Broadstone

Consultation Response

Statement of Strategy

April 2024

Contents

Executive Summary

We welcome the opportunity to influence the direction of the Statement of Strategy. We recognise this document has several (potentially conflicting) objectives, and believe that some relatively simple changes could significantly improve the success in meeting some of these aims. In particular we would comment:

- **Obtaining factual information for TPR on valuations** – we believe this is achieved, but question whether all of the information is really required for efficient regulation. Information that is unlikely to be used in most cases should be removed wherever possible, and information that is not critical to the strategic message should be in an appendix or similar to maximise the usability of the document for trustees and employers.

- **A useful long-term planning and risk management tool for trustees** – the initial template is not a 'reader-friendly' document likely to encourage engagement, or use as an ongoing risk management tool. We fully support the desire to prompt these strategic conversations between trustees and employers, and understand a desire to monitor/document these, but question the proposed format and style.

- **Obtaining strategic information for TPR on the direction of travel of the industry** ("a more effective ongoing assessment of the DB landscape") – this aspiration may be hindered as some schemes or sponsors will be wary of committing in writing to a course of action (e.g. buy-in within five years) even if it is something they are hoping to achieve.

We provide, as an attachment, an example revised statement based on your sample wording, which contains most of your original information but would be a step towards providing a more meaningful and accessible document for trustees and employers. Our detailed comments below offer ideas on how this could be simplified further.

We are very mindful of the need for proportionality and whilst this is referred to several times within the document, there appears relatively little difference in the information required. There will be a non-trivial cost associated with collating and checking this information, prior to discussing and agreeing this document, that seems disproportionate for the likely benefit to trustees and employers. This is particularly true for smaller schemes, those that are well funded and/or meet (large parts of) the Fast Track requirements.

Even a simple step of requesting assumptions and cashflows for 50 years rather than 100 would eliminate the need for hundreds of data entry points. This should not materially undermine the data (particularly for closed schemes) or the Regulator's ability to identify and engage with higher-risk cases. Whilst the additional costs in providing more data might be marginal, they still exist, particularly if numbers need to be checked or there are inefficiencies in the submission system. A more extreme suggestion would be to cut these back even further (e.g. to just the next five to ten years) given the actuary is already providing duration calculations at the valuation date and relevant date.

Finally, we strongly encourage TPR to think very carefully about the user experience (rather than purely their own efficiency in collating and analysing submissions) when determining the final submission method. The statement must be easily to populate and amend in order to minimise unnecessary costs.

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Responses

Our approach to the statement of strategy

Question 1: To what extent do you agree that our proposal to adjust the information required of smaller schemes as outlined in the document is pragmatic and proportionate?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
			X	

We strongly support this as an objective but believe that you should go much further if you are seeking to genuinely limit the work/cost involved for small schemes to be proportionate to the risk they (are likely to) pose.

For example, we understand that the Fast Track regulatory regime will involve several tests/conditions. Is there a reason, particularly for small schemes, why this could not be a reason for skipping sections of the submission (on an optional basis)? We recognise this would give less comprehensive management information for TPR, but if the risks have been confirmed as small, is this strictly necessary?

To expand on this, you set out within your consultation various areas where the Fast Track template will require less or no information. Each of these could presumably be associated with the relevant Fast Track test and if a scheme chose to declare that it had met that test (not requiring all schemes to declare either way, just an option to do so in order to mitigate additional information submissions) then that section need not be required.

Potentially this could reduce your number of templates to two rather than four, with a Fast Track scheme simply ticking all of the relevant boxes.

Question 2: To what extent do you agree with the two definitions proposed for smaller schemes depending on whether we are requesting actuarial or investment information?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
		X		

We agree it makes sense to use existing definitions, although we question whether continually having two different measures is helpful for users and/or whether there is really a material additional risk at 110 members (for example).

Would a definition of small that allowed you to qualify if you met either of the two existing conditions raise any material concerns?

Question 3: To what extent do you agree with our proposal to have pre-defined templates for the statement of strategy to help trustees provide information that is proportionate, relevant and specific to the circumstances of their schemes?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
X				

We welcome the use of pre-defined templates but believe these could be significantly improved (see example attached) with relatively little work, to make them more user friendly.

The output must be readable and accessible to trustees and employers (who may be less familiar with pension matters) and not lose key strategic messages in the mass of detailed information that the Regulator is looking to collect.

We also feel strongly that the manner in which this submission is required (and the ability to do this efficiently and effectively) is a critical part of the proposal. Saving partial submissions, the ability to copy and paste cashflows (for example) in bulk, and allowing interim updates to be submitted in a way that purely requires editing of relevant sections rather than a complete re-entry will all be important features.

In a similar vein, the submission form should not be so restrictive as to

i) necessitate inappropriate entries (e.g. by requiring a number to an inappropriate number of decimal places, insisting on a number when ‘at least x’ or ‘less than x’ would be a sensible answer, or requiring (even zero) entries to a field that is not applicable); or
ii) require the generation of figures that are not otherwise necessary or useful (e.g. CPI assumptions where these are not relevant, aggregated multi-employer financial data where it’s inappropriate to assess the covenant in that manner).

Trustees should be encouraged to submit data that is going to be useful to both themselves and TPR and relevant to their scheme circumstances. They should therefore be able to finalise a submission with gaps or ‘n/a’ together with justification for deviations from the full expected submission. A final free text box (for TPR only) along the lines of ‘If you have left any gaps or marked expected elements as n/a, please provide explanation/justification here’ should suffice.

Question 4: To what extent do you agree with the benefits we expect to see by providing a pre-determined statement of strategy?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
		X		

We support the principle but do not consider the current draft achieves your objectives – please see our comments in question 3.

Question 5: To what extent do you agree with the key differences in the information we ask for between the four proposed templates?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
			X	

As noted above, we believe you could potentially move to two templates (before and after maturity), with the Fast Track tests being 'shortcuts' to reduce/eliminate entries in some sections.

Also, as noted above, we think that all the templates would benefit from a more proportionate and user-friendly approach, with much less data required in some cases.

Question 6: Are there any scenarios that the proposed four templates are not suitable for?

The entire Statement of Strategy feels disproportionate for a scheme that is fully bought in (or close to it – for example pending resolution of GMP equalisation).

More generally, as long as the format/structure of the template entry gives sufficient flexibility for schemes to provide proportionate responses and/or additional explanation where appropriate then we are comfortable with the broad approach.

Our concern would be if the templates generated a Statement of Strategy that contained lots of irrelevant information for a scheme, forced disproportionate or misleading entries (e.g. requiring a specific number to be entered if 'at least 5 years' was a reasonable solution), or would inevitably lead to a follow up information request from TPR to explain a (common or reasonably foreseeable) scenario.

Question 7: To what extent is the example Bespoke template a clear tool that supports trustees' long-term planning and risk management and facilitates engagement between trustees, their employer and TPR?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
				X

We think that relatively simple improvements could be made to the example that would make the document much more user friendly and accessible to users, particularly employer contacts who might be asked to review and agree this document with less day-to-day familiarity with pension scheme reporting requirements and jargon.

We have provided an example to help illustrate this.

Question 8: Do you have any further comments on our general approach to the statement of strategy template?

See our comments above about ensuring this can be efficiently populated/submitted and amended, challenging whether less information could be requested, and whether the wording could be made more useful and accessible for trustees and employers.

As another example, we strongly question whether it is necessary or useful to submit 100 years' worth of assumptions and cashflows for almost every valuation. Depending on the format for submission, the work involved in entering and (spot) checking such entries alone would have the potential to be expensive and time consuming and appear to add little value to TPR. Could this be limited to the next 40-50 years for submission purposes (particularly for closed schemes), eliminating in one move hundreds of data points for each scheme? Would there be a material loss to TPR if we only provided 5-10 years of cashflow data (perhaps if sufficiently mature/well funded)?

Part 1: funding and investment strategy

Question 1: To what extent do you agree that the long-term objective options (buy-out, run-off, move to a superfund or alternative consolidator) capture most long-term objectives for a scheme?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
	X			

Whilst they might capture in basic terms the main long-term objectives, the real question is to what extent the answers provided will give TPR meaningful insight into the industry. For example, many schemes (and employers) will know they are ultimately going to buy-out but will not have any firm timescales and may be wary of committing to this in a TPR submission, thereby defaulting to the 'simpler' run-off answer.

This may depend to some extent on the implications of this choice (for example in terms of requirements around future expense loadings) but more flexible wording/explanation should be encouraged if this is to be a meaningful and useful document for trustees and employers. (E.g. allowing for entries such as 'The Trustees' long-term objective is buy-out but, due to material uncertainty around future buy-out costs, their current funding strategy is consistent with long-term run-off. They plan to review the position at future valuations when the scheme is more mature and buy-out is expected to be more affordable.')

Such statements are likely to be much more consistent with the thinking of less mature and poorly funded schemes, cause less friction when seeking the agreement of the employer, and provide TPR with a more meaningful insight into the aspirations/expectations for the scheme.

Question 2: To what extent do you agree that the three broad categories of growth, matching and hybrid assets gives sufficient breakdown of the low dependency investment allocation?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
	X			

We see little value in asking schemes to try and commit to any more detailed breakdown but question whether at this level, the information requested adds much value or insight. Would a simple growth figure suffice, particularly for smaller schemes who are less likely to be utilising more complex (hybrid) solutions? This would again reduce the number of data entries.

On balance, we support this on the grounds that it is better than a more detailed requirement but think you could go further.

Question 3: To what extent do you agree that it is sensible to include all three funding bases (low dependency funding, technical provisions and buy-out)?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
X				

This seems reasonable, easy to populate based on valuation work, and gives a simple snapshot to trustees and employers.

Question 4: To what extent do you agree that the standard wording in the proposed statement of strategy template is adequate to outline the funding journey plan?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
	X			

See also our revised example template.

Question 5: To what extent do you agree that the discount rate approach options (horizon method, different rates pre-retirement and post-retirement, constant addition) include the majority of options available?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
	X			

Question 6: To what extent do you agree that the selections of gilts, swaps, inflation or other cover the main underlying yield curves used when setting technical provisions and low dependency funding basis?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
X				

It would be helpful/efficient if the selection of this (particularly for gilt yields and Bank of England implied inflation, which presumably will be the most common) would then prepopulate the forward rates or remove the need to enter them entirely. This should remove the need for most schemes to enter these data points manually, saving time and cost.

Question 7: In respect of the underlying yield curves, indicate the extent to which you agree with the approach proposed of providing the forward discount rate curve, or for small schemes the appropriate single rate?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
	X			

As noted previously, we question whether 100 years is necessary and suggest 50 years (or even less) should be sufficient for regulatory purposes, particularly for closed schemes, significantly reducing the number of data points to be entered.

Question 8: In respect of the addition/premium to the yield curve, indicate the extent to which you agree with the approach proposed to provide the forward discount rates?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
	X			

Question 9: In respect to the addition/premium to the yield curve for schemes that use a pre- and post-retirement discount rate methodology, indicate the extent to which you agree with the approach proposed of providing the appropriate single rate?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
	X			

Question 10: To what extent do you agree with the proposed approach to capture information on inflation and pay increase data?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
		X		

As noted previously, we question the need for 100 years of rates and suggest 50 years should be more than adequate, particularly for closed schemes. In terms of assumptions, for many schemes the rates from 50 years on may well be identical and repeated entry of identical figures seems to add little benefit, regardless of how small the marginal cost may be.

We also note that many schemes will have inflation linked benefits that also use a cap or collar (or a variety of such rates), which could be treated differently from scheme to scheme. The level of exposure to different (tranches of) benefits will also vary significantly. We therefore question the value to TPR of collating the RPI (and CPI) curves in isolation – potentially this represents a lot of data entries with minimal potential insight (on either an individual scheme or a global industry basis).

For example, some schemes might only have CPI exposure through post 88 GMP pension increases and so active/detailed consideration of their CPI assumption would be disproportionate. Similarly, a scheme could have a higher RPI assumption but less prudent approach to caps and collars than one with a lower disclosed set of RPI figures.

Schemes that only use one form of inflation index should definitely only be required to enter one (rather than required to enter the same information twice, which could be misleading, or generate new numbers). Also in many instances, CPI might be derived from the RPI curve (and so the option to provide a simple RPI-CPI gap might be more useful and informative than another list of (up to) 100 rates).

Question 11: To what extent do you agree that it would be useful to provide further information on the mortality tables adopted for the mortality assumptions?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
				X

We welcome the proposals to simplify and reduce unnecessary detail in this area if the life expectancies are the only material metric the Regulator is likely to monitor/review. References to specific mortality tables are unlikely to improve trustee or employer understanding of the strategic position.

Question 12: On allowances for commutation, to what extent do you agree that the options provided capture the majority of approaches used?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
	X			

We welcome this simple option as opposed to more complex or varied options. We do however question why this area is being singled out for sensitivity analysis. For many cases, this will be relatively insignificant compared to other assumptions and yet you are imposing this as a required calculation for all to undertake and report on. On proportionality grounds, this is an example of an excessive requirement for small schemes.

Question 13: To what extent do you agree with the proposed approach of asking about how the key assumptions differ between the technical provisions and low dependency liabilities?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
	X			

As long as this is a ‘free text’ option and you accept a proportionate response where there are trivial differences. As mentioned previously, this could be an area where further entry is not needed if the relevant fast track measure is passed.

Question 14: Do you have any further views or considerations on the information required for Part 1 of the statement of strategy, including any views on alternative approaches or missing data to support Part 1?

As set out in our comments above, we believe more should be done to deliver on your objective of this being a meaningful, accessible and useful document for trustees and employers, that promotes honest and open strategic discussion. The current draft overly prioritises the TPR information gathering aspects and gathers a disproportionate amount of data points, many of which are likely to be of limited value.

Part 2: actuarial information

Question 1: To what extent do you agree that it is reasonably straightforward to provide the cashflows information listed?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
		X		

Whilst it should be relatively straightforward to provide in most cases, this depends very much on the submission format. Also, there is still work involved in transposing and checking this data. We strongly question whether 100 years of cashflows is really necessary and whether 50 or less would be sufficient, particularly for closed schemes. This alone would eliminate 250 data entry points (or more) from the submission.

If TPR modelling and analysis is likely to focus on the entries in the first ten or twenty years then it should not be necessary for all schemes to submit more than this. Trustees can (and should) still consider the longer term maturity profile of their scheme without necessarily entering all this data and TPR could still ask for additional detail if, where engaging on a case, they believe this is a potential area of concern.

More generally, we question the value/benefit from this level of granularity being submitted to TPR. Will there really be analysis to study the insured member cashflows, or to look separately at active and deferred members' past benefits? In year 30 and beyond? Every row or column removed will significantly reduce the number of required data points and we believe significantly reducing this total should be a priority (regardless of how simple you may consider it is to produce and share more data).

Some schemes currently exclude insured members from their valuation, particularly where these are immaterial (perhaps two or three historic annuitants). It would appear disproportionate to now require insured cashflows to be generated and reported for these cases and a suitable explanatory comment should suffice.

Question 2: Is it easier to provide benefit cashflows on a low dependency basis or on a technical provisions basis?

We don't anticipate a material difference at this stage.

Question 3: To what extent do you agree that you would expect these cashflows to be materially different?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
			X	

In general, we would not anticipate a material difference within the undiscounted cashflows for member benefits, the most notable potentially being in the treatment of tax free cash at retirement (if a lower risk approach is seen as being to make no advance allowance for this).

There could also potentially be differences in expense loadings for the two valuations, but we assume this would not be considered with the cashflows.

Question 4: To what extent do you agree that splitting the cashflows into the five categories listed above is a reasonable approach?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
		X		

Please see our earlier comments, including our answer to question 1 of this section. It should be relatively simple in most cases but is not without time/cost and requesting up to 500 data points here from each scheme appears to be hugely disproportionate and have very limited likely benefit.

Removing the insured column and reducing the timeline to 50 years or fewer would be a good start with negligible loss of value.

Question 5: Please provide any further considerations that you have on the actuarial data to be included in part 2 of the statement of strategy.

No further comments.

Question 6: To what extent do you agree with the removal of the requirement to provide accounting valuation and s179 valuation data from a valuation submission perspective?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
X				

Part 2: recovery plan

Question 1: To provide details about post valuation experience, we expect providing an updated estimated deficit would be best. To what extent do you agree that providing an estimated deficit is the appropriate approach?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
	X			

Although in some cases a broader check may be undertaken by the actuary / trustees (i.e. to ensure it is less than the value of the proposed contributions) and so the submission should not require (or be translated into) a statement that suggests it is an accurate figure. Similarly, there may be an updated estimate at a convenient date close to signoff followed by more approximate sense checks thereafter.

Question 2: If providing an updated deficit, to what extent do you agree it would be straightforward to also provide the updated estimates for assets and liabilities, if we require that detail?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
			X	

As noted above, in some circumstances the Trustees might be comfortable that, for example, assets have grown by more than £x million more than the liabilities, and therefore there is sufficient improvement that the agreed contributions are now adequate. They would not necessarily determine a specific figure for either assets or liabilities at the date of signoff.

We see no value in requiring an assessment of both assets and liabilities in such circumstances where this necessitates additional work (particularly if required to quote either figure to a specific degree of accuracy). This would be disproportionate and unhelpful, simply generating additional cost.

A free text box (with encouragement to share the updated assets and liabilities if available) would seem a sensible way around this.

Question 3: Share your views on our proposed approach to collecting information on investment outperformance and post-valuation experience, including any alternative questions that should be considered.

From past experience, in some cases/economic conditions it may be that some/much of the assumed investment outperformance is already known to have happened. We therefore note that the monetary amount might not be spread ‘evenly’ across the recovery plan or be as risky as it might at first appear.

From a presentational perspective we would hope that the recovery plan contributions will be truncated so that a scheme with a short recovery plan (e.g. 5 years) is not required to enter and include on their statement 15 years of zeros.

Part 2: investment information

Question 1: We do not envisage schemes will incur significantly more costs in providing journey plan investment risk data. To what extent do you agree with this assessment?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
			X	

Many schemes will not currently be undertaking this level of detail in their planning of future investment strategy or detailed consideration of the risk levels involved, particularly smaller schemes. Any new analysis clearly has a cost implication, and based on your logic that those elements that are reported will be discussed and monitored, there is similarly a cost associated with this time.

Schemes with longer term time horizons will not be (and should not be) particularly entrenched in their views around how exactly they might be invested in 10+ years time and are likely to resent any requirements to undertake detailed analysis of risks associated with purely theoretical strategies. It is questionable how much value this might add at anything beyond a quite superficial level.

Proportionality will be critical here and the level of costs will depend very much on your requirements. Allowing schemes that would meet the fast track requirement in this particular area to tick a box and have no further reporting to complete would be a sensible step forward, without it being contingent on satisfying all other fast track requirements. This will also help reduce the potential cliff edge for schemes that are close to fast track but only fail one element.

Part 2: covenant information

Question 1: To what extent do you agree that the proposed approach to submitting covenant information will work in practice for different types of multi-employer schemes? If you disagree, what alternative approaches do you suggest.

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
		X		

We really need TPR's full covenant guidance in order to better understand the requirements and expectations in this area going forward.

Question 2: To what extent do you agree with the proposal that aggregated covenant information should cover employers that account for at least 80% of scheme liabilities? If you disagree, what alternative approaches do you suggest.

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
	X			

This sounds sensible for the majority although we are concerned there may be exceptional cases.

An option to specify the proportion of liabilities covered (in broad, rather than specific terms (e.g. >90%)), together with justification of the approach might give more flexibility to deal with these scenarios and save disproportionate work for Trustees without materially undermining the TPR data.

Ultimately, it would seem nonsensical if Trustees were forced into aggregating data solely for this purpose when it was not appropriate for them to do so in their specific circumstances. In fact the production of such figures, and the implication to the company when agreeing the statement that this was an important or appropriate measure, could detract from or undermine more meaningful covenant discussions. The option to provide and explain a more meaningful measure should be allowed.

Question 3: We expect employers to work with trustees and provide the appropriate information. To what extent do you agree that information required will be obtainable to understand the level of risk supportable by the covenant? If you disagree, please outline what the challenges might be and where they may come from and provide your considerations on how they may be addressed.

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
		X		

We agree with the broad principles but see this area as one that could pose significant challenges in agreeing a statement of strategy.

The planned covenant guidance may assist/clarify some of this, but we see the ability of trustees to simply be confident (and report) that some of the figures are ‘at least’ or ‘no more than’ a specific figure will be critical in reaching agreement on the outcome in a proportionate manner.

In many cases, the covenant will be clearly more than adequate to support the level of risk / funding strategy adopted. In such cases it should not be necessary to input precise figures.

We also anticipate that these numbers represent a potential source of friction (or even conflict) in discussions with employers. Employers will often be unfamiliar with the considerations that trustees are asked to undertake and uncomfortable with the reporting of figures that appear to contradict their forecasts or appear to commit to a longer term time horizon even if there are sensible reasons for doing so. Ensuring the statement can be worded in a clear, accessible and sympathetic way will be critical to avoid wasted time and unnecessary tensions in this area.

Question 4: To what extent do you agree that the covenant information we propose to request for Bespoke and Fast Track valuation submissions is reasonable and proportionate?

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
		X		

Again, we have mixed views here and a large degree of uncertainty pending sight of the covenant guidance. We strongly welcome the ability to report reliability and longevity periods of ‘at least X years’ where it is appropriate to do so.

We would strongly encourage an approach where the level of detail required is commensurate with the level of risk rather than simply ‘bespoke’ or not. We would also encourage proportionality and, whilst this is mentioned, it is not immediately obvious how this would be applied. (For example, where recovery periods are very short, and/or sponsors are very strong or large relative to the scheme, it should similarly be possible to simplify the cashflow justifications.)

Finally, we recognise that employer financial years will often differ from scheme years and there may be time lags in reporting or forecasting. We trust that there will not be disproportionate prescription here that will frustrate trustees and employers in obtaining and presenting proportionate assessments.

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