Broadstone

Statement of Strategy

Meat on the bones

March 2024

Introduction

As part of the new defined benefit funding regime (which is finally trundling slowly forwards), the Statement of Strategy is one of the more substantial new elements that trustees, sponsors and advisers will need to get to grips with. The regulations for the new regime arrived earlier in the year and will apply to actuarial valuations with an effective date on or after 22 September 2024.

The Pensions Regulator has recently launched a consultation on the content of the Statement of Strategy – also known as SoS (no smirking at the back) – and provided an example. This summary picks out the key points, and our initial views on the good and bad parts therein.

Statement of Strategy – a summary

The statement comes in two main parts:

- Part one sets out the Trustees' Funding and Investment Strategy and must be agreed with the employer.
- Part two covers what is known as the "supplementary matters" and only requires consultation, not agreement, from the employer. This part will include an assessment by the Trustees of the strategy, risks to implementation and important information relating to the three key areas of funding, investment and covenant.

When would it be prepared?

This would always be prepared (and submitted) at the end of an actuarial valuation process and includes lots of the management information that the Regulator is keen to collect as part of this process. However, it also needs to be reviewed and potentially revised following any material change for the Scheme, whether this relates to funding, investment or covenant. The statement needs to be signed by the Chair of Trustees.

Template statements

The regulations require Trustees to provide the information in a standard format, so the Statement will be generated using a template provided by the Pensions Regulator. It is not currently clear how this statement will be populated and we will continue to push for this to be as simple and efficient as possible.

One example of the resultant SoS has been included but there will be four templates in total - to cover schemes that are using a 'fast track' or 'bespoke' approach, either before or after their maturity date.

What details will be included?

Part 1	
Long-term objective	*Journey plan*
Funding strategy	*Key assumptions (outline)*
Investment strategy	

Part 2	
Trustees' assessment	– how successful has the strategy been
Actuarial reporting	– summary of the actuarial valuation and other data
Investment information	– further details of the investment strategy
Employer covenant	– trustees' assessment and the information used in making that assessment.

It should be noted that there is to be a significant raising of the bar in relation to employer covenant reporting, with more detailed assessments expected and numeric outputs needing to be submitted for scrutiny, rather than just a broad conclusion.

Emphasis is placed on justifying investment risk based on the maturity of the scheme and how long trustees have confidence in the employer's financial cash flow projections and prospects. Further guidance on employer covenant assessment will be included in both the funding code and additional employer covenant guidance.

Timeline

While the regulations will come into force on 6 April 2024, we are still awaiting a huge amount of critical detail for implementing the new funding regime. The defined benefit funding code is due to be laid in the summer with extensive covenant guidance (perhaps in draft form) expected at a similar time and the Regulator acknowledges that this SoS will need further refinement for consistency with these elements.

This looks set to give us all plenty of poolside reading and hopefully a clearer understanding of where the final lines have been drawn on 'significant maturity', 'fast track/bespoke regulation' as well as detailed actuarial elements. Those with valuations shortly after 22 September 2024 (when the new regime comes into force) may have a lot of work to do in a relatively short period of time.

Broadstone Comment

There are no great surprises within the consultation. We are pleased to see some thought is being given to trying to allow proportionate responses and identifying areas where information may not be needed, or duplication of reporting can be avoided. However, we think this could go further.

There is still a lot of extra work involved and while we acknowledge this will provide significant amounts of additional (hopefully valuable) information to the Regulator to improve their understanding of the state of the industry, a read of the template makes it questionable how much benefit trustees and sponsors will derive from this document.

Certainly, the stated objective of this being a 'useful long-term planning and risk management tool for trustees' that will 'support better and clearer communications to members' looks to be some way off at this stage. There is also a danger that some trustees and employers will be wary of overcommitting in the document, leading to a record that is not a completely true reflection of the expected evolution of the scheme and its strategy.

We expect these to be key themes of our consultation response in terms of trying to make this new document more readable and beneficial to trustees and employers and encouraging genuine exploration of the underlying strategic issues.

We will also continue to question whether the full volume of data being requested is really needed, particularly on smaller schemes where proportionate regulation (and resource constraints) suggests we are still less likely to see detailed intervention.

Please get in touch if you have any questions, or any strong views for potential inclusion in our consultation response.

Find out more

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