

# The Pensions Brief

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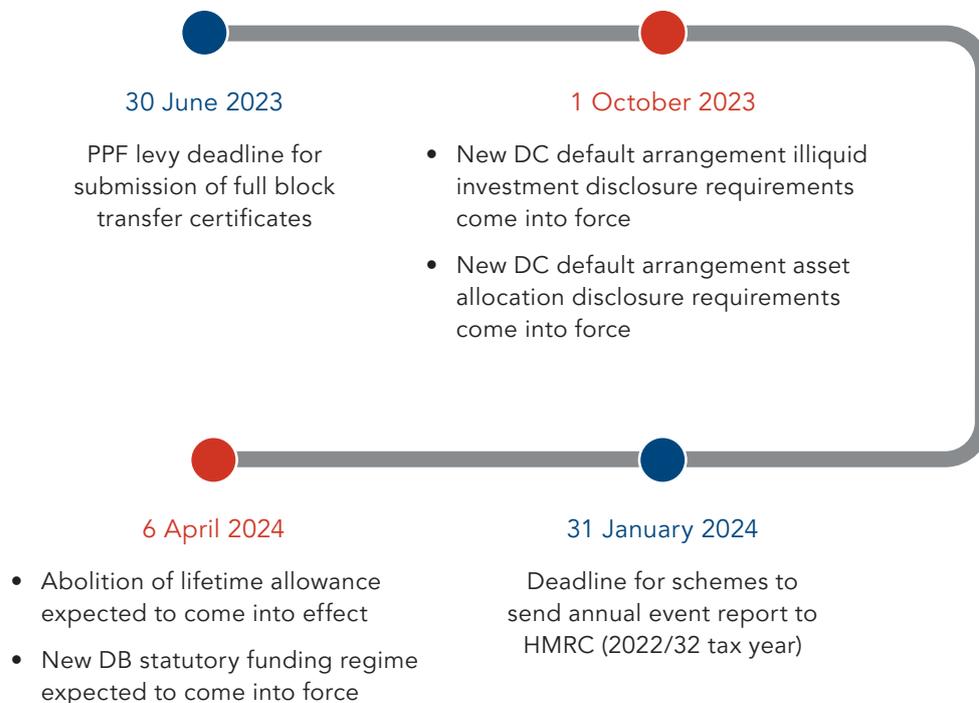
2023 Pensions Regulator annual funding statement

▲ Action required

▲ Follow development and keep under review



## Dates to note over the next 12 months



Key:

- Important dates to note
- For information

## Issues affecting all schemes

### Pensions dashboards – FAQs

The Pensions Dashboard Programme has published FAQs on:

- [Reporting AVC information](#) to dashboards. These cover:
  - » Whether the main scheme or the AVC provider is responsible for returning AVC data.
  - » The use of “pension links” to connect different benefit tranches where a member has more than one benefit type under a scheme.
  - » The choices for schemes with separate AVCs or with split benefit administration in relation to returning AVC data.
- The [dashboards identity service](#). These cover:
  - » The role of the identity service.
  - » How the identity service fits within the user’s dashboard journey.
  - » Whether the user will have to verify their identity again if they return to use the dashboard.
  - » What personal information the identity service verifies.
  - » Whether the user will need to recomplete the identity verification process if they are accessing a dashboard via another relationship such as their bank or pension provider.
  - » How the identity service will deal with overseas users who have savings in a UK registered pension scheme.

#### Action

No action required, but trustees and administrators may find the FAQs helpful in their pensions dashboards planning.

### ESG reporting – Pensions Regulator blog post

The Pensions Regulator has published a [blog post](#) on the need for trustees to improve their compliance with their ESG and climate change reporting duties. The post covers:

- The Regulator’s recently launched campaign to make sure trustees are publishing their statement of investment principles and implementation statements.
- The Regulator’s recently published review of the first climate change reports.
- The Regulator’s views on how climate change scenario analysis should be conducted.
- The benefits of trustees putting climate change action plans in place.

#### Action

No action required, but trustees may find the post helpful when considering compliance with their ESG and climate change reporting duties.



### Digital engagement – industry guidance

The Pensions Administration Standards Association has published guidance for schemes on developing an engagement strategy as part of a successful digital programme. The guidance sets out the minimum expected standards and suggested improvements for six key areas:

- Creating an emotional connection.
- Creativity.
- Relevant and current.
- Inclusive and accessible.
- Making it easy.
- Continuing to measure and learn.

#### *Action*

No action required, but trustees and administrators may find the guidance helpful when considering member engagement.

## Issues affecting DB schemes

### Liability-driven investment – Pensions Regulator guidance

The Pensions Regulator has published [guidance](#) setting out practical steps for trustees of DB pension schemes to manage risks when using leveraged liability-driven investment (LDI). It covers the following areas:

- Where leveraged LDI fits within the scheme's investment strategy.
- Operating and maintaining a collateral buffer.
- Testing the resilience of leveraged LDI arrangements to market volatility.
- Ensuring that appropriate investment governance processes are in place.
- Monitoring leveraged LDI arrangements.

The guidance replaces the Regulator's October and November 2022 statements on managing LDI-related risk and maintaining LDI resilience in light of the autumn 2022 gilt market volatility. The guidance follows the Bank of England's Financial Policy Committee's March 2023 recommendation that the Regulator should specify a minimum level of resilience for leveraged LDI arrangements in which trustees invest. For more information, please see our [legal update](#).

#### Action

Trustees with leveraged LDI arrangements should review the guidance and consider what changes they may need to make to their investment and governance arrangements. Trustees should take advice from their investment adviser and, where relevant, their other advisers in this respect.

### DB funding – Pensions Regulator annual funding statement

The Pensions Regulator has published its 2023 [annual funding statement](#) which is targeted at schemes undergoing valuations with effective dates between 22 September 2022 and 21 September 2023. It is also relevant to schemes undergoing significant changes that require a review of their funding and risk strategies and schemes that may be receiving requests for reduced contributions, amendments to contingent asset arrangements, and proposals for other uses of surplus. The statement's key messages include the following:

- Most schemes have improved funding levels. Trustees should consider if their long-term funding target remains appropriate, whether buy-out is viable, or whether to examine other endgame options.
- If funding levels have improved significantly, trustees should consider whether it is appropriate to continue with the existing strategy and level of risk. If it is not, they should adopt a less risky strategy designed for a smoother and more predictable transition to their long-term funding target.
- Funding levels have fallen for a small number of schemes. They need to reset their funding and investment strategies to reach their long-term funding target and should review their operational governance processes to ensure future resilience.
- The level of risk that trustees decide to build into their scheme's funding and investment strategies should be supported by the available employer covenant support. Trustees should consider obtaining independent specialist covenant assessment advice to help them, particularly where the covenant is complex or deteriorating, or if it has been materially affected by recent market events.

The statement also confirms that the Regulator now expects the legislation on the new funding and investment strategy requirements and the new DB funding code to come into force in April 2024. The existing code and legislative requirements remain in place until then.

For more information, please see our [legal update](#).

### **Action**

Trustees and employers of schemes that are currently undergoing a valuation, reviewing their funding strategy or receiving requests for reduced contributions, amendments to contingent asset arrangements, and proposals for other uses of surplus should review the statement and take it into account in their funding discussions. Trustees and employers of other schemes may also wish to review the statement.

## Mayer Brown news

### Upcoming events

For more information or to book a place, please contact [Katherine Carter](#).

- **Trustee Foundation Course**
  - 7 June 2023
  - 6 September 2023
  - 6 December 2023
- **Trustee Building Blocks Classes**
  - 17 May 2023 – [DC governance](#)
  - 8 November 2023 – Pensions dashboards
- **Quarterly webinars**
  - 28 June 2023 – topic TBC
  - 27 September 2023 – topic TBC
  - 13 December 2023 – topic TBC

### Mayer Brown legal updates

- [Pensions Regulator guidance – using leveraged liability-driven investment](#)
- [DB funding – Pensions Regulator 2023 annual funding statement](#)

Our legal updates from the last three months are available [here](#).

Please speak to your usual contact in the Pensions Group if you have any questions on any of the issues in this Brief.

For more information about the Pensions Group, please contact:



**Ian Wright**

Co-Head of Pensions, London  
E: [iwright@mayerbrown.com](mailto:iwright@mayerbrown.com)  
T: +44 20 3130 3417



**Jay Doraisamy**

Co-Head of Pensions, London  
E: [jdoraisamy@mayerbrown.com](mailto:jdoraisamy@mayerbrown.com)  
T: +44 20 3130 3031



**Andrew Block**

Partner, Pensions, London  
E: [ablock@mayerbrown.com](mailto:ablock@mayerbrown.com)  
T: +44 20 3130 3366

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