

## PREMIER PENSIONS MANAGEMENT

### LEGISLATION UPDATE : 14/06

#### Funding of Defined Benefit Plans

The Regulator published its final statement on how it will regulate the funding of Defined Benefit Plans on 4 May 2006.

This paper is a brief summary of the statement.

#### 1. Trigger Mechanisms

- The Pensions Regulator (“TPR”) will use “trigger mechanisms” to manage its workload, they are NOT funding targets.
- TPR will focus on schemes most likely to pose a risk to the security of member’s benefits or entry into the Pension Protection Fund (“PPF”).
- TPR triggers remain based on the value placed on the liabilities (technical provisions) and the deficit correction proposals (the “Recovery Plan”).
- The primary triggers will now be FRS17/IAS19 and PPF liabilities instead of 70% to 80% of the buy-out cost.
- If a trigger is breached TPR’s reaction will depend upon the maturity of the scheme and the strength of the Employer covenant. A mature scheme with a weak Employer will likely trigger an enquiry, for example:
- Recovery Plans will be queried if longer than 10 years. Credit may be taken in the Recovery Plan for performance of assets in excess of the prudent assumptions used to determine the value of the technical provisions.
- TPR will look out for “inappropriate assumptions” underlying the Recovery Plan, especially investment returns.
- FRS17/IAS19 and PPF will not be suitable as funding targets.

#### 2. Monitoring

- TPR’s primary focus will be to ensure that technical provisions are being calculated PRUDENTLY regardless of the Employers ability to meet the deficit.
- More flexibility will be allowed in the Recovery Plan.

#### 3. Action

- If a scheme triggers, TPR will request further information e.g. accounts, minute books. One purpose is to ensure the Trustees have followed due process and taken appropriate advice in determining the assumptions to be adopted in calculating the technical provisions.

- Further assessment will be used to identify schemes where Trustees have made imprudent or inappropriate finding decisions, which TPR may then act upon.

The information in this bulletin is generic and is not advice. You should contact your professional advisers for guidance on any issues raised by the change in TPR's approach.

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