

# Research report on The Pensions Regulator's 2012 scheme funding statement

A summary of research findings relating to  
The Pensions Regulator's statement **Pension**  
scheme funding in the current environment.

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# Executive summary

## Introduction

This document provides the main findings from research that The Pensions Regulator (the regulator) conducted following the publication of the regulator's 2012 April scheme funding statement.

On 27 April 2012, the regulator published its first annual funding statement setting out the regulator's views on acceptable approaches to the valuation process in the current economic environment in order to protect members' benefits without undermining the viability of employers, whose support is vital to pension schemes.

It was aimed at trustees and employers of defined benefit (DB) pension schemes who are undertaking their scheme valuations with effective dates in the period September 2011 to September 2012, as well as advisers supporting these trustees and employers.

Given that the annual funding statement was the first of its type, the regulator conducted research after its publication and the campaign supporting it in order to investigate whether the messages in the statement were reaching the intended audience and were being understood. The research also sought to understand to what extent schemes intended to apply the flexibilities in the funding framework and produce a valuation that was consistent with the regulator's expectations.

The research carried out comprised exploratory qualitative research among trustees, employers and actuaries followed by structured quantitative interviews among the three audiences.

## Awareness and engagement with the statement

Unprompted awareness of the statement amongst actuaries was high (88%) but it was lower among employers (43%) and trustees (38%).

Prompted awareness was high across all audiences, actuaries (100%), employers (79%) and trustees (93%).

There were some criticisms from actuaries about the time lag between announcing that there would be a statement to its publication, as they reported that this delayed progress on valuations and allowed expectations to be raised about what the statement would contain.

Nearly all actuaries interviewed (93%) read the statement in detail.

Most circulated a copy and commentary to clients and included it as an agenda item in meetings with trustees.

Just under half (45%) of employers and trustees read the statement in detail. Two fifths (42%) of trustees who had not yet read the statement reported that they would read it in detail in due course. Fewer employers – 27% – said this.

The qualitative research revealed that lay trustees of medium and small schemes are less likely to have read the statement in detail and are more likely to read a short summary from their adviser. Similarly, employers are also more likely to read a summary from their adviser and will rely on advisers to take the messages into account in the development of the scheme valuation.

## Overall perceptions of the statement

The statement was rated positively overall by trustees, employers and actuaries alike, with the proportion rating as 'good' or 'very good' being 72%, 55% and 59% respectively. Slightly higher proportions of trustees and employers (75%) rated the statement as helpful while two thirds (68%) of actuaries did so.

There was a positive reaction to the style and tone of the document, although a minority of employers (11%) felt that it was not pitched at the right level for them.

The qualitative research identified that generally the statement was perceived as useful as it states the regulator's position clearly and that without such a statement there would be more scope for argument about the basis of valuations and the artificiality of the current gilt yields.

Trustees who saw the statement as helpful pointed to the fact that it strengthened their position in their negotiations, particularly with strong employers. However, a significant minority of each audience felt the statement was unhelpful<sup>1</sup>: a third of actuaries (32%) and quarter of employers (23%) and trustees (25%). Moreover, a significant minority criticised it for not being evidence-based (25% of actuaries and 15% of employers).

The main reasons respondents believed the statement was not helpful were; that it was not seen as offering anything new; it does not consider all scheme circumstances and gives an unrealistic view of the economic situation. Others cited the fact that it would not affect their decisions regarding their scheme valuation.

The full findings with respect to the rating of the perceived helpfulness of the statement and reasons why it was not seen as helpful are provided in the Appendix on pages 12 and 13 (Figures 2 and 3).

## Understanding of the statement's key messages

The majority of the messages were understood by employers and trustees<sup>2</sup>. Three fifths of trustees (58%) and half (49%) of employers claim they understood all 10 messages. On average across the 10 key messages in the statement, 85% of employers and 89% of trustees had at least some understanding of the meaning of the messages.

The full findings of this survey question are provided in the Appendix on page 10 (Figure 1).

<sup>1</sup> Caution: low base size.

<sup>2</sup> Actuaries were not asked this question.

## Planned use of the flexibilities set out in the statement

The majority of schemes and employers (85% of employers, 83% of trustees) intended to apply at least one of the seven flexibilities set out in the statement and around half (45% of employers, 48% of trustees) expected to employ three or more.

Of the seven flexibilities, adjusting employer contributions is most likely to be used (59% of trustees, 46% of employers). The full findings of this survey question are provided in the Appendix on page 14 (Figure 4).

Half of actuaries (50%) believed that the application of flexibilities they were advising all of their clients was consistent with the regulator's expectations. A similar proportion (47%) believed that the advice they were giving was mostly consistent. A small minority (3%) reported giving advice inconsistent with the regulator's view to some or all schemes.

## Gilt yield reversion in calculating Technical Provisions

Almost half of actuaries (44%) reported that they would 'definitely not' advise gilt yield reversion for any of the schemes they support, while a third (35%) said they would 'probably not'. On the other hand, 2% would definitely or probably advise reversion for some or all clients, and 5% would probably advise reversion for one or a few clients.

## Appetite for an annual scheme funding statement

There were differing views on whether the regulator should publish a scheme funding statement on an annual basis. Half (49%) of actuaries stated the regulator should publish an annual statement, while an identical proportion said a statement should be published only if there have been significant changes in economic circumstances.

# About this research

## Objectives

The objectives for the qualitative stage of the research were:

- to explore perceptions, understanding of and planned response to the statement
- to identify areas that can be improved further in any further or future statements
- to inform the quantitative phase of the research.

The objectives for the quantitative research were:

- to measure levels of knowledge and understanding of the messages in the statement
- to identify which, if any, flexibilities in the statement each scheme will consider applying
- to ascertain how likely it is that schemes will employ each of the flexibilities
- to determine how helpful the statement has been in enabling the scheme produce an affordable recovery plan and assess the statement in terms of content, length, tone, clarity.

## Methodology

**Burns & Co** was appointed to conduct qualitative research across three audiences (trustees, employers and actuaries) all of which have scheme valuations with effective dates in the period September 2011 to September 2012.

The sample was nationally representative and was spread across all scheme sizes, totaling 68 interviews conducted both face to face and over the telephone. Fieldwork was completed in August and September 2012. Table 1 on page 8 shows the sample design for each of the three audiences.

**Table 1**

Sample design (2012 April scheme funding statement research qualitative: all respondents)

| <b>All associated with Tranche 7 DB and Hybrid schemes</b> |  | <b>Scheme membership 100-999 DB and Hybrid</b> | <b>Scheme membership 1,000-4,999 DB and Hybrid</b> | <b>Scheme membership 5,000+ DB and Hybrid</b> |
|--|--|--|--|---|
| <b>Trustees</b>  | Telephone depths (Those aware)                                     | 5  | 5  | 6   |
|  | Face-to-face (Those who saw statement)                             | 4  | 4  | 5   |
| <b>Employers</b>   | Telephone depths (Those aware)                                     | 4  | 4  | 4   |
|  | Face-to-face (Those who saw statement)                             | 3  | 3  | 3   |
|  |  | <b>Non-participant in webinar</b>              | <b>Participant in webinar</b>                      |   |
| <b>Actuaries</b>   | Telephone depths (Those aware)                                     | 5  | 5  |   |
|  | Face-to-face (Those who received webinar invite and saw statement) | 4  | 4  |   |

Following the completion of the qualitative phase, **IFF Research** was commissioned to conduct the quantitative research. Fieldwork was conducted in November 2012.

Table 2 on page 9 shows the sample design.



**Table 2**

Sample design (2012 April scheme funding statement research quantitative: all respondents)

|                  | <b>Actuaries</b> | <b>Employers</b> | <b>Trustees</b> |
|------------------|------------------|------------------|-----------------|
| Medium (100-999) | 100              | 100              | 50              |
| Large (1,000+)   |                  | 50               | 100             |
| <b>Total</b>     | 100              | 150              | 150             |

Data was weighted to be representative of the trustee and employer universe of scheme valuations with effective dates in the period September 2011 to September 2012. Actuary data was not weighted. Table 3 below shows the weighting profile.

**Table 3**

Weighting profile (2012 April scheme funding statement research quantitative: all respondents)

|                  | <b>Number of schemes</b> | <b>Percentage</b> |
|------------------|--------------------------|-------------------|
| Medium (100-999) | 561                      | 69%               |
| Large (1,000+)   | 252                      | 31%               |
| <b>Total</b>     | 813                      | 100%              |

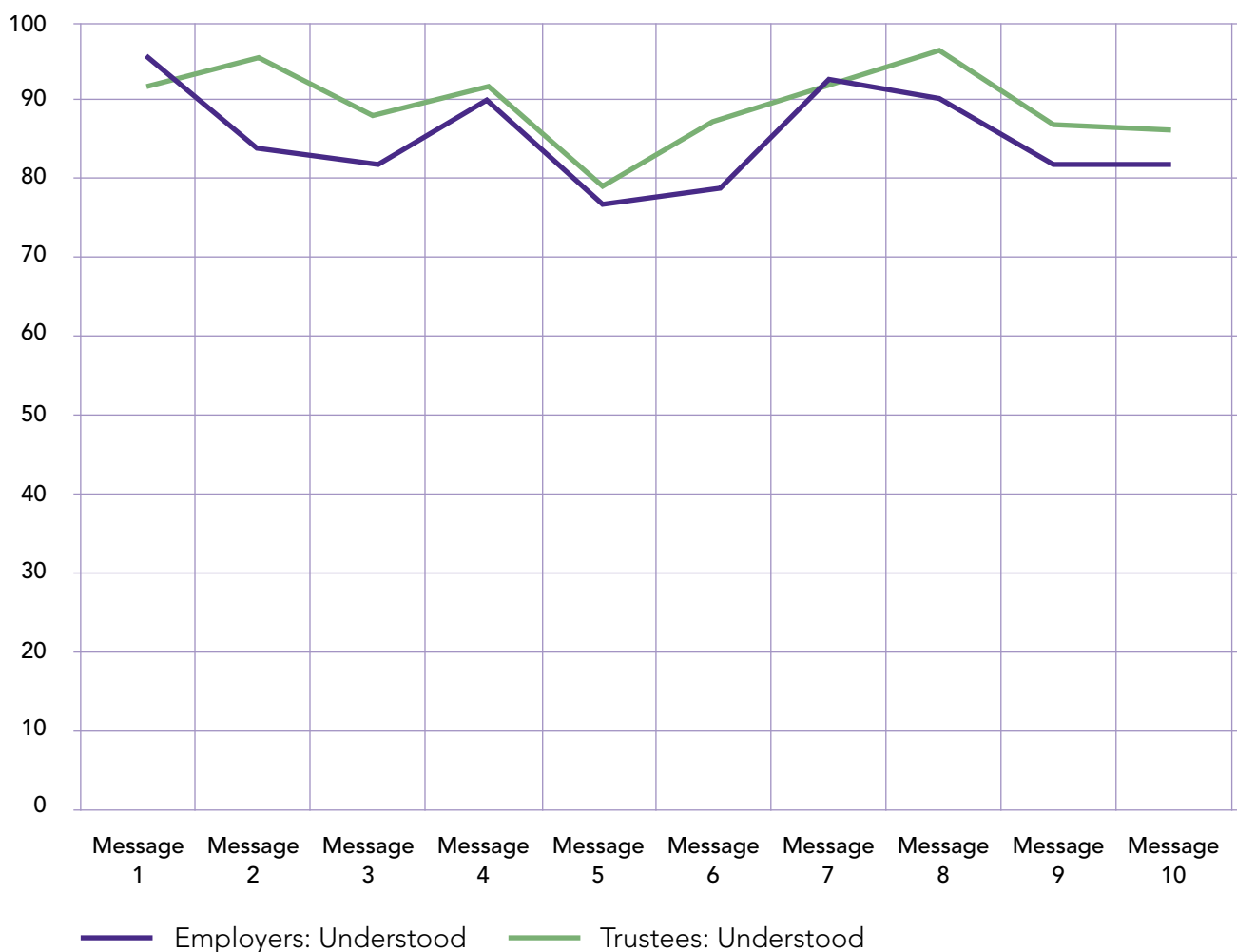
# Appendix

## Full findings with respect to awareness of, engagement with and understanding of the messages in the statement

This section provides more detailed findings from the quantitative research on awareness of, engagement with and understanding of the messages in the statement.

**Figure 1**

Proportion understanding each of the ten key messages in the statement



'Understood' combines 'Completely understood' and 'Had some understanding' codes. **Base:** All those who read the statement and were aware of each of the statements (various bases).

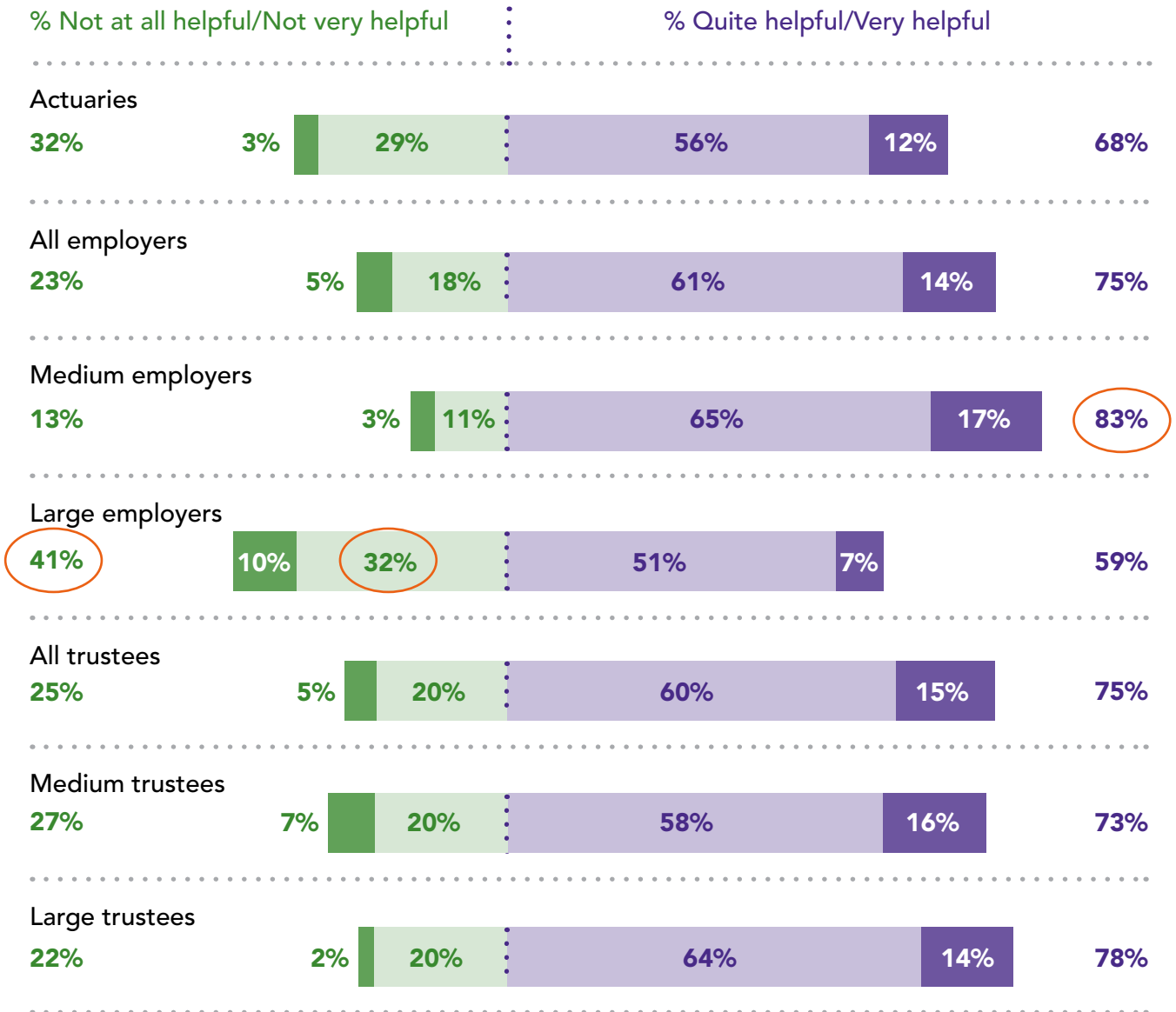
Table 4 on page 11 provides the key for the messages 1 to 10 that were read out to respondents.

- B2. Are you aware that these messages were in the statement published by TPR?
- B3. How clearly do you think TPR communicated each of these messages?
- B4. How good is your understanding of what is meant by this point?

**Table 4**  
Key for messages 1 to 10 in Figure 1

| Message number | Message (which was read out to survey respondents)  |
|----------------|---|
| 1              | It provides TPR's views on acceptable approaches to the valuation process   |
| 2              | There is sufficient flexibility in the funding framework for long-term liabilities to be met  |
| 3              | TPR expects the majority of scheme deficits to be managed within current plans  |
| 4              | TPR expects trustees to manage scheme funding, scheme investments and employer covenant in an integrated way                                    |
| 5              | Investment outperformance should be measured relative to near risk-free investment returns  |
| 6              | Any views on future market conditions should be accommodated in the recovery plan, not in technical provisions.                                 |
| 7              | Recovery plans should be based on what is affordable without compromising the employer's viability  |
| 8              | TPR expects the current levels of deficit repair contribution to be maintained unless there is a change in the employer's ability to meet them. |
| 9              | The pension scheme should be treated as an equal priority with other financial demands  |
| 10             | Only where an employer cannot afford the contributions can a longer recovery plan be considered   |

**Figure 2**  
Rating of the helpfulness of the statement

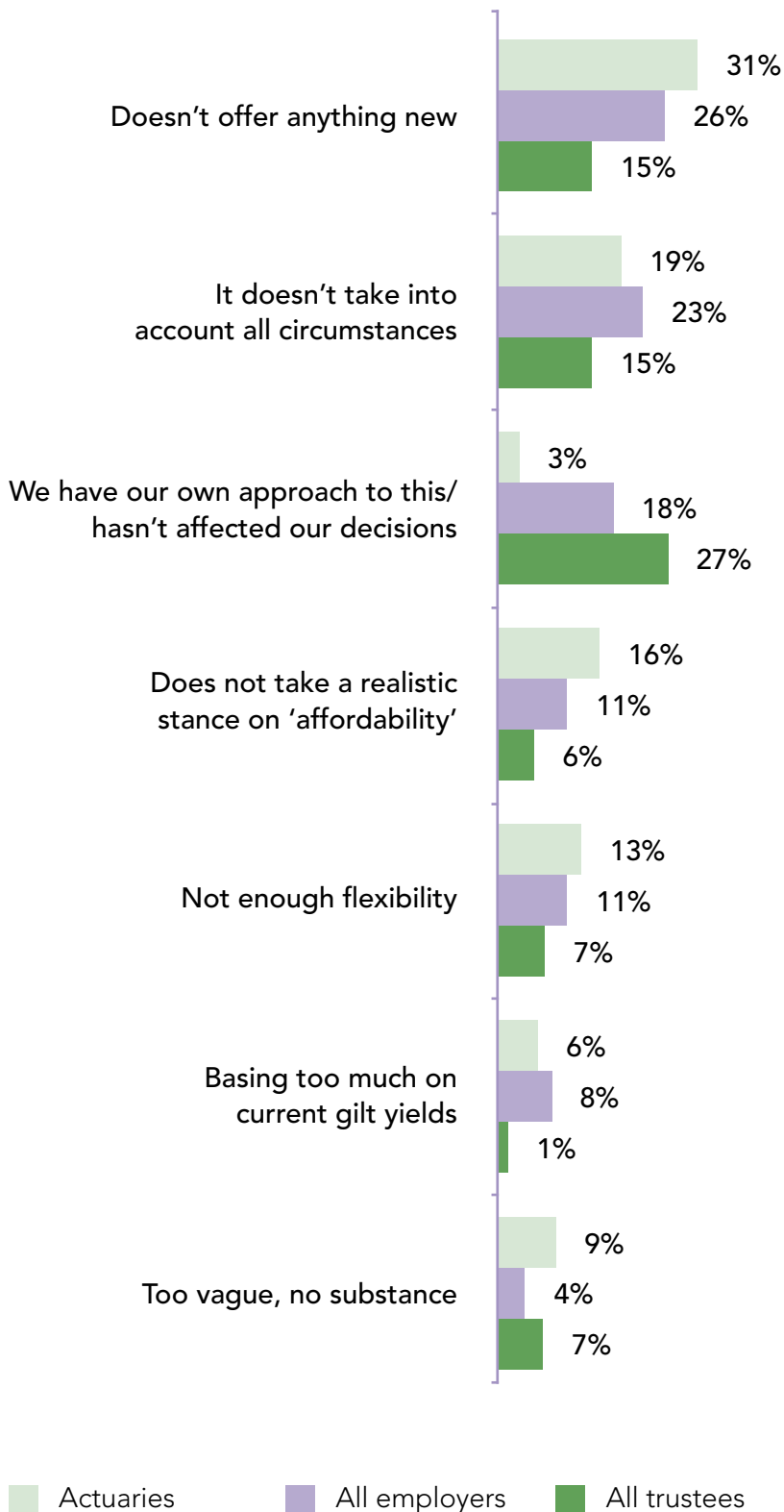


■ Not at all helpful ■ Not very helpful ■ Quite helpful ■ Very helpful

**Base:** All who read the statement or a summary of the statement (100), employers (116), Medium employers (75), Large employers (41), trustees (139), Medium trustees (45), Large trustees (94).

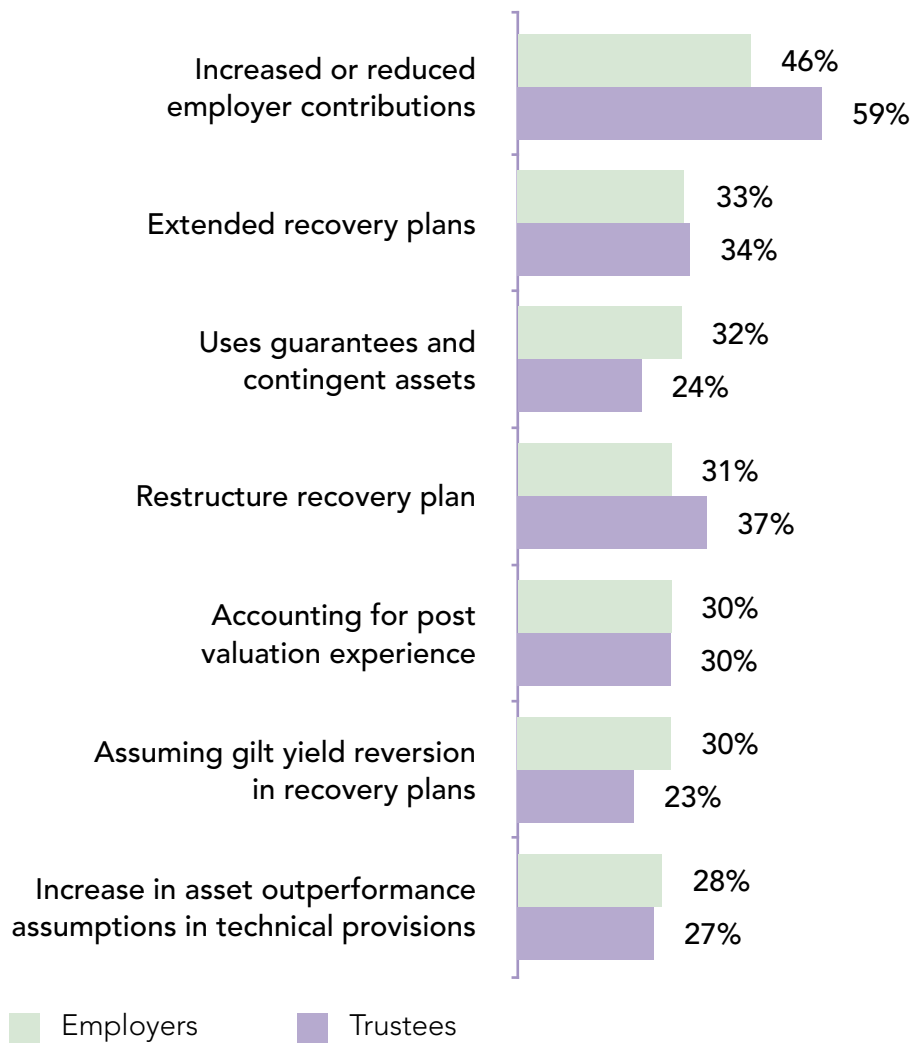
G2. How helpful has the statement been, or will be, in enabling the scheme to produce an affordable recovery plan?

**Figure 3**  
Reasons for the statement being rated as unhelpful



**Base:** All who did not find the statement helpful; Actuaries (\*32), Employers (\*27), Trustees (\*33). \*Caution: low base sizes.

**Figure 4:**  
Likelihood of employing flexibilities in the statement



**Base:** All employers (150), Trustees (150).

E1. I am now going to read out a list of flexibilities in the funding framework which are set out in the statement. For each one, can you please tell me how likely it is that you will employ this with regard to the scheme?

## How to contact us

Napier House  
Trafalgar Place  
Brighton  
BN1 4DW

T 0845 600 0707

F 0870 241 1144

E [customersupport@thepensionsregulator.gov.uk](mailto:customersupport@thepensionsregulator.gov.uk)

[www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

[www.trusteetoolkit.com](http://www.trusteetoolkit.com)

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