The Trustee toolkit downloadable

Funding your DB scheme

Tutorial one: The statutory funding objective

By the end of this tutorial you will better understand:

- what the statutory funding objective is and what it means for trustees
- what the triennial valuation is for, the timetable and what actions it will inform
- how trustees work with the actuary to complete the triennial valuation

This tutorial is part of Scenario one.

Glossary

A detailed glossary of technical terms can be downloaded from the Resources tab when you log in at www.trusteetoolkit.com

The Pensions Regulator

The triennial valuation

Christine joined the trustee board of Calendar Graphics DB scheme one month ago as a new member-nominated trustee.

Bernard, the scheme actuary, has offered to meet with Christine before the next board meeting to explain the statutory funding objective in more detail. He has emailed her a copy of the actuarial valuation and an actuarial report for review before the meeting.

Christine is aware that the triennial review is an important one. She also knows that all schemes are required to comply with the statutory funding objectives and undertake periodic actuarial valuations. But after a quick look at the report and valuation she is looking forward to meeting Bernard.

Bernard's presentation

Christine meets Bernard and he takes her through a presentation

Statutory funding objective

The statutory funding objective means the scheme must have sufficient and appropriate assets to meet its technical provision.

If this is not the case, ie the scheme is in deficit on an ongoing basis, trustees should prepare a recovery plan stating how they intend to make good the deficit. This means the trustees need to ensure they will have enough assets to cover liabilities in respect of benefits already accrued to members under the scheme. Only then can they be reasonably certain that they will be able to pay the benefits relating to past service when they fall due.

Three-yearly valuation

One of the purposes of the regular valuation is to check whether it is still the case that the statutory funding objective is met.

This scheme, like most schemes, undertakes a triennial valuation, and they also do interim reviews on an annual basis, called 'actuarial reports'.

On the basis of the valuation, the trustees have to make decisions about future provision for the scheme. This is set out in a schedule of future contributions and, if the scheme is in deficit on an ongoing basis, a recovery plan.

Recovery plan

A recovery plan will set out in detail how the scheme is going to achieve the necessary funding to meet the level of its technical provisions.

If the scheme is in deficit, this will usually involve some extra contributions from the employer and an agreed timescale for removing the deficit.

Timescale

The valuation is always carried out to illustrate the position as at a specific past date (known as the ‘effective date’ or the ‘as at date’). interim reports also have an ‘as at’ date.

The obligation is to put in place a schedule of contributions certified by the scheme actuary and a recovery plan if necessary, ie the scheme has a deficit on the ongoing basis.

The deadline for the trustees and the employer to agree the actuarial valuation (including the technical provisions), a recovery plan and schedule of contributions is 15 months after the effective date of the actuarial valuation.

Actuarial reports must be in place within 12 months of their effective date.

Useful links:
TPR’s ‘Funding defined benefits’ code of practice gives further guidance on the trustees’ role in calculating the technical provisions at www.tpr.gov.uk/codes/code-funding-defined-benefits

Christine’ questions

Christine understands the basic principles but has a few questions for Bernard before the call ends.

What does ‘benefits already accrued under the scheme’ mean?

This includes pensions already in payment (including those payable to survivors of former members) and benefits accrued by other members who have not yet retired, for service to date that will become payable in the future.

How do you determine whether the technical provisions are being met?

In simple terms a funding method is chosen, together with a set of assumptions, in order to value the assets of the scheme and the liabilities to pay pension benefits already accrued under the scheme.

If assets are insufficient to meet those liabilities the scheme cannot meet its technical provisions.

Does the scheme actuary select the funding method and assumptions?

No, its your responsibility as trustees to choose both the funding method and the assumptions for calculating the technical provisions which you must usually agree with the employer (unless the scheme rules are drafted so as to give you unconditional power to determine the contribution rate).

I will provide you with advice on both prior to you making this decision.

> Useful links
> TPR provides an annual defined benefit funding statement at www.tpr.gov.uk/doc-library/statements