IFF Research

The Pensions Regulator

Research report on 2015 (Tranche 10) Defined Benefit annual funding statement and other publications

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The Pensions Regulator

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1. Executive summary

1.1 Introduction

This document provides findings from the 2015 quantitative survey among defined benefit (DB) schemes in Tranche 10 (ie schemes with valuation dates between 22 September 2014 and 21 September 2015), conducted by IFF Research on behalf of The Pensions Regulator.

The survey was conducted following the publication of a number of materials in 2015 that sought to provide guidance to DB schemes:

- In May, the annual funding statement[1] for Tranche 10, along with the supporting analysis and evidence[2];
- In July, a 'quick guide'[3] to the 2014 code of practice, along with a short video explaining the main points[4]; and
- In August, guidance and resources for assessing and monitoring the employer covenant[5].

These publications alongside the regulator's accompanying communications activities reinforced the messages contained in the DB code of practice, published in June 2014.

The key objectives of the survey were to determine levels of awareness of the above publications, the extent of engagement with them, and to measure audiences' understanding of the messages they included. The extent of integrated risk management by trustees and employers in relation to their schemes was also measured.

The target audiences of the survey were actuaries, trustees and employers of DB pension schemes in Tranche 10.

Sampling quotas for trustees and employers were set across scheme size and scheme valuation date.

IFF Research is an independent market research agency. Interviews took place between 23 September and 6 November 2015.

[1] http://www.thepensionsregulator.gov.uk/docs/db-annual-funding-statement-2015.pdf
[2] http://www.thepensionsregulator.gov.uk/docs/db-analysis-tranche-ten-forward-2015.pdf
[3] http://www.thepensionsregulator.gov.uk/docs/funding-db-quick-guide-employers.pdf
[4] https://www.youtube.com/watch?v=e3EfpLNFAXM
[5] http://www.thepensionsregulator.gov.uk/guidance/resources-assessing-monitoring-employer-covenant.aspx

1.2 Key findings

1.2.1 Awareness of The Pensions Regulator's DB publications

Awareness of the DB code of practice was high for all audiences (100% of actuaries, 91% of trustees and 72% of employers) and in line with findings from the 2014 annual funding statement research among tranche 9 schemes. Prompted awareness of the annual funding statement was similarly high for actuaries (99%) and rose from 2014 (90%), but was lower among trustees (80%) and employers (61%), although still on a par with 2014 for both groups.

Of the other four publications and tools respondents were asked about, awareness was highest across all audiences for the employer covenant guidance (99% of actuaries, 88% of trustees and 71% of employers). Three quarters of actuaries (75%) and trustees (74%) were aware of the tools and resources to help assess and monitor employer covenant, compared to less than half of employers (45%).

A similar proportion of employers were aware of the quick guide to funding DB schemes (43%), although awareness of this was higher among actuaries (65%) and trustees (57%).

Awareness across all audiences was lowest for the video giving an overview of the quick guide; trustees were most aware of it (26%) as were one in ten actuaries (11%) and employers (10%).

1.2.2 Engagement with The Pensions Regulator's DB publications

When examining the proportion of respondents reading at least some of each of the publications, the DB code of practice was read by the majority of all audiences (99% of actuaries, 75% of trustees and 54% of employers). The figures for trustees and employers represent an increase from 2014. Among those reading the code, actuaries were most likely to have read it in detail (66%, compared to 38% of trustees and 18% of employers), while 40% of trustees read it but not in detail and 42% of employers scanned it. Three quarters of trustees read a summary of the DB code of practice from an adviser (77%) as did half of employers (53%).

Almost all actuaries had read the annual funding statement (92%), compared to 67% of trustees and 41% of employers. The figures for actuaries and trustees represent an increase from 2014. Actuaries and trustees were more likely to have read the annual funding statement in detail, 57% and 43% respectively, compared to employers (32%).Two thirds of trustees read a summary of the annual funding statement from an adviser (68%), as did just under half of employers (46%).

Of the other publications and materials asked about, audiences were most likely to have read the employer covenant guidance (89% of actuaries, 81% of trustees and 48% of employers). Of those that read the guidance, it was read in detail by half of trustees (53%) and employers (50%), and a third of actuaries (34%). Seven in ten trustees read a summary of it from an adviser (70%), as did 52% of employers.

Fewer members of each audience read the quick guide (43% of actuaries, 40% of employers and 29% of employers.) Half of actuaries (53%) and trustees (52%) read at least some of the tools and resources to help assess and monitor the employer covenant, as did a third of employers (33%). Trustees were most likely to watch the video overview of the quick guide (9% compared to 3% of actuaries and employers).

1.2.3 Awareness of messages in The Pensions Regulator's recent DB publications

Respondents were asked about their awareness and understanding of key messages included in the regulator's recent publications.

There were two types of messages. The first were 'existing key' messages which featured in the regulator's publications and communications over the last year and 2013-14, These messages are of a general nature, having regard to market trends and their likely implications for scheme valuations; the statement recognises that individual schemes may have significantly different experiences.

All actuaries were aware of each of these five key messages, with the exception of the message 'trustees are expected to assess the ability of the employer to address a range of likely adverse outcomes over an appropriate period', where awareness was 98%. Actuaries' awareness of the key messages was unchanged from 2014. Trustees' awareness of the key messages was also high (between 92% and 97% awareness on each of the key messages) and remained in line with 2014. Employers' awareness of the key messages was lower than actuaries and trustees, but was significantly improved from 2014 on all of the key messages. Employer awareness was highest for the messages 'trustees and employers should engage in an open, collaborative and transparent manner' (86%) and 'trustees are expected to manage scheme funding, scheme investments and employer covenant in an integrated way' (84%).

Respondents were asked about a second set of five messages – ones that were new in 2015 and whose awareness and understanding was measured for the first time in this year's survey. These messages included the use of deficit reduction contributions and flexibilities in certain scenarios, investment return assumptions, use of gilt reversion and where employer affordability is constrained.

Awareness of the 'new in 2015' messages in the statement was lower than the 'existing key' messages among all three audiences, although still high.
Trustees' awareness of the new messages ranged between 79% and 94%, actuaries ranged between 91% and 99% while employers' ranged between 59% and 80%. Among employers awareness of the messages was lowest, and lowest for 'trustees allowing gilt reversion should consider the impact that their assumptions not being borne out has on the schemes funding' (59% were aware of this).

1.2.4 Understanding of messages

Understanding of the 'existing key' messages among trustees was high, with more than nine in ten trustees understanding each of the key messages, in line with 2014 and giving an average score of 95% understanding (also in line with 92% in 2014).

With regard to employers, understanding among this audience has risen since 2014 for the following messages:

- 'Trustees are expected to assess the ability of the employer to address a range of likely adverse outcomes over an appropriate period' (83% compared to 72% in 2014).
- 'Trustees can use the flexibilities available in the funding regime to set funding strategies that are appropriately tailored to the scheme's and employer's circumstances' (84% compared to 74% in 2014).
- 'Trustees and employers should engage in an open, collaborative and transparent manner' (87% compared to 77% in 2014).

Average understanding of employers across the five key messages increased from 75% in 2014 to 84% in 2015. Therefore, average understanding among both employers and trustees is 90% (up from 84% in 2014).

Understanding of the 'new' messages in the statement was lower than the 'existing key' messages among all three audiences, although still high. Trustees' understanding of the new messages ranged between 80% and 94%, while employers' ranged between 61% and 79%.

There was lowest understanding of the message 'trustees allowing gilt reversion should consider the impact that their assumptions not being borne out has on the scheme's funding' (80% of trustees and 61% of employers understood).

1.2.5 Perceptions of the publications

The vast majority of trustees and employers who had read the DB code of practice found it helpful (or thought it would be helpful), while a minority did not (7% trustees and 1% employers), giving a net helpful score[6] of 86% for trustees and 94% for employers, which is in line with 2014. Of the characteristics associated with the code, a large proportion of trustees thought it was consistent with the regulator's approach (88%) and a similar proportion of employers thought it was pitched at the right level (89%). The characteristic least associated with the code was 'evidence-based'; 55% and 64% of respective audiences thought this was the case.

Employers were particularly likely to find the annual funding statement helpful (92% net helpful), as were 78% of trustees and 67% of actuaries, which is in line with 2014. In terms of how 'good' the annual funding statement was perceived to be, the 'net good' score was close to eight in ten among all audiences (75% among actuaries, 83% among trustees and 81% among employers; in line with 2014). Actuaries and trustees were most likely to find the annual funding statement

[6] A net score is the proportion rating a document as helpful minus the proportion finding it not helpful.

consistent with the regulator's approach (86% and 92% respectively) and employers were most likely to find it clear (90%). 'Evidence-based' was the lowest rated characteristic among employers and trustees (69% and 68% respectively), while 57% of actuaries felt it provided enough guidance, which represents a decrease from 2014 (72%).

Of the other publications and resources asked about, actuaries found the employer covenant guidance more helpful ('net helpful' score of 67%) than the tools and resources (57%) and the quick guide (44%). Nevertheless, most actuaries felt each of these publications was good ('net good' score of 82% for the employer covenant guidance, 77% for the quick guide and 62% for the tools and resources).

Most trustees felt the quick guide (86%), the employer covenant guidance (80%) and the tools and resources (81%) were 'net helpful' and a similar proportion perceived each of them to be good (respectively 'net good', 83%, 87% and 86%).

Nearly all employers who read the quick guide found it helpful ('net helpful' score of 95%), while a large proportion also felt the employer covenant guidance (84%) and the tools and resources (75%) were helpful. Over three quarters of employers felt each of these publications was good ('net good' score of 78% for the employer covenant guidance, 88% for the quick guide and 81% for the tools and resources).

1.2.6 Integrated risk management

Three quarters of trustees (75%) and almost two thirds of employers (58%) said that scheme funding, scheme investments and employer covenant risks are fully integrated, consistent with 2014.

In terms of activities undertaken in relation to managing funding, investment and covenant risks between valuations, around two thirds of trustees (63%) and around half of employers (53%) had undertaken all five activities cited. The proportion doing so is in line with tranche 9 schemes, surveyed in 2014.

'Risk taking in the investment strategy and funding plans are set following establishment of a risk appetite discussed with the employer' was the most frequently conducted activity (92% of trustees and 89% employers), whereas the least undertaken activity was 'having clear plans for action when tolerances are breached or on some other trigger' (77% trustees and 65% employers).

2. Background and methodology

2.1 Background

This document provides findings from the quantitative survey conducted on behalf of The Pensions Regulator following the publication of the 2015 annual funding statement and a series of other materials aimed at helping trustees, employers and professionals from the wider pension community understand how to approach funding DB schemes. In their messaging, these materials have reinforced and developed messages included in the DB code of practice, published in June 2014.

Code of practice no. 3 – Funding defined benefits

This is the regulator's second DB funding code of practice, replacing the initial 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 the regulator'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:

- Trustee objectives: to comply with their fiduciary duties and ensure that scheme benefits can be paid as they fall due.
- Employer objectives: 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 our funding regime a strong, ongoing employer alongside an appropriate funding plan is the best support for a well governed scheme. The code also:

- encourages trustees and employers to use the flexibilities in the funding regime and work collaboratively
- recognises that trustees may take some risk in achieving their objectives while stressing that they should understand and manage that risk effectively. In particular, the code encourages trustees to adopt an integrated approach to risk management across employer covenant, investment and funding related risks
- encourages trustees to act proportionately in carrying out their functions given their scheme's size, complexity and level of risk.

Annual defined benefit funding statement

This is the regulator's fourth annual funding statement, published in May 2015, which provides market commentary and direction for trustees, employers and advisers of schemes with valuation dates between 22 September 2014 and 21 September 2015, known as 'Tranche 10' schemes.

As in the previous three years' statements, a series of key messages were included for schemes set to submit valuations in the coming year. These messages are of a general nature, having regard to market trends and their likely implications for scheme valuations; the statement recognises that individual schemes may have significantly different experiences.

Alongside the statement, the regulator published supporting analysis of the expected positions of DB pension schemes with 2015 valuations, highlighting the impact of the change in market conditions, and a review of submitted 2013 valuations.

Quick guide to code of practice no.3 – Funding defined benefit schemes

The quick guide to the DB code of practice was published in July 2015 and provides an overview of the code specifically for employers. The guide also signposts to the 2015 annual funding statement.

In a condensed form, the quick guide provides information to employers on:

- their role in funding their DB schemes
- how to work together with trustees
- how to manage risks and reach a balanced approach that allows funding targets to be met.

Alongside the quick guide, a video was released by the regulator explaining the key messages in the guide and signposting to other sources of information.

Guidance and resources for assessing and monitoring the employer covenant

In August 2015, the regulator published guidance and resources to assist employers, trustees and their advisers assess and monitor the employer covenant. The guidance document provides detailed practical guidance on how to assess the employer covenant of a DB pension scheme as part of an integrated approach to managing scheme risks, monitor the covenant and take action to improve scheme security.

The resources include simple pull outs, checklists and best/worst practice scenarios to help trustees, employers and their advisers gain a better understanding of how to undertake the practical steps of assessing and monitoring the covenant, as set out in the regulatory guidance.

2.2 Research objectives

The over-arching objective of the survey was to measure awareness of these publications and understanding of the messages they included.

The survey further sought to measure engagement with the publications, perceptions of their usefulness and quality and the extent of any action that had been taken after reading them.

Finally, the survey sought to understand the extent to which risk management undertaken by employers and trustees was integrated.

Employers and trustees associated with large and medium schemes in Tranche 10, and actuaries that advise them, were the target audiences for the survey.

2.3 Methodology

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

The survey was conducted using Computer Assisted Telephone Interviewing (CATI), ensuring methodological consistency with previous waves of the survey.

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

Quotas were set by audience and scheme size to ensure consistency with previous waves of the survey.

Table 2.3.1 shows the interview targets set and the number of interviews achieved. In total, 397 interviews were completed.

Table 2.3.1: Interview targets and interview achieved

<table>
<tr><th></th><th colspan="2">Actuaries</th><th colspan="2">Trustees</th><th colspan="2">Employers</th></tr>
<tr><th>Membership size</th><th>Target</th><th>Achieved</th><th>Target</th><th>Achieved</th><th>Target</th><th>Achieved</th></tr>
<tr><td>Medium DB/hybrid (100-99 members)</td><td rowspan="2">100</td><td rowspan="2">100</td><td>50</td><td>51</td><td>100</td><td>97</td></tr>
<tr><td>Large DB/hybrid (1000+ members)</td><td>100</td><td>101</td><td>50</td><td>48</td></tr>
<tr><td>Total</td><td>100</td><td>100</td><td>150</td><td>152</td><td>150</td><td>145</td></tr>
</table>

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

Fieldwork was conducted between 23 September and 6 November 2015. Fieldwork outcomes and response rates to the survey can be found in Appendix I.

The data was weighted to be representative of the trustee and employer universe of these schemes. Actuary data was not weighted. Table 2.3.2 shows the weighting profile.

Table 2.3.2: Unweighted and weighted profile of interviews

	Unweighted profile	Weighted profile
Medium DB/hybrid (100-99 members)	50%	65%
Large DB/hybrid (1000+ members)	50%	35%

2.4 Reporting conventions

Throughout this report, where the text discusses differences in the findings between respondent types, scheme types or sizes, or references changes in year-on-year results, these differences are statistically significant at the 95% confidence level. On charts, where a figure is shown in a box for example: $\boxed{25}$, this means there is a statistically significant difference compared to the other sub-groups or to the previous year's data. Where multiple waves of data are show, a box is used to signify a data point is significantly different to 2015 data.

In tables, where a figure is emboldened, this also represents a statistically significant difference compared to other sub-groups or the previous year's data.

Where a group is labelled as 'more' or 'less' likely this indicates they are 'more' or 'less' likely compared to the overall average (minus their own group), unless it is specifically stated otherwise.

3. Research findings

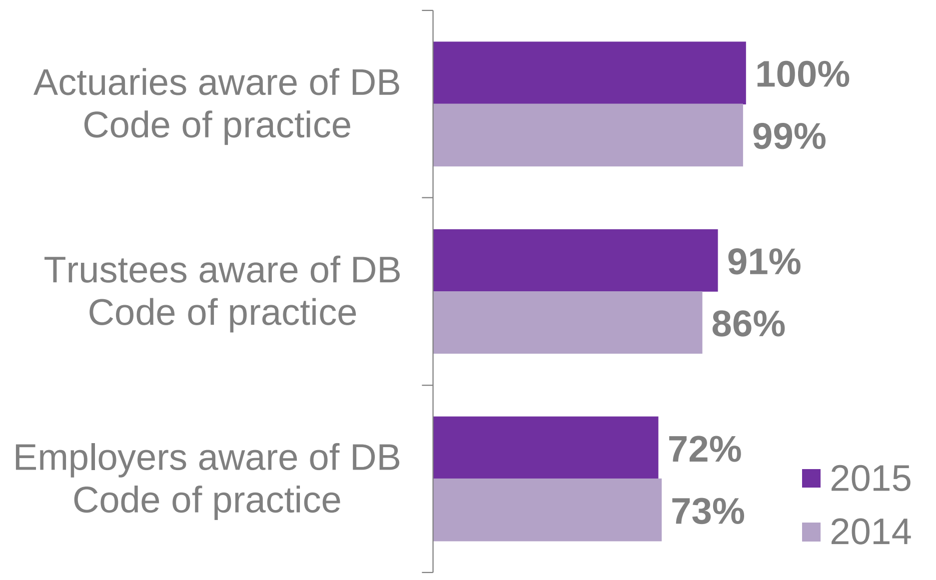
3.1. Awareness of, engagement with and perceptions of the DB code of practice

3.1.1 Awareness of code of practice

Without prompting, half of actuaries (51%) said they were aware of the DB code of practice. 8% of trustees and 1% of employers also said they were aware of the DB code of practice without being prompted.

When prompted, awareness of the DB code of practice increased to all actuaries (100%), nine in ten trustees (91%) and seven in ten employers (72%). Figure 3.1.1 shows that prompted awareness of the DB code of practice remains in line with 2014.

Figure 3.1.1: Prompted awareness of DB code of practice



Base 2015: All; actuaries (100), trustees (152), employers (145)
Base 2014: All; actuaries (100), T9 trustees (150), T9 employers (150)

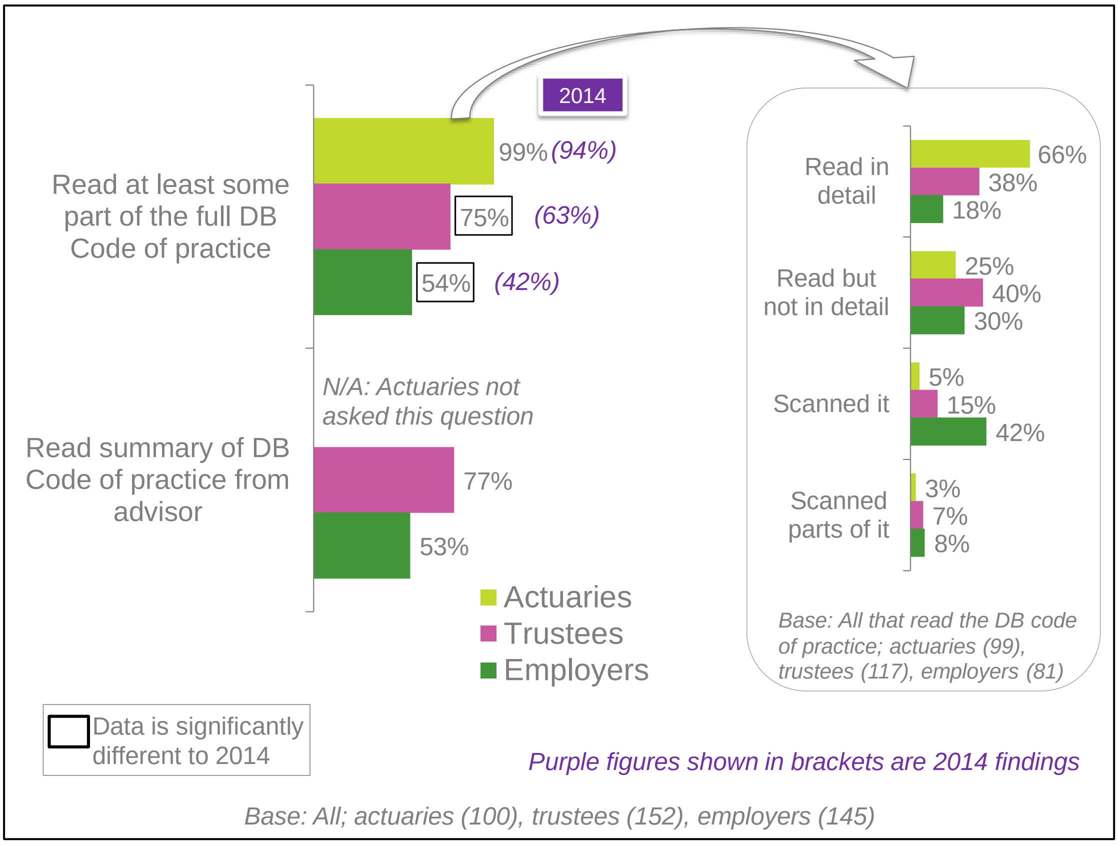
Trustees and employers of medium sized schemes (with 100-999 members) were less likely to be aware of the DB code of practice (75%) than large schemes with 1,000 or more members (91%).

3.1.2 Engagement with DB code of practice

Almost all actuaries had read the DB code of practice (99%), consistent with the proportion reading it in 2014 (94%). The proportion of trustees and employers who had read the DB code of practice was comparatively lower, but there was an increase in the proportion of both trustees and employers reading it compared to 2014 cohort, as shown in Figure 3.1.2. While 63% of trustees had read the DB code of practice in 2014, three quarters (75%) had read it in 2015. Similarly, while less than half of employers (42%) had read the DB code of practice in 2014, 54% had read it in 2015.

In addition, 77% of trustees and 53% of employers had read a summary of the DB code of practice from their adviser.

Figure 3.1.2: Reading of the DB code of practice



Among those who read at least some of the document, actuaries tended to read it in detail (66%), while 38% of trustees read it in detail and a similar proportion read it but not in detail (40%). Employers were most likely to scan the document (42%). The level of reading of the DB code of practice remains in line with 2014.

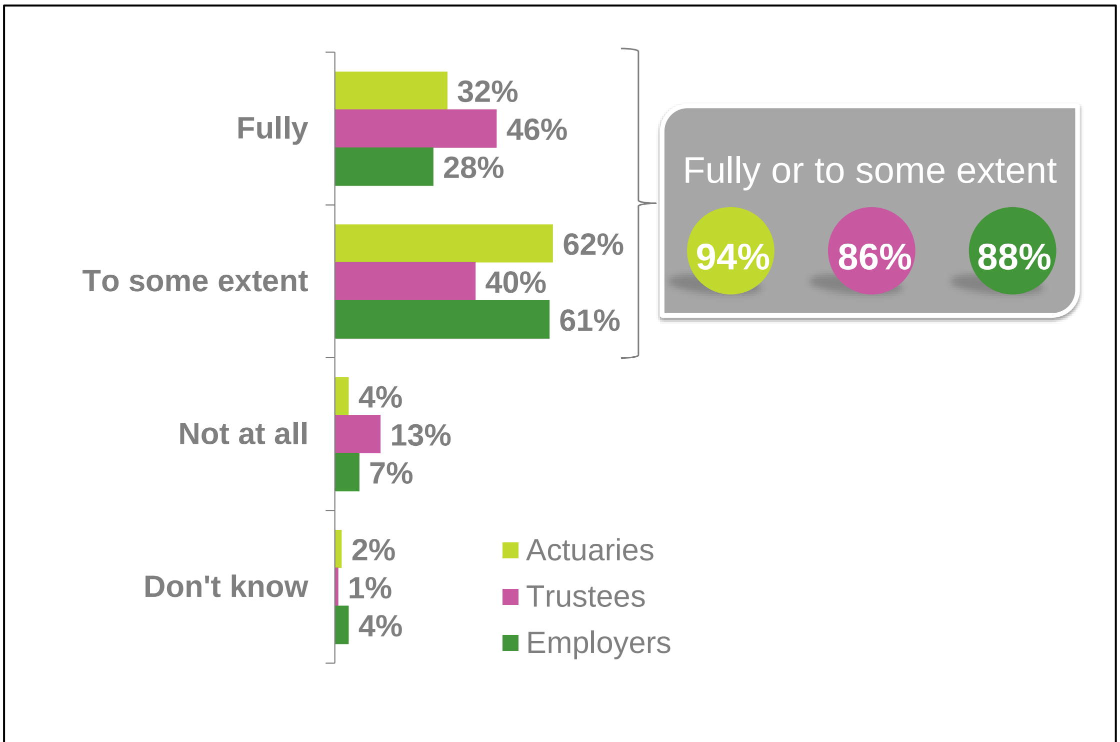
Trustees with a training plan in place were more likely to have read both the full DB code of practice (85% compared to 57% who did not have a training plan in a place) and a summary of the DB code of practice from their adviser (87% compared to 62% who did not have a training plan in place).

The majority of trustees that had read the DB code of practice had either fully (64%) or mostly (30%) taken it into account when preparing for their forthcoming valuation. This was also the case among employers who had read the code: the majority had either fully (53%) or mostly (37%) taken it into account when preparing for their forthcoming valuation. Very few trustees and employers said they took it into account to a limited degree (5% and 3% respectively).

Just under half of trustees who had read the DB code of practice and started the valuation process felt the code had fully informed negotiations with the employer (46%), while 40% felt it had informed negotiations to some extent. As shown in Figure 3.1.3, the majority of employers who had read the DB code of practice and started the valuation process also felt that it had informed negotiations with the trustee, although they were more likely to feel it had done so to some extent (61%) rather than fully (28%).

Likewise, six in ten actuaries that had read the DB code of practice (62%) felt it had informed negotiations with employers and trustees to some extent. Three in ten (32%) felt the DB code of practice had informed these negotiations fully.

Figure 3.1.3: Extent to which DB code of practice informed negotiations



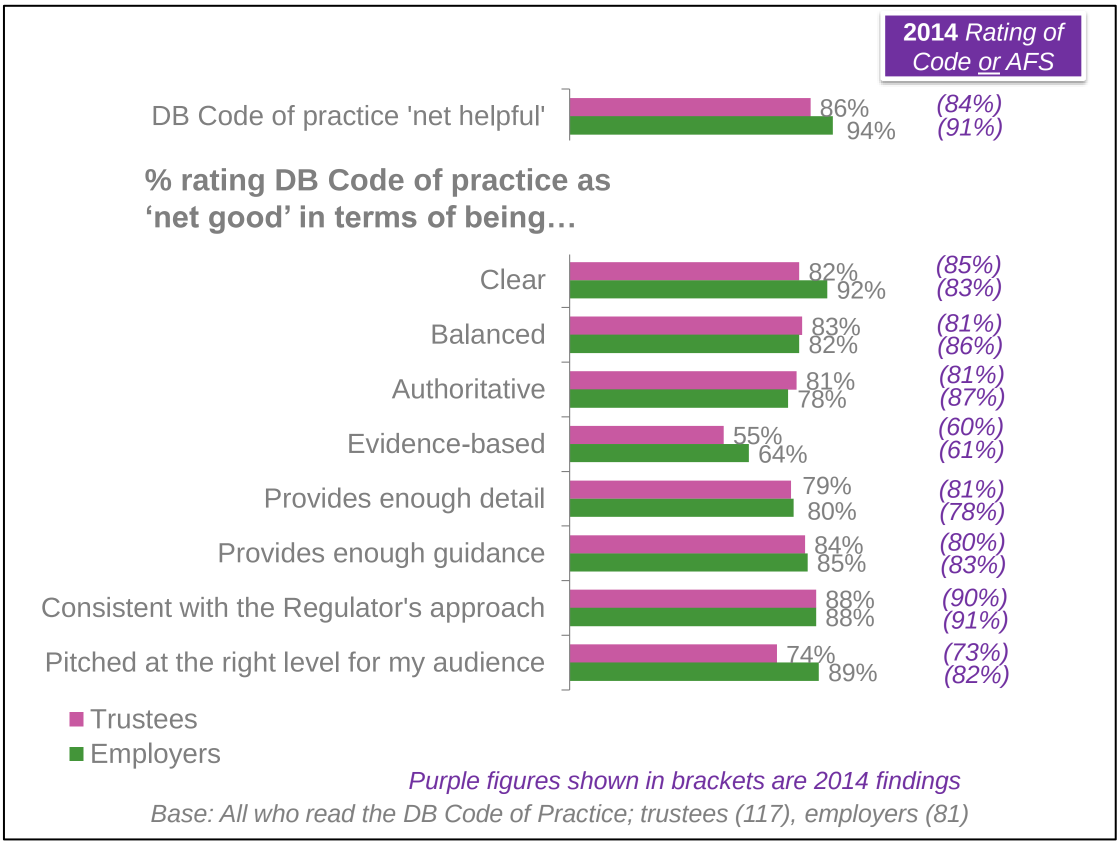
Base: All who had started to process and read the DB Code of Practice; actuaries (99), trustees (115), employers (74)

3.1.3 Perceptions of the DB code of practice

The vast majority of trustees and employers who had read the DB code of practice found it helpful (or thought it would be helpful), in ensuring their scheme complies with the scheme funding requirements (93% and 95% respectively). A minority did not find it helpful (7% trustees and 1% employers), giving a net helpful score (proportion rating it as helpful minus the proportion finding it not helpful) of 86% for trustees and 94% for employers (Figure 3.1.4).

Both trustees and employers rated the DB code of practice highly on a number of characteristics (as shown in Figure 3.1.4), although there was less certainty over the extent to which it is evidence-based (55% trustees and 64% employers rated it as 'net good'). Ratings of this and other characteristics remain in line with ratings of the DB code of practice or annual funding statement[7] in 2014.

Figure 3.1.4: Perceptions of the DB code of practice



Trustees and employers who said their scheme funding, scheme investments and employer covenant risks were fully integrated were more likely to rate the DB code of practice as 'very good' on being consistent with the regulator's approach (36% compared to 18% who said their risks were not fully integrated).

[7] In 2014 both the DB code of practice and annual funding statement were rated together

3.2. Awareness of, engagement with and perceptions of the 2015 annual funding statement

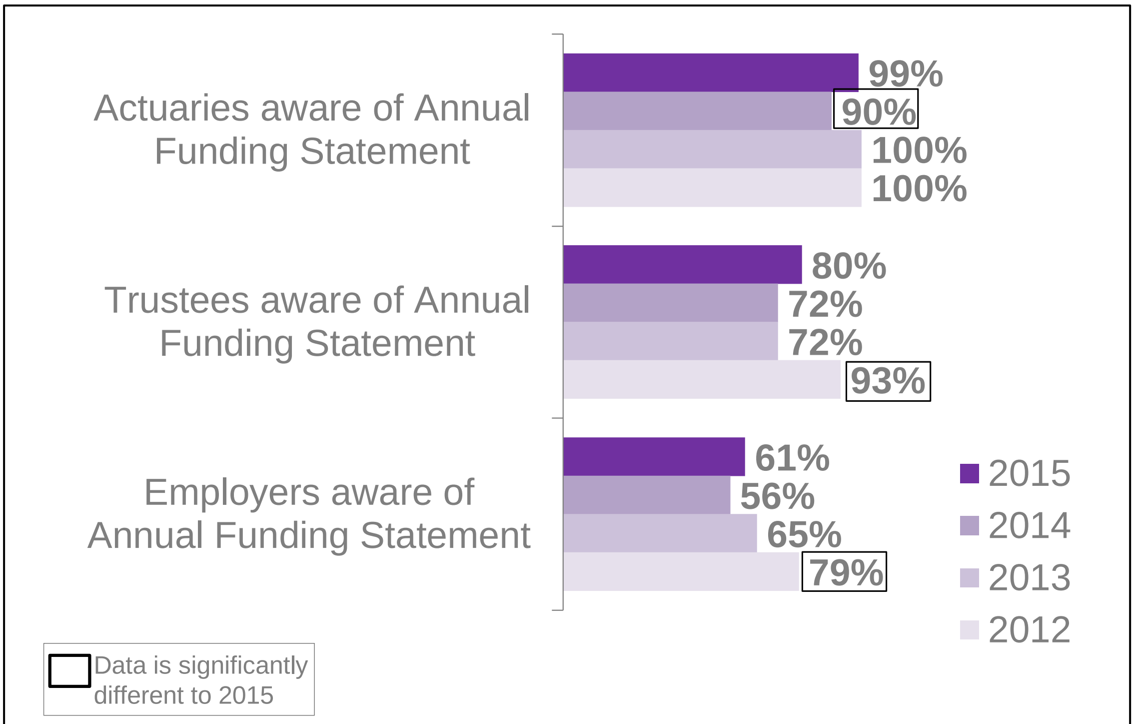
3.2.1 Awareness of annual funding statement

Without prompting, two thirds (64%) of actuaries said they were aware of the 2015 annual funding statement. The proportion, however, was much lower among trustees and employers (16% and 6% respectively).

When prompted, almost all actuaries (99%), eight in ten trustees (80%) and six in ten employers (61%) were aware of the annual funding statement.

As shown in Figure 3.2.1, awareness of the annual funding statement has increased since 2014 among actuaries (from 90% in 2014 to 99% in 2015). Despite awareness of the annual funding statement among trustees and employers being lower than in 2012, the trend of decreasing awareness through 2013 and 2014 looks to be in reverse, as awareness among trustees and employers has increased since 2014 (although not significantly).

Figure 3.2.1: Awareness of annual funding statement



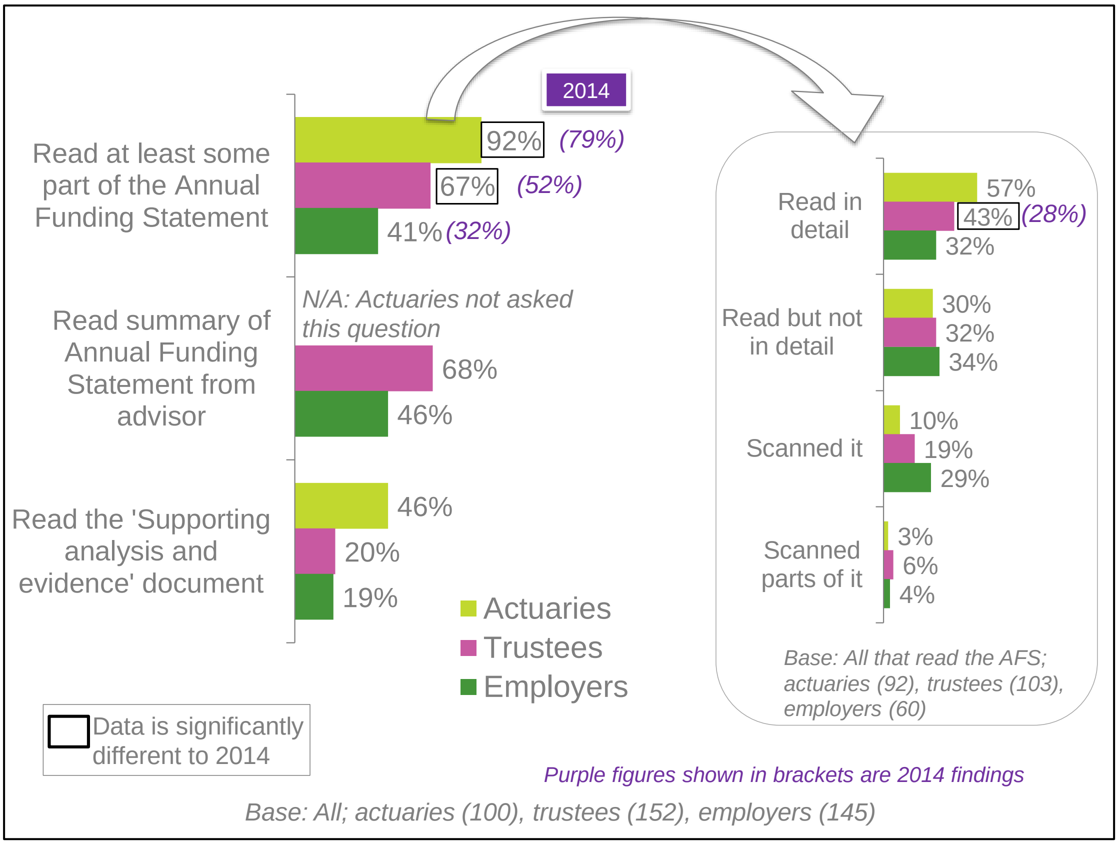
Base 2015: All; actuaries (100), trustees (152), employers (145); Base 2014: All; actuaries (100), T9 trustees (150), T9 employers (150); Base 2013: All; actuaries (100), trustees (150), employers (150); Base 2012: All; actuaries (100), trustees (150), employers (150)

Trustees of large schemes were more likely to be aware of the annual funding statement (87%) compared to trustees of medium sized schemes (73%). Professional trustees were more likely to be aware of the annual funding statement than lay trustees (97% compared to 77%) as were trustees with a training plan in place (82%, compared to 55% without a training plan in place).

3.2.2 Engagement with annual funding statement

Nine in ten actuaries (92%) had read the annual funding statement, along with two thirds of trustees (67%) and two fifths of employers (41%). While the proportion of employers reading the annual funding statement remains consistent with 2014, the proportion of actuaries and trustees reading it has increased. As shown in Figure 3.2.2, readership among actuaries has increased by 13 percentage points (from 79% in 2014 to 92% in 2015) and readership among trustees has increased by 15 percentage points (from 52% in 2014 to 67% in 2015).

Figure 3.2.2: Engagement with the annual funding statement



Of those that had read the annual funding statement, more than half of actuaries had read it in detail (57%), as had 43% of trustees (an increase on the 28% of trustees reading it in detail in 2014), and 32% of employers.

In addition, 68% of trustees and 46% of employers had read a summary of the annual funding statement from their adviser. As with readership of the full annual funding statement, there were no differences by scheme size.

Accompanying the annual funding statement was a document providing ‘Supporting analysis and evidence’. Just under half of actuaries (46%) had read this document, as had a fifth of trustees and employers (20% and 19% respectively).

After reading the annual funding statement most actuaries said they had discussed the content with colleagues and/or had discussed it with trustees in the current round of valuations (88% did so). Half of actuaries who had read the annual funding statement sent it to trustees in the current round of valuations (50%), but more opted to send a summary to trustees (71%). Actions taken by actuaries in relation to the annual funding statement remain in line with actions taken by actuaries in 2014.

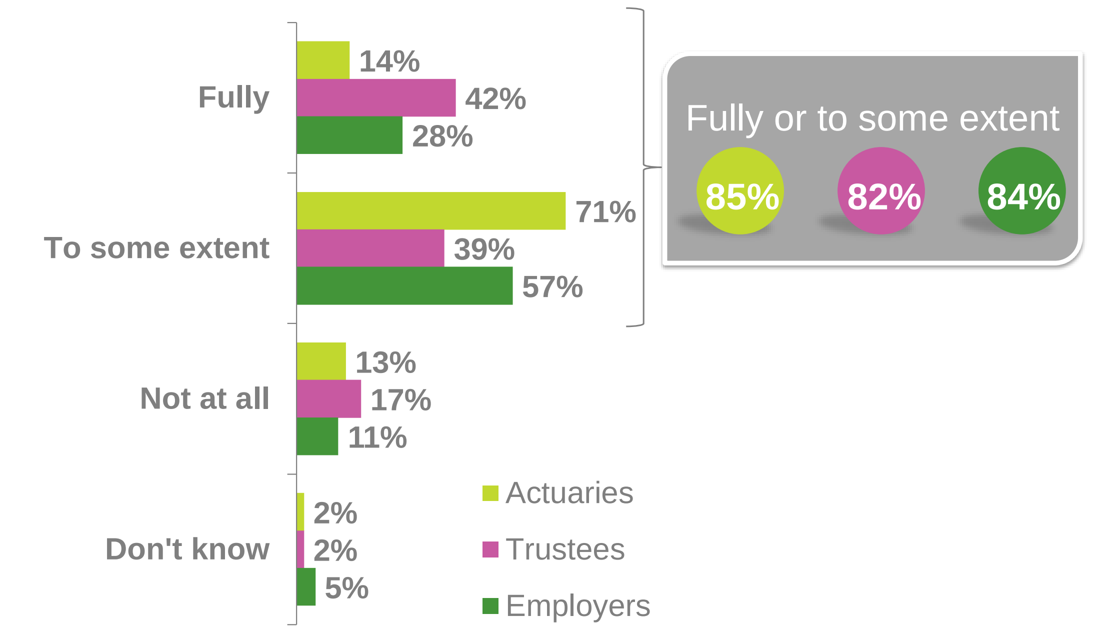
Most actuaries said their advice to schemes in the current round of valuations would be either completely (39%) or mostly (38%) consistent with the messages in the annual funding statement across all of the schemes they advise. A minority said the advice would be completely (16%) or mostly (7%) consistent with the statement, but only across most of the schemes they advise.

In the main, actuaries felt the annual funding statement would inform their negotiations with employers and trustees to some extent (71%). 14% felt it would inform their negotiations fully (a smaller proportion than the 32% who felt the DB code of practice would inform their negotiations fully).

Of the trustees and employers that had read the annual funding statement, the majority had discussed the content with advisers (85% of trustees and 80% of employers). A further 11% of trustees and 12% of employers planned to do so.

As shown in Figure 3.2.3, 82% of trustees and 84% of employers felt the annual funding statement would inform their negotiations fully or to some extent.

Figure 3.2.3: Extent to which annual funding statement informed negotiations



Base: All who had started to process and read the Annual Funding Statement; actuaries (92), trustees (100), employers (57)

3.2.3 Perceptions of the annual funding statement

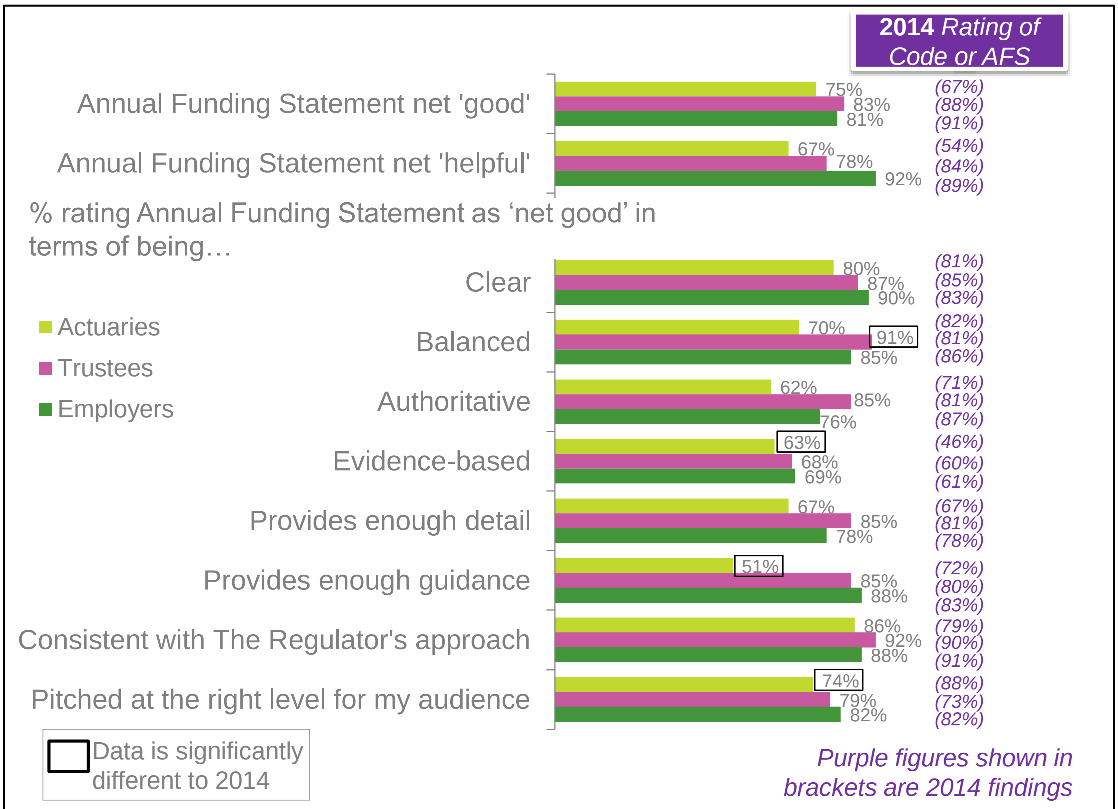
From each of the audiences, around eight in ten rated the annual funding statement as fairly or very good (77% actuaries, 83% trustees and 81% employers). Only two per cent of actuaries and no trustees and employers rated the annual funding statement as poor, meaning its 'net good' score was 75% among actuaries, 83% among trustees and 81% among employers; in line with 2014 (Figure 3.2.4).

In terms of helpfulness, employers were particularly likely to find the annual funding statement helpful (92% net helpful), as were 78% of trustees and 67% of actuaries, also in line with 2014. Trustees and employers at hybrid schemes were more likely to find the annual funding statement helpful (93% net helpful) compared to those at DB schemes (80% net helpful).

Figure 3.2.4 also shows how the annual funding statement was rated on a number of characteristics. It was seen to be largely clear, balanced and consistent with the regulator's approach, but as with the DB code of practice, less likely to be seen as evidence-based (63% actuaries, 68% trustees and 69% employers).

Despite this, the proportion of actuaries who rated the annual funding statement as evidence-based has increased from 46% in 2014 to 63%. On the other hand, fewer actuaries now feel the annual funding statement provides enough guidance (51% down from 72% in 2014) and is pitched at the right level for them (74% down from 88% in 2014).

Figure 3.2.4: Perceptions of the annual funding statement



Base: All who read the Annual Funding Statement; actuaries (92), trustees (103), employers (60)

There are no differences in ratings of the annual funding statement as evidence-based between those who had read the supporting analysis and evidence document (69% net good for evidence based) compared to those who had not read it (65% net good for evidence based).

Around eight in ten of those who read the ‘supporting analysis and evidence’ found it ‘net helpful’ (80% actuaries, 80% trustees and 74% employers), although they were more likely to find it ‘quite helpful’ (67% actuaries, 60% trustees and 66% employers), rather than ‘very helpful’ (22% actuaries, 28% trustees and 19% employers).

3.3. Awareness of, engagement with and perceptions of the quick guide to funding DB schemes for employers

3.3.1 Awareness of quick guide to funding

Although no actuaries, trustees or employers were spontaneously aware of the quick guide to funding DB schemes, when prompted, two thirds of actuaries (65%) were aware, as were 57% of trustees and 43% of employers.

Professional trustees were more likely than lay trustees to be aware of the quick guide, with nearly eight in ten (79%) aware of it (compared to 53% of lay trustees).

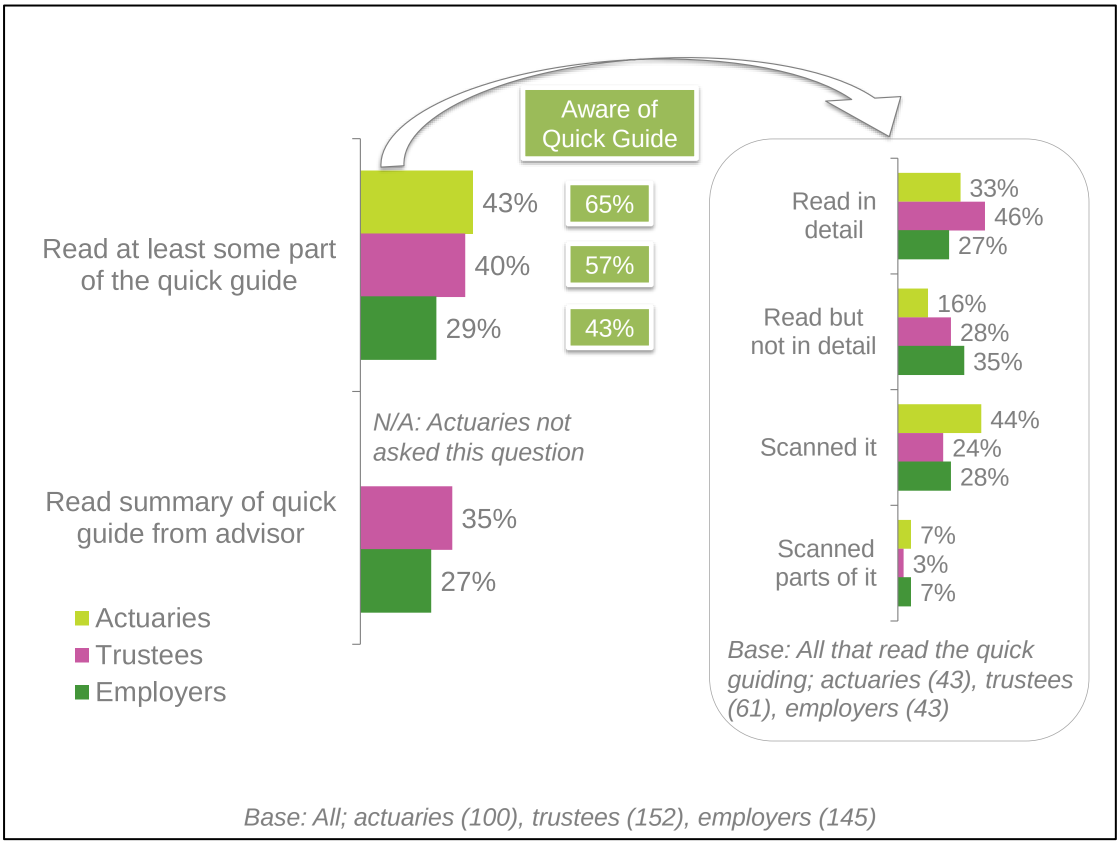
3.3.2 Engagement with quick guide to funding

Of those aware of the quick guide, the majority read at least some part of it. This equated to two fifths of actuaries and trustees (43% and 40% respectively), and one in three employers (29%) having read some part of the quick guide.

As shown in Figure 3.3.1, among those who had read the quick guide trustees were most likely to have read it in detail (46%, compared to 33% of actuaries and 27% of employers). Just over two fifths of actuaries said they scanned the document (44%) while a third of employers who had read the quick guide had read it but not in detail (35%).

In addition, a third of trustees (35%) and a quarter of employers (27%) had read a summary of the quick guide from an adviser.

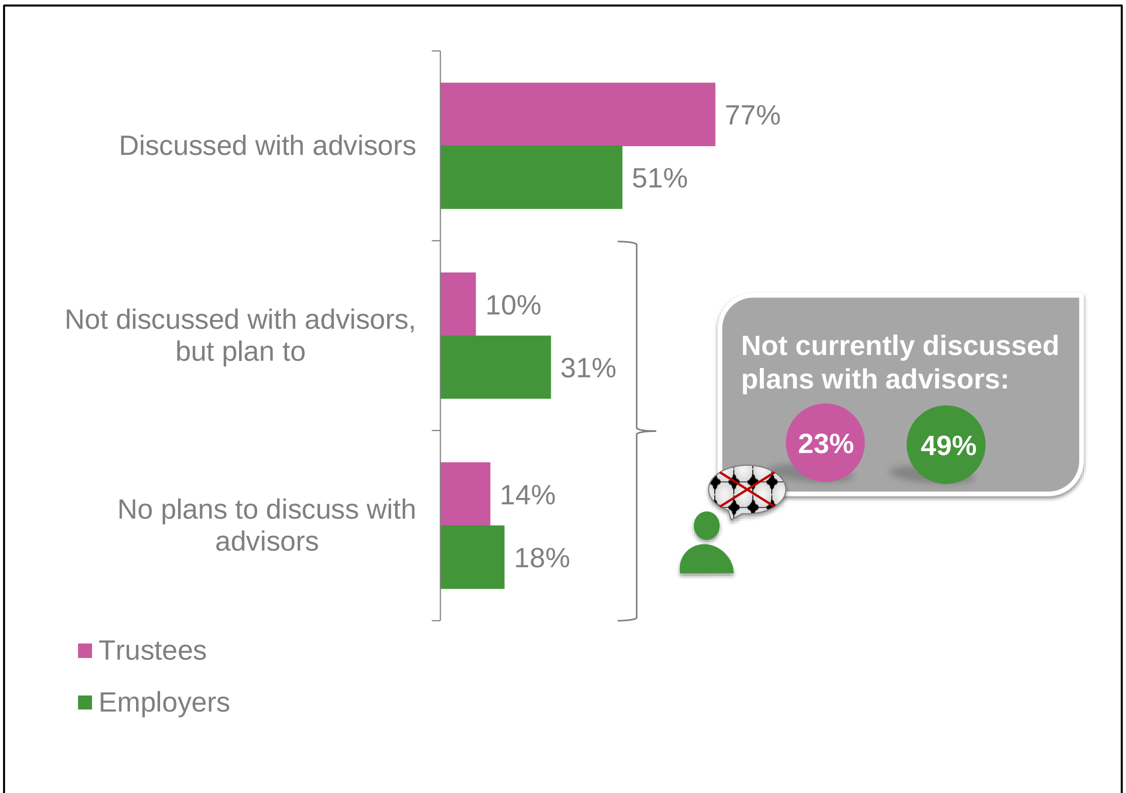
Figure 3.3.1: Engagement with the quick guide to funding



Of trustees who had read the quick guide, most discussed it with advisers (77%) and a further 10% planned to. Among employers, half had discussed it with advisers (51%) and a third (31%) planned to in the future. Trustees and employers at medium sized schemes were more likely to have not yet discussed the quick guide with advisers, but planned to in the future (30% compared to 3% of large schemes).

A minority had not discussed with advisers and did not plan to (14% trustees and 18% employers).

Figure 3.3.2: Actions taken from reading the quick guide to funding DB schemes



Base: All who had read the Quick Guide to Funding DB Schemes; trustees (61), employers (43)

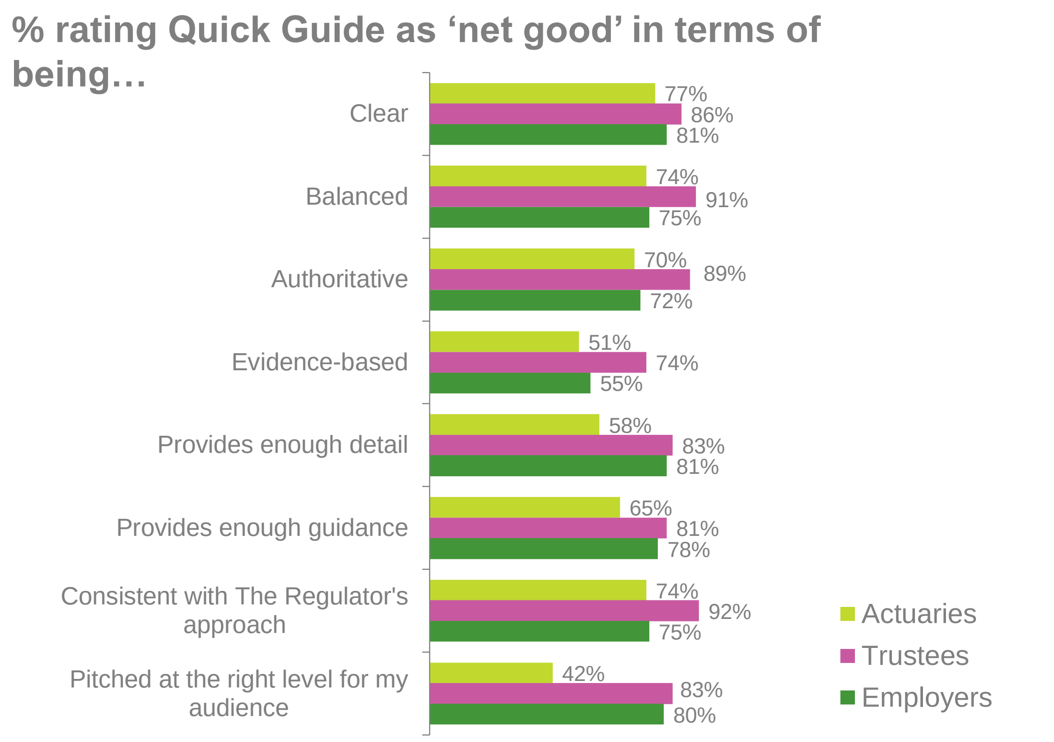
3.3.3 Perceptions of the quick guide to funding

Of those who had read the quick guide (or a summary of it), the majority rated it as 'good' or 'very good' (77% of actuaries, 84% of trustees and 88% of employers). Nearly a third of trustees (31%) gave it the highest rating of 'very good', as did 14% of actuaries and 11% of employers. Very few rated it as poor; only one per cent of trustees did so.

Likewise, the majority rated the quick guide as very or fairly helpful (72% actuaries, 92% trustees and 96% employers), giving 'net helpful' scores of 44% for actuaries, 86% for trustees and 95% for employers. Trustees and employers from medium sized schemes were significantly more likely than those from large schemes to rate the quick guide as 'net helpful' (100% compared to 77% of those at large schemes).

The quick guide to funding was, on the whole, rated highly (Figure 3.3.3). Actuaries found it clear (77% 'net good'), balanced (74% 'net good') and consistent with the regulator's approach (74% 'net good'), although less than half thought it was pitched at the right level for them (42% 'net good'). Most trustees and employers, however, did feel it was pitched at their level (83% trustees and 80% employers 'net good'). Trustees also rated the quick guide particularly highly on being consistent with the regulator's approach (92% 'net good'), balanced (91% net good) and authoritative (89% 'net good').

Figure 3.3.3: Perceptions of the quick guide to funding



Base: All who read the Quick Guide to DB Funding; actuaries (43), trustees (61), employers (43)

3.4. Awareness of, engagement with and perceptions of the video giving an overview of quick guide to funding DB schemes for employers

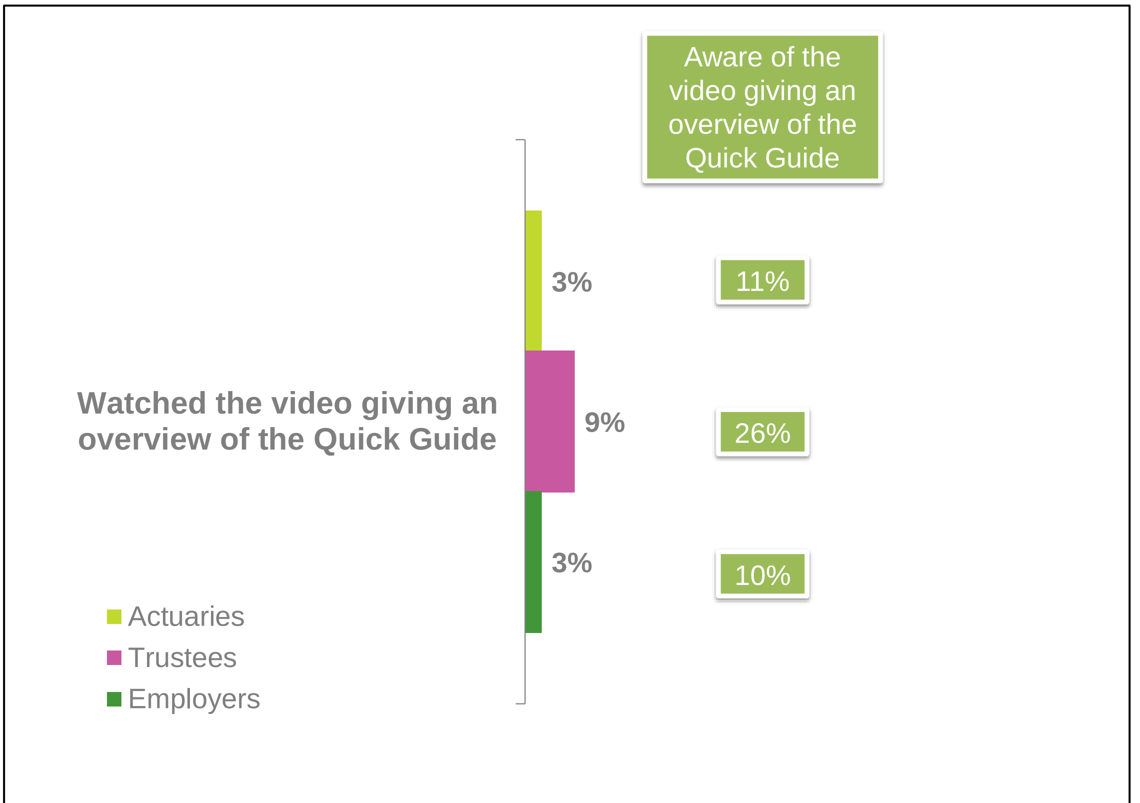
3.4.1 Awareness of video giving overview of quick guide

When prompted, one in ten actuaries (11%), a quarter of trustees (26%) and one in ten employers (10%) were aware of the video giving an overview of the quick guide to funding DB schemes.

3.4.2 Engagement with video giving overview of quick guide

Of those who were aware of the video, around a quarter of actuaries (27%), a third of trustees (34%) and just over a quarter of employer (29%) watched the video. As shown in Figure 3.4.1 this equates to 3% of all actuaries, 9% of all trustees and 3% of all employers.

Figure 3.4.1: Engagement with the video giving an overview of the quick guide



Base: All; actuaries (100), trustees (152), employers (145)

3.4.3 Perceptions of the video giving overview of quick guide

Of the small number who had seen the video, all actuaries and employers rated it highly (100% 'net good'). Two thirds of trustees rated the video positively (66% 'net good').

3.5. Awareness of, engagement with and perceptions of the guidance on how to assess the employer covenant

3.5.1 Awareness of guidance on how to assess the employer covenant

Just over half of actuaries (54%) said they were aware of the employer covenant guidance without prompting. Furthermore, the employer covenant guidance was the most spontaneously mentioned publication by trustees (29% mentioned they were aware of this without prompting) and employers (8% mentioned they were aware of this without prompting).

Once prompted, the majority were aware of the employer covenant guidance, with nearly all actuaries (99%), nine in ten trustees (88%) and seven in ten employers (71%) aware.

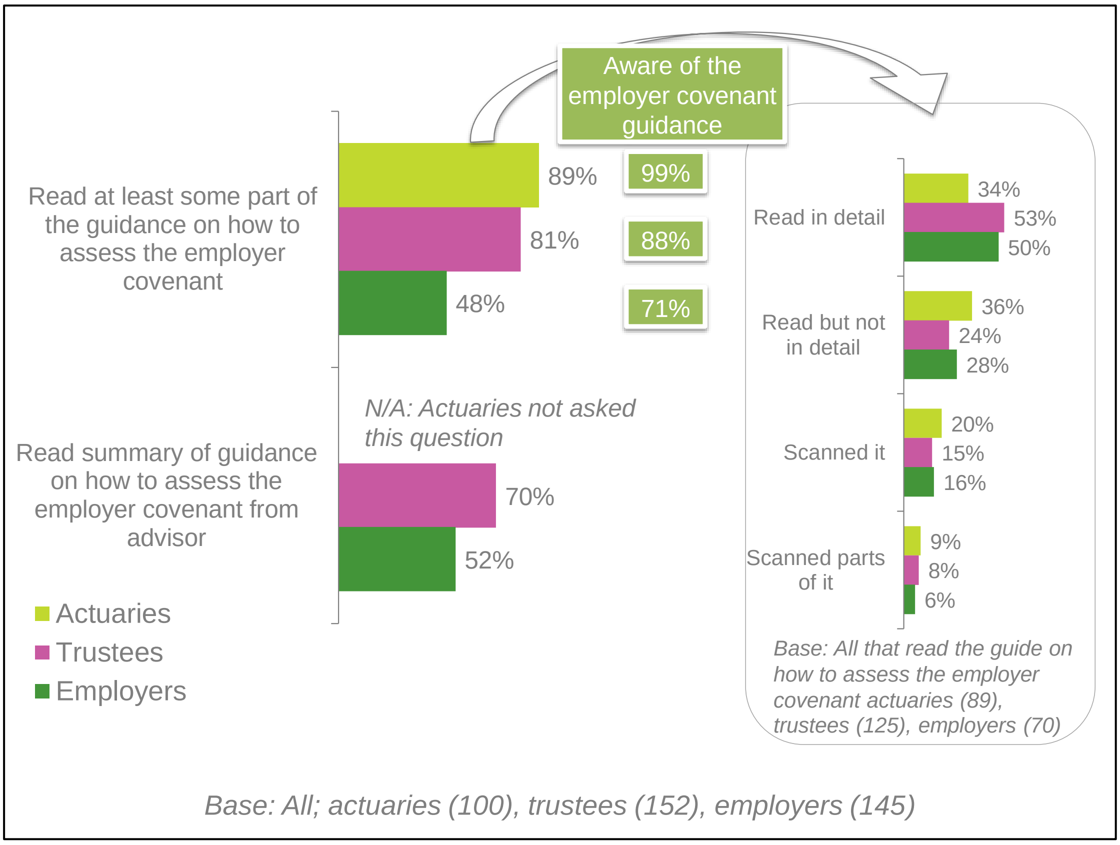
3.5.2 Engagement with guidance on how to assess the employer covenant

Conversion from awareness of the employer covenant guidance to reading it was high, particularly among actuaries and trustees, where the conversion rate was 90% and 93% respectively. The conversion rate among employers was 67%.

Figure 3.5.1 shows the proportion of all actuaries, trustees and employers who read or scanned the covenant guidance.

Unlike the other publications, actuaries, trustees and employers were all more likely to read the document than scan it. Actuaries tended to read it in detail (34%) or read it but not in detail (36%), whereas trustees and employers were most likely to read it in detail (53% and 50% respectively). Employers and trustees from large schemes were more likely than those from medium sized schemes to read at least some part of the employer covenant guidance (89%, compared to an average of 75% of those from medium sized schemes).

Figure 3.5.1: Engagement with the guidance on how to assess the employer covenant



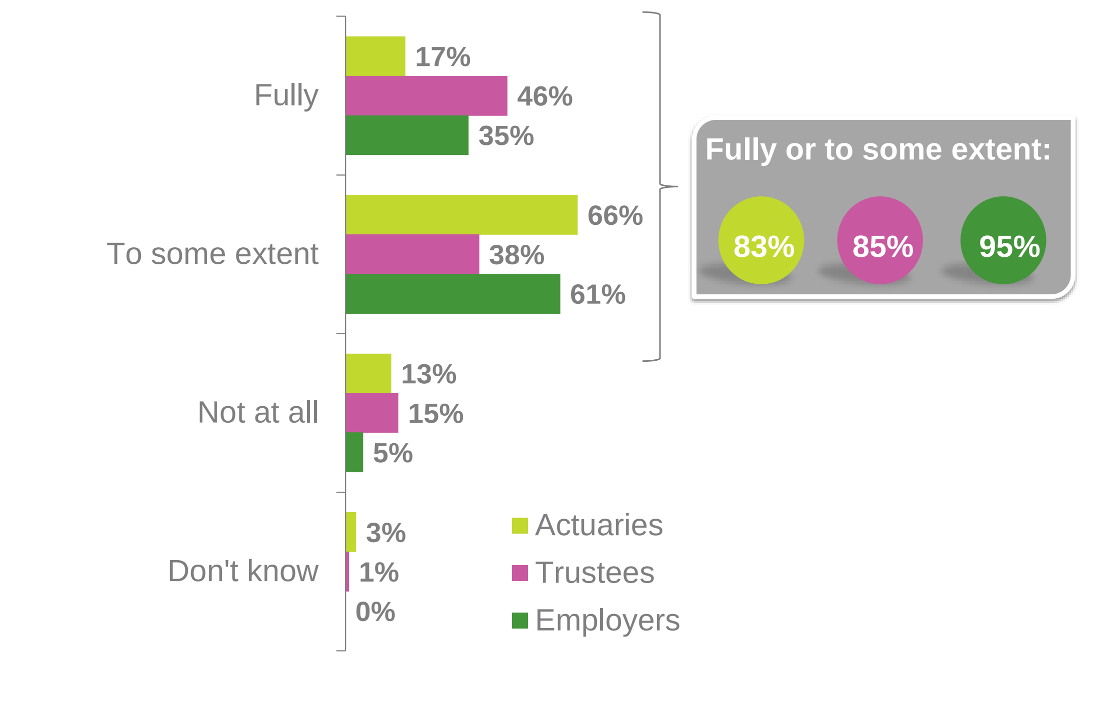
In addition, 70% of trustees and 52% of employers had read a summary of the employer covenant guidance from an adviser.

After reading the employer covenant guidance, most actuaries discussed its content with colleagues (83%) or with trustees of schemes in the current round of valuations (74%). Two thirds sent a summary to trustees (61%) and just over a third sent trustees the full guidance (37%).

Most trustees and employers had also discussed the employer covenant guidance with advisers (82% and 77% respectively); less than one in ten had not yet discussed it with an adviser and did not plan to in the future (7% trustees and 10% employers). Trustees and employers of large schemes were most likely to have already discussed the employer covenant guidance with an adviser (88% compared to 74% of medium sized schemes).

As shown in Figure 3.5.2, the employer covenant guidance had informed the negotiations, at least to some extent, of the majority of actuaries (83%), trustees (84%) and employers (95%) who had started the valuation process and were aware of the guidance. For 17% of actuaries, 46% of trustees and 35% of employers it fully informed negotiations.

Figure 3.5.2: Extent to which employer covenant guidance informed negotiations



Base: All who had started to process and read the Employer Covenant Guidance; actuaries (89), trustees (122), employers (65)

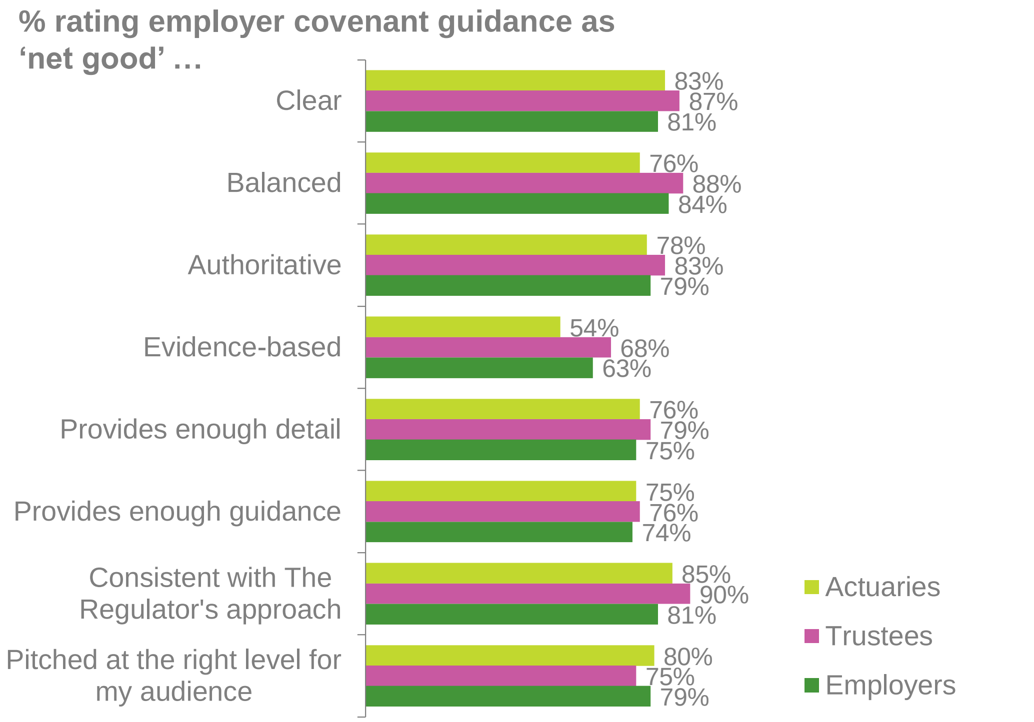
3.5.3 Perceptions of guidance on how to assess the employer covenant

Around eight in ten rated the employer covenant guidance highly (82% of actuaries, 87% of trustees and 78% of employers rated it as 'net good'). Trustees and employers associated with DB schemes were more likely to rate the employer covenant guidance as 'net good' (86% compared to 75% associated with hybrid schemes).

In addition, the employer covenant guidance was largely seen as helpful, particularly among trustees and employers. Around eight in ten trustees (80%) and employers (84%) felt it was 'net helpful', compared to 67% of actuaries. Again, the employer covenant guidance was rated as more helpful by trustees and employers associated with DB schemes as opposed to hybrid schemes (86% 'net helpful' compared to 72% 'net helpful' respectively).

As shown in Figure 3.5.3, the employer covenant was also rated highly on a number of characteristics, although there was less certainty over the degree to which it was 'evidence based' (rated as 'net good' by 54% of actuaries, 68% of trustees and 63% of employers). Trustees rated the guidance's consistency with the regulator's approach particularly highly (90% 'net good'), as well as its 'balanced' nature (88% 'net good') and its clarity (87% net good). Actuaries shared similar opinions, rating the guidance highly in terms of its consistency and clarity (85% and 83% 'net good' respectively), while also rating it highly for the extent to which it was pitched at the right level for their audience (80% 'net good'). Employers also rated the guidance highly on this characteristic (79% 'net good' for being pitched at the right level for their audience), as well as for feeling it was balanced (84% 'net good'), clear (81% 'net good') and consistent with the regulator's approach (81% 'net good').

Figure 3.5.3: Perceptions of the employer covenant guidance



Base: All who read the guidance on how to assess the Employer Covenant; actuaries (89), trustees (125), employers (70)

3.6. Awareness of, engagement with and perceptions of the tools and resources to help assess and monitor employer covenant

3.6.1 Awareness of tools and resources to help assess and monitor the employer covenant

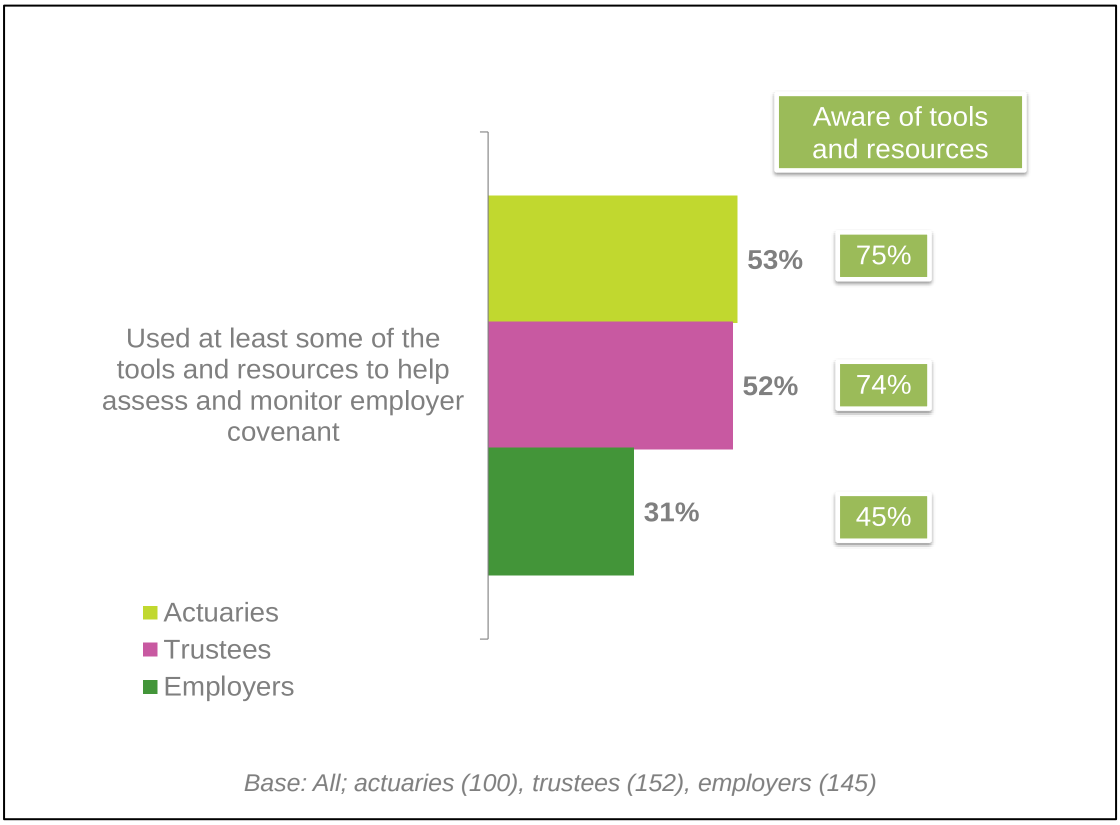
When prompted, three quarters of actuaries and trustees were aware of the tools and resources to help assess and monitor the employer covenant (75% and 74% respectively). A smaller proportion of employers, just under half (45%), were aware of these tools and resources.

Trustees and employers from larger schemes were more likely to be aware of the tools and resources, with more than seven in ten aware of them (72%) compared to half of trustees and employers at medium sized schemes (52%).

3.6.2 Engagement with tools and resources to help assess and monitor the employer covenant

As with other publications from The Pensions Regulator, there was high conversion of awareness into use of the tools and resources to help assess and monitor the employer covenant. Of those who were aware of the tools and resources, around seven in ten had used them (71% of actuaries, 70% of trustees and 67% of employers). As shown in Figure 3.6.1, this equates to 53% of all actuaries, 52% of all trustees and 31% of all employers using the tools.

Figure 3.6.1: Engagement with the tools and resources to help assess and monitor the employer covenant



3.6.3 Perceptions of tools and resources to help assess and monitor employer covenant

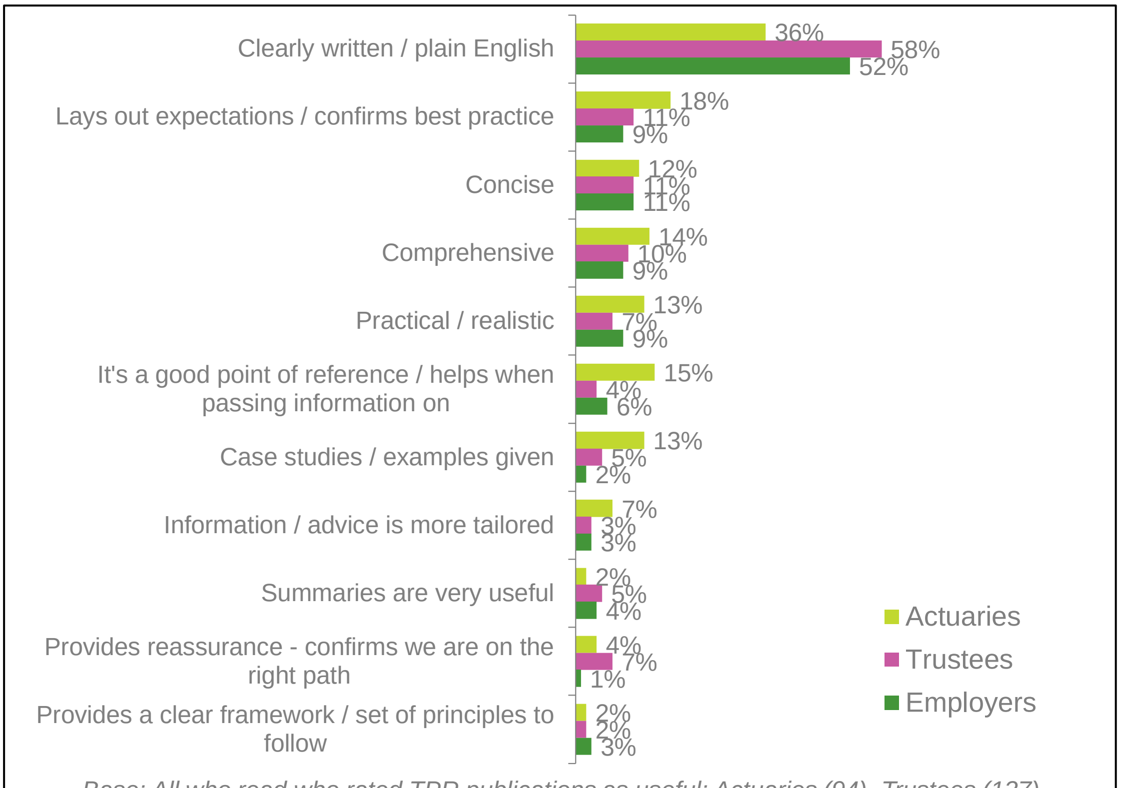
More than eight in ten trustees and employers rated the tools and resources to help assess and monitor the employer covenant as 'net good' (86% and 81% respectively), while six in ten actuaries (62%) also rated them as 'net good'. A third of trustees (31%) rated the tools and resources as 'very good', compared to 19% of employers and 8% of actuaries.

In addition, the tools and resources to help assess and monitor the employer covenant were largely seen as helpful by trustees and employers (81% and 75% 'net helpful' respectively). Whereas just under six in ten actuaries (57%) were inclined to rate them overall as 'net helpful'. Trustees and employers associated with DB schemes were more likely than those associated with hybrid schemes to find them helpful (86% 'net helpful' compared to 62% 'net helpful' respectively).

3.7. General perceptions of The Pensions Regulator's recent DB publications

Those that rated at least one of the regulator's publications as useful were asked what they liked about them. As shown in Figure 3.7.1, over half of trustees and employers (58% and 52% respectively) felt that publications were clearly written and in plain English. A third of actuaries (36%) also cited this. Other elements of the publications that actuaries found particularly useful included the laying out of expectations and having best practice confirmed (18%), having a good point of reference (15%), comprehensiveness (14%), being practical / realistic (13%) and having case studies and examples (13%). Laying out expectations and confirming expectations was also found to be a positive feature of the publications among trustees and employers (11% and 9% respectively) as was their conciseness (11% for both).

Figure 3.7.1: Individual audience perceptions of useful elements of The Pensions Regulator's publications



Base: All who read who rated TPR publications as useful; Actuaries (94), Trustees (137), Employers (112)

Among those that rated at least one of the publications as not useful (a third of respondents), the main weakness cited by around a third of all audiences (32% of actuaries and 35% of trustees and employers) was the tendency for the publication(s) to be too long-winded. In addition, some found the publication(s) not useful because they were not relevant or were too general (22% of actuaries, 30% of trustees and 29% of employers). Other common reasons for 'unhelpful' ratings included the perception that the publication(s) did not tell audience members anything that they did not already know, that the advice was impractical or unrealistic, and that the publication(s) was repetitive.[8]

The majority of those who had read any of the The Pensions Regulator's publications felt there was nothing else they would have liked to see in future versions (86% actuaries, 84% trustees and 88% employers). Among those who did suggest specific improvements, the things most mentioned were: including more information / greater focus on a specific area (6% of actuaries, 3% of trustees and 2% of employers), providing more examples (3% of actuaries, 4% of trustees and 2% of employers) and more scheme / organisation specific information (1% of actuaries and employers, and 3% of trustees).

[8] Specific percentage figures are not reported due to low base sizes.

3.8. Awareness and understanding of key messages in the publications

Respondents were asked to rate their levels of awareness and understanding of key messages that featured in The Pensions Regulator's recent DB publications (code of practice, the 2015 annual funding statement, quick guide to code of practice, employer covenant guidance) and communications (press releases, speaking events, news by email etc).

3.8.1 Awareness of key messages

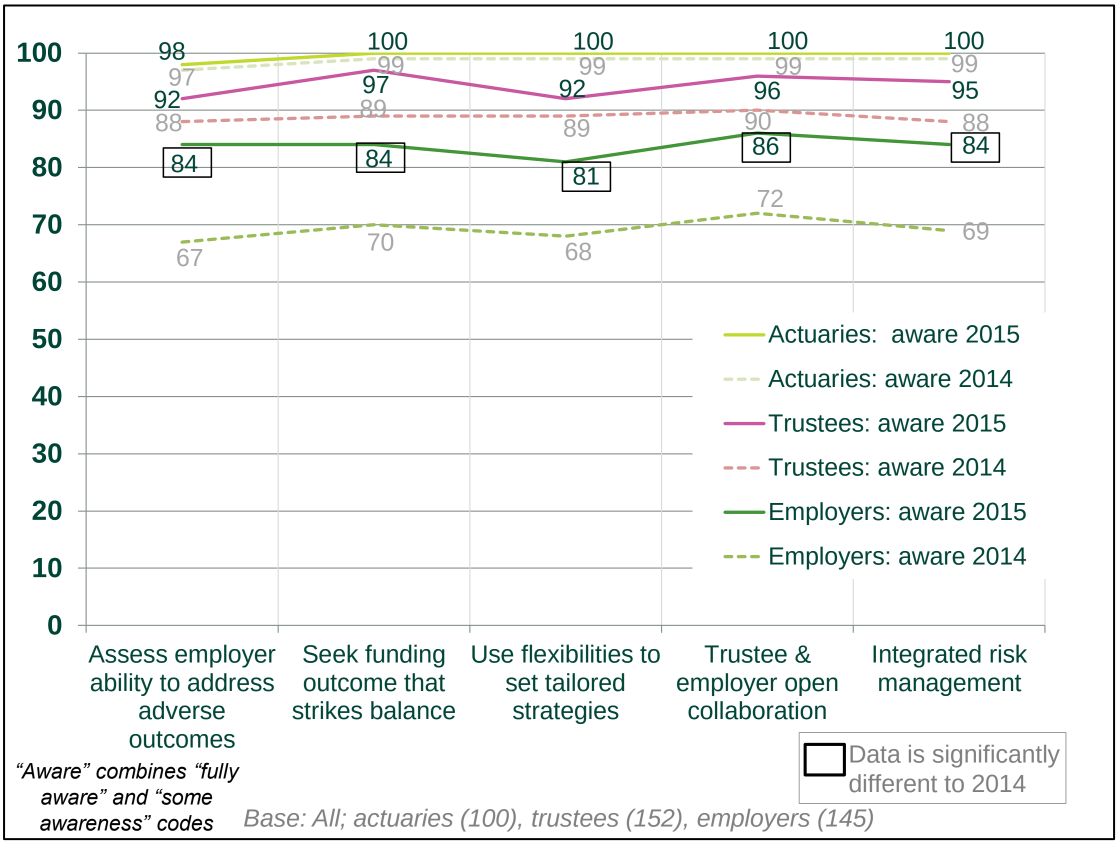
Table 3.8.1 shows the 10 messages that were tested for awareness and understanding in this year's survey. The first five messages were tested in the 2014 survey; the second five messages were new in 2015 and new in this year's survey.

Table 3.8.1: Key messages in DB code, related guidance and other material

	Messages in publications from the regulator
Key messages asked in both 2014 and 2015 survey	Trustees are expected to assess the ability of the employer to address a range of likely adverse outcomes over an appropriate period
	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 can use the flexibilities available in the funding regime to set funding strategies that are appropriately tailored to the scheme's and employer's circumstances
	Trustees and employers should engage in an open, collaborative and transparent manner
	Trustees are expected to manage scheme funding, scheme investments and employer covenant in an integrated way
New messages in 2015	Schemes with more limited capacity to take additional risk should seek higher deficit repair contributions (DRCs) with a view to maintaining the same recovery plan end date
	Schemes with capacity to take additional risk should be able to address their deficit through a greater use of the flexibilities available in the regime
	The regulator anticipates that most schemes will set funding strategies based on lower expected investment returns than at their last valuation
	Trustees allowing gilt reversion should consider the impact that their assumptions not being borne out has on the scheme's funding
	Where employer affordability is constrained, trustees need to explore other ways of mitigating risks and where this is not possible, make sure a robust monitoring framework is in place

Figure 3.8.1 shows the proportion of actuaries, trustees and employers, aware of each of the five key messages in 2015 (including those 'fully aware' and those with 'some awareness'. The lighter, dotted line shows the proportion that were fully aware in 2014.

Figure 3.8.1: Awareness of the key messages



All actuaries were aware of each of the five key messages, with the exception of the message 'trustees are expected to assess the ability of the employer to address a range of likely adverse outcomes over an appropriate period', where awareness was almost all actuaries (98%). Actuaries' awareness of the key messages was unchanged from 2014.

Trustees' awareness of the key messages also remained in line with 2014, and was highest for the following messages:

- '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' (97% aware).
- 'Trustees and employers should engage in an open, collaborative and transparent manner' (96% aware).
- 'Trustees are expected to manage scheme funding, scheme investments and employer covenant in an integrated way' (95% aware).

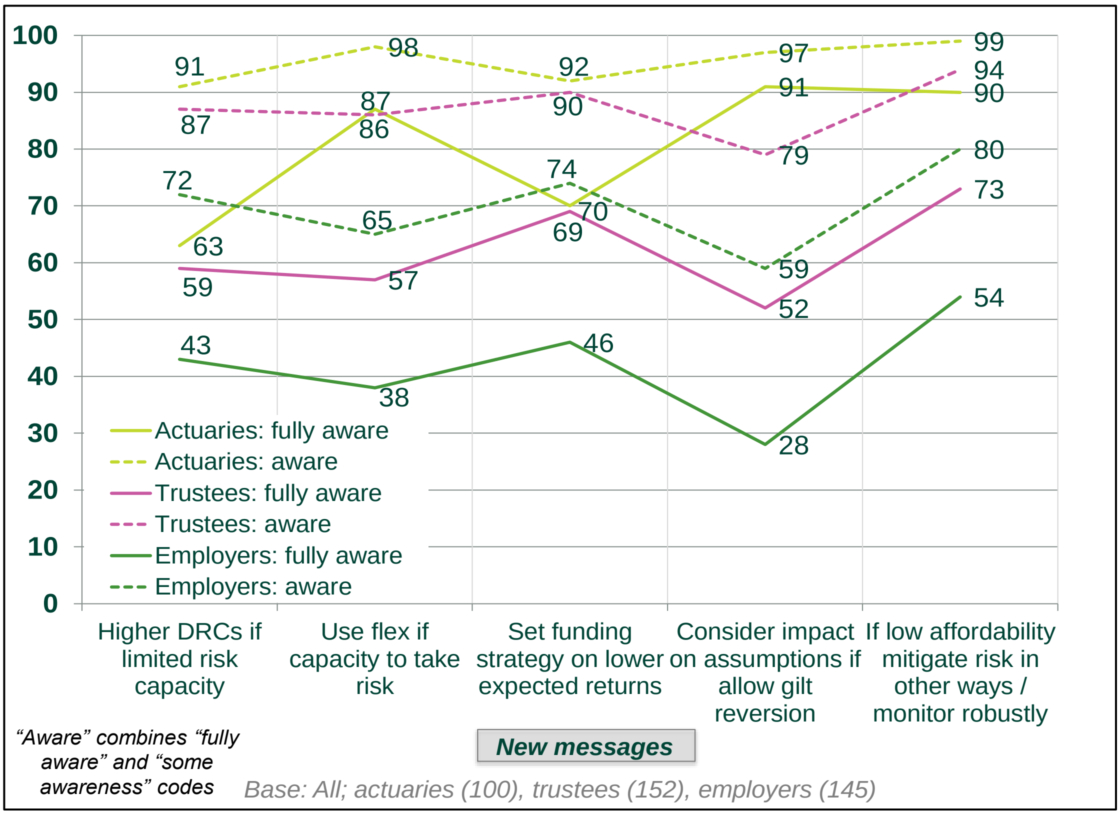
Employers' awareness of the key messages was lower than actuaries and trustees, although was significantly improved from 2014 on all of the key messages. Employer awareness was highest for the messages ‘trustees and employers should engage in an open, collaborative and transparent manner’ (86%) and ‘trustees are expected to manage scheme funding, scheme investments and employer covenant in an integrated way’ (84%).

For employers, the average awareness score[9] has increased from 69% in 2014 to 84% in 2015. For actuaries and trustees, the average awareness score is not statistically different from 2014.

In addition to the five key messages, awareness of five new messages was also tested (outlined in Table 3.8.1). Figure 3.8.2 shows the proportion of actuaries, trustees and employers that were fully aware and aware (including ‘fully aware’ and ‘some awareness’) of each of the new messages. Compared to the key messages, awareness of these messages was generally lower.

Awareness was highest for the message ‘Where employer affordability is constrained, trustees need to explore other ways of mitigating risks and where this is not possible, make sure a robust monitoring framework is in place’, with 99% of actuaries, 94% of trustees and 80% of employers either fully aware or with some awareness of this. Conversely, awareness of the message ‘trustees allowing gilt reversion should consider the impact that their assumptions not being borne out has on the scheme’s funding’ was the lowest among trustees and employers (with 52% of trustees and 28% of employers fully aware of this message).

Figure 3.8.2: Awareness of the new messages



[9] Average awareness’ is calculated by summing awareness of each of the five messages and dividing by the number of messages (five in this case)

3.8.2 Understanding of key messages

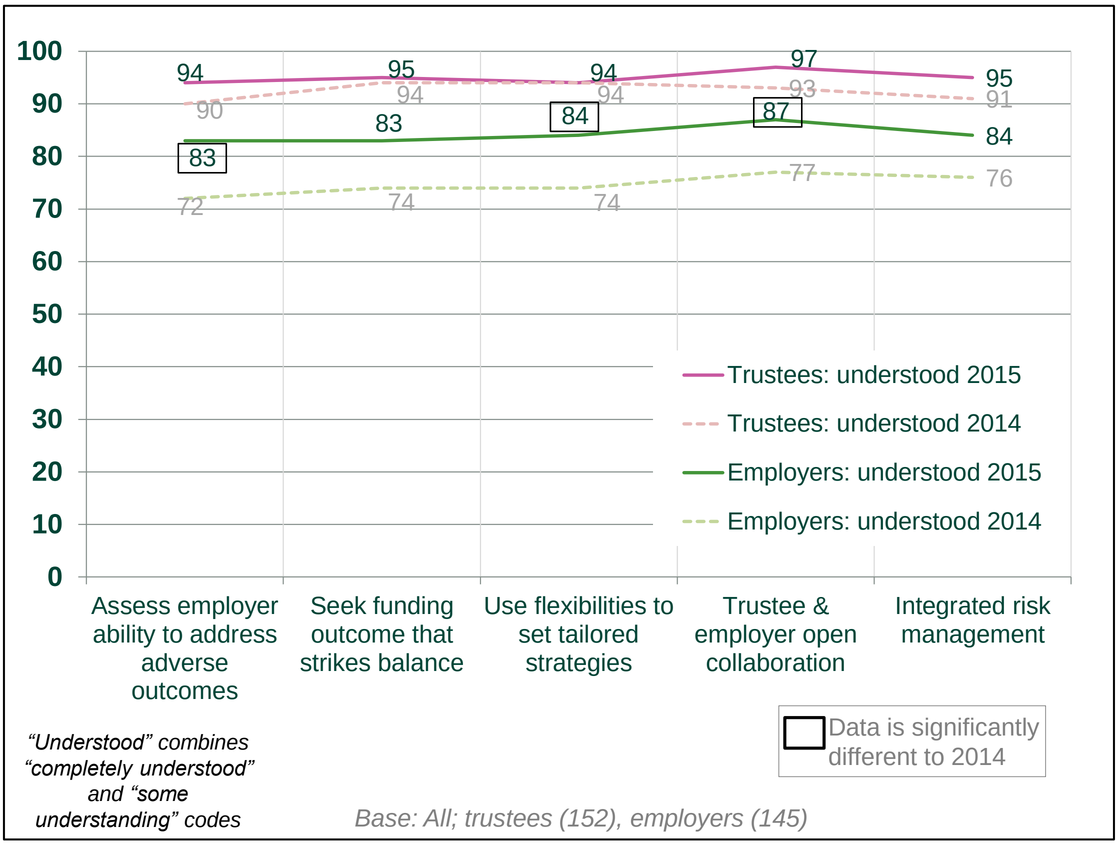
Trustees and employers were also asked to rate their understanding of the five key messages and the five new messages.

Figure 3.8.3 shows that understanding of the key messages among trustees remained high, with more than nine in ten trustees understanding each of the key messages, in line with 2014.

Understanding among employers, however, has increased since 2014 for the following messages:

- 'Trustees are expected to assess the ability of the employer to address a range of likely adverse outcomes over an appropriate period' (83% compared to 72% in 2014).
- 'Trustees can use the flexibilities available in the funding regime to set funding strategies that are appropriately tailored to the scheme's and employer's circumstances' (84% compared to 74% in 2014).
- 'Trustees and employers should engage in an open, collaborative and transparent manner' (87% compared to 77% in 2014).

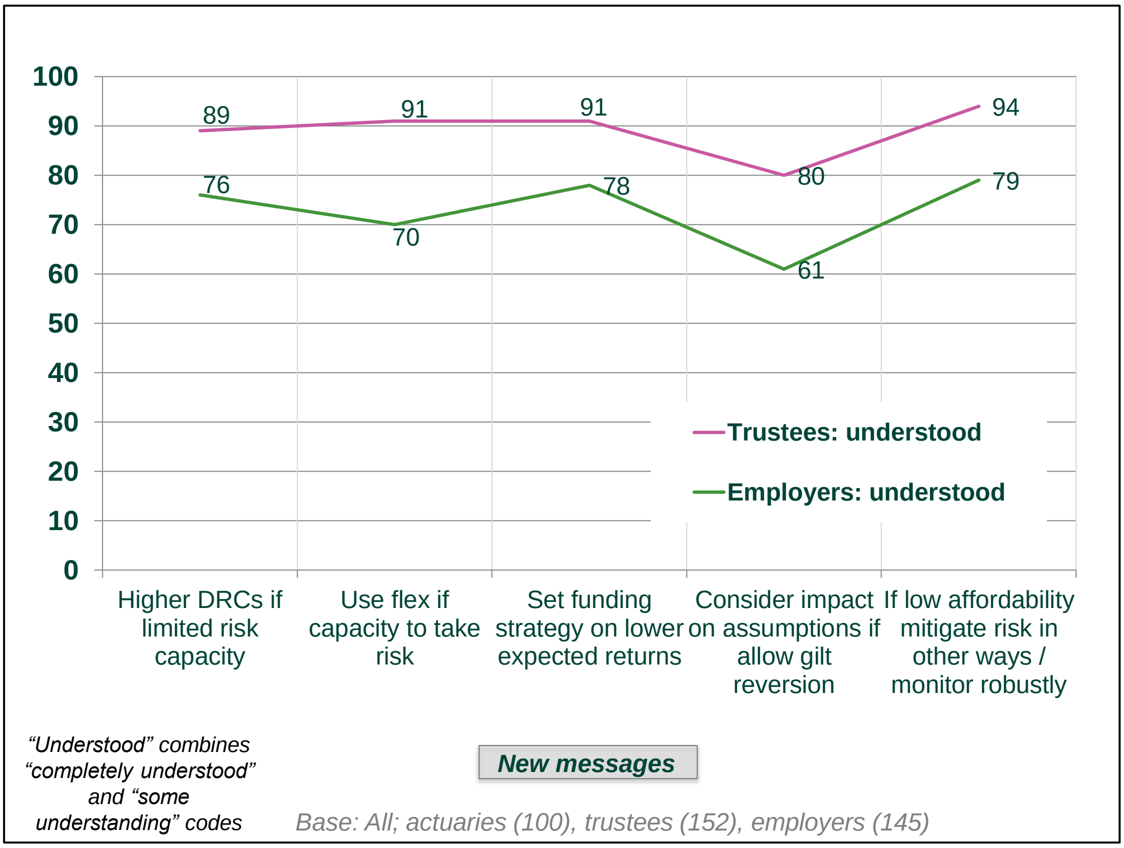
Figure 3.8.3: Understanding of the key messages



The average understanding of the key messages among trustees was 95%, in line with 92% in 2014. Average understanding on the key messages among employers has increased to 84%, up from 75% in 2014.

As with awareness, understanding of the new messages was lower than for the key messages. Figure 3.8.4 shows the proportion of trustees and employers that understood each of the new messages, and shows that understanding was lowest on the new message ‘trustees allowing gilt reversion should consider the impact that their assumptions not being borne out has on the scheme’s funding’ (80% of trustees and 61% of employers understood this message).

Figure 3.8.4: Understanding of the new messages



3.9. Integrated risk management

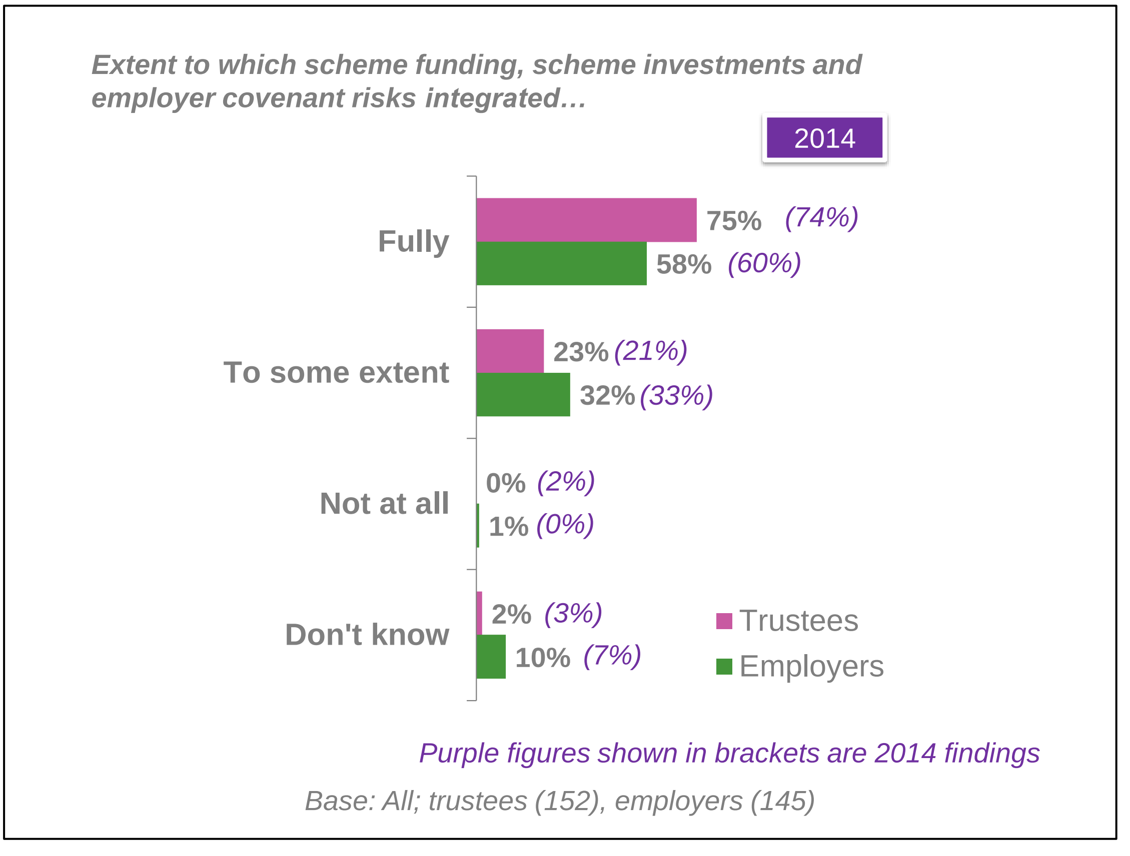
3.9.1 Self-reported integrated risk management

Three quarters of trustees (75%) said that scheme funding, scheme investments and employer covenant risks were fully integrated, and a further 23% said they were integrated to some extent (Figure 3.9.1).

Also in line with 2014, slightly fewer employers felt that scheme funding, scheme investments and employer covenant risks were fully integrated (58%), with 32% reporting they were integrated to some extent. These figures are also in line with 2014.

Trustees associated with hybrid schemes were more likely to report that all three risks were fully integrated (86% compared to 70% of trustees associated with DB schemes).

Figure 3.9.1: Self-reported risk management



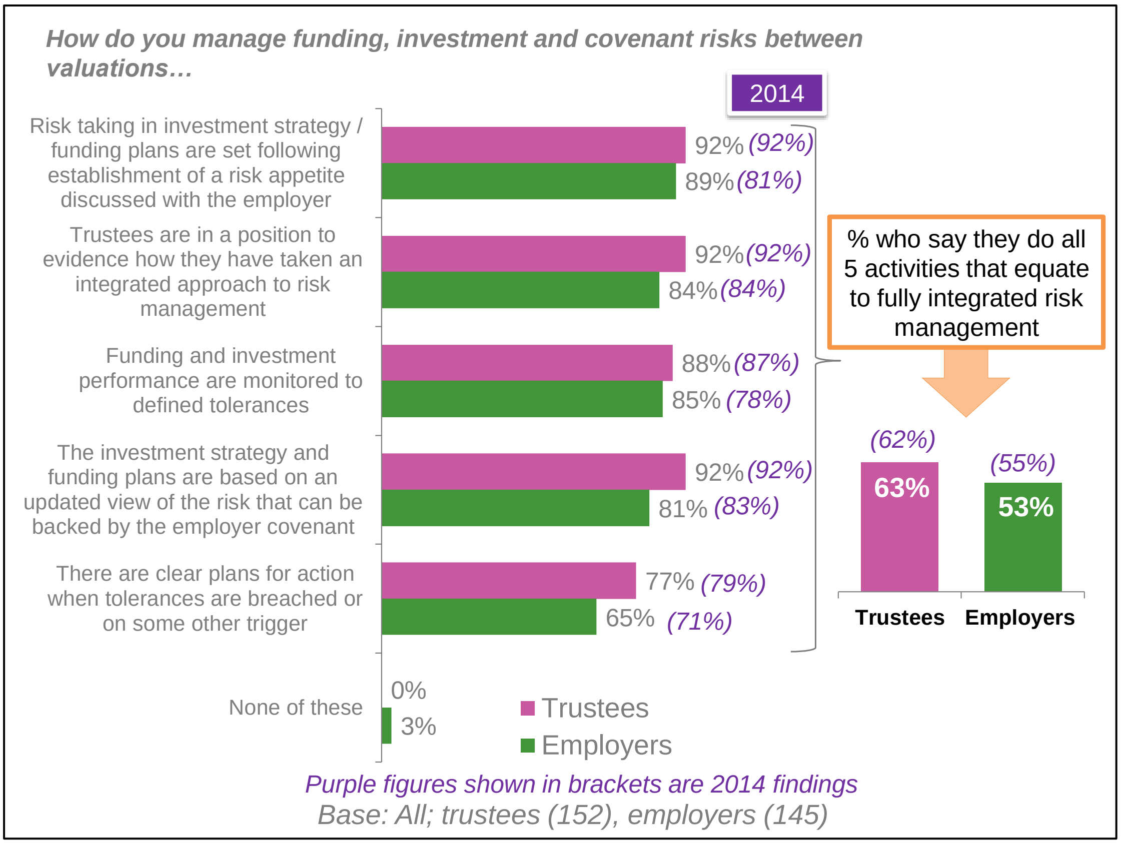
3.9.2 Activities undertaken in relation to integrated risk management

Trustees and employers were also asked if they had undertaken a number of activities in relation to managing funding, investment and covenant risks between valuations. Figure 3.9.2 shows the proportion that had undertaken each activity.

'Risk taking in the investment strategy and funding plans are set following establishment of a risk appetite discussed with the employer' was the most frequently conducted activity (92% of trustees and 89% employers), closely followed by ‘trustees being in a position to evidence how they have taken an integrated approach to risk management’ (92% trustees and 84% employers). More than eight in ten trustees and employers also said that ‘funding and investment performance is monitored to defined tolerances’ (88% trustees and 85% employers) and that ‘the investment strategy and funding plans are based on an updated view of the risk that can be backed by the employer covenant’ (92% trustees and 81% employers). The activity undertaken least was ‘having clear plans for action when tolerances are breached or on some other trigger’ (77% trustees and 65% employers).

The proportion of trustees and employers doing each of these activities remains in line with 2014.

Figure 3.9.2: Activities undertaken in relation to integrated risk management



Just under two thirds (63%) of trustees had undertaken all five activities. This remains in line with 2014, when 62% of trustees said they did all five activities.

The proportion of employers who had undertaken all five activities in relation to managing risks also remained in line with 2014 (53% compared to 55% in 2014).

Appendix I – fieldwork outcomes

Overall, a response rate of 18% was achieved; this comprised a 33% response rate among actuaries, 18% response rate among trustees and 14% response rate among employers. Table A1 details the fieldwork outcomes by audience.

Table A1: Fieldwork outcomes and response rate

	Actuaries		Trustees		Employers	
	Sample record	%	Sample record	%	Sample record	%
Total starting sample	327	100%	926	100%	1,247	100%
Unobtainable (including dead line, company closed, fax number, residential number, wrong number)	21	6%	25	3%	188	15%
Out of scope – screened out	2	1%	55	6%	18	1%
Total unusable	23	7%	80	9%	206	17%
Total sample not unobtainable or known to be ineligible	304	100%	846	100%	1,041	100%
Repeated attempts at calling didn't yield interview	132	43%	535	63%	328	32%
No one available at site to take part	5	2%	28	3%	140	13%
Not available during fieldwork	4	1%	10	1%	87	8%
Refused	63	21%	119	14%	341	33%
Complete interview (response rate)	**100**	**33%**	**153**	**18%**	**145**	**14%**