

Video transcript: The defined benefit funding code of practice – A quick guide for employers

Hello. My name is Fiona Frobisher and I am the head of DB policy at The Pensions Regulator.

We recently published a quick guide for employers, which covers the key messages you should be aware of in our DB funding code of practice. We thought it would be a useful reminder ahead of our forthcoming guidance on assessing and monitoring the employer covenant.

I'm just going to go through some of the key points here.

Employers offer vital support for the scheme to pay promised benefits to its members.

The code emphasises that the best support for a well run scheme is to have a strong ongoing employer as well as an appropriate funding plan. We recognise that DB schemes can represent significant liabilities for their employers, so you'll want to understand how they are managed by the trustees.

One of the first things to remember is that trustees and employers need to work together in an open and transparent way to reach funding solutions which balance the needs of both parties.

Engaging at an early point and working together will enable trustees to understand your circumstances and what kind of risk appetite you have. This will inform the trustees thinking when they consider appropriate investment and funding strategies.

You'll need to provide trustees and their advisers with the information they need to carry out their duties, including, where relevant, any sustainable growth plans.

We're not expecting trustees to be involved in your business decisions but it is important that trustees understand your circumstances so they can best use the flexibilities in the funding regime.

In setting a funding plan the key issue is to understand and manage risk.

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We're not asking schemes to remove all risks. Some risk-taking - most obviously through investment strategies - can lead to rewards which will go towards meeting the promises to members. However, it is important both to the scheme and to you as the employer that underwrites these risks that they are understood and managed.

Trustees should share with you the range of likely adverse outcomes which could lead to additional contributions being required, for example poor investment performance, changes in interest rates, inflation or mortality rates.

Together you can discuss potential solutions which will enable prompt action to be taken to address these outcomes should any arise.

We want to see a balanced approach to reaching funding targets.

Where you are not able to afford the deficit contributions the scheme needs to keep the risks at manageable levels, you should expect a higher level of scrutiny from trustees and also exploration of whether there are other forms of security to mitigate some of these risks to the scheme. But remember - the degree of trustee scrutiny should be proportionate to the level and complexity of risk, so simpler funding strategies may need less examination.

Our code recognises how important it is for you to invest in your business to enable you to grow and fulfil your obligations and that strengthening the sponsoring employer can benefit the scheme.

The funding regime is scheme specific and highly flexible so that together you and the trustees can tailor an appropriate funding strategy which in most cases will enable you to support the scheme and invest in your business growth.

You can find out more about [this](#) on our website.

Thanks for listening.