to different scheme circumstances (eg large vs small)?

Yes

Comments:

The requirements for cash flow matching, as set out in the Code, will be onerous for many smaller schemes and the costs will be material for the sponsors. Therefore proportionality needs to be at the forefront of these requirements. The Trustees should have responsibility for determining how the cashflow matching requirements are met such that they can take a proportionate approach relevant to the funding circumstances of the scheme and the covenant strength of its sponsor.

An example would be a small scheme with "lumpy" cashflows which become very difficult to model (idiosyncratic risk and spurious accuracy) meaning cashflow matching decisions are based on inaccurate modelling. Wrong decisions will then be made by the Trustees.

Do you agree with our approach that a stress test is the most reasonable way to assess high resilience?

No

Comments:

Again the impact on small schemes will be disproportionate.

An alternative would be for smaller schemes to provide a description of their "high resilience" in the statement of strategy rather than spend additional funds for advisers to complete expensive and spurious analysis.

Do you agree that setting the limit of a 4.5% maximum stress based on a one year 1-in-6 approach is reasonable?

Yes

Comments:

VAR95 is a commonly used metric and is a natural measure for schemes to use.

Do you agree that we should not set specifications for the stress test but leave this to trustees to justify their approach?

Yes

Comments:

This should be for the Trustees to set working with their advisers

Do you agree with our approach for not expecting a detailed assessment of liquidity for the low dependency investment allocation since we have set out detailed expectations in relation to schemes' actual asset portfolios?

Yes

Comments:

Code chapter 4: Low dependency funding basis

Do you agree with our approach for not expecting a stochastic analysis for each assumption to demonstrate that further employer contributions would not be expected to be required for accrued rights, but rather focussing on them being chosen prudently?

Yes

Comments:

This is a very sensible approach.

Do you agree that the two approaches we have set out for the discount rate for the low dependency funding basis are the main ones most schemes will adopt?

Yes

Comments:

Should we expand or amend these descriptions?

No

Comments:

Should we provide guidance for any other methodologies?

No

Comments:

Do you agree with the guidance and principles set out in appendices 3 and 4?

No

Comments:

Appendices 3 and 4 are highly prescriptive. Proportionality needs to have primacy when considering the guidance in these appendices. Our members may find it difficult to determine whether these appendices are part of the Code or not as there are mixed messages. For example, paragraph 94 of the Code implies the appendices are not part of the Code but the words in the appendices refer to Trustees "expected" to follow that guidance. The word expected seems to contradict the reference in paragraph 94.6

Are there any specific assumptions here you would prefer a different approach?

No

Comments:

Code chapter 5: Relevant date and significant maturity

Do you agree that a simplified approach to calculating duration for small schemes is appropriate?

Yes

Comments:

Do you think setting an earlier point for significant maturity within Fast Track as compared to the code (as described in option 3 in the consultation document) would be helpful for managing the volatility risk of using duration?

No

Comments:

Using a different point for significant maturity under Fast Track vs Bespoke could lead to schemes "flip-flopping" from one regime to the other depending on the market conditions and circumstances of the scheme. This would be very unhelpful for our members and trustees more generally.

Code chapter 6: Assessing the strength of the employer covenant

Do you agree with the definitions for visibility, reliability and longevity?

Yes

Comments:

It would be helpful for Trustees to have a period specified for consideration of covenant reliability or covenant longevity. For example, this could be a minimum period of three years.

For well-funded schemes, the Code should recognise that the sponsor covenant is underpinned by the insurance company covenant. This is because in such cases, the Trustees can buy an insurance policy if required.

Proportionality is needed here. Proportionality should be linked to level of funding and investment strategy risk. The trustees can spend more time and money considering the covenant if funding is lower and/or investment strategy includes higher levels of risk and vice versa.

Do you agree with the approach we have set out for assessing the sponsor's cash flow?

Yes

Comments:

Do you agree with the approach we have set out for assessing the sponsor's prospects?

Yes

Comments:

Do you agree with the principles we have set out for contingent assets, ie that i) it is legally enforceable and ii) it will be sufficient to provide that level of support when required?

Yes

Comments:

Do you agree with the approach we have set out for valuing security arrangements?

Yes

Comments:

Do you agree with the approach we have set out for valuing guarantees?

Yes

Comments:

Do you agree with the approach we have set out for multi-employer schemes?

Yes

Comments:

Do you agree with the approach we have set out for not-for-profit covenant assessments?

Yes

Comments:

Code chapter 7: Journey planning

Do you agree with how we approached how maturity has been factored in to the code?

No

Comments:

APPT members have highlighted various concerns with the definition of Significant Maturity. These are based on the volatile nature of this metric given recent market experience.

APPT members would prefer a relatively stable metric that allows them to plan ahead with some certainty.

Do you agree with the way in which we have split the journey plan between the period of covenant reliability and after the period of covenant reliability?

Yes

Comments:

This distinction is sensible.

For the period of covenant reliability, do you agree that trustees should, as a minimum, look at a one year 1-in-6 stress test and assess this against the sponsor's ability to support that risk?

Yes

Comments:

For the period of covenant reliability, do you agree that if trustees are relying on the employer to make future payments to the scheme to mitigate these risks, then the trustees should assess the employer's available cash after deducting deficit repair contributions to the scheme and other DB schemes the employer sponsors?

Yes

Comments:

For the period of covenant reliability, do you agree that this approach is reasonable for assessing the maximum risk that trustees should take during the period of covenant reliability?

Yes

Comments:

Proportionality needs to be considered by trustees

For the period after covenant reliability, do you agree with the considerations we have set out regarding de-risking after the period of covenant reliability?

Yes

Comments:

In practice, for many schemes the period of covenant reliability will extend every three years. This means that schemes do not need to de-risk until they reach their relevant date. In turn, this means that the period of covenant reliability is nothing more than a redundant and expensive metric.

For the period after covenant reliability, do you agree with our approach of not being prescriptive regarding the journey plan shape?

Yes

Comments:

For the period after covenant reliability, do you agree with our approach that the maximum risk trustees should assume in their journey plan is a linear de-risking approach where they are taking the maximum risk for the period of covenant reliability?

Yes

Comments:

Code chapter 8: Statement of strategy

Do you agree with our explanation of the statement of strategy?

No

Comments:

The statement of strategy will likely be a lengthy document for many schemes. It will need to cover many aspects of the journey plan, development and progress. The level of detail is not specified.

It would be helpful for APPT members to have a clearer idea of the level of detail needed for this document. The Code should make it clear when more or less detail should be included (e.g. small schemes/big schemes, well-funded/poorly funded, strong covenant/weak covenant etc).

In terms of timing, this additional detail should be provided by TPR to APPT members and trustees more generally as soon as possible.

Are there areas it would be helpful for us to expand on in this chapter?

Yes

Comments:

We have concerns with the requirement for both trustees and scheme sponsors to have to agree the Long-Term Investment Strategy, as this appears to be a potential shift in the current balance of powers, in favour of the sponsor. We acknowledge this is in legislation and that tPR cannot amend this so has attempted to address this in the code. We would still welcome further clarification on how this interacts with the current requirement for trustees to consult (but not necessarily reach agreement) with sponsors on investment strategy, and trustees' current ability to implement their preferred investment strategy even if the sponsor does not agree.

Code chapter 9: Technical provisions

Do you agree with how we have described the consistency of the technical provisions with the funding and investment strategy?

Yes

Comments:

Do you agree that open schemes could make an allowance for future accrual – thereby funding at a lower level – without undermining the principle that security should be consistent with that of a closed scheme?

Yes

Comments:

APPT members working with open schemes will need to meet all the requirements of the Code. However, if the scheme is in a static non-maturing state then many of the requirements of the Code will not be relevant.

If a scheme is not maturing or has a very long duration then we suggest it is not necessary to meet all the requirements of the code.

Do you agree that this should normally be restricted to the period of covenant reliability?

Yes

Comments:

This is agreed although the trustees should retain discretion to use an alternative date.

Do you agree with our principles based approach to future service costs?

Yes

Comments:

Code chapter 10: Recovery plans

Do you agree with our approach to defining reasonable alternative uses?

Yes

Comments:

Do you agree with the description in the draft code of the interaction between the principle that funding deficits must be recovered as soon as the employer can reasonably afford and the matters that must be taken into account in regulation 8(2) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005?

Yes

Comments:

Do you agree that reliability of employer's available cash should be factored in when determining a scheme's recovery plan length?

Yes

Comments:

Do you agree with the principles we set out when considering alternative uses of cash?

Yes

Comments:

The principles appear reasonable.

It should also be made clear that covenant leakage such as reasonable dividend payments is permissible as long as trustees are comfortable with the wider terms of the Recovery Plan (e.g. meeting the deficit over the period of covenant reliability).

Do you agree with our approach to post-valuation experience?

Yes

Comments:

The wording in the draft Code is reasonable.

Do you agree with our approach to investment outperformance?

Yes

Comments:

Should we set out more specifics around what we would expect by way of security to protect against the additional risks?

No

Comments:

Code chapter 11: Investment and risk management considerations

Do you agree with our approach that, while trustees' discretion over investment matters is not limited by the funding and investment strategy, we expect investment decisions by trustees should generally be consistent with the strategies set out in the funding and investment strategy?

Yes

Comments:

We agree with this approach.

Trustees should retain flexibility to their investment strategy such they can react to changing market conditions. A good example of this is the recent gilts crisis. This flexibility is needed so that trustees can continue to act in members best interests even in extreme conditions.

Do you agree with the examples we have given for when trustees' investment strategies may not mirror their funding and investment strategy?

Yes

Comments:

The examples are helpful but obviously cannot cover all the situations APPT members and trustees more generally find themselves in. Therefore, the principles need to be emphasised in a clear and coherent manner to allow trustees to confidently implement their chosen strategies.

Do you agree with the expectations regarding trustees with stressed employers?

Yes

Comments:

APPT members work with many schemes where the covenant is weaker and the investment risk is necessarily higher than we would ideally choose. We note there is often no easy answer for such cases. Trustees will value tPR's support with the difficult decisions they often have to take with such schemes.

Do you agree with the principles we have set out regarding risk management?

Yes

Comments:

Do you agree with the principles we have set out regarding liquidity?

Yes

Comments:

We agree that trustees need to pay close attention to liquidity in their investments and the references to this in the draft Code are helpful.

Do you agree with how we have approached security, profitability and quality?

Yes

Comments:

The approach does not seem to constrain investment choices and so should provide trustees with the flexibility they need to cover all the different situations that exist.

Are there other aspects it would be helpful for us to include?

No

Comments:

Systemic risk considerations

Do you agree with the systemic risk considerations set out?

Yes

Comments:

We agree and the LDI experience highlights the prevalence of systemic risk. APPT members are used to seeing very similar proposals from advisers across many different schemes which helps to build and develop the systemic risk referred to in this section. This is particularly the case for small and medium sized schemes. It sometimes feels as though advice used for other schemes is simply regurgitated for new schemes. This in turn creates very similar risk profiles across schemes. There should be more of an expectation on advisers to consider carefully the specifics of the scheme which in turn will help reduce systemic risk.

Do you think there are any areas of systemic risk that should be considered further in light of our draft code?

Yes

Comments:

There is a general push towards buy-out in the pensions industry. This seems to be driven primarily by consultants and advisers. The sponsors and the Pensions Regulator also influence this direction of travel. This could also represent systemic risk if something goes wrong with the insurance framework (especially given recent experience in the banking sector). We are moving savers and pensioners from an environment where we reserve on gilts + 0.5% or less to an environment where the insurers reserve on gilts + 1% or gilts + 2%. On the face of it, this seems a risky switch to make. Of course there are other protections in place but if something did go wrong then there would likely be a realisation of the systemic risk we have created. The Pensions Regulator should seek to protect savers from this possibility.

Fast Track: general questions

Do you agree with how we have positioned Fast Track relative to the code of practice?

Yes

Comments:

The APPT supports the separation of Fast Track from the main funding code consultation. We believe that Fast Track will help many of our trustees when working with schemes and sponsors to settle valuation positions.

Our expectation is that many schemes that use Fast Track will be smaller and/or have a lower governance budget. Fast Track offers these schemes a simplified way through the regulatory framework.

Are there any aspects of this you think it would be useful for us to clarify further?

Yes

Comments:

The Funding Code requires additional paperwork to be prepared and submitted by trustees. In order to make Fast Track a truly efficient and lower cost approach for pension schemes, it would be helpful if TPR could provide template form documents for schemes to use with Fast Track. This would avoid the need for trustees to incur additional adviser costs to prepare paperwork and make the Fast Track solution more compelling. The template documents would provide trustees with confidence they are complying with the requirements. Trustees already have access to template documents (e.g. PPF contingent asset documents) and TPR could use similar principles to the PPF when providing the templates. This would be a very significant help for trustees especially when working with smaller schemes and/or low governance budgets. It would also be helpful for trustees to understand when / if they can switch between bespoke / Fast Track or whether the expectation is that once you are on Fast Track you should stay on Fast Track.

Do you agree that Fast Track should come with a lower level of burden in terms of the explanations required as part of the trustees' valuation submission?

Yes

Comments:

Reducing the level of burden as much as possible will maximise the number of schemes choosing Fast Track.

Do you see any unintended consequences from requiring the scheme actuary to confirm when a submission meets the Fast Track parameters?

Yes

Comments:

Trustees are used to retaining responsibility for the assumptions used in a valuation. Therefore it is not clear to us why the actuary would now be required to certify assumptions on Fast Track. Asking the actuary to certify assumptions implies the following:

- Trustees cannot take responsibility for Fast Track assumptions themselves hence need the actuary to do it for them.
- Additional costs required for the actuary's certification. This in turn diminishes the appeal of Fast Track and may push more schemes down the Bespoke route.
- Inconsistency with Bespoke where similar certification is not required and trustees clearly retain responsibility for the assumptions.

We feel trustees must clearly retain responsibility for the assumptions they are using in all cases including Fast Track.

Could we make Fast Track more proportionate for schemes in differing circumstances?

Yes

Comments:

Fast Track needs to have low cost and efficiency at the heart of this regulatory approach. If Fast Track is applied in practice with this theme running through the work TPR does then trustees should have confidence that Fast Track will be a proportionate solution regardless of their scheme's circumstances.

Are there other considerations not discussed in the consultation document we should be considering?

Yes

Comments:

There have been many comments made about duration and maturity as a result of recent market movements and as part of the wider Funding Code consultation. Any changes made in the main consultation should flow through to the Fast Track consultation.

Fast Track: covenant questions

Do you believe it would be useful to include an additional set of parameters for schemes where the employer has a high insolvency risk?

No

Comments:

However, it would be helpful to trustees to know when/if Fast Track is not appropriate to use (e.g. high insolvency risk?). If applying such a test then our preference would be for this to be a high hurdle to prevent the use of Fast Track (e.g. imminent insolvency expected, e.g. going concern test failed).

Fast Track: parameters for technical provisions and low dependency funding basis

Do you agree with our approach of setting the Fast Track technical provisions test as a percentage of the low dependency funding basis liabilities?

Yes

Comments:

However, the approach does seem somewhat technical and complex which works in the opposite direction to Fast Track being a low cost and efficient regulatory approach.

Do you agree with the limits we have proposed?

Yes

Comments:

Do you agree that for a Fast Track low dependency funding basis measure, the minimum strength of the discount rate basis should be gilts + 0.5% with no inflation risk premium?

Yes

Comments:

No specific views

Do you agree that our approach to other assumptions in the Fast Track low dependency funding basis (as set out in Appendix 1) is reasonable?

Yes

Comments:

Specific clarity around the expense reserve would be helpful for trustees. In setting the expense reserve, trustees need to be assured that the reserve will be sufficient to meet the expenses of their own scheme and circumstances.

Should we allow more flexibility for smaller schemes in relation to any of the assumptions?

No

Comments:

Our preference is to keep it (Fast Track) the same for all schemes. Again this risks extra complexity for little benefit. Doing this will make the trustees role less complicated.

Fast Track: parameters for recovery plans

Do you agree that the maximum recovery length after significant maturity should be set to three years rather than six?

No

Comments:

We would suggest the same six year period for the first valuation after significant maturity under Fast Track rather than three years. The second valuation should fall into the three years requirement. This would remove a potential barrier for schemes using Fast Track and allows sponsors to plan ahead with the funding requirements rather than face a potential cliff edge. This flexibility will again help trustees in their overall management of the scheme.

Do you agree with our approach of using the valuation date as the starting point for the recovery plan length?

No

Comments:

The 15 month period permitted to finalise a valuation should be built in to the recovery plan length.

Do you agree with our approach to how to allow for post valuation experience in Fast Track recovery plans?

Yes

Comments:

Do you agree that annual increases to deficit repair contributions should not be more than CPI?

Yes

Comments:

We recognise that if something different is desired then bespoke can be used instead.

Fast Track: parameters for stress tests

Do you agree with our approach for the stress test?

Yes

Comments:

As trustees, we note that the stress tests have attracted a lot of comments from the advisory community. From our perspective if using Fast Track, again we would ask that the stress test approach is simple and low cost so that it does not create a barrier for smaller / low governance budget schemes.

Do you agree with the limits we have proposed?

Yes

Comments:

From a trustee perspective, we have no specific comments on the technicalities regarding the limits used.

Do you agree with how we have allowed for schemes in surplus within the stress test?

Yes

Comments:

However, some of the schemes we work with use surplus to meet ongoing accrual costs. Such cases need to be captured appropriately with the stress tests.

Do you agree it is reasonable to use the Pension Protection Fund Tier 1 asset classes?

Yes

Comments:

Trustees are already familiar with this approach making it more straight forward to apply to Fast Track.

Fast Track: parameters for duration

Do you agree that smaller schemes should not have to produce cash flows to calculate projected duration?

Yes

Comments:

Yes, provided there is flexibility to use a cashflow based approach.

Do you agree with the proxy we have proposed for smaller schemes?

Yes

Comments:

Do you agree with our definition of smaller schemes for this purpose?

Yes

Comments:

Yes, as long as the number of 100 is based on DB members only and exclude DC members of the scheme.

Fast Track: parameters for open schemes

Do you agree that six years is a reasonable Fast Track parameter for the allowance of extra accrual in open schemes?

Yes

Comments:

Do you agree with our approach for new entrants?

Yes

Comments:

Do you think having no additional restrictions on future service cost will weaken the Fast Track approach significantly?

No

Comments:

APPT does not have any specific comments for this question

Fast Track: review

Which of the options for reviewing our parameters do you prefer?

Yes

Comments:

We would prefer option 1 as it provides more stability. However, the parameters could still be reviewed sooner if there are extreme circumstances or market conditions.

Do you think a different approach to reviewing our parameters is preferred?

No

Comments:

Fast Track: illustrating behaviours

What further analysis do you think would be helpful to illustrate the potential impacts of any final regulations and code?

Comments:

APPT has no comments on this question.

Supporting documents

Do you have any supporting documents that you would like to send us in addition to your survey response?

No