IFF Research

Defined benefit trust-based pension schemes research

A summary report on the 2017 research survey

Prepared for:

The Pensions Regulator

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Contents

1 Executive Summary

This report summarises the findings from the 2017 quantitative survey among defined benefit (DB) schemes[1], carried out between 20 March and 19 April 2017. The survey was conducted by IFF Research, an independent market research agency, on behalf of The Pensions Regulator (TPR).

1.1 Introduction

In 2014 TPR published a new DB funding code of practice, replacing the previous version published in 2006.

The code sets out nine key funding principles that are applicable to all schemes when trustees and employers seek to put in place an appropriate funding plan and comply with the scheme funding requirements to achieve this aim. Since its publication, the new code has been supplemented by guidance to help trustee boards and employers to meet the expectations set out in the code.

More widely, through its work on 21st century trusteeship and governance, TPR is promoting higher standards of governance and administration in defined benefit (DB), DC schemes and public service schemes. This comprises a 3-5 year programme of work designed to improve trustee effectiveness and ensure that the fundamentals of good governance are in place across all scheme types and sizes.

The results from this DB schemes survey will directly inform this work and help to ensure that TPR focuses its efforts on the areas where trustees face the greatest challenges[2].

The main survey objective was provide a performance measurement against eight of the nine principles[3] of the DB funding code of practice, among both trustee boards and employers of DB schemes.

1.2 Key findings

1.2.1 The majority of trustees and employers had read the DB code of practice or a summary of it

Nearly all trustees interviewed (94%) and three quarters of employers (75%) said they had read the DB code of practice or a summary of it provided by the adviser.

[1] The survey population included Hybrid schemes. A Hybrid pension scheme includes both Defined Benefit and Defined Contribution benefits.
[2] Further information is set out in TPR's policy response to this survey and an equivalent survey of DB schemes [insert link]
[3] Working Collaboratively, Managing Risk, Taking Risk, Taking a Long-term View, balance, Well Governed, Fair Treatment, Reaching Funding Targets. NB the proportionality principle was excluded.

Readership levels of TPR's guide on how to assess the employer covenant, the essential guide to the DB code were similar to that of the DB code. The proportion of trustees and employers who had read TPR's guide on integrated risk management (or a summary of it) was lower (83% of trustees and 61% of employers).

Trustees of small schemes were less likely than the average to have read the employer covenant guidance (79%) and the guidance on integrated risk management (65%).

1.2.2 The majority of trustees agreed that TPR makes it clear what it expects from trustee boards, while a smaller majority of trustees of small schemes agreed

The majority of trustee boards (90%) agreed that TPR made clear what it expects from them. Trustees of large schemes were more likely to agree that TPR made their expectations clear (97%) compared to trustees of small schemes (81%). The proportion of employers that agreed that TPR made clear what it expects from them was lower than among trustees: 80%.

1.2.3 In relation to the Well Governed principle, the large majority met two of TPR's expectations. However, a significant minority did not meet three other expectations which relate to meeting regularly and assessing the trustee board and new trustees

Each of the five expectations measured were met by at least seven in ten trustee boards of large schemes (74%). Medium sized schemes were less likely than large schemes to meet three of the expectations, with one being met by less than half (49%). Small schemes were least likely to meet the expectations, with two of them met by less than half.

Nearly all trustees believed that their board had sufficient time and resources to properly run the scheme (ranging from 95% of large schemes through to 98% of medium schemes).

Schemes performed second strongest overall on having both a policy for managing trustees', service providers' and advisers' conflicts of interest and a register of interests for these also. Three quarters of trustees of small schemes (74%) reported that they had these in place, increasing to nearly all (94%) of large schemes.

Trustee boards' performance was poorer in relation to the other three fundamentals of good governance. Two fifths of trustees of small schemes (41%) told us that their board met at least quarterly[4], three fifths (62%) of medium schemes and nearly nine in ten (87%) large schemes.

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[4] TPR recognises that meeting quarterly will not be necessary for all schemes (especially small schemes), but this measure was used to be able to provide a benchmark that is likely to be appropriate for many schemes.

Small schemes were also less likely than larger schemes to have in place a documented policy to assess the fitness and properness of new trustees: 49% of small schemes had this compared to 61% of medium and 74% of large.

The proportion of trustee boards which carried out a regular evaluation of the performance and effectiveness of the board also ranged between around half and three quarters of the different scheme sizes. Unlike for the other governance expectations measured, it was medium schemes that performed poorest (49% met this), compared to 60% of small schemes and 74% of large schemes.

1.2.4 In relation to the Working Collaboratively principle of the code of practice, the large majority of schemes met each of TPR's expectations asked about in the survey, although small schemes performed worse

Between 89% and 97% of trustee boards reported that they met each of the five expectations asked about in the survey relating to this principle.

The proportion of employers meeting TPR's expectation for the five areas was similar to that of trustees (between 89% and 99%).

The performance was highest in relation to trustee and employers engaging with each other to obtain any information before making decisions, for example, in relation to scheme funding. Nearly all trustees (97%) and employers (99%) reported that they did this.

Trustee boards of small schemes performed poorer than the average on three of the five measures. They performed more poorly on engaging with the employer before the valuation process has been completed (80% did so) and on engaging with the employer at least once every six months or when something significant happens (83%). Thirdly, trustee boards performed more poorly than the average on engaging with employers to obtain any information before making decisions (93%).

1.2.5 In relation to the Managing Risk principle, nearly all schemes met two of the three expectations that TPR has but a significant minority did not meet the expectation to manage risks in an integrated way

At least 98% of each of the scheme size groups knew which party leads on co-ordinating the risk management for the scheme (either the trustees, advisers, employers or another party).

A similarly high proportion of trustee boards reported that they take at least one action to assess the risks in the scheme and the assumptions used for the scheme funding.

Two thirds (61%) of trustee boards reported that they carried out all five activities asked about with the aim of managing funding, investment and covenant risks between valuations (i.e. Managing Risks in an integrated way).

As was the case in previous surveys conducted by TPR, the integrated risk management activity which was least likely to be carried out by schemes was having clear plans for action when tolerances are breached or on some other trigger (for example convening a sub-committee to decide any required action). The proportion conducting this activity ranged from 75% of small and medium schemes to 82% of large schemes.

Among sponsoring employers the pattern of response in relation to the integrated risk management activities was similar to that of trustees, with 62% of employers carrying out all five activities.

1.2.6 In relation to the Taking Risk principle, the large majority of schemes met each of TPR's expectations, although small schemes performed more poorly

Each of the four measures asked of trustees and employers were met by at least three quarters (76%) of those surveyed.

All (100%) trustee boards and 99% of employers told us that they undertake activities to establish the employer's risk tolerance. However, when asked what activities were undertaken, the proportion of trustees able to name activities fell to 83%; among employers it fell to 76%.

Around nine in ten trustees understood the potential impact for the scheme in terms of the risks being taken in their funding plans (93%). A similar proportion (88%) reported that they understood the potential impact of the risks for the employer.

1.2.7 In relation to the Taking a Long-term View principle, the vast majority of schemes have identified which employer(s) are legally liable to support the scheme, while fewer schemes had a journey plan

Over nine in ten trustees (92%) reported that they had identified which employer(s) are legally liable to support the scheme, on either a short or long term basis. The proportion of trustees of small schemes having done this (86%) was lower than that of large schemes (98%).

The proportion of representatives from sponsoring employers that had identified legally liable employer(s) was similar to that of trustees: 87%.

The proportion of schemes that are closed to future accrual that had in place a journey plan or long-term target (in addition to legally mandated technical provisions) stood at 73% among trustee boards and 68% among employers.

The most common aims for the journey plan were to reach self-sufficiency (87% of trustees and 79% of employers reported this) and to progressively de-risk (84% and 86% respectively).

1.2.8 In relation to the Balance principle, most schemes reported that they meet each of the two elements asked about relating to paying promised benefits and reviewing the sponsoring employer's proposed investments

Nearly nine in ten (87%) of trustees said that they either fully or partially balance the need to pay benefits with the employer's ability to meet its wider business aims. A similar proportion of employers (92%) reported this.

A lower proportion of trustees told us that they consider at least one factor when an employer proposes an investment (80%). The factors most likely to be considered by trustees were: the likely benefit to the employer (73% said this) and the degree of risk associated with a new investment and the employer's track record of managing new investments (70%).

1.2.9 In relation to the Fair Treatment principle, most trustee boards had undertaken activities to secure Fair Treatment for the scheme

Three quarters (73%) of trustee boards had undertaken at least one activity to ensure that the scheme is treated fairly amongst competing demands on the employer.

Around half of trustees (between 44% and 50%) said that they conducted each of:

- checking that the return to its shareholders is proportionate compared with the contributions being paid to reduce the scheme deficit, where the employer is paying dividends;
- checking whether the employer is maintaining or increasing dividends when also seeking reduced deficit repair contributions;
- where employer growth plans are being prioritised, establishing whether other creditors to the employer are contributing fairly;
- where the employer asks the scheme to take higher risk in its investment strategy establishing if and how the employer intends to cover that risk if needed.

1.2.10 In relation to the Reaching Funding Targets principle, nearly all trustee boards told us that they took into account at least one factor when considering the structure of a recovery plan

Almost all (95%) trustee boards took into account at least one factor, although this was lower among trustees of small schemes (91%).

Most common considerations were the maturity of scheme (89%), how much risk they had already taken when setting their funding target (83%) and the impact of the assumptions used when setting the recovery plan not being borne out (82%).

Less likely considerations were the expected level of the Pension Protection Fund (PPF) over the course of the recovery plan period (58%) and whether any significant changes are expected to the membership profile (61%).

1.2.11 The large majority of trustee boards and employers believe that they perform well in relation to the eight principles asked about in the survey

Across the eight different principles, around nine in ten (86% to 96%) of trustees rated their trustee board's performance as 'very good' or 'fairly good'. The corresponding self-rating among employers ranged from 77% to 93%.

The principles which trustees rated themselves as highest on were Working Collaboratively (66% very good, 28% fairly good) and Well Governed (52% very good, 41% fairly good). The principles rated lowest were Fair Treatment (48% very good, 38% fairly good) and Balance (48% very good, 39% fairly good).

Employers rated themselves highest on Working Collaboratively (60% very good, 33% fairly good) and lowest on Fair Treatment (36% very good, 44% fairly good) and Reaching Funding Targets (47% very good, 30% fairly good).

2 Introduction and methodology

2.1 Introduction

As mentioned above, in 2014 TPR published a new DB funding code of practice[5], replacing the previous version published in 2006. It was developed in light of the experience of regulating scheme funding since this time and the good practice which has developed in the industry. It is based on TPR's objectives which were introduced by the Pensions Act 2004 as well as a further objective 'to minimise any adverse impact on the sustainable growth of an employer', introduced in 2014.

The code recognises:

- The key objectives of trustee boards: to comply with their fiduciary duties and ensure that the promised scheme benefits can be paid as they fall due.
- The key objectives of sponsoring employers: to run their businesses and grow them as appropriate while ensuring that they are able to provide the pensions they have promised.

In particular, the code recognises that in TPR's funding regime a strong, ongoing employer alongside an appropriate funding plan is the best support for a Well Governed scheme.

The code sets out nine key funding principles that are applicable to all schemes when trustees and employers seek to put in place an appropriate funding plan and comply with the scheme funding requirements to achieve this aim.

In 2015 TPR published guidance and resources to assist trustee boards and employers, namely the quick guide to the DB code of practice and guidance and resources for assessing and monitoring the employer covenant.

This report summarises the results from the March to April 2017 research survey carried out by IFF Research, an independent research agency, on behalf of TPR.

2.2 Research objectives

The main objective was provide a performance measurement against eight of the nine principles[6] of the DB funding code of practice, among both trustee boards and employers of DB schemes.

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[5] http://www.thepensionsregulator.gov.uk/codes/code-funding-defined-benefits.aspx
[6] Working Collaboratively, Managing Risk , Taking Risk, Taking a Long-term View, balance, Well Governed, Fair Treatment, Reaching Funding Targets.

The one principle which was not included in the research was proportionality. Due to the time constraint of the survey length, it was felt that it was more important to obtain the responses required on the other eight principles.

Secondary objectives were to measure among these audiences:

- trustee boards' and employers' high-level assessment of their performance against the eight principles
- engagement with the code of practice and related guides for trustee boards and sponsoring employers of DB/hybrid schemes
- clarity of TPR's expectations
- information on investment choices and discount rates
- differences in findings by scheme size

The survey also presented an opportunity to better understand the steps DB scheme trustees are taking to ensure good scheme governance in light of TPR's 21st century trustee and governance work.

2.3 Methodology

The research was undertaken on behalf of the TPR by IFF Research, an independent market research organisation.

The survey was conducted using Computer Assisted Telephone Interviewing (CATI), ensuring methodological consistency with other similar surveys that TPR has conducted. Interviews lasted 25 minutes on average.

TPR's scheme registry database was used as the sampling frame for the research.

The survey was conducted among 250 trustees of DB/hybrid schemes and among 117 representatives of sponsoring employers of DB/hybrid schemes.

Quotas were set by audience and also scheme size. Table 2.3.1 shows the number of interviews achieved in each quota group.

Table 2.3.1: Interviews conducted by quota group

	Trustees	Employers
Small DB/hybrid (12-99 members)	76	40
Medium DB/hybrid (100-099 members)	112	40
Large DB/hybrid (1000+ members)	62	37
Total	250	117

In collaboration with TPR's Insight and Policy teams, we developed a set of survey questions to measure performance against TPR's expectations under each of the eight principles asked about. Between one and five questions were asked about each principle, depending on the number of expectations relating to each principle and the ease of translating expectations into survey questions. Owing to this, caution should be taken when comparing performance across principles.

In the interest of efficiency and cost-effectiveness, in nearly all cases possible responses to the surveys were read out to respondents. The respondent would then say which, if any, of the responses applied to their scheme (typically activities which were carried out). This approach was employed as opposed to asking respondents to name – without prompting – what activities or approach the trustees or sponsoring employer took.

The data was weighted to be representative of the trustee and employer universe of these schemes.

Prior to commencing fieldwork, an introductory letter was sent to trustees and employers to give them notice of the upcoming research and an opportunity to provide alternative contact details or to opt out.

Fieldwork was conducted between 20 March and 19 April 2017.

2.4 Reporting conventions

Throughout this report, where the text discusses differences in the findings between respondent types, scheme types or sizes, these differences are statistically significant at the 95% confidence level[7].

[7] Strictly speaking, calculations of statistical significance apply only to samples that have been selected using probability sampling methods. However, in practice it is reasonable to assume that these calculations provide a good indication of significant differences in quota surveys like this one.

On charts where number has a green upwards-pointing arrow next to it this denotes that this number is statistically significantly higher than the average across all respondents. On charts where number has a red downwards-pointing arrow next to it this denotes that this number is statistically significantly higher than the average.

3 Research findings

3.1 Engagement with TPR's publications and clarity of expectations

3.1.1 Engagement with TPR's publications

Respondents were asked in the survey whether they had read TPR's DB funding code of practice or a summary of the code provided by an advisor. Respondents were asked the same question of three TPR guides relating to running a DB or hybrid scheme.

Almost all trustees (98%) had read at least one of these publications (or a summary of it from their adviser), as had 87% of employers.

As shown in Figure 3.1, the publication that trustees were most likely to have read (or read a summary of) was the full DB Funding Code of Practice, read by 94%. Levels of readership among trustees of the guidance on how to assess the employer covenant and the essential guide to the DB code were similar (90% and 88% respectively).

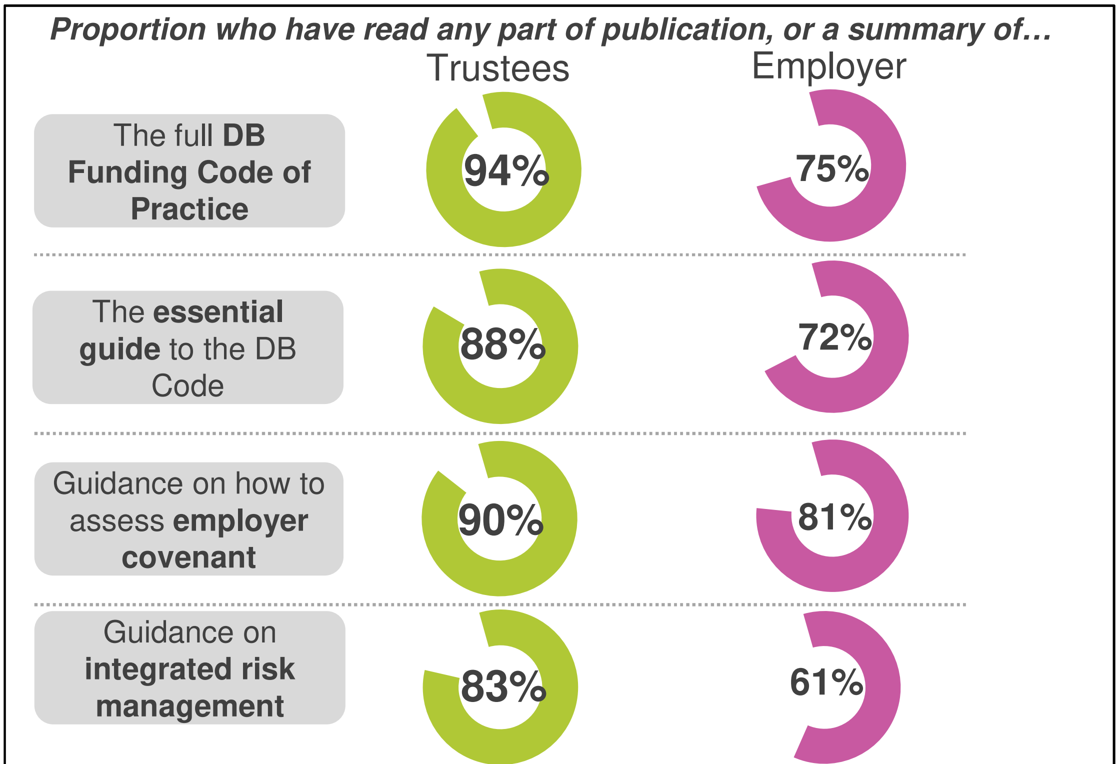
Professional trustees were more likely to have read the full Code of Practice (100% compared to 94% of lay trustees) and the guidance on integrated risk management (93% compared to 79% of lay trustees). In contrast, trustees of small schemes were less likely than the average to have read the employer covenant guidance (79%) and the guidance on integrated risk management (65%).

Levels of readership of the publications among employers were generally lower than among trustees. Employers were most likely to have read the guidance on how to assess the employer covenant (81%), followed by 75% who had read the full DB code of practice (or a summary of it).

The guidance on integrated risk management was the least likely publication to be read among trustees (83%) and employers (61%).

Employers with small schemes were less likely to have read each of the publications.

Figure 3.1 Engagement with TPR publications



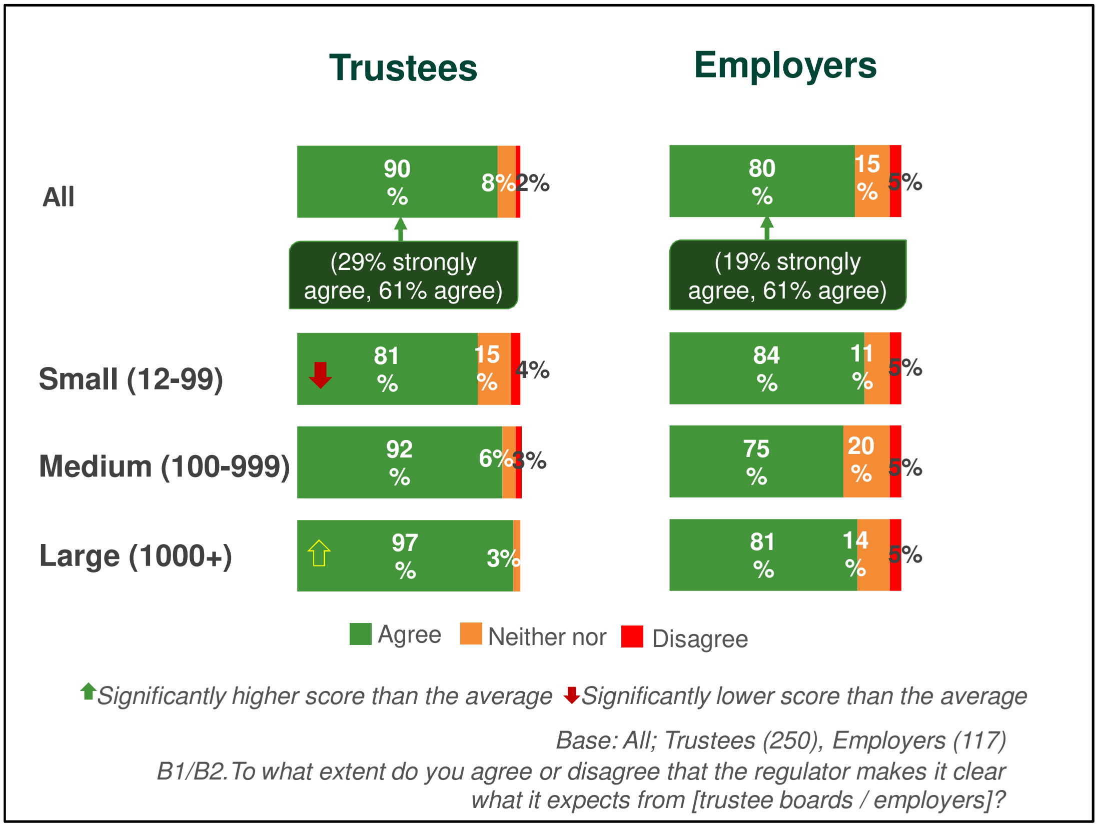
A2. Base: Trustees (250), Employers (117)
Have you read any part of [publication] or have you read a summary of it provided by your advisor?

3.1.2 Perceptions of the clarity of TPR's expectations of trustee boards and employers, and which TPR channels are most informative about their expectations

The majority of trustee boards (90%) agreed that TPR made clear what it expects from them (Figure 3.2). The proportion agreeing was made up of 29% 'agreeing strongly' and 61% 'agreeing'. Trustees of large schemes were more likely to agree that TPR made their expectations clear (97%) compared to trustees of small schemes (81%).

The proportion of employers that agreed that TPR made clear what it expects from them was lower than among trustees, namely 80%. The proportion agreeing was made up of 19% 'agreeing strongly' and 61% 'agreeing'.

Figure 3.2 Extent to which TPR makes it clear what it expects from trustee boards / employers



Trustees and employers were asked which ways, if any, were particularly informative about TPR's expectations of them.

Trustees were most likely to name TPR's guidance publications specifically related to DB schemes (83%) and TPR's trustee toolkit (83%) as particularly informative sources of information about TPR's expectations of trustee boards (Figure 3.3). Nearly all trustees of large schemes (95%) named the trustee toolkit as a particularly informative source of TPR's expectations. The TPR website and the DB Funding code of practice were the next most likely to be named as sources of understanding TPR's expectations (78% and 77% respectively).

Trustees of small schemes were less likely than the average to name the DB funding code of practice as particularly informative sources of information about TPR's expectations.

Figure 3.3 Most informative ways of engaging with TPR about their expectations of trustee boards

		Trustee Size		
	Overall Trustees	Small (12-99)	Medium (100-999)	Large (1,000+)
TPR guidance publications relating specifically to DB	**83%**	77%	83%	92%
Using the Trustee Toolkit or other TPR online learning materials	**83%**	71%	83%	⬆ 95%
Visiting TPR's website	**78%**	73%	80%	81%
The DB Funding Code of Practice	**77%**	⬇ 64%	79%	89%
Other TPR guidance publications	**71%**	58%	68%	⬆ 90%
Submitting a scheme return	**60%**	60%	54%	71%
Reading a report from TPR on where it has taken action against a scheme or employer	**54%**	41%	50%	⬆ 76%
Hearing TPR speak at events or read press notices or blogs	**40%**	44%	⬇ 26%	60%
Contacting TPR Customer Support	**27%**	33%	⬇ 19%	36%
Being subject to a case	**18%**	9%	18%	31%

⬆*Significantly higher score than the average* ⬇*Significantly lower score than the average*

Base: Trustees; All (250), small (76), medium (112), large (62)

B4. Which of the following ways of engaging with TPR, if any, were particularly informative about TPR's expectations of trustees?

As can be seen from Figure 3.4, Employers were most likely to name TPR's website as the most informative source of information about TPR's expectations of them (83%). Large employers were more likely to find a range of sources more informative than the average, namely the trustee toolkit (84%), the DB Funding Code of Practice (81%) and hearing TPR speak at events or reading press notices or blogs (57%).

Figure 3.4 Most informative ways of engaging with TPR about their expectations of employers

	Overall Employers	Employer size: Small (12-99)	Employer size: Medium (100-999)	Employer size: Large (1,000+)
Visiting TPR's website	**83%**	78%	80%	92%
TPR guidance publications relating specifically to DB	**71%**	65%	72%	78%
Using the Trustee Toolkit or other TPR online learning materials	**67%**	60%	60%	⬆ 84%
The DB Funding Code of Practice	**63%**	54%	57%	⬆ 81%
Other TPR guidance publications	**61%**	53%	69%	62%
Submitting a scheme return	**58%**	64%	52%	57%
Hearing TPR speak at events or read press notices or blogs	**35%**	31%	20%	⬆ 57%
Reading a report from TPR on where it has taken action against a scheme or employer	**33%**	26%	41%	33%
Contacting TPR Customer Support	**33%**	43%	22%	35%
Being subject to a case	**17%**	16%	12%	24%

⬆ Significantly higher score than the average ⬇ Significantly lower score than the average

Base: Employers; All (117), small (40), medium (40), large (37)

B4. Which of the following ways of engaging with TPR, if any, were particularly informative about TPR's expectations of employers?

4 The *Well Governed* principle

Trustees should adopt good governance standards in relation to the scheme's funding

Trustees were asked five questions in relation to this principle while employers were asked one.

Figure 7.1 4.1 shows the proportion of trustees and employers that met each of TPR's expectations for a typical scheme in relation to the *Well Governed* principle.

Figure 4.1 Overview of how schemes performed against the *Well Governed* principle

Well Governed principle overview

TPR's expectation for most schemes:	Trustees				Employers			
	All	Small	Med	Large	All	Small	Med	Large
Has documented policy to assess the fitness and properness of new trustees	61%	↓49%	61%	↑74%	57%	51%	57%	65%
Has BOTH a documented policy to manage conflicts of interests and a maintained register of interested on the board of trustees	83%	↓74%	83%	↑94%	N/A			
Trustee board has time and resources to properly run scheme	97%	96%	98%	95%	N/A			
Trustees meet regularly (at least quarterly)	66%	↓46%	63%	↑93%	N/A			
Trustee board carries out a regular evaluation of the performance and effectiveness of the board	59%	60%	↓49%	↑74%	N/A			

↑*Significantly higher score than the average* ↓*Significantly lower score than the average*

<50%
50-74%
75%+

Base: Trustees; All (250), small (76), medium (112), large (62)
Base: Employers; All (117), small (40), medium (40), large (37)

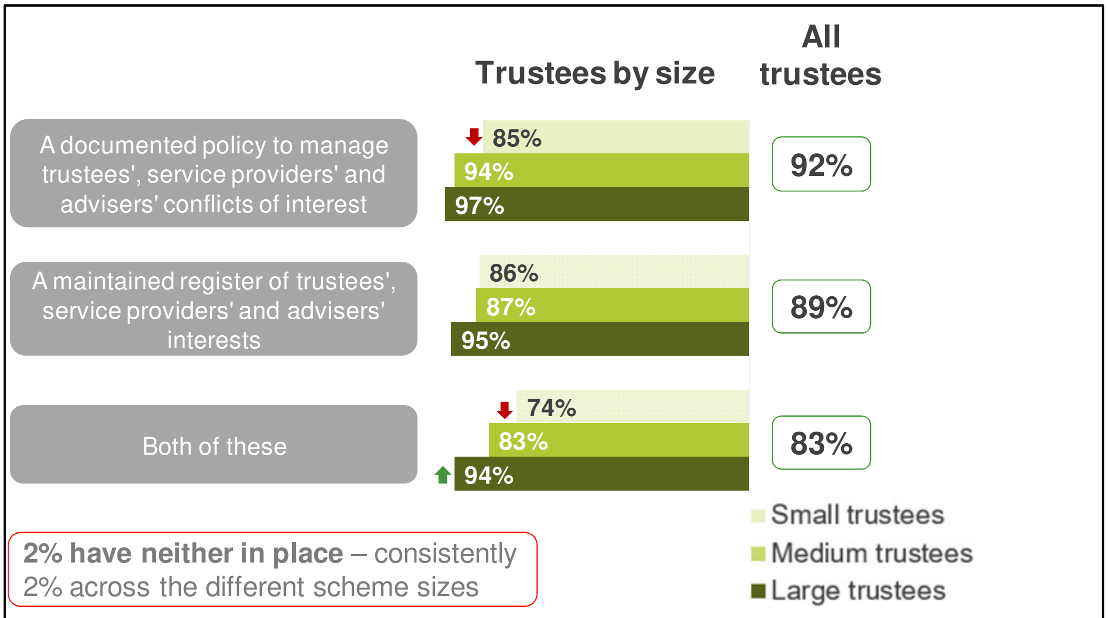
One of TPR's expectations of schemes is that when assessing and appointing new trustees they have a documented policy in place to assess the fitness and properness of a new trustee (for example, it may include conducting bankruptcy checks and obtaining references). Around six in ten trustees and employers said this was the case for their scheme (61% and 57% respectively). The proportion was lower than average among trustees of small schemes (49%).

TPR also expects trustees to keep both a documented policy to manage trustees', service providers' and advisers' conflicts of interest and also a maintained register of interests of these three parties. It can be seen from Figure 4.2 that more than nine in ten trustees (92%) reported that their board had a documented policy to manage conflicts of interest (lower among trustees at small schemes (85%)), and a similar proportion (89%) maintained a register of interests.

Just over eight in ten trustees (83%) had both of these in place; this figure is shown in the first column of the second row in Figure 4.1 (and at the bottom of Figure 4.2). There was variation by scheme size, with the proportion of trustees that had both documents in place, standing at 74% among those of small schemes, rising to 94% among trustees of large schemes.

Two per cent of trustees said that their scheme had neither a documented policy to manage conflicts of interest nor a maintained register of interests in place.

Figure 4.2 Whether trustee board has documented conflicts of interest policy and register of interests



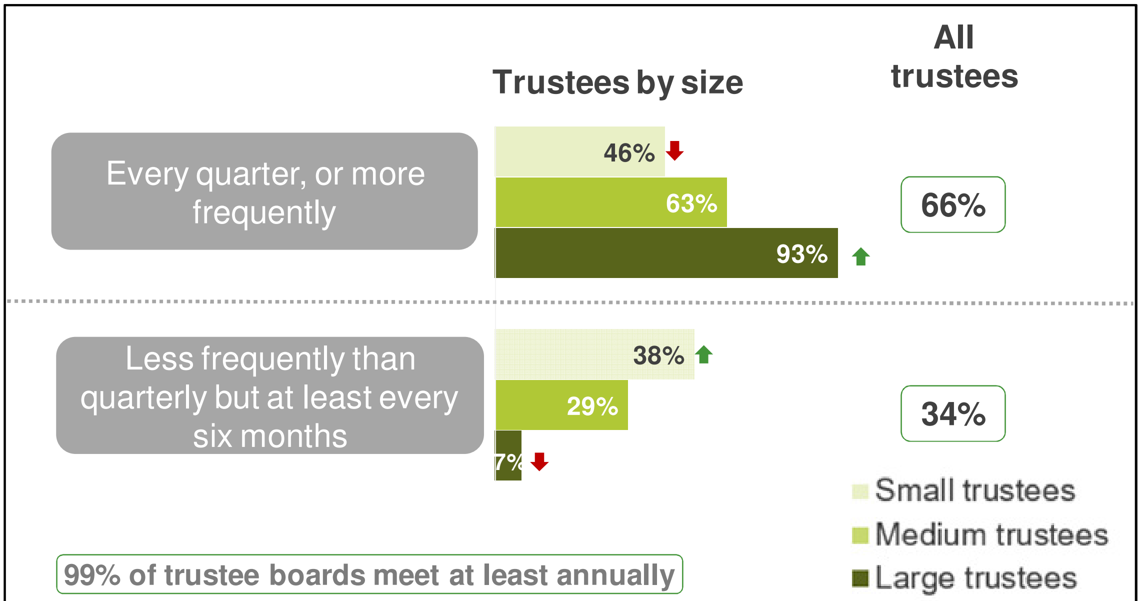
Base: Trustees; All (250), small (76), medium (112), large (62)

H4 - Does the board of trustees have either of the following in place?

Trustee boards are also expected to have sufficient time and resources to properly run the scheme. Almost all trustees (97%) said they had sufficient time and resources and this level was consistent by scheme size.

In terms of the regularity of the trustee board meeting, two-thirds (66%) said they met every quarter or more frequently (Figure 4.3), in line with TPR expectations[8]. This rose to more than nine in ten trustees of large schemes meeting at least every quarter (93%).

Figure 4.3 Frequency with which the trustee board meets



Base: Trustees; All (250), small (76), medium (112), large (62)

H6 - How frequently does the trustee board meet?

Lastly, in relation to the governance of the scheme, TPR expects the trustee board to carry out a regular evaluation of the performance and effectiveness of the board as a whole. Six in ten (59%) trustees said they did carry out a regular evaluation, although trustees of medium schemes were less likely to say they did so (49%) and trustees of large schemes were more likely to say they did (74%).

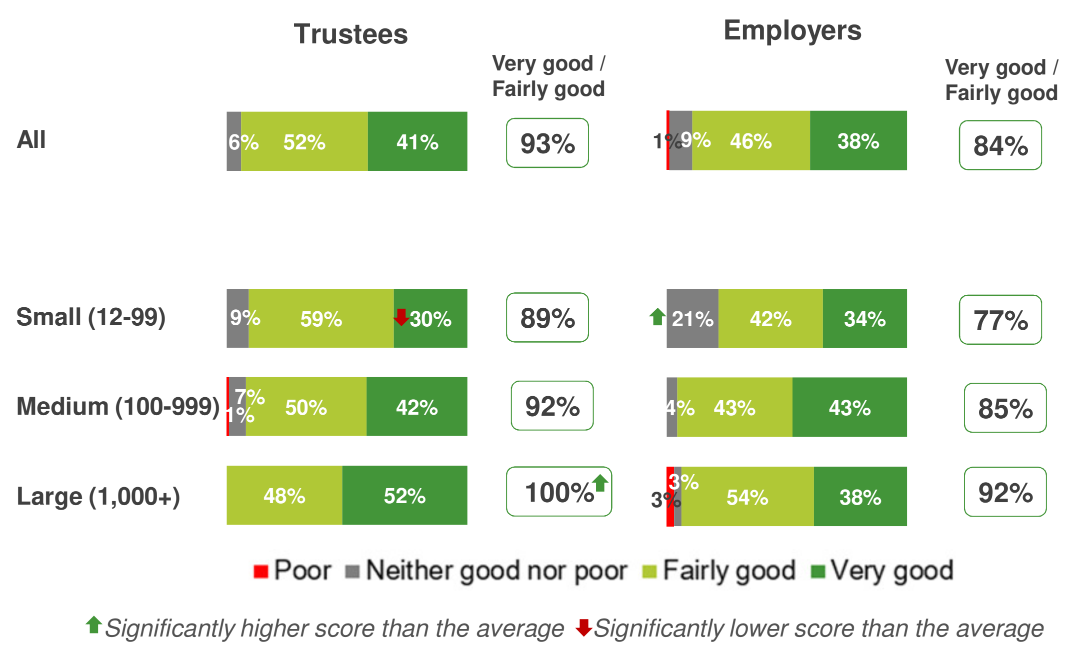
[8] TPR recognises that meeting quarterly will not be necessary for all schemes (especially small schemes), but this measure was used to be able to provide a benchmark that is likely to be appropriate for many schemes.

The large majority of trustees rated their board's performance on Well Governed as 'very good' or 'fairly good' (93%), as shown in Figure 4.4. The 93% was made up of 41% rating the trustee board as very good and 52% rating it as fairly good. No trustees rated themselves as poor.

The proportion of trustees of small schemes rating their board as very good on the Well Governed principle (30%) was lower than the average among schemes.

The large majority of employers (84%) also rated themselves as 'fairly good' or 'very good'.

Figure 4.4 Self-rating of performance against the *Well Governed* principle



Base: Trustees; All (250), small (76), medium (112), large (62)
Base: Employers; All (117), small (40), medium (40), large (37)
H8 - How would you rate the scheme's performance against the 'well governed' principle of the DB Code?

5 The *Working Collaboratively* principle

Trustees and employers should work together in an open and transparent manner to reach funding solutions that recognise the needs of the scheme and the employer's plans for sustainable growth

Trustees and employers were asked five questions about how they worked with each other in running the scheme. Figure 5.1 shows the proportion of trustees and employers stating that they met the behaviours expected of them by TPR in relation to the *Working Collaboratively* principle.

Figure 5.1 Overview of how schemes performed against the *Working Collaboratively* principle

Working Collaboratively overview

TPR's expectation for most schemes:	Trustees				Employers			
	All	Small	Med	Large	All	Small	Med	Large
Engages with employer / trustee before making decisions	97%	⬇93%	98%	100%	99%	97%	100%	100%
Agrees / strongly agrees that there is a collaborative and transparent relationship	94%	95%	93%	93%	98%	⬇95%	100%	100%
Engages with sponsoring employer / trustees at least once every six months or when something significant happens	90%	⬇83%	93%	92%	86%	87%	⬇77%	95%
Engages with the employer / trustee before starting the valuation process or once have begun planning	89%	⬇80%	91%	95%	91%	87%	90%	95%
Shares risk assessments	92%	87%	92%	⬆98%	89%	92%	87%	86%

⬆*Significantly higher score than the average* ⬇*Significantly lower score than the average*

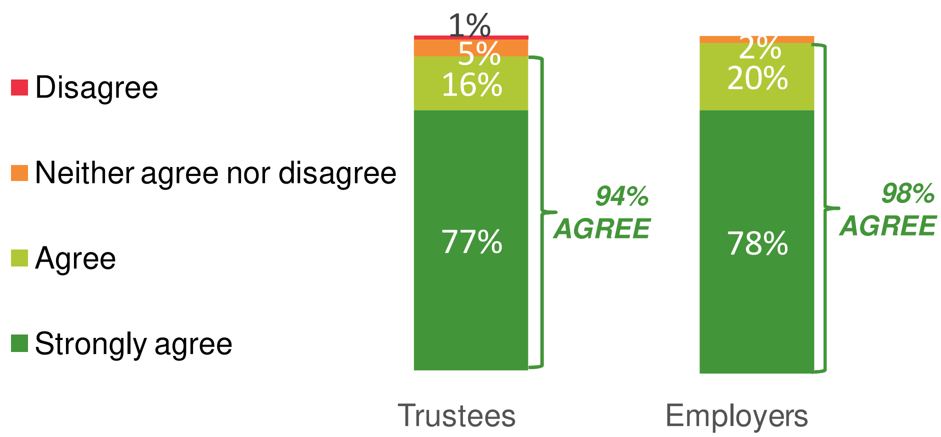
<50%
50-74%
75%+

Base: Trustees; All (250), small (76), medium (112), large (62)
Base: Employers; All (117), small (40), medium (40), large (37)

TPR expects that trustees and employers engage with each other to obtain information before making decisions, for example in relation to scheme funding. The large majority of trustees and employers reported that they did engage with the other party before making decisions (97% and 99% respectively). However, trustees of small schemes were less likely to do so (93%) compared to trustees overall.

In relation to the second measure shown in the second row of Figure 5.1 and in more detail in Figure 5.2, almost all trustees (94%) and employers (98%) 'agreed' or 'strongly agreed' that was a collaborative and transparent relationship between the trustee and the employer (Figure 5.2 5.2).

Figure 5.2 Extent to which trustees / employers agree or disagree that there is a collaborative and transparent relationship with their counterpart at the scheme



Base: Trustees (250), Employers (117)

C3 - To what extent do you agree or disagree that there is a collaborative and transparent relationship with the [trustees / employer] of the scheme?

Two trustees disagreed that they had a collaborative and transparent relationship with their sponsoring employer. One of these said that it was because the funding of the scheme was not a priority for the parent company and the other felt that it was because the information was mainly one way, "*if we want to do anything we keep them informed, but the information from them is extremely difficult to get out of them*".

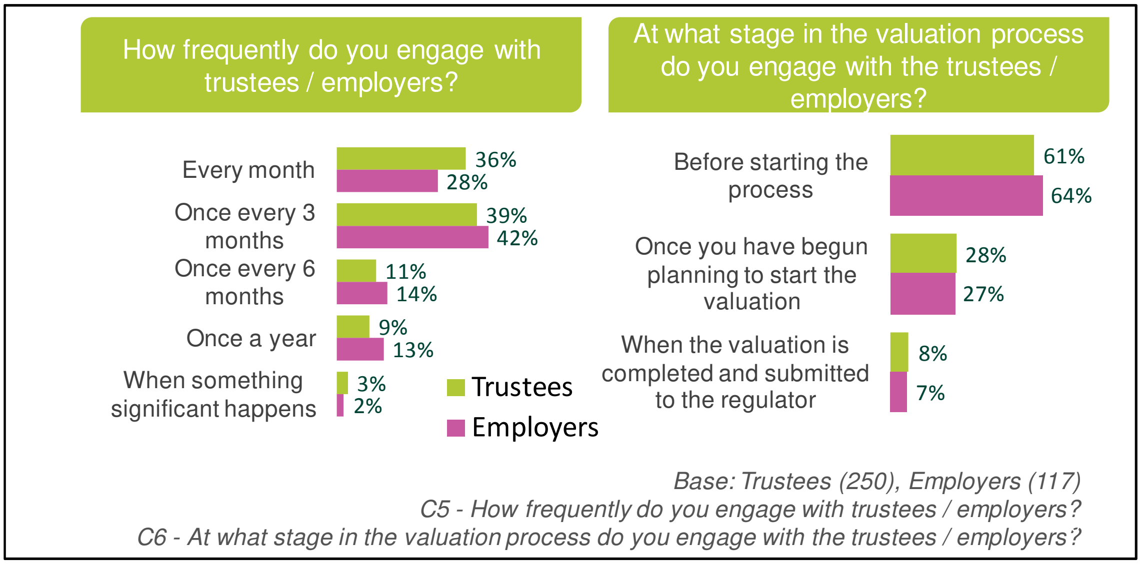
In addition to whether trustees and employers engaged with each other before making decisions, respondents were asked how frequently they engaged with each other, and at what stage in the valuation process this happened. It can be seen from Figure 5.3 that the most common responses were that engagement took place either every month (36% of trustees reported this, 28% of employers) or every three months (39% of trustees, 42% of employers).

TPR would normally expect trustees and employers to engage with each other at least once every six months or when something significant happens, which was the case for nine in ten trustees (90%) and just under nine in ten employers (86%) interviewed.

The fourth of the five expectations in this area that the survey asked about relates to trustees and employers engaging either before starting the scheme funding valuation process or once they have begun planning to start the valuation.

Nine in ten trustees and employers said they did engage with each other at this stage (89% trustees, 91% employers) (Figure 5.3). Whilst there was no difference between employers with different sizes of scheme, trustees of small schemes were less likely to engage before starting the valuation process or once they have begun planning to start (80%, compared to 91% of trustees of medium schemes and 95% of trustees of large schemes).

Figure 5.3 Frequency of trustee and employer engagement and what stage they engage in the valuation process



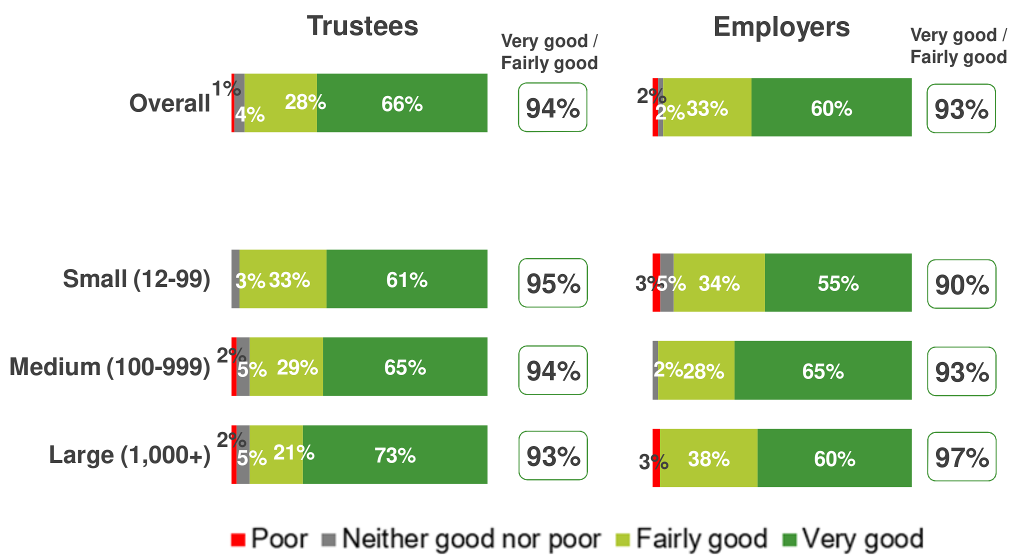
Finally, TPR expects that most trustees and employers at DB schemes share the risk assessment of the scheme with the other party. Around nine in ten trustees (92%) and employers (89%) said they did so, with trustees of large schemes the most likely to say it was shared (98%).

When it came to rating their own schemes performance against the *Working Collaboratively* principle (Figure 4.4), more than nine in ten trustees (94%) and employers (93%) said it was ‘fairly good’ or ‘very good’, with the majority rating their scheme as ‘very good’ (66% trustee, 60% employers). This was consistent by scheme size.

Figure 5.4 shows that the large majority of trustees rated their board’s performance on Working Collaboratively as ‘very good’ or ‘fairly good’ (94%), as shown in Figure 5.4. The 93% was made up of 68% rating the trustee board as very good and 29% rating it as fairly good. One per cent of trustees rated themselves as poor.

The large majority of employers (93%) also rated themselves as ‘fairly good’ or ‘very good’.

Figure 5.4 Self-rating of performance against the *Working Collaboratively* principle



Base: Trustees; All (250), small (76), medium (112), large (62)
Base: Employers; All (117), small (40), medium (40), large (37)

C8 - How would you rate the scheme's performance against the ‘working collaboratively’ principle of the DB Code?

6 The *Managing Risk* principle

Trustees should implement an approach which integrates the management of employer covenant, investment and funding risks; identifying, assessing, monitoring and addressing those risks effectively

Trustees and employers were asked about various activities they undertook in relation to Managing Risks within their scheme. Figure 6.1 sets out the extent to which trustees and employers exhibited behaviours that met TPR's expectations in this area.

Figure 6.1 Overview of how schemes performed against the *Managing Risk* principle

Managing Risk overview

TPR's expectation for most schemes:	Trustees				Employers			
	All	Small	Med	Large	All	Small	Med	Large
Takes all actions to manage risks in an integrated way (all five answer options selected)	61%	⬇50%	63%	71%	62%	49%	65%	73%
Does not say they 'don't know' who leads on co-ordinating the risk management for the scheme	99%	98%	99%	98%	100%	100%	100%	100%
Takes at least one action to assess risks and assumptions used for scheme funding	98%	⬇95%	99%	100%	99%	97%	100%	100%

⬆*Significantly higher score than the average* ⬇*Significantly lower score than the average*

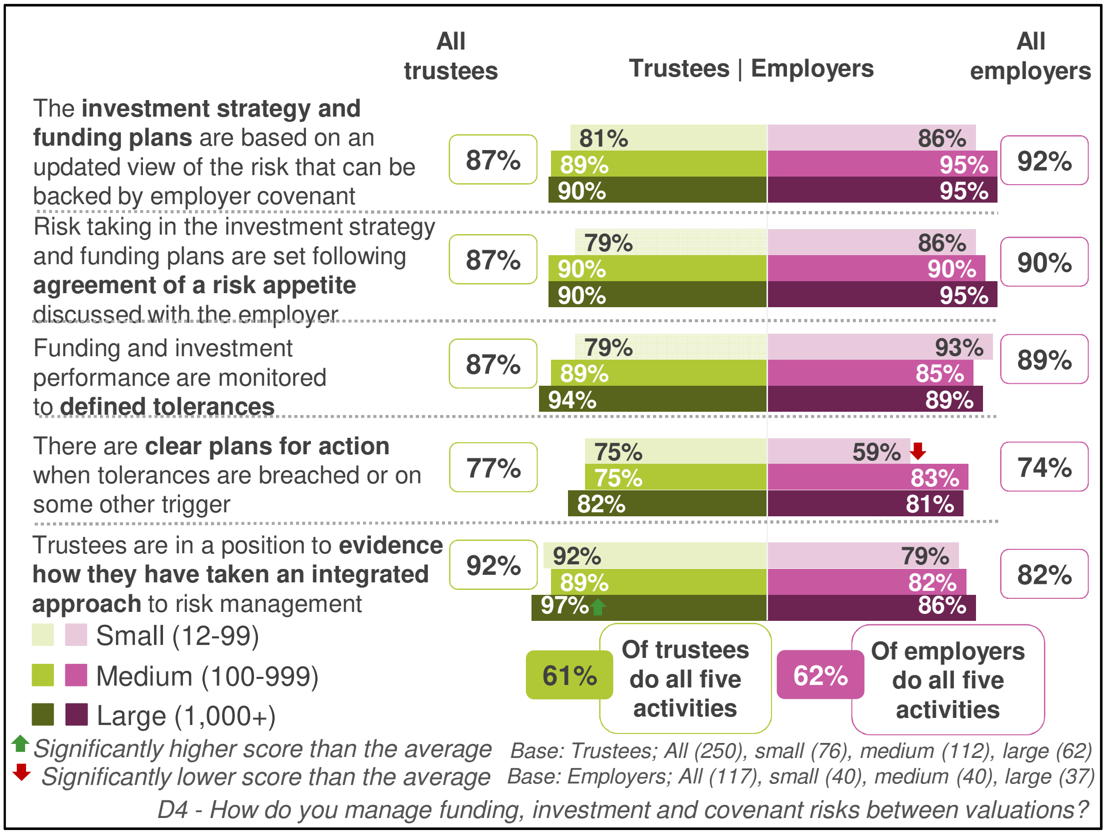
<50%
50-74%
75%+

Base: Trustees; All (250), small (76), medium (112), large (62)
Base: Employers; All (117), small (40), medium (40), large (37)

One expectation that TPR has in relation to Managing Risk is that schemes carry out a number of activities to ensure that funding, investment and covenant risks are managed in an integrated way between valuations. These activities are shown in

Figure 6.2. The key finding from this figure (namely those carrying out all five of these activities) is also shown in the first row of Figure 6.1.

Figure 6.2 How schemes manage funding, investment and covenant risks between valuations



Around nine in ten trustees (between 87% and 92% of the total sample), named four of the five different activities as undertaken by their trustee board to manage funding, investment and covenant risks.

Ninety two per cent of trustees reported that one of the ways in which they managed funding, investment and covenant risks was by being ‘in a position to evidence how they have taken an integrated approach to risk management’.

Eighty seven per cent of trustees named each of the following:

- The investment strategy and funding plans were based on an updated view of the risk that can be backed by employer covenant
- Risk taking in the investment strategy and funding plans was set out following agreement of a risk appetite discussed with the employer
- Funding and investment performance are monitored to defined tolerances.

The least likely activity to be carried out by trustees was cited by 77%, namely ‘there are clear plans for action when tolerances are breached or on some other trigger’.

The proportion of trustees reporting that their board carried out all five of these activities to manage risks was 61%. This level is consistent with the level measured in TPR’s 2014 and 2015 Annual Funding Statement surveys[9] (63% in 2015 and 62% in 2014). The pattern of response was similar in relation to the existence of ‘clear plans when tolerances are breached’; this was also the least prevalent activity according to those previous surveys.

The pattern of response among employers was similar to that of trustees. And the proportion of employers conducting all five activities was very similar to that of trustees (62% and 61% respectively).

Having in place ‘clear plans for action when tolerances are breached or on some other trigger’ were least likely to be reported by employers also (74%). This was a particular weakness among employers with small schemes, with 59% reporting that such plans were in place.

Employers were less likely than trustees to report that they were ‘in a position to evidence how they have taken an integrated approach to risk management’ (82% vs. 92% for trustees).

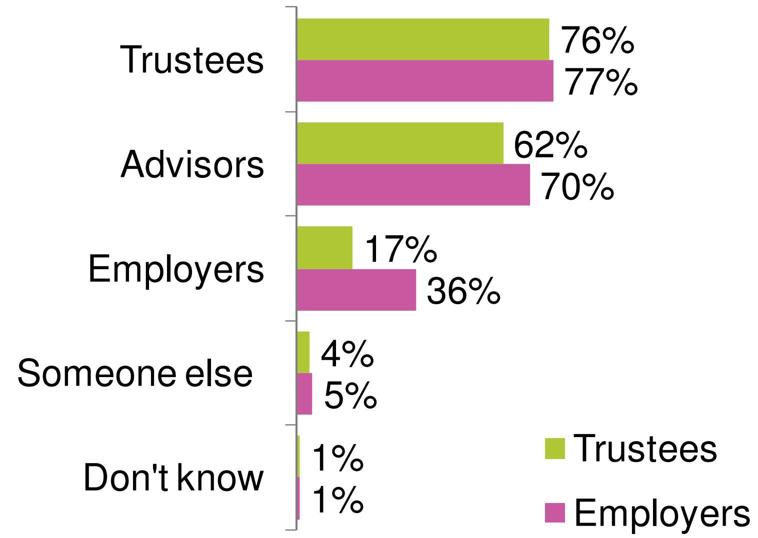
The other three activities were carried out by between 89% and 92% of employers according to their responses, namely:

- the investment strategy and funding plans were based on an updated view of the risk that can be backed by employer covenant
- risk taking in the investment strategy and funding plans was set out following agreement of a risk appetite discussed with the employer
- funding and investment performance are monitored to defined tolerances.

The second of the three survey questions asked in relation to the Managing Risk principle was which party leads on co-ordinating the risk management process for the scheme. TPR expects trustees and employers to know which party has this responsibility. Almost all trustees and employers (99%) knew which party lead on this activity. Figure 6.3 shows the extent to which different parties lead on co-ordinating the risk management process.

[9] http://www.thepensionsregulator.gov.uk/docs/research-report-funding-statement-2015.pdf

Figure 6.3 Which party leads on co-ordinating the risk management process



Base: Trustees (250), Employers (117)

D5 - Who leads on co-ordinating the risk management process for the scheme?

Trustees were most likely to report that trustees lead on this, with 76% saying they do so. Three fifths (62%) said that an advisor leads on it, while employers were less likely to (17%). Given that respondents were able to say that more than one person lead on co-ordinating the risk management process for the scheme, the sum of the percentages show that for a number of schemes the role was shared.

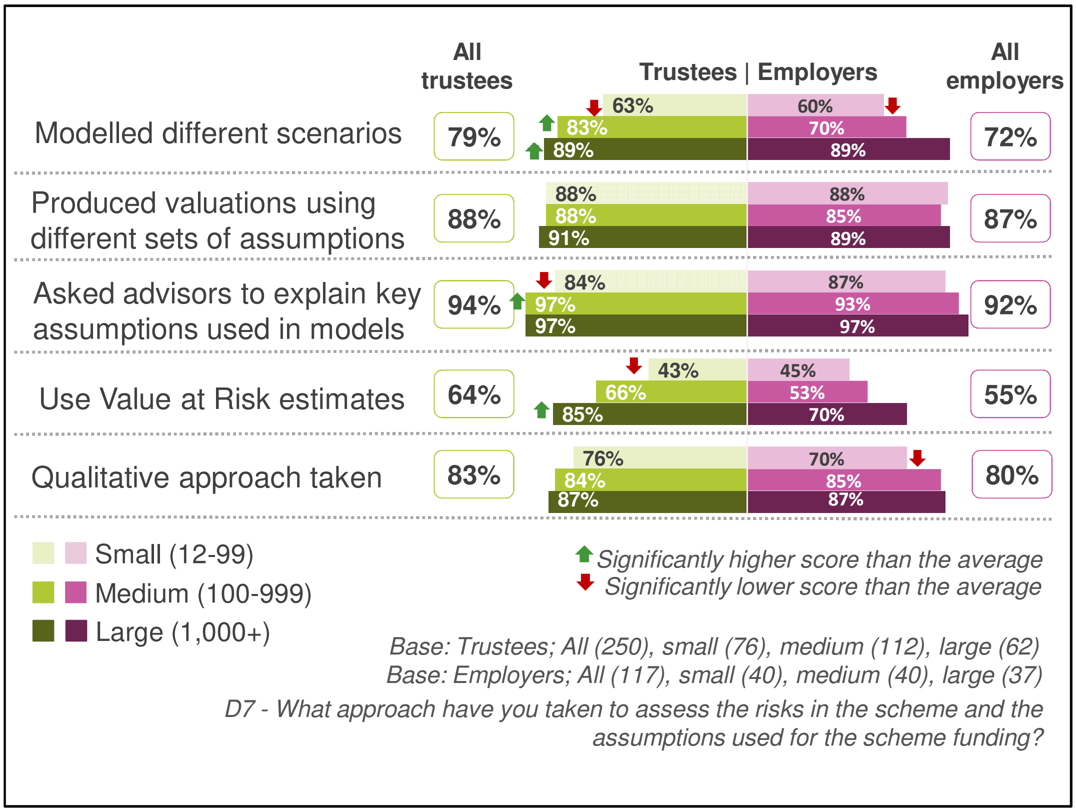
Trustees of medium sized schemes were the most likely to say that an advisor led on the process (69%), compared to 57% of trustees of small schemes and 51% of trustees of large schemes.

The pattern of response among employers was somewhat different to that of trustees. Trustees were most likely to report be named as the lead (77%), while the proportion naming an advisor was similar (70%). A third of employers (36%) said that they themselves led on co-ordinating the risk management process.

The third survey question relating to Managing Risk related to the approach taken to assess the risks in the scheme and the assumptions they use for the scheme funding. Approaches may include modelling different scenarios, producing valuations using different sets of assumptions, asking advisors to explain key assumptions used in models, using Value at Risk estimates or using qualitative approaches (for example, discussing risks generally without the use of modelling or numerical analysis). While all of these are legitimate approaches, depending on the size of the scheme, its resources and the risks that it is facing, TPR would expect schemes to be taking at least one of these approaches.

Almost all trustees and employers surveyed reported that their scheme did employ at least one of these approaches (98% and 99% respectively). Figure 6.4 shows the proportion that conducts each of the activities.

Figure 6.4 Approaches taken to assess the risks in the scheme and the assumptions used for the scheme funding



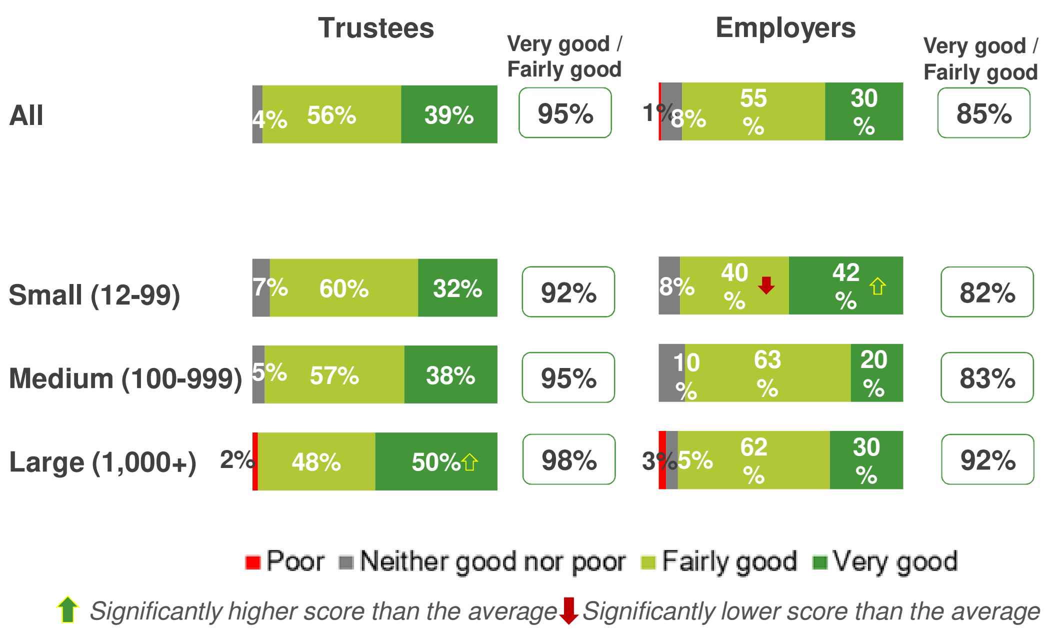
The pattern of response was similar among trustees and employers, with the average number of activities named being approximately four. Asking advisors to explain assumptions was the most named activity (by 94% of trustees and 92% of employers), followed by producing valuations using a different set of assumptions (88% and 87%) and thirdly, taking a qualitative approach (83% and 80%).

Modelling using different scenarios was cited by 79% of trustees and 72% of employers, while Value at Risk estimates were least likely to be used: by 64% of trustees and 55% of employers.

It can be seen from Figure 6.5 that the large majority of trustees rated their board's performance on Managing Risk as 'very good' or 'fairly good' (95%). This proportion was made up of 39% rating the trustee board as very good and 56% rating it as fairly good. No trustees rated themselves as poor.

The large majority of employers (85%) also rated themselves as 'fairly good' or 'very good'. The proportion of employers of small schemes rating their board as very good on this principle (42%) was higher than the average among employers.

Figure 6.5 Self-rating of performance against the *Managing Risk* principle



Base: Trustees; All (250), small (76), medium (112), large (62)
Base: Employers; All (117), small (40), medium (40), large (37)
D9 - How would you rate the scheme's performance against the 'managing risk' principle of the DB Code?

7 The *Taking Risk* principle

Before trustees take funding or investment risk they should, in discussion with the employer, establish the employer's risk tolerance and assess the employer's ability to address a range of likely adverse outcomes over an appropriate period

In addition to exploring the management of risk, the survey also asked trustees and employers a number of questions about the way in which risk is taken within the scheme.

Figure 7.1 shows the proportion of trustees and employers that met each of TPR's expectations for most schemes in relation to the *Taking Risk* principle.

TPR expects that trustees and employers of DB schemes undertake activities to establish the risk tolerance of the employer. Around eight in ten trustees (83%) and three quarters of employers (76%) said that they did this.

Figure 7.1 Overview of how schemes performed against the *Taking Risk* principle

Taking Risk overview

TPR's expectation for most schemes:	Trustees				Employers			
	All	Small	Med	Large	All	Small	Med	Large
Undertakes activities to establish risk tolerance	83%	83%	80%	89%	76%	68%	75%	87%
Does not say 'don't know' activities undertaken to establish risk tolerance	100%	100%	100%	100%	99%	100%	97%	100%
Understands fully / to some extent the impact of risks in funding for schemes *(trustees)*	93%	⬇83%	⬆96%	97%	N/A	N/A	N/A	N/A
Understands fully / to some extent the impact of risks in funding for employers *(trustees)*	88%	85%	87%	92%	N/A	N/A	N/A	N/A
Aware fully / to some extent of the impact of risks taken on finances in the short-term *(employers)*	N/A	N/A	N/A	N/A	96%	95%	97%	95%
Aware fully / to some extent of the impact of risks taken on finances in the long-term *(employers)*	N/A	N/A	N/A	N/A	91%	95%	90%	87%

⬆ Significantly higher score than the average ⬇ Significantly lower score than the average

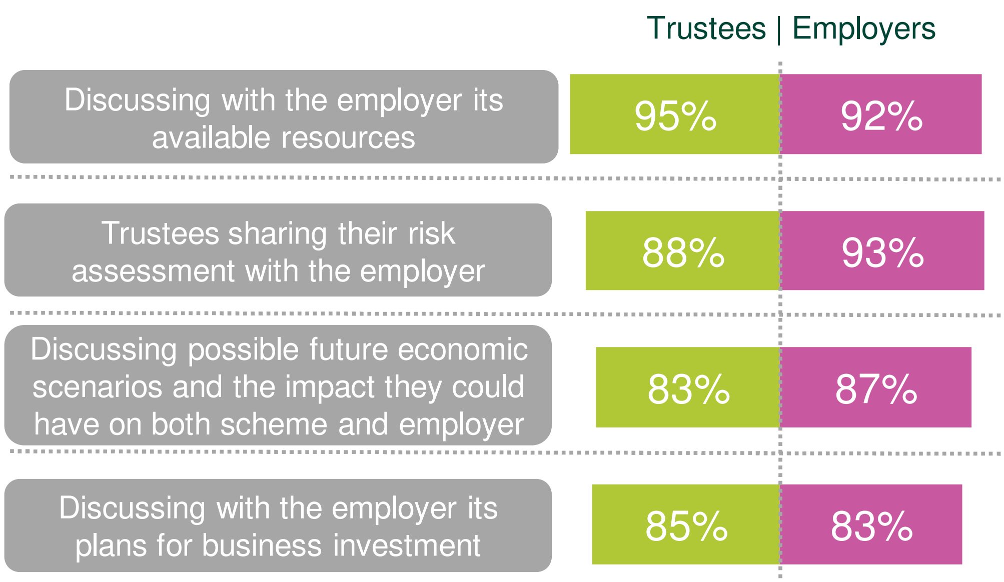
<50%
50-74%
75%+

Base: Trustees; All (250), small (76), medium (112), large (62)
Base: Employers; All (117), small (40), medium (40), large (37)

With regards to the type of activities undertaken to establish risk tolerance, trustees and employers may discuss the employer's available resources or discuss the employer's plans for business investment. In addition, trustees may share their risk assessment with the employer and there may be discussion of possible future economic scenarios and the impact they could have on both the scheme and the employer. TPR expects that the scheme should be carrying out at least one of these activities, which was the case for all trustees (100%) and almost all employers (99%), as shown in row 2 of Figure 7.1.

Figure 7.2 shows that, among those who undertook activities to establish risk tolerance, a discussion of the employer's available resources was the most common activity undertaken (by 95% of trustees, 92% of employers), followed by the trustees sharing their risk assessment with the employer (88% of trustees, 93% of employers.

Figure 7.2 Activities undertaken to establish the employer's risk tolerance



Base: All who have undertaken activities to establish the employer's risk tolerance; Trustees (207), Employers (89)

E3 - What activities were undertaken to establish [employers/your] risk tolerance?

Over eight in ten trustees and employers also said that the other two activities asked about in the survey were conducted by them, namely:

- discuss possible future economic scenarios and the impact they could have on both the scheme and the employer (83% of trustees, 87% of employers)

- discuss with the employer its plans for business investment (85% of trustees, 83% of employers).

On average, trustees and employers carried out between three and four of the activities in order to establish the employers' risk tolerance, and around two-thirds conducted all four activities (66% trustees, 68% employers).

The third area of questions asked in the survey under the Taking Risk principle related to the potential impact of the risks that the trustee board is taking in its funding plans, both in relation to the scheme and the employer. Figure 7.3 7.3 shows the extent to which trustees understand the impact (a TPR expectation of trustees). More than nine in ten trustees (93%) reported they understood the impact for the scheme, with around seven in ten of these (72%) understanding fully. One in six trustees of small schemes (15%) said they had only partial or no understanding.

Similarly, nearly nine in ten (88%) trustees reported they understood the impact for the employer, with over six in ten (64%) understanding fully. One in ten (11%) trustees of all scheme sizes, however, had partial or no understanding, a higher proportion than for impact on the scheme (7%).

Figure 7.3 Trustees' understanding of the potential impact of funding risks taken for the scheme and for the employer

Significantly higher score than the average *Significantly lower score than the average*

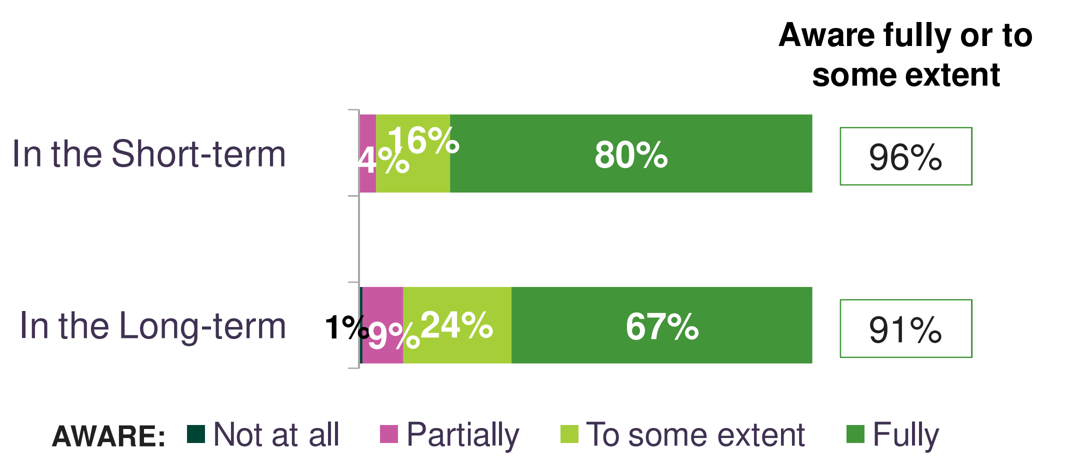
Base: Trustees; All (250), small (76), medium (112), large (62)

E4 - To what extent do the trustees understand the potential impact for both the scheme and the employer in terms of the risks you are taking in your funding plans?

As well as trustees needing to understand the potential impact of the risks in their funding plans, TPR expects that employers are aware of the impact that the risks the scheme is running could have on finances both in the short-term and the long-term. **Error! Reference source not found.** shows employers' awareness of this impact. Nearly all employers (96%) stated that they were aware of the impact in the *short-term*, made up of 80% saying they were fully aware, 16% to some extent and 4% partially.

Over nine in ten employers (91%) also stated that they were aware of the impact in the *long-term*, made up of 67% saying they were fully aware, 24% to some extent and 9% partially. One per cent of employers said they were not at all aware of the impact in the long-term.

Figure 7.4 Employers' awareness of the impact that the risks the scheme is running could have on finances in the short-term and the long-term



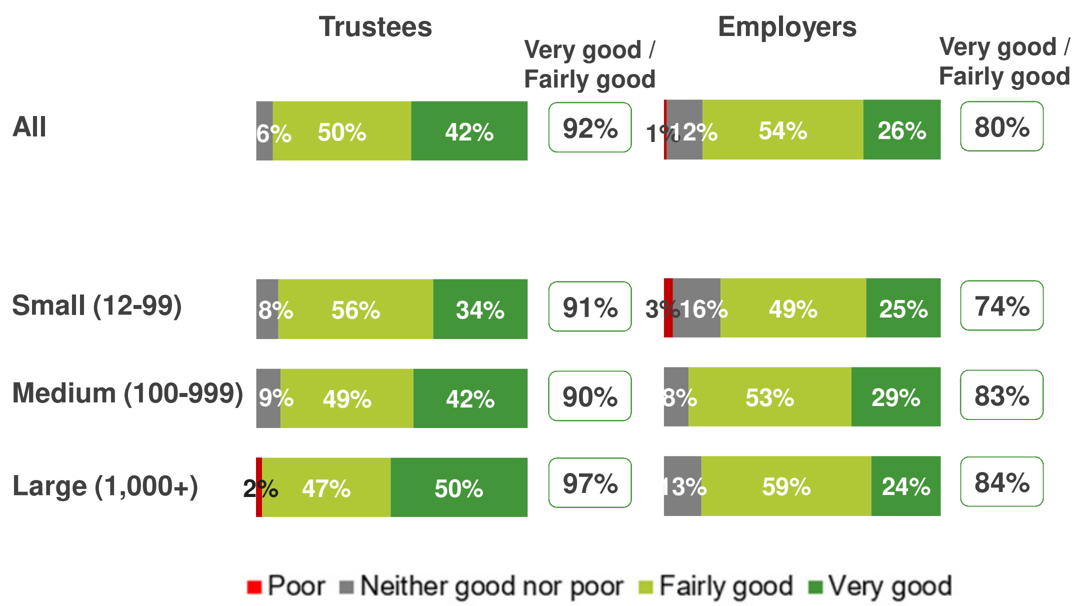
Base: Employers; All (117), small (40), medium (40), large (37)

E5 - How aware are you of the impact that the risks the scheme is running could have on your finances? Firstly, in the short term? And also in the longer term?

The large majority of trustees rated their board's performance on Taking Risk as 'very good' or 'fairly good' (92%), as shown in Figure 7.4. The 92% was made up of 42% rating the trustee board as very good and 50% rating it as fairly good. No trustees rated themselves as poor.

The large majority of employers (80%) also rated themselves as 'fairly good' or 'very good'. Three per cent of employers rated their performance as poor on this principle.

Figure 7.5 Self-rating of performance against the *Taking Risk* principle



Base: Trustees; All (250), small (76), medium (112), large (62)
Base: Employers; All (117), small (40), medium (40), large (37)
E6 - How would you rate the scheme's performance against the 'taking risk' principle of the DB Code?

8 The *Taking a Long-term View* principle

Trustees' decisions should be consistent with their long-term funding and investment targets and their view of the employer covenant

Trustees and employers were asked questions about the long-term plans for their scheme. Figure 8.1Figure 5.1 shows the proportion of trustees and employers that met the expectations that TPR has for the majority schemes in relation to the *Taking a Long-term View* principle.

Figure 8.1 Overview of how schemes performed against the *Taking a Long-term View* principle

Taking a Long-term View overview

TPR's expectation for most schemes:	Trustees				Employers			
	All	Small	Med	Large	All	Small	Med	Large
Has aim for journey plan (any answer options selected) except don't know	78%	73%	77%	87%	73%	79%	61%	84%
Identifies which employers are legally liable to support the scheme, on either a short or long term basis, or both	91%	85%	92%	97%	87%	90%	↓78%	95%

↑Significantly higher score than the average ↓Significantly lower score than the average

<50%
50-74%
75%+

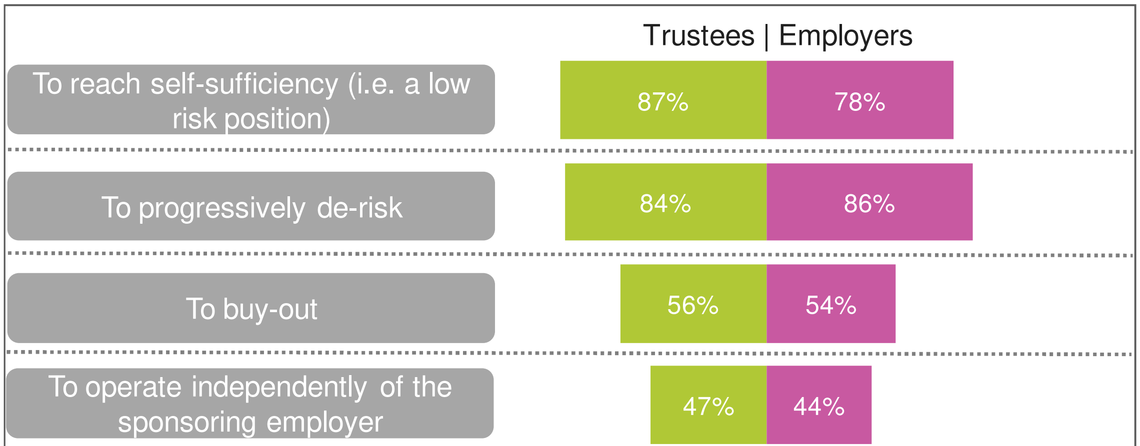
Base: Trustees excluding those with open schemes: All (204), small (66), medium (102), large (36)
Base: Employers excluding those with open schemes: All (83), small (36), medium (34), large (13)

TPR encourages schemes that are closed to future accrual to have in place a journey plan or long-term target for their scheme (in addition to legally mandated technical provisions), and expects that trustees and employers understand any additional plan or target they have in place. Overall, nearly eight in ten trustees (78%) and nearly seven in ten employers (73%) understood the aim of their journey plan.

Figure 8.2 shows that among those that stated that they had a journey plan or long-term target for the scheme, the most common aim was to reach self-sufficiency (87% of trustees said this, 78% of employers) or to progressively de-risk (84% of trustees, 86% of employers).

Around half of schemes said buy-out was the ultimate aim (56% of trustees, 54% of employers) and around two fifths to a half said the ultimate aim was to operate independently of the sponsoring employer (47% trustees, 42% employers). Trustees of smaller schemes were less likely to say their aim was to progressively de-risk (75%, compared to 89% of trustees of medium schemes and 85% of trustees of large schemes).

Figure 8.2 Journey plan or long-term aim for the scheme

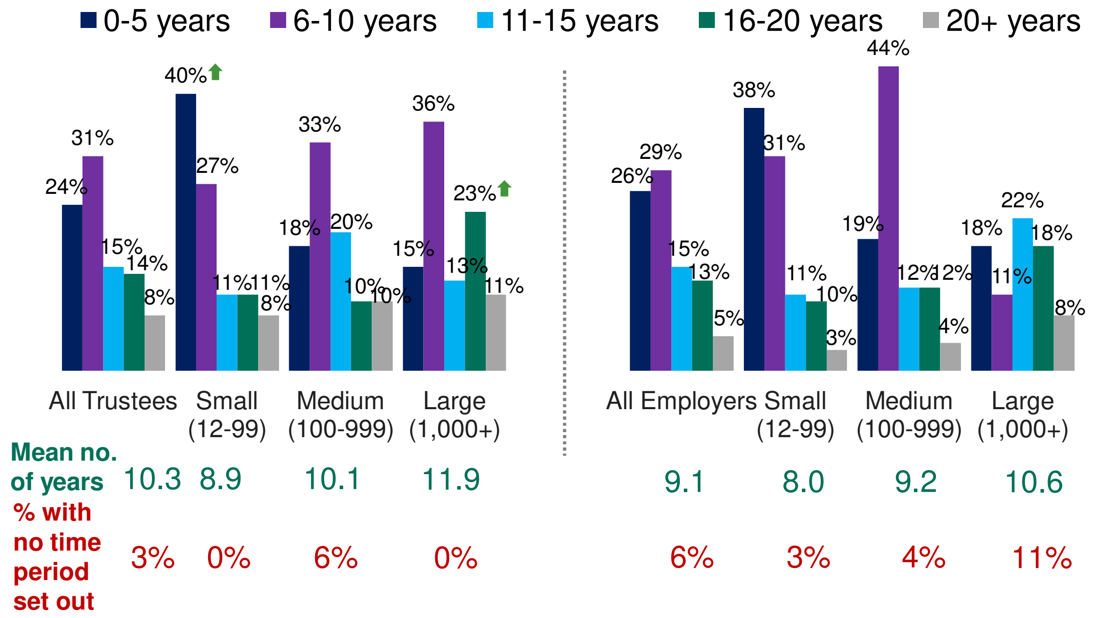


Base: Those with a journey plan for the scheme, excluding open schemes; Trustees; All (204), small (66), medium (102), large (36) Employers; All (83), small (36), medium (34), large (13)

F3 - What is the scheme's aim for this plan?

More than half of trustees and employers intended to reach their goal for the scheme within the next ten years (55%). Figure 8.3 shows the time period in which schemes aimed to achieve their goal. Trustees of small schemes were more likely to have a shorter time period in which they hoped to reach their goal (0-5 years), whereas trustees of large schemes were more likely to have a number more years in which to reach their goal.

Figure 8.3 Time period over which hope to reach the goal for the scheme



Base: Trustees; All (250), small (76), medium (112), large (62)
Base: Employers; All (117), small (40), medium (40), large (37)
F4 - Over what time period do you hope to reach the goal for the scheme?

As part of the *Taking a Long-term View* principle, TPR expects schemes to assess the employer covenant by identifying which employers are legally liable to support the scheme financially on either a short-term or long-term basis. Figures 8.4 and 8.5 shows the others ways that trustees and employers assessed the employer covenant and whether this was on short-term basis, a long-term basis, or both.

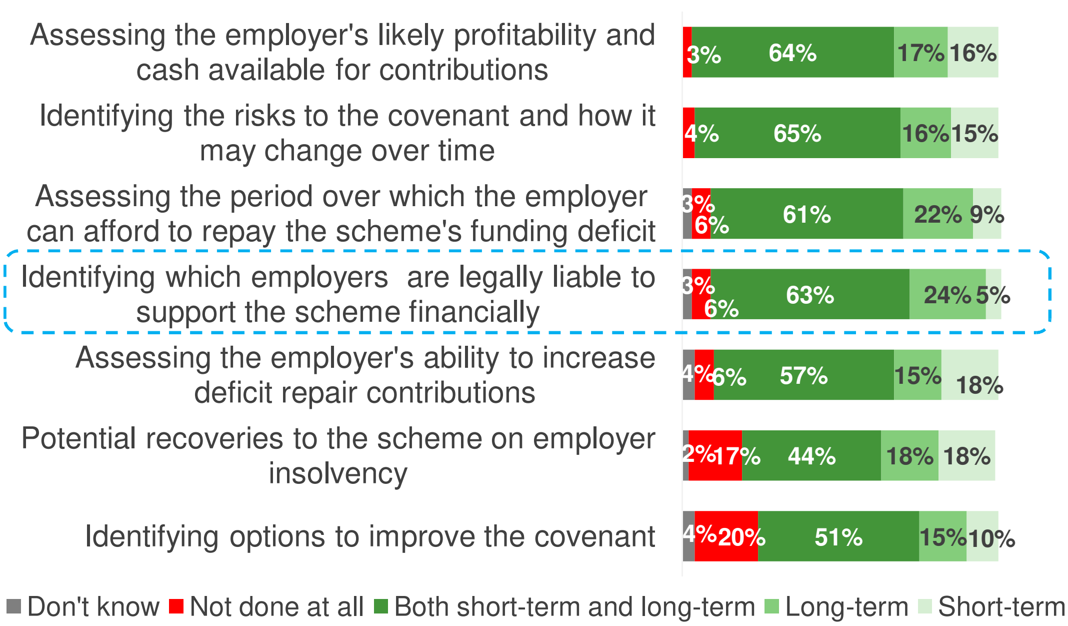
More than nine in ten trustees (92%) said they assessed the employer covenant, while 87% of employers did so. Around two-thirds of trustees and employers said they did this on both a short-term and a long-term basis (63% of trustees, 61% of employers).

The most likely activities among trustees were assessing the employer's likely profitability and cash available for contributions (97% named this) and identifying the risks to the covenant and how it may change over time (94%).

The least likely activities among trustees were identifying options to improve the employer covenant (76%) and potential recoveries to the scheme on employer solvency (81%).

Trustees of large schemes were more likely to undertake a number of the activities compared to trustees of small and medium sized schemes, such as identifying which employers are legally liable to support the scheme financially (98% of trustees of large schemes compared to 86% of small schemes and 91% of medium schemes).

Figure 8.4 Activities undertaken by the scheme to assess the employer covenant (trustees)



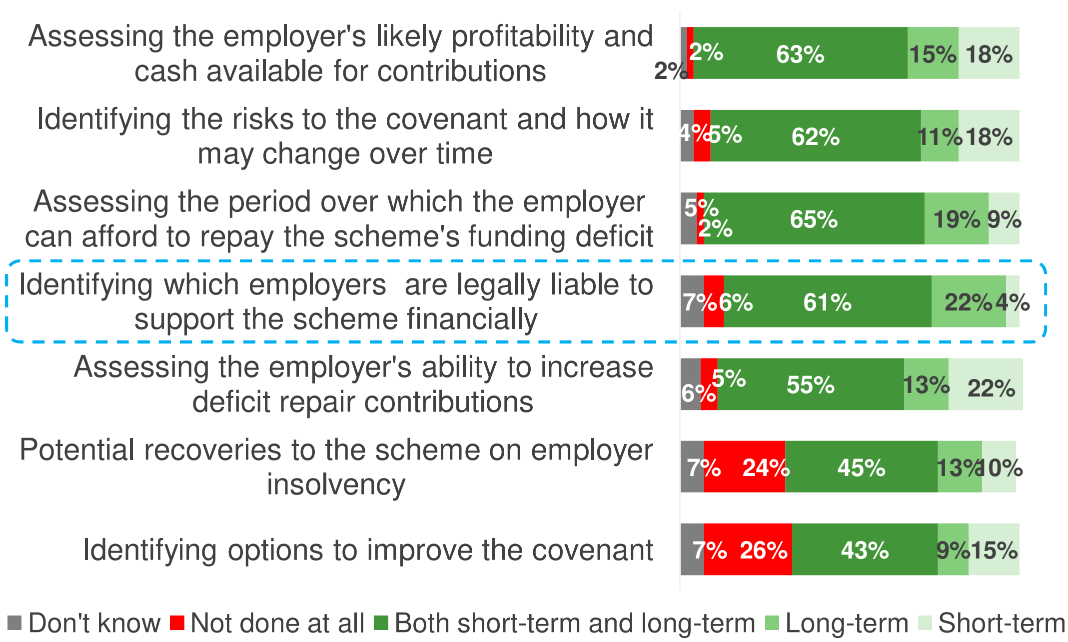
Base: Trustees; All (250), small (76), medium (112), large (62)

F5 - I'm going to read out a list of things that the scheme may have done to assess the employer covenant. For each of these things, please can you tell me if this approach is taken on a short-term basis, a long-term basis, on both a short-term and long-term basis or not at all?

The most likely activities among employers were the same as those among trustees: assessing the employer's likely profitability and cash available for contributions (96% named this) and identifying the risks to the covenant and how it may change over time (94%).

The least likely activities among employers were also the same as those among trustees: identifying options to improve the employer covenant (67%) and potential recoveries to the scheme on employer solvency (69%).

Figure 8.5 Activities undertaken by the scheme to assess the employer covenant (employers)



Base: Employers; All (117), small (40), medium (40), large (37)

F5 - I'm going to read out a list of things that the scheme may have done to assess the employer covenant. For each of these things, please can you tell me if this approach is taken on a short-term basis, a long-term basis, on both a short-term and long-term basis or not at all?

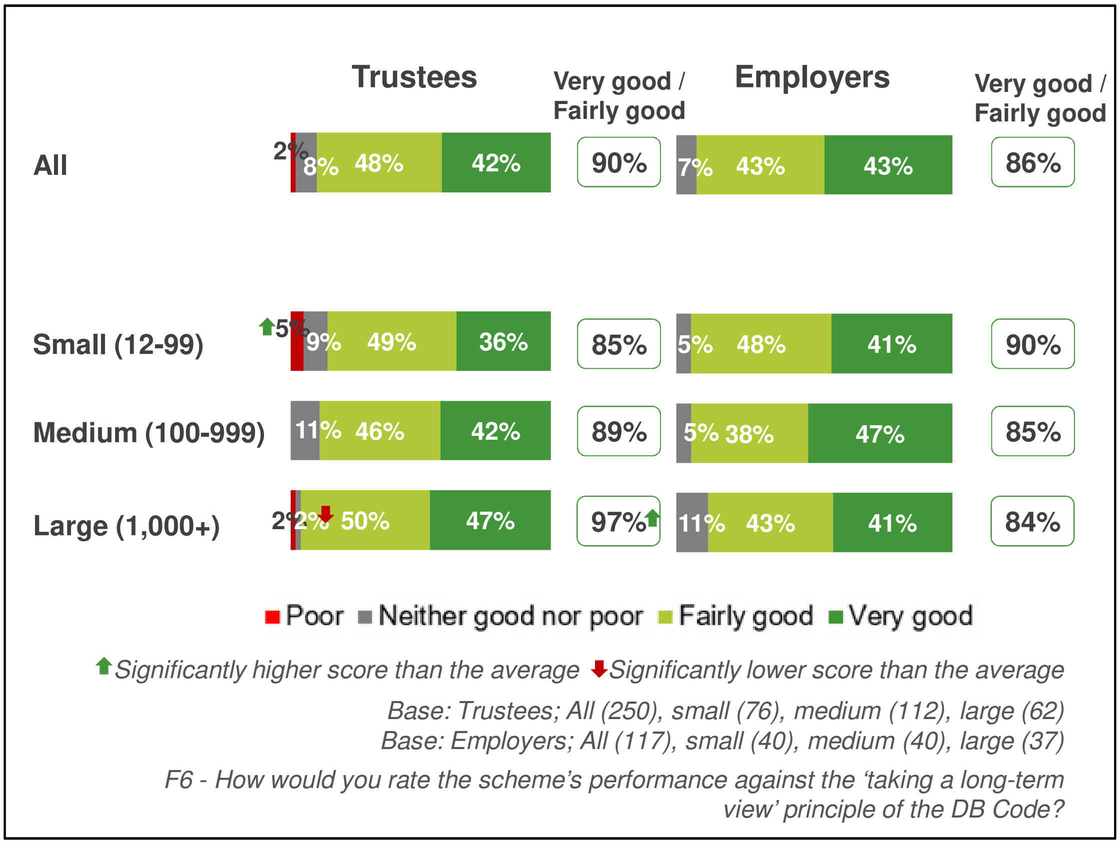
On average trustees and employers carried out six of the seven activities asked about, with six in ten trustees (61%) and half of employers (50%) saying they did all seven. One per cent of trustees and two per cent of employers said they did not undertake any of the activities asked about.

The large majority of trustees rated their board's performance on Taking a Longer Term View as 'very good' or 'fairly good' (90%), as shown in Figure 8.6. This proportion was made up of 42% rating the trustee board as very good and 48% rating it as fairly good. Two per cent of trustees rated themselves as poor.

The proportion of trustees of small schemes rating their board as poor on this principle (5%) was higher than the average among schemes.

The large majority of employers (86%) also rated themselves as 'fairly good' or 'very good'.

Figure 8.6 Self-rating of performance against the *Taking a Long-term View* principle



9 The *Balance* principle

Trustees should seek an appropriate funding outcome that reflects a reasonable balance between the need to pay promised benefits and minimising any adverse impact on an employer's sustainable growth

Trustees and employers were asked questions in relation to the need to strike a reasonable balance between sufficiently funding the scheme whilst not negatively affecting the sustainability of the sponsoring employer's growth.

Figure 8.1 9.1Figure 5.1 shows the proportion of trustees and employers that met TPR's expectations in relation to the *Balance* principle.

Figure 9.1 Overview of how schemes performed against the *Balance* principle

Balance principle overview

TPR's expectation for most schemes:	Trustees				Employers			
	All	Small	Med	Large	All	Small	Med	Large
Fully or partially balances the need to pay benefits with the employer's ability to meet its wider business aims	87%	86%	86%	90%	92%	87%	95%	95%
Considers at least one factor when employer proposes an investment	80%	79%	80%	80%	N/A	N/A	N/A	N/A

<50%
50-74%
75%+

Base: Trustees; All (250), small (76), medium (112), large (62)
Base: Employers; All (117), small (40), medium (40), large (37)

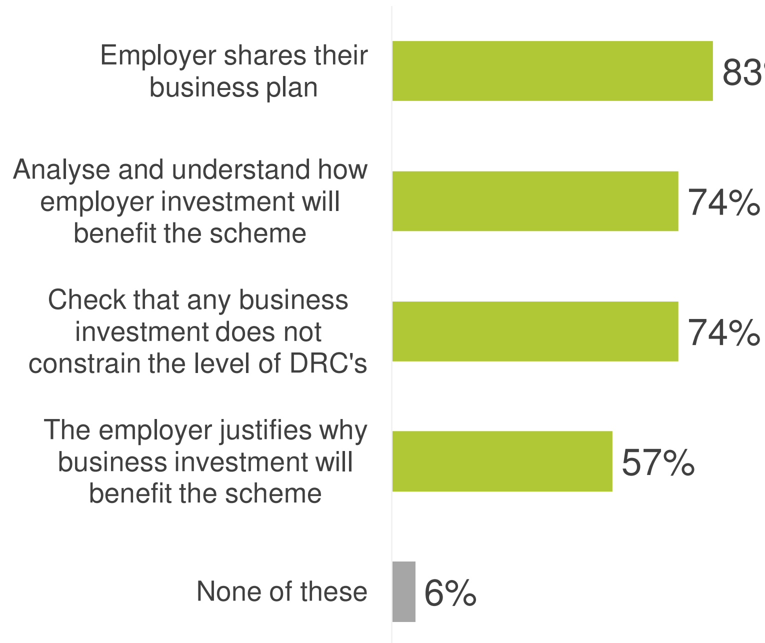
TPR expects that trustees seek to balance the need to pay benefits with the employer's sustainable growth plans, when setting funding for the scheme. Around nine in ten trustees and employers (87% of trustees, 92% of employers) said that they did achieve balance either fully or partially, with the majority saying they did it 'fully' (69% of trustees, 63% of employers).

A minority of trustees (3%) said that they did not seek to balance these needs at all, but this rose to 8% among trustees of small schemes (compared to 2% of trustees of medium and large schemes). Employers with small schemes were more likely to say that the trustees sought this balance only partially (13% compared to 3% of employers with medium and large schemes).

Trustees were asked what activities, if any, the trustee board undertakes to ensure there is a balance. The findings are shown in Figure 9.2.

The most likely actions were employers sharing their business plans (83% of trustees said this), analysing and understanding how employer investment will benefit the scheme (74%) and checking that any business investment does not constrain the level of deficit repair contributions (74% of trustees and higher among trustees of large schemes (84%)). Around six in ten trustees (57%) said that they sought a balance by ensuring that if deficit repair contributions were constrained, the employer justified why business investment would benefit the scheme and needs support of the scheme.

Figure 9.2 Activities carried out to ensure there is a balance between paying benefits and minimising the impact on the employer's sustainable growth



No. of activities carried out	
All 4	41%
3 or more	69%
2 or more	83%
1 or more	93%
Don't know	6%
Mean	2.9

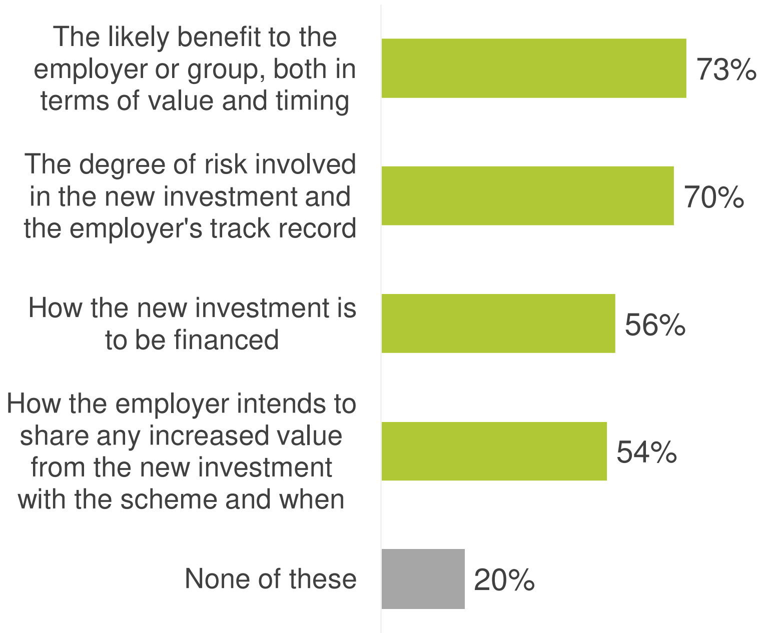
Base: Trustees who balance the need to pay benefits with the employer's ability to meet its wider business aims to at least some extent (237)

G3 - Which of the following actions do you take to ensure a balance between the need to pay benefits and minimising any impact on an employer's ability to meet their business aims?

On average, trustees that sought a balance undertook three of these activities and 41% carried out all four activities. Six per cent of trustees that said that they sought a balance said their scheme undertook none of these activities.

Trustees were asked what factors they sought to understand when considering employer proposals for investment in growing their business or meeting their business aims. TPR expects trustees to seek to understand at least one of the factors outlined in Figure 9.3. Four in five trustees (80%) investigated at least one of the factors, with the most common factor being the likely benefit to the employer or group, both in terms of value and timing (73%).

Figure 9.3 Factors investigated by trustees when considering employer investment proposals



No. of activities carried out	
All 4	41%
3 or more	59%
2 or more	73%
1 or more	80%
Don’t know	20%
Mean	2.5

Base: All Trustees (250)

G4 - When considering any employer proposals for investment in growing their business or meeting their business aims, which of the following factors have the trustees sought to understand?

The second most likely factor to be investigated was the degree of risk involved in the new investments and the employer’s track record (70% said this). The two activities less likely to be mentioned (by 56% and 54% respectively) were how the new investment is to be financed and how the employer intends to share any increased value from the new investment with the scheme and when that would occur.

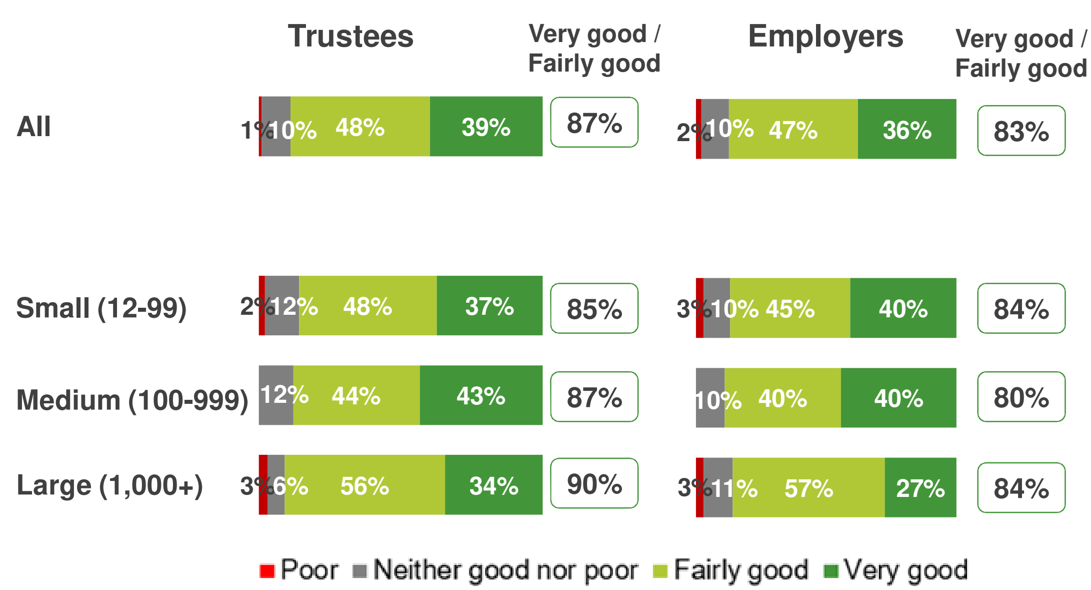
Trustees of small schemes were more likely to investigate how the employer intended to share any increased value from the new investment with the scheme and when (64% compared to 48% of trustees of medium schemes and 51% of trustees of large schemes).

It was typical for trustees to seek to understand between two and three of the factors, with two in five (41%) seeking to understand all four of them, and at the one in five (20%) not seeking to understand any of them. Trustees of small schemes were more likely to investigate all four factors (52% compared to 32% of trustees of medium sized schemes and 43% of trustees of large schemes).

In a similar pattern to rating against the other principles, the large majority of trustees rated their board's performance on Balance as 'very good' or 'fairly good' (87%), as shown in Figure 9.4. The 87% was made up of 39% rating the trustee board as very good and 48% rating it as fairly good. One per cent of trustees rated themselves as poor.

The large majority of employers (83%) also rated themselves as 'fairly good' or 'very good'.

Figure 9.4 Self-rating of performance against the *Balance* principle



Base: Trustees; All (250), small (76), medium (112), large (62)
Base: Employers; All (117), small (40), medium (40), large (37)
F6 - How would you rate the scheme's performance against the 'balance' principle of the DB Code?

10 The *Fair Treatment* principle

Trustees should seek to ensure that the scheme is treated fairly amongst competing demands on the employer in a manner consistent with its equivalent creditor status

As part of the Fair Treatment principle TPR expects trustee boards to carry out relevant activities in the circumstances where they apply in order to ensure that the scheme is treated fairly amongst competing demands on the employer. As shown in Figure 10.1, around three-quarters of trustees (73%) said they carried out at least one activity, and this was consistent across scheme size.

Figure 10.1 Overview of how schemes performed against the *Well Governed* principle

Fair Treatment principle overview

TPR's expectation for most schemes:	Trustees				Employers			
	All	Small	Med	Large	All	Small	Med	Large
Takes at least one activity to secure fair treatment	73%	69%	75%	74%	N/A	N/A	N/A	N/A

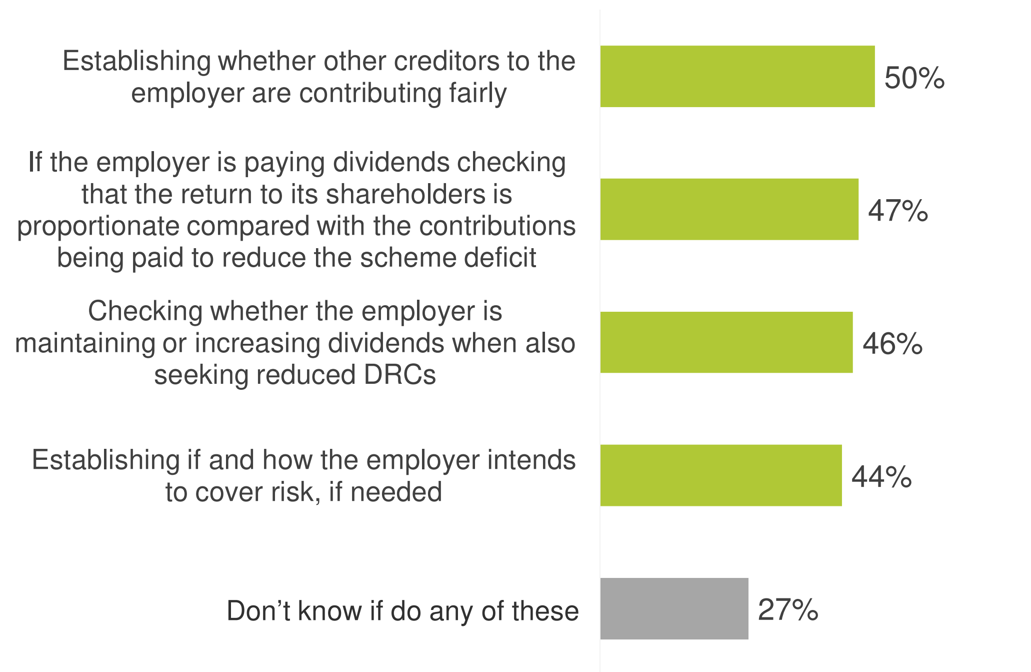
<50%
50-74%
75%+

Base: Trustees; All (250), small (76), medium (112), large (62)
Base: Employers; All (117), small (40), medium (40), large (37)

Figure 10.2 sets out the specific activities taken by trustee boards to secure Fair Treatment. It can be seen that establishing whether other creditors to the employer were contributing fairly (when sponsor growth plans were being prioritised) was the most common form of action (50% said this), with similar proportions naming the other three activities asked about.

Around a quarter (23%) said they undertook all four actions, and this was higher among trustee of large schemes (34%) compared to 15% of trustees of medium schemes and 26% of trustees of small schemes.

Figure 10.2 Actions taken by trustees to secure Fair Treatment



Base: All Trustees (250)

I2. And which of the following specific actions have you taken in order to secure fair treatment?

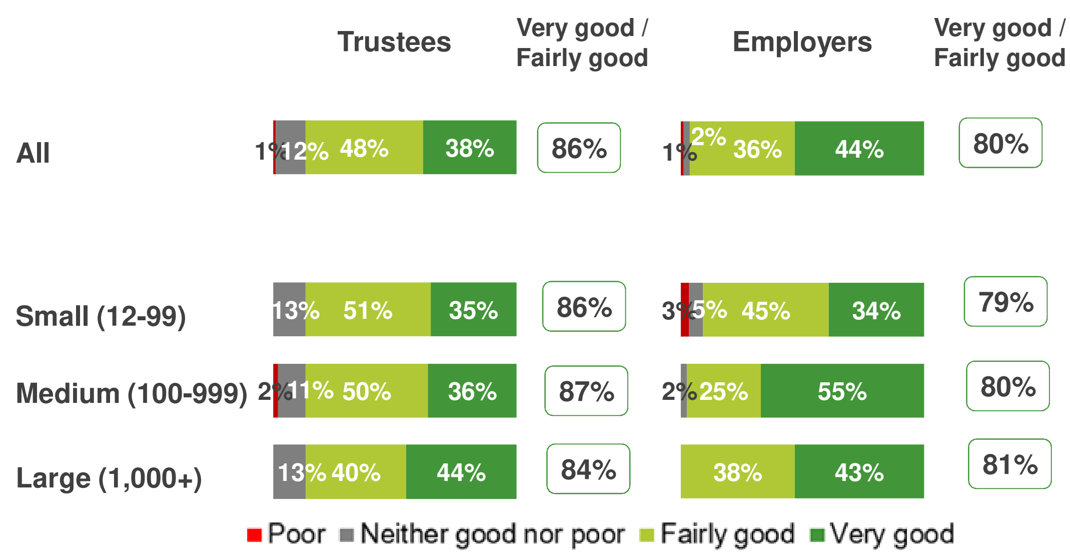
Whilst the size of the scheme did not have an impact on the likelihood of carrying out the majority of specific actions to secure Fair Treatment, trustees of small schemes were less likely to say they established if and how the employer intended to cover risk in the event the employer asking them to take higher risk in its investment strategy (34% compared to 45% of trustees of medium schemes and 52% of trustees of large schemes).

Professional trustees were more likely than lay trustees to check that the return to its shareholders was proportionate (61% of professional trustees compared to 45% of lay trustees) and to check whether the employer was maintaining or increasing their dividends (62% of professional trustees compared to 44% of lay trustees).

The large majority of trustees rated their board's performance on Fair Treatment as 'very good' or 'fairly good' (86%), as shown in Figure 10.3. This proportion was made up of 38% rating the trustee board as very good and 48% rating it as fairly good. One per cent of trustees rated themselves as poor.

The large majority of employers (80%) also rated themselves as 'fairly good' or 'very good'.

Figure 10.3 Self-rating of performance against the *Fair Treatment* principle



Base: Trustees; All (250), small (76), medium (112), large (62)
Base: Employers; All (117), small (40), medium (40), large (37)
I3 - How would you rate the scheme's performance against the 'fair treatment' principle of the DB Code?

11 The *Reaching Funding Targets* principle

Having agreed an appropriate funding target, trustees should agree funding to eliminate any deficit over an appropriate period

The last principle of the DB Code of Practice, *Reaching Funding Targets*, expects that trustees take a number of factors into account when considering the structure of a recovery plan, and at a minimum considers at least one factor. As shown in Figure 11.1, nearly all trustee boards considered at least one factor when considering the structure of a recovery plan (95%).

Figure 11.1 Overview of how schemes performed against the *Reaching Funding Targets* principle

Reaching funding targets principle overview

TPR's expectation for most schemes:	Trustees				Employers			
	All	Small	Med	Large	All	Small	Med	Large
Takes at least one factor into consideration when considering the structure of a recovery plan	95%	⬇91%	97%	95%	N/A	N/A	N/A	N/A

⬆Significantly higher score than the average ⬇Significantly lower score than the average

<50%
50-74%
75%+

Base: Trustees; All (250), small (76), medium (112), large (62)
Base: Employers; All (117), small (40), medium (40), large (37)

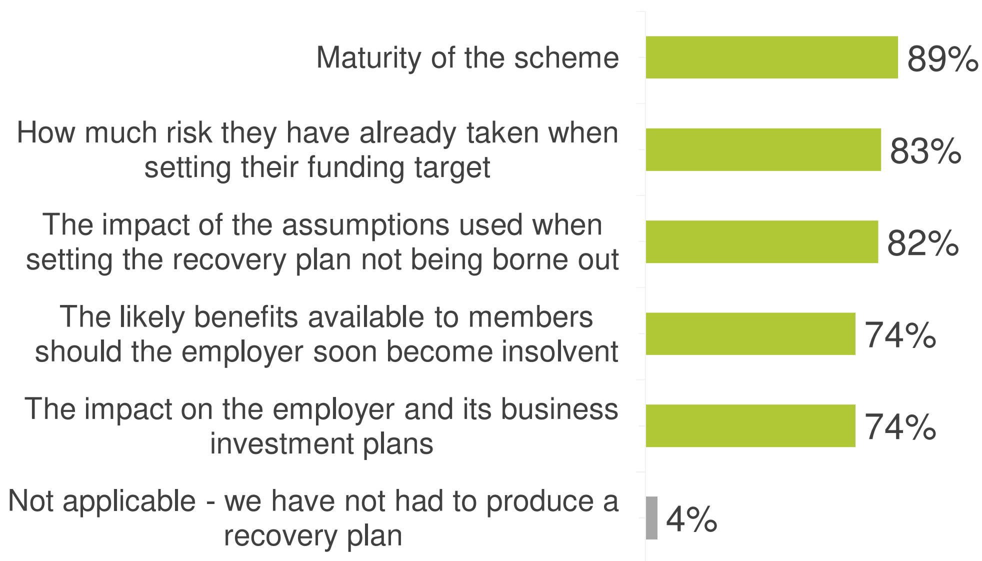
A range of factors were taken into consideration by trustees when considering the recovery plan, most often the maturity of the scheme (89%), the level of risk (83%) and the impact of assumptions not being borne out (82%) (Figure 11.2).

Trustees of small schemes were less likely, however, to consider the maturity of the scheme (76%) and the level of risk (73%), and trustees of large schemes were more likely to consider the impact of assumptions not being borne out (92%).

A smaller proportion of trustees (74%) reported that they either took into consideration the likely benefits available to members should the employer soon become insolvent, and/or the impact on the employer and its business investment plans.

On average, trustees considered around six of the factors shown in Figure 11.2, and more than a quarter (28%) took all eight into consideration when structuring a recovery plan.

Figure 11.2 Factors taken into consideration when structuring a recovery plan



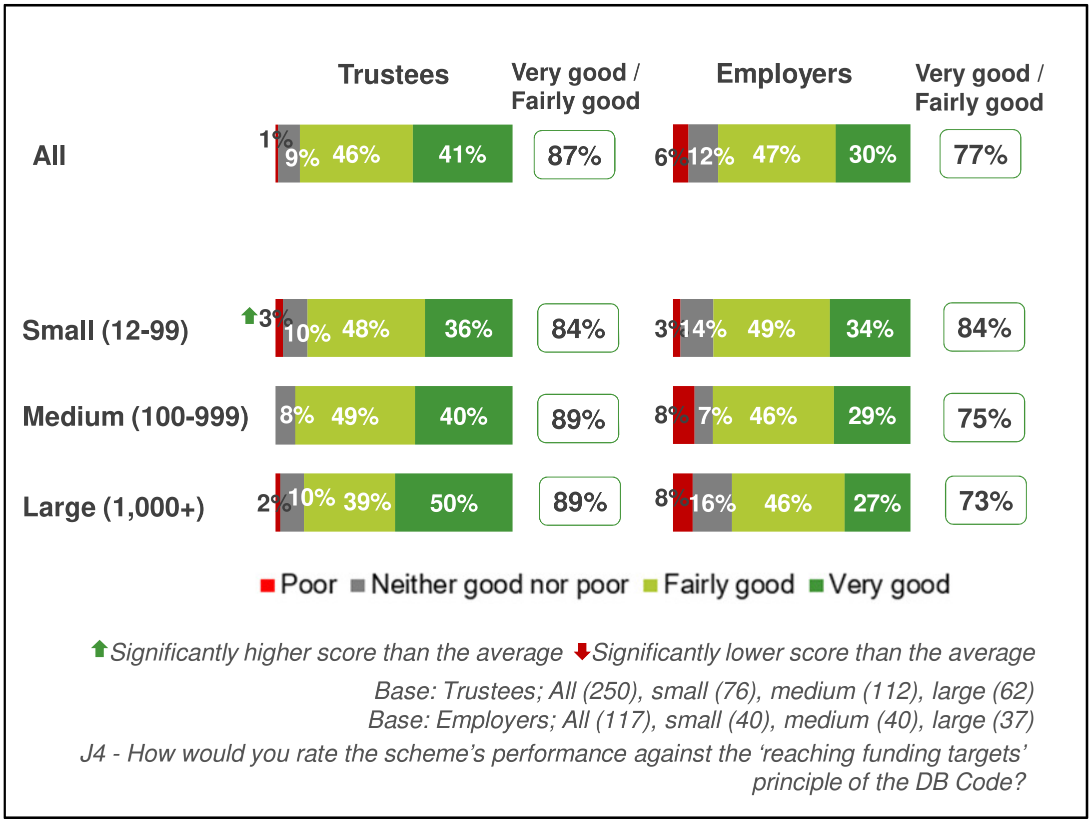
Base: All Trustees (250)
J2. When considering the structure of a recovery plan, what factors did the trustees take into consideration?

The large majority of trustees rated their board's performance on Reaching Funding Targets as 'very good' or 'fairly good' (87%), as shown in Figure 11.3. The 87% was made up of 41% rating the trustee board as very good and 46% rating it as fairly good. No trustees rated themselves as poor.

The proportion of trustees of small schemes rating their board as poor on this principle (3%) was higher than among all schemes.

The large majority of employers (77%) also rated themselves as 'fairly good' or 'very good'.

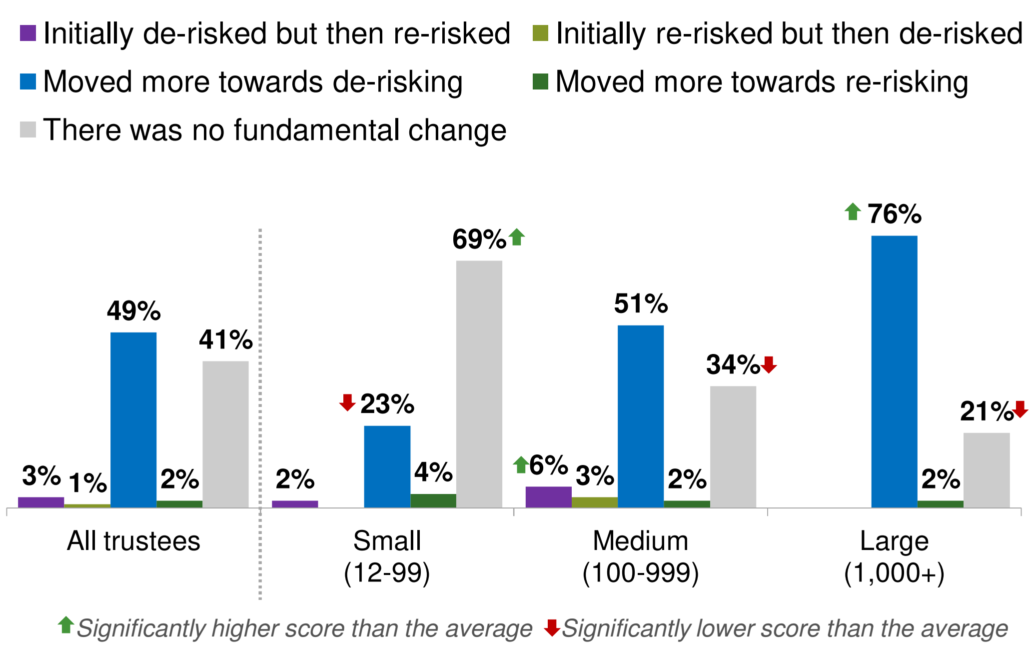
Figure 11.3 Self-rating of performance against the *Reaching Funding Targets* principle



12 Investment choices

Since the global financial crisis in 2008, half of all trustees (49%) have moved their investment strategy more towards de-risking; and this was particularly true among trustees of larger schemes, where three-quarters (76%) have done so (Figure 12.1). In contrast, smaller schemes were most likely to have made no fundamental change in their investment decisions since 2008 (69%). Only a small proportion of trustee boards had taken other approaches, for example, 3% initially de-risked and then re-risked, 1% did the opposite by taking more risk and then de-risking and 2% moved more towards re-risking.

Figure 12.1 Changes in investment decisions by trustees since the Global Financial Crisis



Base: Trustees; All (250), small (76), medium (112), large (62)

K3 - How have your scheme's investment decisions changed since the Global Financial Crisis in 2008?

In terms of factors that have influenced the scheme's investment choices, scheme maturity levels and liquidity requirements, along with having liability measurement methods in place were the most influential factors, particularly for large schemes (influencing 92% and 90% of trustees of large schemes respectively). Other factors influencing the schemes investment choices are outlined in Figure 12.2.

Large trustees were more likely to be influenced by a range of factors compared to small trustees, and lay trustees were more likely to be influenced by seeking a higher return on scheme investment choices than professional trustees (68% lay trustees, 51% professional trustees).

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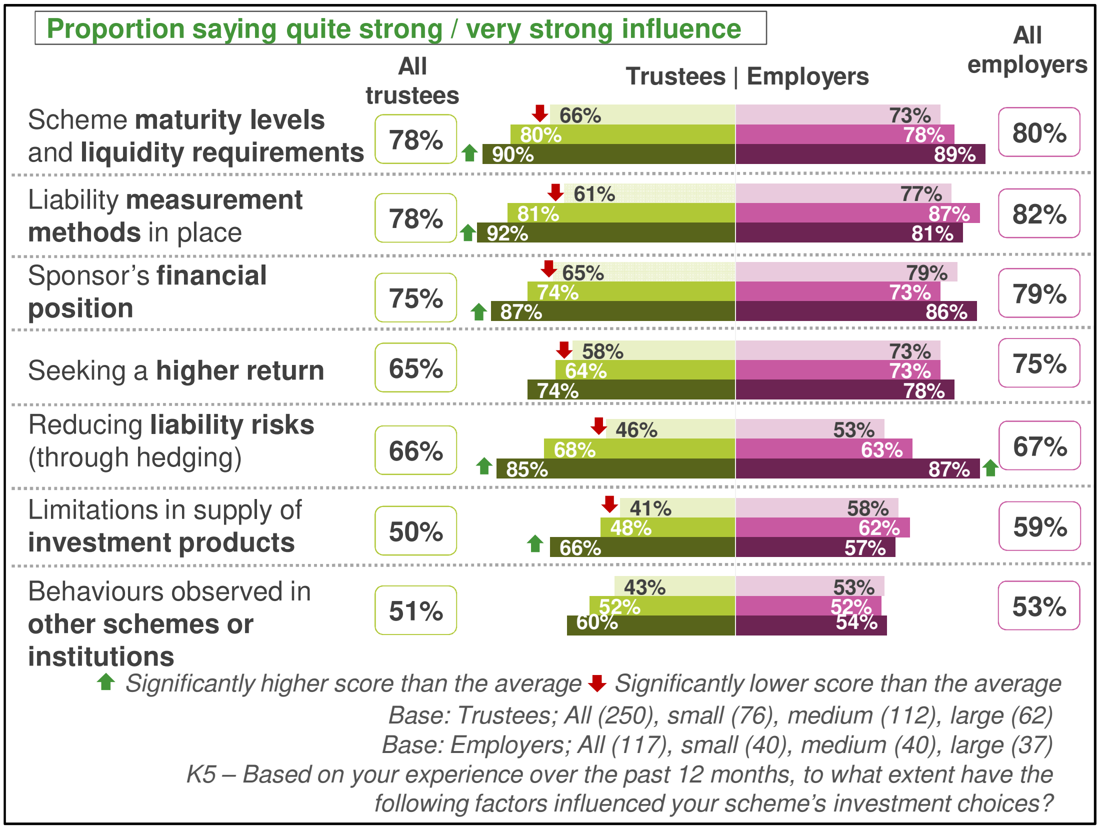
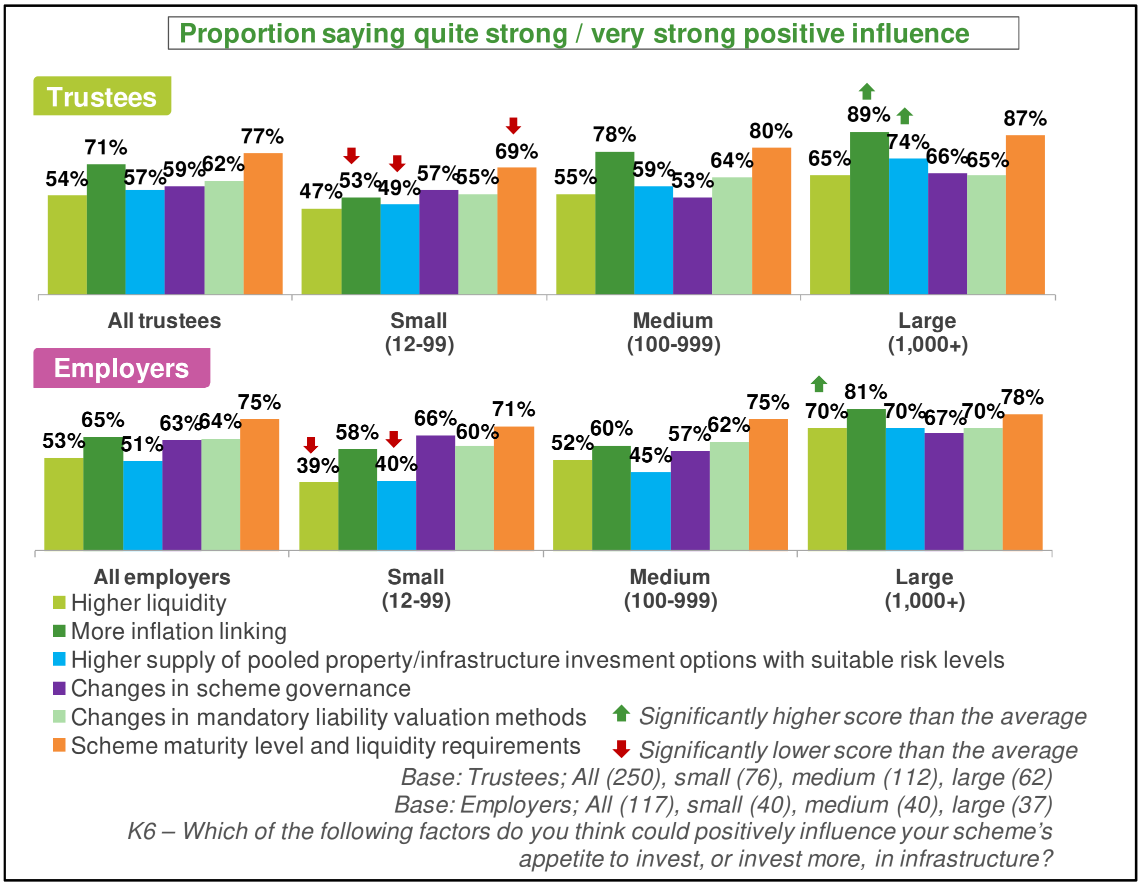
Figure 12.2 Factors influencing scheme's investment choices



For trustees and employers the scheme's maturity level and liquidity requirements, along with more inflation linking were felt to have had the most influence on their appetite to invest, or invest more, in infrastructure (Figure 12.3). This was particularly the case for trustees of large schemes (89% would be positively influenced by more inflation linking and 87% would be positively influenced by the scheme maturity level and liquidity requirements).

Figure 12.3 Positive influences on schemes' appetite to invest in infrastructure



13 Discount rates

Each trustee board is required to calculate their technical provisions (a scheme's own measure of its liabilities) and are responsible for determining which method and assumptions they use to calculate this. In its latest Annual Funding Statement[10] TPR set out that "when reviewing the discount rate approach, trustees should consider its suitability taking into account their plan for achieving their long term objective and their current position relative to it". TPR is flexible about the approach taken to set the valuation discount rate, as long as the outcome is consistent with the requirements of the DB Code of Practice.

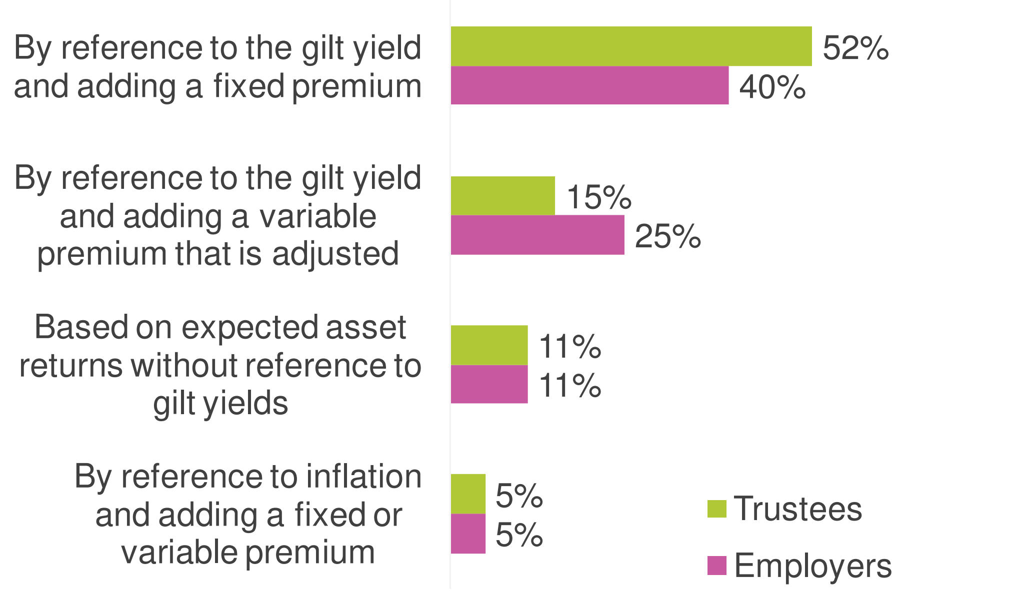
Nine in ten trustees (90%) said they did take the expected return on their scheme assets into account when setting the discount rate for technical provisions, and this rose to almost all trustees when focusing on those with large schemes (97% compared to 89% trustees of medium schemes and 85% of trustees of small schemes). Just over eight in ten employers (84%) took the expected return into account, although this was lower for employers with small schemes (78%, compared to 87% of employers with medium schemes and 86% of employers with large schemes).

Among schemes that set the discount rate in respect of expected returns, the most common way to approach this was by reference to the gilt yield and adding a fixed premium. Two in fifth employers used this method (40%), as did half of trustees (52%), and three-quarters of trustees of large schemes (75%).

Figure 13.1 outlines the other ways in which the discount rate was set, with the second most common method employing reference to the gilt yield and adding a variable premium that was adjusted (15% of trustees and 25% of employers). Whilst only one in ten trustees and employers (11%) base the discount rate on expected asset returns without reference to gilt yields, this rose to two in ten employers with small schemes (21%).

[10] http://www.thepensionsregulator.gov.uk/docs/db-annual-funding-statement-2017.pdf

Figure 13.1 How schemes set the discount rate



Base: Those who take into account expected returns; Trustees (220), Employers (98)
L2. How do you go about setting the discount rate in respect of expected returns?

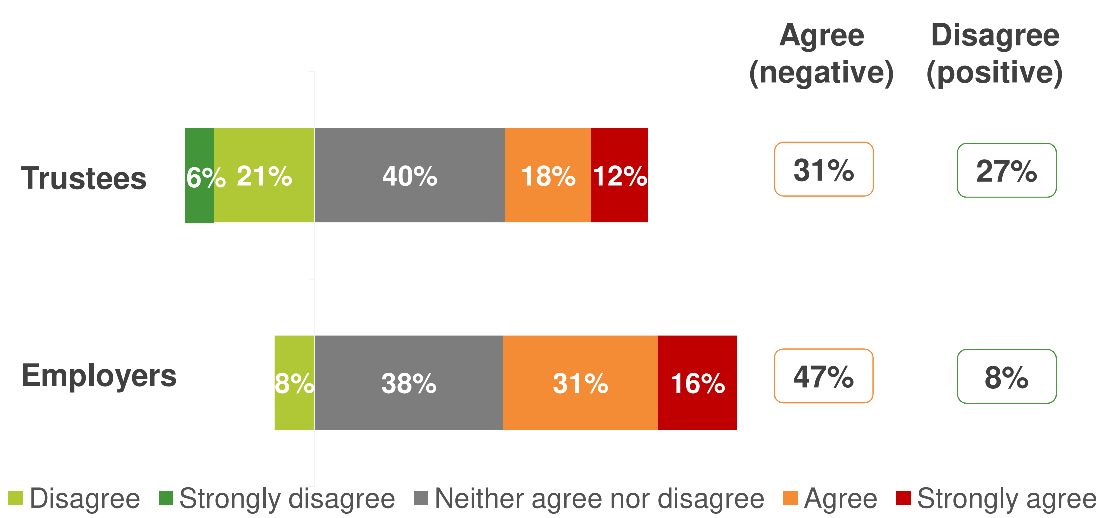
Among trustees who did not take expected returns into account when setting the discount rate (only 6% of all trustees), almost half (45%) said they used a corporate bond yield to set rates and one in five (22%) said they used the government bond yield. Employers who did not consider expected returns (only 8% of all employers) were more likely to say that they used the government bond yield to set rates (57%), with one in five (21%) using a corporate bond yield.

Just under a quarter of all trustees (23%) and just over a quarter of all employers (28%) said they had recently changed their methodology for setting the discount rate (or planned to do so at the next valuation). This was higher among employers with large schemes (41%).

Opinions were also sought on how the current funding regime influences discount rate setting. A third of trustees (31%) and almost half of employers (47%) agreed ('agree' or 'strongly agree') that 'the current funding regime makes it hard to set discount rates to take account of my scheme and employer circumstances' (Figure 13.2). More than one in ten 'strongly agreed' that this was the case (12% trustees, 16% employers). Although agreement was consistent by scheme size, trustees of large schemes were more likely to disagree that the current regime made it hard to set discount rates (39% compared to 18% of trustees of medium schemes and 25% of trustees of large schemes).

In addition, lay trustees were more likely to agree that the current regime made it hard to set discount rates (36%) compared to 22% of professional trustees.

Figure 13.2 Extent to which the current funding regime makes it hard to set discount rates



Base: Trustees (250), Employers (117)
L6. Please tell us to what extent you agree or disagree with the following statement: The current funding regime makes it hard to set discount rates to take account of my scheme and employer circumstances?

When schemes were asked how they had arrived at their opinion about setting discount rates under the current regime, 12% of trustees and 18% of employers said it was because decisions were predetermined or taken out of their control. In addition, one in ten trustees (11%) and 4% of employers said it was due to a lack of flexibility and the assumption that all employers were the same, so that scheme type and size variations were not taken into account. However only a small percentage of all employers (2%) said they felt confused by the current regime. This rose to 5% of employers with medium sized schemes.

"

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