# EXPLANATORY MEMORANDUM TO

# THE OCCUPATIONAL PENSION SCHEMES (FUNDING AND INVESTMENT STRATEGY AND AMENDMENT) REGULATIONS (NORTHERN IRELAND) 2024

**S.R. 2024 No. 90**

## 1. Introduction

1.1 This Explanatory Memorandum has been prepared by the Department for Communities to accompany the Statutory Rule (details above) which is laid before the Northern Ireland Assembly.

1.2 The Statutory Rule is made under Articles 200A(3)(b), (4) and (5), 200B(2)(d), (4), (6)(b) and (8)(b), (c) and (d), 201(4)(c), 203(6), 205(3A), (4) and (6) and 287(2) and (3) of the Pensions (Northern Ireland) Order 2005 and is subject to the confirmatory procedure.

## 2. Purpose

2.1 These Regulations introduce measures to the occupational pensions defined benefit (DB) scheme funding regime that will support trustees and sponsoring employers to plan and manage their DB scheme funding over the long term. The changes are to support scheme trustees and employers to manage risks effectively with the aim of protecting the security of benefits for members. The Regulations also enable the Pensions Regulator to intervene more effectively to protect members' benefits when needed.

## 3. Background

3.1 The legislative requirements for funding occupational pension schemes are set out in Part 4 of the Pensions (Northern Ireland) Order 2005 as amended by Part 1 of Schedule 11 to the Pension Schemes Act 2021. These Regulations set out requirements for the new funding and investment strategy and statement of strategy, along with related amendments to the Occupational Pension Schemes (Scheme Funding) Regulations (Northern Ireland) 2005.

*Funding and investment strategy*

3.2 These Regulations require trustees or managers of DB schemes to regularly prepare a funding and investment strategy (alongside each actuarial valuation) with the aim of ensuring that pensions and other scheme benefits can be provided over the long term. The strategy must specify the funding level, defined as the ratio of assets to liabilities, and the investments that trustees or managers intend the scheme to have at a 'relevant date'. The funding and investment strategy must set out a 'journey plan' to that funding level.

3.3 The funding and investment strategy must set out 'the way scheme benefits will be provided over the longer term'. This 'long-term objective' could be to either:

(i) run-on with low dependency on the employer; (ii) buy out with an insurer; or (iii) enter a consolidator, such as a superfund.

3.4 At and after the relevant date, as a minimum, schemes must be fully funded on a low dependency funding basis. Low dependency on the employer means that no further contributions are expected, under reasonably foreseeable circumstances, to meet the scheme's liabilities. The funding level at the relevant date and on the journey plan to that date must be calculated on a low dependency funding basis.

3.5 The investment information set out in the funding and investment strategy will be the proportion of scheme assets that the trustees or managers intend to allocate to different categories of investments on the relevant date, but actual investment allocation may diverge from this. However, if the trustees or managers do not think that the funding and investment strategy is being successfully implemented, they will need to explain how they intend to remedy the position.

3.6 Before the relevant date, funding risks taken by a scheme must be supportable by the employer. This is because the employer must address any funding shortfall where such risks materialise. Subject to the employer covenant, less mature schemes can take higher levels of risk because if those risks materialise there is more time to address any funding shortfall this causes.

3.7 The first funding and investment strategy must be determined alongside the first actuarial valuation with an effective date on or after 22nd September 2024. Subsequently, it must be reviewed and, if necessary revised, alongside each actuarial valuation and in the same timescales; and following any material change in the circumstances of the scheme or employer.

3.8 At each valuation, the scheme actuary will estimate when the scheme is expected to reach significant maturity and, where the scheme is open to new members and future accrual of benefits, the date of significant maturity will move further into the future. Schemes which have sufficient new members, will not move closer to significant maturity and a very few may become less mature.

*Statement of strategy*

3.9 Trustees or managers will be required to send a written statement of strategy to the Pensions Regulator setting out their funding and investment strategy and the following supplementary matters:

- the extent to which, in the opinion of the trustees or managers, the funding and investment strategy is being successfully implemented and, where it is not, the steps they propose to take to remedy the position (including details as to timing);
- the main risks faced by the scheme in implementing the funding and investment strategy and how the trustees or managers intend to mitigate or manage them;
- reflections of the trustees or managers on any significant decisions taken by them in the past that are relevant to the funding and investment

strategy (including any lessons learned that have affected other decisions or may do so in the future);

- other matters include: a summary of the actuarial valuation and where appropriate the recovery plan along with information about scheme maturity, investment risk, liquidity and the strength of the employer covenant i.e., the financial ability of the employer to support its legal obligations towards the scheme, together with any support from contingent assets. The Pensions Regulator has discretion as to the level of detail required for this information. This is to ensure that explanations and supporting evidence are only provided where needed which will avoid unnecessary administrative burden.

## 4. Consultation

4.1 There is no requirement to consult on these Regulations as they make in relation to Northern Ireland only provision corresponding to provision contained in regulations made by the Secretary of State for Work and Pensions in relation to Great Britain.

## 5. Equality Impact

5.1 The Pension Schemes Act 2021, which introduced the new funding regime measures, was subject to an Impact Assessment. In accordance with its duty under section 75 of the Northern Ireland Act 1998, the Department has conducted a screening exercise on the legislative proposals for these Regulations. The Department has concluded that they would not have significant implications for equality of opportunity and considers that an Equality Impact Assessment is not necessary.

## 6. Regulatory Impact

6.1 A Regulatory Impact Assessment is attached as an Annex to this Explanatory Memorandum.

## 7. Financial Implications

7.1 None for the Department.

## 8. Section 24 of the Northern Ireland Act 1998

8.1 The Department is content that these Regulations comply with section 24 of the Northern Ireland Act 1998 (Convention rights, etc.).

## 9. EU Implications

9.1 Not applicable.

## 10. Parity or Replicatory Measure

10.1 The Great Britain Instrument is the Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024 (S.I. 2024/462) which comes into force on 6th April 2024. Parity of timing and substance is an integral part of the maintenance of single systems of social security, child support and pensions in line with section 87 of the Northern Ireland Act 1998.

# REGULATORY IMPACT ASSESSMENT

## THE OCCUPATIONAL PENSION SCHEMES (FUNDING AND INVESTMENT STRATEGY AND AMENDMENT) REGULATIONS (NORTHERN IRELAND) 2024

The costs and savings outlined in this Regulatory Impact Assessment (RIA) are calculated on a UK-wide basis.

**Background**

1. A Defined Benefit (DB) pension is a promise from the sponsoring employer to pay a predetermined level of pension, usually based on final salary (or career average salary) and length of service, as set out in the scheme rules, regardless of economic factors.

2. The employer contributes to the scheme and is responsible for ensuring there's enough money when members retire to pay the promised pension income. Many schemes with active members (just under half of DB schemes are open to new members or open to benefit accrual for existing members[1]) will also have employee contributions and tax relief. The scheme will pay out a secure income for life which normally increases each year to give a measure of inflation protection (depending on when the pension was built up, and the scheme rules). This means DB schemes have a number of risks, including longevity risk and investment return risk; both borne by the scheme and its sponsoring employer (members generally only bear risk when the scheme is underfunded and winds up as a result of employer insolvency).

3. A DB scheme's funding position is the difference between the assets the scheme holds (based on contributions and investment return) and the net present value of its liabilities (how much it is expected to have to pay out to its members). This means improvements in the funding position can arise through:
    - **Greater pension contributions** for open schemes made by the employee or employer (increasing assets)
    - **Investment performance** from the stock of assets (increasing assets)
    - **Deficit Reduction Contributions (DRCs)** made by employers to help the funding position of the scheme (increasing assets)
    - **Higher interest rates** which lower the value of the expected level of liabilities due to be paid out by the scheme (as liabilities are discounted by a rate of return)
    - **Lower life expectancies** as schemes will have to pay out a pension for a shorter period of time (lowering liabilities)

4. DB liabilities, however, inherently carry an element of uncertainty as it is impossible to estimate future longevity or investment returns with certainty. There are a range of DB scheme liability measures, each designed and used for a specific purpose. They differ in the way the assumptions needed to assess scheme liabilities (like future investment returns) are made. For example, one measure set out in legislation for the purposes of assessing funding needs is the Statutory Funding Objective (SFO). This is a 'going concern' assessment of whether the fund will have sufficient assets to meet its liabilities. This is a measure used to assess if a deficit recovery plan (RP) is needed. The precise method of measurement and assumptions made varies from scheme to scheme according to the circumstances but should be prudent. The statutory funding objective requires a scheme to have sufficient assets to cover their liabilities (also called Technical Provisions (TPs)). The scheme's TPs must be calculated in a way that is consistent with the funding and investment strategy as set out in the statement of strategy.

[1] https://www.ppf.co.uk/sites/default/files/2022-11/PPF_PurpleBook_2022.pdf

5. DB schemes may have different strategies and objectives regarding how they are run in the longer-term (a long-term objective). Setting a long-term objective is good practice, but it is not mandatory. Examples of an acceptable long-term objective could be to:
   - **Reach low dependency on the sponsoring employer by the time they are significantly mature.**
   - **Buy-out** by a set time with an insurer.
   - **Enter a consolidator,** such as a Superfund[2], within an agreed timeframe.

6. A scheme's funding position is normally checked annually, and an actuarial valuation is submitted to TPR at least every three years.

7. There have been significant changes in the structure of the overall pension landscape as employers have moved away from providing DB benefits and are instead favouring Defined Contribution (DC). The Defined Benefit pension sector has therefore changed over recent years with latest annual estimates in March 2022 showing on a PPF s179 basis[3]:
   - **5,131** private sector DB schemes – a fall by almost a third over the last 10 years – and only around 10% are now "open" for new members to join and contribute to.
   - There are **less than 1m active DB members** in private sector schemes but there are still **over 9 million members** who will depend on their DB pension in retirement.
   - There has been an **improvement in funding ratios** over the last decade with DB schemes having just under £1.7 trillion assets and just under £1.5 trillion liabilities (giving a funding ratio of 113%).

   However, with changing economic assumptions, a timelier but less robust measure (the PPF 7800 Index), shows in March 2023 DB assets were around £1.4 trillion and liabilities around £1.1 trillion, with an average funding ratio of 133% and fewer than 800 schemes being in deficit. Although the DB universe has been declining, particularly over the last two decades, within the modelling/costings, it is assumed the number of DB schemes in existence to be flat over the 10-year appraisal period and do not account for potential further consolidation in the DB market. This is as it cannot be known which schemes may close/buyout and given the slow rate of decline of DB schemes, it is not anticipated consolidation would make a material difference on the estimated costs. This is further discussed in paragraph 29 on proportionality.

8. Despite this, the reduction in DB schemes has significantly slowed in more recent years; the number of DB schemes fell by less than 2% last year.

9. Given the size of DB assets, and with over 9 million members receiving DB benefits as part of their retirement provision, the sector is of critical importance. DB pension schemes are also (in aggregate) large institutional investors, helping to provide the investment needed to fund new businesses and finance government debt.

10. However, the picture is varied at a more granular level[4]. For example, Purple Book 2022 shows **7% of schemes have more than 5,000 members but hold around 75% of DB assets** whereas more than a third of schemes have less than 100 members but hold around 1% of assets. Although most schemes are effectively managed, some schemes are known not to be, and without clearer funding standards can mean real deficits may be hidden from TPR through schemes applying greater liability discounting. Severely underfunded schemes present a risk to

---

[2] A superfund is a consolidator body which replaces sponsoring employers with additional assets held in reserve (a capital buffer). The capital buffer may be provided by investors seeking profit and a payment from the sponsoring employer ending its liability. More info can be found here: https://researchbriefings.files.parliament.uk/documents/CBP-8775/CBP-8775.pdf

[3] Figures in the following paragraph are all taken from https://www.ppf.co.uk/sites/default/files/2022-11/PPF_PurpleBook_2022.pdfs. 179 basis is, broadly speaking, what would have to be paid to an insurance company to take on the payment of PPF levels of compensation. Article 162 of the Pensions (Northern Ireland) Order 2005 corresponds to section 179 of the Pensions Act 2004

[4] Further breakdown on scheme funding levels and asset allocation are taken from https://www.ppf.co.uk/sites/default/files/2022-11/PPF_PurpleBook_2022.pdf

members, the Pension Protection Fund (PPF)[5] and ultimately other PPF levy payers. On a buy-out basis (the amount needed to move the scheme into an insurance scheme and to provide full scheme benefits, rather than reduced compensation payable from the PPF)) the funding ratio decreases significantly to 79.2%, with the majority of schemes (4,515) of schemes being in deficit. There are also a significant number that have no/limited long term funding plans in place.

11. As DB schemes mature (over one-third of schemes have liabilities accounting for over 50% of pensioner liabilities), it is important that the new and increased funding and investment risks are effectively managed to protect members and PPF.

12. In the usual course of business some employers will become insolvent, and government cannot prevent this. When this happens, the pension scheme goes into PPF assessment and the PPF assess whether the scheme could secure members benefits on the insurance market. Where a pension scheme is unable to secure members benefits at least at the PPF compensation levels on the insurance market, the PPF will provide compensation. If the pension saver has not reached the scheme's normal pension age when the employer became insolvent, the saver will see a reduction in payments to 90% of the scheme pension on the insolvency date[6].

13. The financial strength of a sponsoring employer (the employer covenant) can deteriorate quickly and with limited notice. It is therefore vital schemes plan for the longer term and consider the risks to funding, investments and the sponsoring employer in an integrated way, which will ensure they are well-placed to provide members with the best possible chance of receiving the full level of benefits they have been promised.

**How the landscape has recently changed**

14. The funding position of DB schemes has been improving over time and many schemes now have a funding surplus. This has been due to a number of factors, including changing macroeconomic conditions and employers increasing their Deficit Reduction Contributions (DRC). According to the PPF Purple Book, on a s179 basis, the aggregate funding ratio has increased from 83.4% in 2012 to 113.1% in 2022[7].

15. The funding position has further improved throughout 2022 as a result of increasing interest rates – the Bank of England rate was 0.25% at the start of 2022 and reached 3.5% by the end of 2022[8]. This, along with other economic factors, has contributed towards long term gilt yields rising (which lowers the estimated DB liabilities) and, as a result, the aggregate DB scheme funding position improved significantly. This is demonstrated by the PPF 7800 Index[9] with funding ratios increasing from 111% (March-22) to 133% (March-23) again on a s179 basis.

16. Due to the time lags on data availability, continued market volatility, and modelling time needed, the modelling **does not account for the latest market developments.** This is discussed further in the 'Rationale and evidence to justify the level of analysis used in the IA' section below.

---

[5] The statutory public corporation protecting savers of a DB scheme when an employer becomes insolvent: https://www.ppf.co.uk/about-us/who-we-are

[6] There may be other restrictions applied, such as inflation protections. More detail is applied here: https://www.ppf.co.uk/our-members/what-it-means-ppf?_sm_au_=iVVRMnJTQ0MLsrFQW2MN0K7K1WVjq

[7] https://www.ppf.co.uk/sites/default/files/2022-11/PPF_PurpleBook_2022.pdf https://www.ppf.co.uk/sites/default/files/2022-11/PPF_PurpleBook_2022.pdf

[8] https://www.bankofengland.co.uk/monetary-policy/the-interest-rate-bank-rate

[9] https://www.ppf.co.uk/ppf-7800-index

## Evidence Base

## Problem under consideration and rationale for intervention

17. As outlined above, as DB schemes mature, it is important that new and increased risks are managed effectively to protect members and the PPF as well as limiting the need for mature schemes to call on employers for additional funds. Given this context, the 2018 White Paper 'Protecting Defined Benefit Pension Schemes'[10] highlighted two ways in which the existing DB funding regime was not working effectively:
    a) With the majority of DB pension schemes now closed to future accruals and maturing, longer-term strategic thinking is essential. **Some schemes take a short-term view of funding requirements** and do not effectively set an investment strategy to manage their long-term obligations.
    b) It **can be difficult for TPR to intervene to protect member benefits** when needed, due to a lack of evidential weight. Currently, where TPR believes a scheme's technical provisions are imprudent or their recovery plan inappropriate, they may open a case for further investigation. There is a high level of scheme-specific evidence, analysis and modelling required for TPR to generate a persuasive case and there is a significant time, cost and resource burden to bring regulatory action, including enforcement. TPR are a risk-based regulator that focuses its resources on non-compliance, and therefore it is vital it has the tools to take action when necessary.

18. The Pension Schemes Act 2021 introduced a new requirement for DB schemes to have a funding and investment strategy for the purpose of ensuring pension and other benefits under the scheme can be paid over the long term. This includes the need for them to reach a point of low dependency on the employer by the time they are significantly mature and have a journey plan to reach that aim. Schemes are also required to report progress against their targets, including the main risks and mitigations, to TPR in a statement of strategy. The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations (Northern Ireland) 2024 set out the detail of these new arrangements.

19. This legislation, supported by TPR's revised DB Scheme Funding Code of Practice, will provide clearer funding standards to support trustees and employers in planning their scheme funding over the longer term and enable TPR to intervene more effectively to protect members when needed. It will require trustees to specify the funding level the trustees or managers intend their scheme to have achieved by the relevant date and will provide principles for the funding and investment risk the scheme can take along the 'journey plan' before reaching that date.

20. The rules should apply flexibly to the particular circumstances of individual schemes and their sponsoring employers. While most employers and trustees work well together and use the flexibilities of the current funding regime reasonably, good practice is not universal. These measures aim to ensure those outliers now follow best practice, increasing the likelihood that schemes can meet their objectives of funding the pension benefits promised to their members.

21. By ensuring schemes are effectively setting their investment strategies and journey plans (the path between existing date and relevant date for reaching significant maturity), and better managing their long-term obligations, schemes will be better prepared to anticipate and manage scheme funding risks. The Regulations will result in:

---

[10] https://www.gov.uk/government/publications/protecting-defined-benefit-pension-schemes

- **Members having a greater probability of improved outcomes** as failure of a sponsoring employer or the DB scheme could result in less being received than promised. If the pension saver has not reached the scheme's normal pension age when the employer became insolvent, the saver will see a reduction in payments to 90% of the scheme pension in the PPF on the insolvency date[11].
- **Reduced value of claims on the PPF** reducing the levy required from other schemes to support the PPF in their reserves (reducing scheme costs and improving their funding position). This could be a benefit to all schemes.
- **Ensuring funding and investment risks are supportable**. Regulations would link the maximum level of funding and investment risk schemes can take – primarily – to the employer covenant, as well as the maturity of the scheme. This is particularly important given the size of DB assets and the time until pensions are paid out getting closer for the majority of schemes. Additionally, this aims to avoid an investment risk spiral, whereby mature schemes invested in growth assets may face market volatility. If there are large asset losses due to market falls, the scheme may not have time for asset prices to recover to pay full pension benefits, and thus invest in further riskier investments.
- **Schemes will have less reliance on employers**. The regulations require schemes to reach a point of low dependency on their employer by the time they are significantly mature. This will limit the need, or expectations, that additional employer contributions will be needed from that point onwards.
- **Strengthening the Regulator's ability to enforce Defined Benefit scheme funding rules**, providing clarity on how scheme's technical provisions can be calculated prudently and what constitutes an appropriate recovery plan.
- **Clarity and predictability** for sponsoring employers on long-term plans as the scheme matures.

## Rationale and evidence to justify the level of analysis used in the IA (proportionality approach)

22. The analysis makes a best estimate on the assessment of the potential costs and benefits from the legislative changes that arise from the regulations. However, it is important to note there are, practically, two aspects to consider for these changes:
    - **The proposed legislation** outlines the framework and powers of the proposed changes
    - **TPR's Code of Practice and Guidance** will contain further detail on applying the legislation framework into practice. <u>This is currently in draft format[12] and therefore subject to change</u>**.** Once the Code is finalised, TPR plan to produce a Business Impact Target assessment.

23. The modelling and evidence consider <u>both</u> aspects in the interests of transparency and recognising the legislation enables the Code to be applied in practice. However, it is important to note that as the code is subject to change, these costs/benefits may subsequently change. This will be monitored closely and updated assessments will be provided where needed.

24. Working closely with the Government Actuary's Department (GAD) and TPR has resulted in a best estimate how these regulations might be applied in practice along with openness and transparency about the potential impacts of the changes. This has used a range of data and inputs, including:

---

[11] There may be other restrictions applied; more detail of impacts on payments can be found here: https://www.ppf.co.uk/our-members/what-it-means-ppf

[12] Latest draft available here: https://www.thepensionsregulator.gov.uk/en/document-library/consultations/draft-defined-benefit-funding-code-of-practice-and-regulatory-approach-consultation/draft-db-funding-code-of-practice

- **Scheme funding data** for the DB universe (as of March 2022) which is held by TPR as part of schemes' returns and recovery plans submitted. This is the most complete set of data on the DB pensions universe.
- **TPR modelling** to project forward assets and liabilities across each scheme.
- **GAD modelling**[13] to estimate long-run impacts over a 40-year horizon and the impacts on PPF and members.
- **Purple Book and other surveys** which outline the DB universe in detail, particularly around funding positions, and the level of compliance around long-term objectives and more recent movements in the funding positions of DB schemes.
- **Feedback from the consultation** on potential implementation costs where 92 consultation responses were received in total. These responses came from schemes, advisory, consultancy & umbrella/representative organisations, employers, actuaries, individual trustees and scheme members, helping build on the consultation IA.

25. The modelling of schemes focuses on the "Fast Track" parameters outlined by TPR in their consultation. Fast Track is the regulator's view of tolerated risk for a scheme and hence the regulator is unlikely to have material concerns with a scheme whose funding approach follows or is more prudent than that of Fast Track. Fast Track has been designed by TPR as a set of quantitative parameters in respect of technical provisions, investment risk and recovery plan length that need to be met. However, some schemes may follow the "Bespoke" approach which is intended to allow trustees to maintain the flexibility to select scheme-specific funding solutions if the approach and actuarial valuation meet legislative requirements and follow code principles.

26. Whilst it is recognised that schemes will interpret and follow the regulations in a large number of ways, modelling has been carried out on how schemes current funding approach compares against Fast Track (discussed in further detail later) to provide the best estimate of the potential impacts. It is felt this is proportionate to help demonstrate the impacts whilst recognising many schemes will take a more bespoke approach. This means the modelling is not definitive and subject to a wide range of behavioural changes that would change the results (hence extra sensitivity analysis produced). This is particularly the case as there is significant scheme specific flexibility available through the Bespoke approach. Many schemes, and in particular larger schemes, will likely take a more sophisticated approach than that set out in Fast Track, and taking advantage of these scheme specific flexibilities may enable them to reduce costs compared to the inherently conservative and prudent Fast Track.

27. Further, due to the time lags on data availability, continued market volatility, and modelling time needed, the modelling does not account for the latest market developments since the rise in interest rates (and gilt yields) since 2022. Data is modelled as of March 2021[14].

28. For both these reasons, this means the modelling may overestimate the potential costs (and underestimate the benefits); however, sensitivity analysis is included to help highlight how numbers may change. In addition, financial markets are inherently volatile and therefore any modelling can never fully capture the very latest position.

29. Within the modelling/costings, it has been assumed the number of DB schemes in existence to be flat over the 10-year appraisal period and do not account for potential further consolidation in the DB market. Although the DB universe has been declining, particularly over the last two decades and for open schemes, consolidation in the market has significantly slowed in recent years with the number of schemes being less than 2% lower in 2022 compared to 2021[15]; this

---

[13] Available here: https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/modelling-the-universe-of-defined-benefit-pension-schemes.ashx

[14] Though based on the latest available information (the start of 2022); to be consistent across schemes, March 2021 is the modelling start date.

[15] Purple Book 2022, https://www.ppf.co.uk/-/media/PPF-Website/Public/Years/2022-11/PPF_PurpleBook_2022.pdf

slowdown may continue. Although it is possible DB schemes continue to slowly decline, this has not been modelled due to:

- **Modelling challenges** - Allowing for employers to fail, or schemes to consolidate/buyout would involve making many subjective assumptions about the wider economic environment and trustee sentiments which would appear spurious. It cannot be known which schemes may sell to an insurer or enter the PPF (if their employer went insolvent).
- **No material change** – Given the very slow rate of decline, it is not anticipated consolidation would make a material difference on the estimated costs. This is particularly the case when the majority of familiarisation costs are upfront and would be required of all schemes currently in existence. Allowing for consolidation/buyout would not be expected to materially impact the DRC modelling as schemes looking to buyout/consolidate would need to be in surplus on a Fast Track basis to do so and given the timescales involved, would need to have been significantly well-funded as at 31 March 2021. Therefore, in the model itself they would likely be showing no or very little costs in the estimated DRC impact in any event, meaning while the modelling does not account for scheme buyout, it is not believed this significantly impacts the costs modelled.
- **Impacted schemes could not exit the market** – Those schemes required to improve funding targets could not exit the market unless they significantly improve their funding position in excess of that modelled required in order to reach a buy-out funding position. This would take many years in excess of the 10 years modelled in order to improve funding levels to those of buyout and further years to reach a settlement with an insurer for buy-out. Therefore, would not change the results.
- **Proportionality** – To capture the potential exits of DB schemes would involve significant modelling adjustments which is not felt to be proportionate in the time available, given the low impact it would have on the modelling. However, it has been ensured sensitivity is presented throughout the analysis.

30. Equally, the analysis assumes no DB schemes will be created over the time period (despite higher Gilt yields leading to improved funding levels potentially making schemes more affordable). It is acknowledged this is a risk and the modelling on changes to DRC payments does include sensitivity analysis.

## Description of options considered

*Option 0: Do nothing*

31. Leaving the system unchanged would not deliver improvements to the scheme funding regime. There are still some schemes who are not planning effectively for the longer term and most schemes are maturing. Funding standards would lack clarity, which would continue to lead to poor decision making by schemes, and TPR would continue to find it difficult to enforce. Although many schemes have a long-term plan in place, evidence suggests that some do not, and some plans are only aspirational (see paragraph 42 for more detail). As a result, members of these schemes would be at risk of poorer retirement outcomes.

*Option 1: Making the DB Funding Code of Practice enforceable*

32. **Not a viable option**. Primary and secondary legislation constrain what can be provided for in the code. The code sets out TPR's expectations and provides examples or guidance on how schemes should comply with the law. The provisions of the code are not themselves legally binding but may be used as evidence in legal proceedings. As such, option 1 it is less likely to change behaviour, strengthen enforcement or improve scheme funding. Therefore, this option is not assessed in further detail.

*Option 2: Introduce secondary legislation to provide detail of the requirements in the Pension Schemes Act 2021*:

33. **Preferred Option.** Introducing secondary legislation to provide detail of the requirements in the Pension Schemes Act 2021 is the preferred option. This preferred option will impose a duty on trustees to have a funding and investment strategy to ensure pensions and other benefits are provided over the longer term. This will support trustees and employers to plan and manage their scheme funding effectively over the long term and enable TPR to intervene to protect member benefits when needed. This option will also require trustees to set out the funding and investment strategy in a statement of strategy that is signed by the chair of the trustees on behalf of the trustee board, who must appoint a chair if they do not already have one. Furthermore, secondary legislation will provide clearer principles to determine what is meant by an appropriate recovery plan.

## Policy objective

34. There are two primary policy objectives:
    - Support all pension scheme trustees and sponsoring employers to plan and manage their funding and investment decisions with a clear strategy for ensuring pensions and other benefits can be provided over the longer term.
    - Provide clearer funding standards to enable TPR to intervene more effectively to protect members' benefits.

35. Taken together, the delivery of these primary policy objectives will underpin a new DB scheme funding regime. This regime is intended to remain scheme specific and will continue to apply flexibly to the circumstances of individual schemes and their sponsoring employers. The new funding regime will also look to maintain a reasonable balance between the security of member benefits and employer affordability. The Regulations and TPR's DB funding code of practice will complement the plans to enable schemes to invest more productively.

## Summary and preferred option with description of implementation plan

36. The proposed regulatory intervention, through these regulations, delivers on the policy objectives to require schemes to plan for the longer term and to provide clearer funding standards to enable TPR to intervene more effectively when required. It will also deliver a scheme funding regime that maintains a reasonable balance between the security of member benefits and employer affordability and will continue to apply flexibly to the circumstances of individual schemes and their sponsoring employers.

37. In summary, the Regulations outline:
    - The funding and investment strategy must, as a minimum, follow the principle that **by the time the scheme is significantly mature there is low dependency on the sponsoring employer** with high resilience to funding and investment risks.
    - The **maximum level of funding and investment risk** that the scheme can take before significant maturity is dependent on the financial ability of the employer and contingent assets to support the scheme and, subject to that, on the maturity of the scheme.
    - That the **funding and investment strategy must be determined or reviewed** and if necessary revised alongside each valuation, usually every three years, and after any material change in the circumstances of the pension scheme or of the employer.
    - **More detailed requirements for the statement of strategy and for the chair** of the trustee board. The statement of strategy must include a section setting out what action trustees would take should the risks faced by the scheme materialise. It must also include a section setting out further information on the scheme's asset allocation, how

trustees intend the asset allocation to change as the scheme moves along its journey plan, and the level of risk attached to these investments.
- Amendments to the Occupational Pension Schemes (Scheme Funding) Regulations (Northern Ireland) 2005 add a new requirement for scheme trustees and managers, in determining whether a recovery plan is appropriate, to **follow the principle that funding deficits must be recovered as soon as the employer can reasonably afford.**

38. To allow open schemes more flexibility, the regulations also more clearly outline the following:
    - Trustees do not have to invest exactly in line with their funding and investment strategy and increasing the flexibility of the low dependency investment allocation. This will ensure trustees can continue to invest in a wide range of assets.
    - Sponsoring employers' sustainable growth must be considered when assessing when they can reasonably afford to recover a deficit.
    - Open schemes can take new members into account when calculating their maturity, which will extend the time before they are expected to begin to de-risk and for those schemes that are open to new members and who remain truly stable, then they will not be expected to mature over time in any event.
    - To make clear that the determination of significant maturity can include an assumption for future accrual and new entrants, no specific limit is placed in the regulations in order to afford more flexibility to open schemes. However, the regulations make clear the assumption must be based on the covenant of the employer.
39. TPR will be responsible for the ongoing operation and enforcement of the scheme funding regime.

# Monetised and non-monetised costs and benefits of each option

### *Summary of key costs and benefits*

| Impact | Summary | Cost |
|---|---|---|
| | ***Costs to business*** | |
| Additional DRCs for schemes paying more | *The cost for schemes that face higher DRC payments as a result of changes to the scheme recovery plans and levels of liabilities* | *£7.2bn over 10 year period (per year breakdown discussed further below)* |
| Implementation | *The implementation cost for scheme trustees and actuaries to implement the funding and investment strategy alongside a statement of strategy.* | *£21.0m in year 1* |
| Familiarisation | *The costs for scheme trustees and actuaries to familiarise themselves with the new regulations* | *£15.8m in year 1* |
| Ongoing costs – Implementation costs | *The cost for schemes who are currently in surplus to submit actuarial valuations, and for all schemes to update/review the FIS and SoS.* | *£5.4m per year (years 2 to 10)* |
| Costs to members | *Most members should not face an increase in costs; but there is a risk for those in a cost-sharing scheme some costs may be passed on or indirect impacts (such as wage impacts)* | *Non-monetised* |
| | ***Benefits to business*** | |
| Reduced DRCs for schemes paying less | *Schemes that are more prudent than the new minimum may decide to lower their DRC payments as a result of the changes* | *£7.4bn over 10 year period (per year breakdown discussed further below)* |
| Benefits to PPF | *The PPF will face an overall lower value of claims against them* | *Non-monetised* |
| Benefits to members | *There is a greater likelihood of DB members receiving their full pension rather than at PPF compensation levels as a result of schemes being better funded.* | *Non-monetised* |

### *Counterfactual / Do Nothing*

40. The latest data shows there are currently 5,131 private-sector DB schemes[16] in 2022; for the purposes of the calculations, all schemes are assumed to be in scope for the changes[17], though paragraph 132 outlines where some schemes may be exempt.

41. The proposed regulations require schemes to set a funding and investment strategy. As part of this, schemes must – as a minimum – target reaching low dependency on their sponsoring employer by the time they reach significant maturity. Such a target, along with buying-out the scheme's liabilities by a set time or entering a consolidator, has previously been referred to as a "Long-Term Objective" (LTO), and will continue to be referred to as a LTO below.

42. Analysis from TPR's annual survey of trust-based occupational defined benefit (DB) pension schemes shows around 90% of schemes have an LTO[18], meaning around 500 schemes do not have one (and therefore will need to implement one for the first time to meet the regulations). However, the survey also found two-thirds (68%) of trustees with an LTO said that this drove the funding of the scheme, rather than being purely aspirational. Therefore, it is considered that

---

[16] https://www.ppf.co.uk/sites/default/files/2022-11/PPF_PurpleBook_2022.pdf

[17] Legislation currently exempts certain schemes from the funding requirements in Part 3 of the 2004 Act. However, there are no estimates of exempt schemes and as the numbers are considered to be minimal, it is therefore considered all to be in scope; this may slightly overestimate the costs.

[18] https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/defined-benefit-schemes-survey-research-report-2021.ashx and https://www.aon.com/getmedia/45633b07-629b-4809-b1d1-d50b29626ee4/The-DB-pension-risk-management-journey.pdf.aspx

3,100 schemes would already have a robust funding and investment strategy in place in the absence of the regulations. This means around one-third of schemes with an LTO (1,500) will still need to further implement a robust funding and investment strategy, alongside the 500 who do not have one.

43. The proposed regulations will also require schemes to have a Chair of a scheme's trustee board. The Pension Schemes Act 2021 Enactment Impact Assessment outlined[19] the impacts of schemes being required to have a Chair. This impact assessment updates that analysis. Previously, in 2015, around 15% of DB schemes were estimated to not have a Chair. It is expected this proportion has substantially lowered further given the increasing governance and regulations placed on DB schemes. For those who do not have a Chair, it is expected many will have a de facto chair or rotate across Trustees.

44. To model the projected Deficit Reduction Contributions (DRCs) required from employers to support schemes (see paragraph 83 for an explanation of the impacts), it has been assumed all schemes undertake a valuation as at the calculation date 31 March 2021 (the counterfactual position) and then projected how the funding position will evolve over the next 10 years. In reality, as all DB schemes are required to conduct an actuarial valuation of their scheme every three years, the latest actuarial valuation will be distributed over a three-year period. Where schemes are in deficit, they are required to submit their valuation and recovery plan to TPR. The modelling under the counterfactual assumes:
    a) **No change to existing funding strategy -** Maintain existing approach for determining financial assumptions (relative to gilt yields) and assume demographic assumptions have not changed since the previous triennial valuation submitted to TPR.
    b) **3-year average of historical DRCs –** To estimate future DRCs, broadly the average of the last 3-years' worth of payments have been used and projected forward until a surplus is reached in line with the proposed recovery plan at the previous valuation submitted to TPR.
    c) **De-risking –** The projection of the liabilities and the assumed level of de-risking as the scheme matures is dependent upon whether the scheme is open or closed.
    d) **Assets grow in line with expected returns** using capital market assumptions on long-run projected asset return levels and asset allocations based on previous valuation submitted to TPR.

    Further detail regarding the assumptions and the modelling are discussed in **Annex 1.**

***Scope***

45. The whole private-sector DB universe, 5,131 schemes (in 2022), will be in scope. As outlined above, the regulations only provide the framework, whereas the subsequent TPR code will provide a more detailed overview of how schemes should interpret and apply them.

46. All DB schemes are impacted by the regulations – meaning around 5,100 schemes are in scope as all will need to familiarise themselves with the regulations as a minimum. Stakeholder feedback from industry suggests many have already started considering the proposed changes. However, the number of schemes does not directly translate to the number of employers. PPF data suggests that while there are 5,100 schemes in the DB universe, there are around 14,000 employers[20] that sponsor a DB scheme.

---

[19] https://www.legislation.gov.uk/ukpga/2021/1/pdfs/ukpgaod_20210001_en_001.pdf

[20] Purple Book 2022, figure 9.11, figure rounded to the nearest 1000. https://www.ppf.co.uk/-/media/PPF-Website/Public/Years/2022-11/PPF_PurpleBook_2022.pdf

47. In calculating the familiarisation, implementation and ongoing costs of the Regulations, it is assumed all schemes will need to implement the requirements to provide information on their 'journey plan' (the period before a scheme reaches its relevant date) within the statement of strategy, though some schemes may be exempt – see paragraph 132. Such information includes how the funding level, investment allocation and risks are expected to change as the scheme moves towards the relevant date. It is recognised some schemes will already have reached their relevant date, as defined by the Regulations and subsequent draft code, but there is not sufficient data to provide an accurate estimate of how many schemes have reached this point. However, the number of schemes is estimated to be relatively low as a proportion of the whole DB universe. The familiarisation, implementation and ongoing costs may, therefore, be marginally overstated.

48. The modelling of schemes focuses on the "Fast Track" parameters as a comparator as outlined by TPR. This is the Regulator's view of tolerated risk for a scheme and sets out a series of quantitative parameters that need to be met in order to adopt a Fast Track approach. However, some schemes may follow the "Bespoke" approach which is intended to allow trustees to still have the flexibility to select scheme-specific funding solutions if the approach and actuarial valuation meet legislative requirements and follow code principles. Therefore, although all schemes are in scope (some schemes may be exempt as outlined in paragraph 132, however the total number of DB schemes is used in the calculations), it is recognised many may take a different approach to the one being modelled (or may already be following similar requirements and do not change their behaviour).

49. For the purposes of the modelling of DRCs, it is assumed the top 25 DB schemes (by asset size) do not change their behaviour. Although they are in the calculations –the counterfactual has been assumed and the proposed changes are the same for these schemes. This is based on the assumption they are well run and governed; therefore, the expectation is they would largely continue as they are and apply a bespoke arrangement (and therefore do not intend to follow the Fast Track approach). Where a "Bespoke" option is taken; it is not possible to estimate their behaviour response to the Regulations. If these 25 schemes did make changes due to the Regulations, this would have a significant impact on the final results; though the preliminary analysis suggests this could be a further net business saving (rather than cost) given that of these 25 schemes there are a greater number who are funding more prudently than Fast Track than less prudently.

50. In addition, it is important to note the analysis assesses the costs/benefits across the DB universe, stating the average across all schemes. It is recognised the costs/benefits on an individual scheme basis will be different compared to the average and will also be determined by a number of factors, such as affordability, resources, and changing market conditions. Where evidence is available, an attempt has been made to highlight the range of costs which could be faced by schemes. This is further supported by the SAMBA.

51. Only the preferred option (regulation) is modelled.

***Familiarisation, implementation, and ongoing costs***

52. Consistent with the Primary Legislation (Pensions Schemes Act 2021) Enactment Impact Assessment[21] and past pension impact assessments[22], several assumptions are made, based

[21] https://www.legislation.gov.uk/ukpga/2021/1/pdfs/ukpgaod_20210001_en_001.pdf

[22] As an example see: Disclose and Explain 2023 Impact Assessment https://www.gov.uk/government/consultations/broadening-the-investment-opportunities-of-defined-contribution-pension-schemes/outcome/final-disclose-and-explain-impact-assessment-broadening-investment-in-illiquid-assets

on the best available evidence, around scheme and wage details. This is applied to the time estimations of familiarisation and implementation of the regulations. These assumptions are:

- There are an **average of 3.2 trustees**[23] **per scheme** (based on TPR Trustee Survey data).
- The average **hourly wage of a trustee is £32.60**[24] (based on analysis of ONS's Annual Survey of Hours and Earnings).
- The **average hourly fee of schemes seeking advice from actuaries and other professionals** (including legal, investment consultants and covenant consultants) is **£280.55**[25]. This is based on analysis of actuarial team rates from the 2020 KGC associates 9th actuarial survey, that gives information on fees, services and trends for actuarial and administration providers. This encompasses a range of services and is believed to be a more accurate estimate of the hourly costs schemes will face when seeking professional support from external firms. An estimate from ASHE would only account for hourly wages rather than additional costs which schemes may face when seeking external advice/support. Given the complexity of the Regulations/Code and following consultation feedback of the draft Impact Assessment, seeking a wider range of advice was deemed more appropriate than past estimates used in previous IAs.
- There are **currently 5,131 DB schemes**[26] in total (based on PPF's 2022 Purple Book).

53. The table below highlights the familiarisation, implementation and estimated ongoing costs of introducing the regulations to schemes. This totals around £36.8m in implementation costs including familiarisation of the regulations (or around £7,000 per scheme – although as mentioned above the costs faced at an individual scheme basis will be different compared to the average depending on a number of factors discussed in more detail below) and around £5.4m each year as ongoing costs (or around £1,100 per scheme). As outlined above, it is recognised this will vary significantly scheme-by-scheme.

[23] Trustee Landscape Quantitative Research 2015- Estimate based on Figure 3.2.3 Number of trustees by scheme size., page 14. https://webarchive.nationalarchives.gov.uk/ukgwa/20170712122409/http:/www.thepensionsregulator.gov.uk/docs/trustee-landscape-quantitative-research-2015.pdf

[24] The median hourly wage for a corporate manager or director is £25.67 in the Annual Survey of Hours and Earnings 2022, Table 2.5a. This is uplifted by 27% for overheads from the archived Green Book. https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/occupation2digitsocashetable2

[25] https://www.kgcassociates.com/surveys/ £280.55 is an average of the estimated Scheme Actuary, Actuary and Actuarial support hourly charge out rate. It is believed this is a good proxy for all scheme professionals' hourly fees. https://www.kgcassociates.com/surveys/

[26] https://www.ppf.co.uk/sites/default/files/2022-11/PPF_PurpleBook_2022.pdf

| Cost type | Amount | Scheme volumes | Assumptions |
|---|---|---|---|
| Familiarisation – *one-off cost* | £15.8m | All 5,131 schemes will need to familiarise themselves with the regulations (some schemes may be exempt as outlined in paragraph 132, however the total number of DB schemes is used in the calculations). | All trustees (3.2 on average) and scheme advisors (including the scheme actuarial team) are involved. It is assumed they will need 1 day (8 hours). |
| Implementation of the funding and investment strategy (FIS) – *one-off cost* | £12.3m | Around 500 schemes do not currently have an LTO. 1,500 schemes do not currently have a robust LTO. | 90% of schemes have an LTO. Of this roughly a third (32%) are purely aspirational and will therefore also need to implement a FIS.[27]<br>All trustees (3.2 on average), and scheme advisors are involved in this process. All require 2 days (16 hours) to implement a FIS. |
| Implementation of the statement of strategy (SoS) – *one-off cost* | £8.8m | All 5,131 schemes are in scope. (some schemes may be exempt as outlined in paragraph 132, however the total number of DB schemes is used in the calculations).<br>There will be additional work for the same schemes who do not have a robust LTO in place - for the journey plan implementation, as part of the statement of strategy. | All trustees (3.2 on average) are involved in this process.<br>Trustees require 8 hours (1 day) to implement the statement of strategy.<br>Scheme advisors/professional for the 2,000 schemes needing a robust journey plan will be involved, requiring 1 day (8 hours). |
| Ongoing implementation costs – *annual cost* | £5.4m | All 5,131 schemes will need to review their FIS and SoS. (some schemes may be exempt as outlined in paragraph 132, however the total number of DB schemes is used in the calculations).<br>462 schemes per year are in surplus, therefore are in scope to submit their actuarial valuations. | All trustees (3.2 on average) will be involved in the process of reviewing the FIS and SoS. As will the scheme actuary. Trustees will spend 8 hours (1 day) reviewing/updating, and scheme professionals will spend 1 hour advising trustees.<br>Actuaries will need 1 hour to submit scheme valuations to TPR. |

[27] 68% of trustees with an LTO said that this drove the funding of the scheme, rather than being purely aspirational, therefore 32% have it as aspirational, https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/defined-benefit-schemes-survey-research-report-2021.ashx and https://www.aon.com/getmedia/45633b07-629b-4809-b1d1-d50b29626ee4/The-DB-pension-risk-management-journey.pdf.aspx

54. Whilst it is recognised there may be some sponsoring employer costs involved (particularly for larger schemes), there is also a likelihood some trustees will include employer representation. Therefore, to avoid double-counting, extra sponsor costs are not included.

*Familiarisation costs*

55. All trustees of schemes will need to familiarise themselves with the regulations and requirements. Given the details of the requirements set out above, alongside the planned length of the Regulations and TPR's Funding Code, it is assumed that trustees will need around one day (8 hours) to do this. Additionally, industry feedback suggests many schemes are already planning in line with the draft regulations and draft funding code; this may lessen the administrative burden on scheme trustees as when the final Regulations and Code come into force. It is also assumed scheme professionals (actuarial team and other professionals), hired to advise, or provide services related to the requirements set out in the Regulations, will need to familiarise themselves. It is assumed this will be equivalent to 8 hours of external scheme professionals' time. Although familiarisation costs can be uncertain, a number of sources have been used to best estimate the potential cost and responded to industry feedback. In particular:

- **Consultation IA** – An 8-hour estimate was included at the IA at consultation stage. Feedback from the industry (92 respondents in total) found many agreed with the projected costs that had been estimated, with 92 consultation responses received in total. These responses came from schemes, advisory, consultancy & umbrella/representative organisations, employers, actuaries, individual trustees and scheme members. However, there was a recognition that familiarisation and implementation costs should be split up rather than considered collectively (which has consequently been done as a result of their feedback).
- **Feedback from industry** –Schemes and industry stakeholders have been engaged with as part of the consultation to inform the cost assumptions.
- **Feedback from industry** – Schemes and industry stakeholders have been engaged with as part of the consultation to inform the cost assumptions.
- **Working group with TPR and GAD** – Their extensive pension experience and stakeholder discussions have been used to help inform an appropriate time estimate. (and drawing on similar initiatives,[28], where appropriate, to further support the 8-hour estimate).

This results in a total familiarisation cost of around **£15.8 million**[29].

*Implementation of the funding and investment strategy*

56. The funding and investment strategy includes the following elements:

- The way in which pensions and other benefits under the scheme will be provided over the long term (referred to above as the Long-Term Objective (LTO)).
- The relevant date.
- The funding level and investment allocation as at the relevant date.
- Expected maturity of the scheme at the relevant date.

[28] 2023 Pensions Dashboard Assessment https://www.legislation.gov.uk/ukia/2023/64/pdfs/ukia_20230064_en.pdf

[29] Calculation: [5131 x 8 x 3.2 x (£25.67 x 1.27)] + [5131 x 8 x £280.55)]

57. As set out above, it is assumed 90% of schemes already have a LTO in place, although 1,500 schemes have a largely aspirational plan, which does not drive scheme management and funding decisions. These schemes, along with the remaining 500 schemes[30] without a strategy, will be required to change or introduce a long-term funding and investment strategy. Schemes will need to set an LTO, which – as a minimum – will be low dependency on the sponsoring employer, and trustees will need to plan and manage their scheme funding and investment in accordance with that target.

58. This may involve trustee negotiations with their sponsoring business, as well as seeking advice from actuaries, legal teams and other scheme professionals via consultancy firms. Associated costs are expected to vary on a scheme-by-scheme basis – from negligible for those that already have a clear strategy and just need to formalise it, to potentially material for those that are currently applying a short-term approach to scheme management (focused only on the next triennial review). Based on the consultation of the draft regulations and TPR's Funding code, as well as internal feedback from TPR and GAD actuaries, it is assumed it will take a combination of all trustees of these schemes and scheme professionals 2 days (16 hours) to set the funding and investment strategy. Based on these assumptions and figures, the implementation cost is around **£12.3 million**[31].

*Implementation of the statement of strategy*

59. The regulations require trustees to set out the funding and investment strategy, in a statement of strategy, alongside further information on the level of risk trustees intend to take, estimates of the scheme's maturity and the employer covenant; as well as commentary on how the strategy is appropriate. This statement must be signed by the chair of the trustees on behalf of the trustee board, who must appoint a chair if they do not already have one.

60. It is assumed all trustees will be involved in this process. Given the statement of strategy is based on the funding and investment strategy, and there is already clear expectation placed on trustees in the current DB code to document their approach to funding investments and risk management, it is assumed the statement of strategy will take significantly less time to produce. The best estimate is all trustees will require 1 day (8 hours) to produce this. Applying the assumptions outlined above and figures gives a cost estimate of around **£4.3 million**[32].

61. Certain requirements related to the statement of strategy involve providing information on the journey plan, including how the funding level, investment allocation and risks are expected to change as the scheme moves towards the relevant date. Although there is already a clear expectation placed on trustees in the existing DB code for schemes to document their approach to funding, investments and risk management, it is assumed some schemes will require the support/advice of scheme actuaries and external professionals.

62. TPR's annual survey of trust-based occupational DB pension estimated around 70% of schemes have a journey plan33. This is roughly equivalent to the number of schemes that said their LTO drove the funding of the scheme. It is very likely that the 3,100 schemes with a robust funding and investment strategy in place will also have a journey plan set out. Based on these assumptions, it is assumed the remaining number of schemes (around 2,000) will need a day of external scheme professionals' time.

---

[30] = 5,131*0.1 = 513

[31] Calculation: (16 x 3.2 x [1,478 + 513] x [£25.67 x 1.27]) + (16 x [1,478 + 513] x £280.55)

[32] Calculation: 5,131 x 3.2 x 8 x (25.67 x 1.27)

[33] https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/defined-benefit-schemes-survey-research-report-2021.ashx and https://www.aon.com/getmedia/45633b07-629b-4809-b1d1-d50b29626ee4/The-DB-pension-risk-management-journey.pdf.aspx

63. Industry feedback on the consultation cost estimates were, overall, quite wide-ranging with disagreements on the additional level of administrative burden and level of familiarisation required (some believed it would lead to minimal costs; some much greater). Consequently, a wide-range if sensitivity has been applied to the time-estimates - reflecting the fact that the DB universe is diverse and important to reflect the variation of views.

64. All assumptions on costs of implementing have been shared with industry (to seek feedback) via a consultation IA and extensively discussed with pension experts in GAD, TPR, and DWP to arrive at the most robust estimate possible. Based on these discussions, it has been concluded the remaining number of schemes (around 2,000) will need a day (8 hours) of external scheme professionals' time. This assumption is estimated from how many additional hours a scheme professional (i.e., an actuary) would need to assist trustees to set the journey plan. The cost estimate of this is around £4.5 million[34].

65. The Pension Schemes Act 2021 Enactment Impact Assessment[35] outlined the impacts of schemes being required to have a Chair. Currently, having a Chair (of a scheme's trustee board) is not a legislative requirement in DB, but schemes may have a requirement in their individual scheme's rules. The Pension Schemes Act 2021 Enactment Impact Assessment referred to TPR's 2015 Trustee Landscape Quantitative Research[36], which found that 85% of DB schemes (and 92% of hybrid schemes) already had a Chair of their trustee board; the bigger the scheme, the greater the likelihood of having a Chair. There were also expectations from a number of schemes to appoint a Chair in the next 12 months.

66. However, given the increasing requirements on DB schemes and Regulations in place, it is expected the number of schemes without a Chair is significantly lower than first estimated in 2015. Where a formal Chair is not currently in place, it is expected a "de facto" Chair or a rotating Chair is already applied. Further, the expectation may be that a chair is appointed from the existing Trustees (not a new hire) nor would it be expected that large salary increases would be offered to a new Chair, particularly for smaller schemes with limited resource budgets. Based on engagement with TPR and the industry, it is now therefore anticipated that costs of establishing a Chair will be negligible.

67. In addition, a new requirement as part of the statement of strategy will be placed on schemes that are in surplus to submit their actuarial valuations. Schemes that are in deficit are currently required to submit this to TPR at least every three years. The estimations of the impacts of this requirement were set out in the Pension Schemes Act 2021 Enactment Impact Assessment but have been updated for this Impact Assessment. The administrative burden of this is expected to be minimal as these schemes are already required to provide similar information, to that used in the valuation, to TPR through the 'Schemes in surplus' form as part of the Scheme Return.

68. This all results in an estimated total implementation cost (excluding familiarisation) of around **£21.0m**[37].

---

[34] Calculation: (8 x 1,991 x £280.55)
[35] https://www.legislation.gov.uk/ukpga/2021/1/pdfs/ukpgaod_20210001_en_001.pdf
[36] Trustee Landscape Quantitative Research 2015- (see table B9 in page 53)
[37] £12.3m + £4.3m + £4.5m

*Ongoing costs*

69. Most of the work involved in setting the funding and investment strategy and statement of strategy comes from the one-off implementation cost. However, the regulations outline the funding and investment strategy must be reviewed, and if necessary, revised alongside each valuation, usually every three years, and after any material change in the circumstances of the pension scheme or of the employer. Based on the consultation responses received by DWP, it is not believed schemes will need to spend significant amounts of time to update or review the products once initially produced.

70. Consequently, it is assumed all scheme trustees will need to spend 1 day (8 hours) updating/reviewing both products per year, consisting of 6 hours reviewing the funding and investment strategy and 2 hours updating the statement of strategy. In addition, it is assumed schemes will consult and seek external support when reviewing the financial and investment strategy from schemes professionals (actuarial team and others), resulting in an additional day of external fees.

71. Given the funding and investment strategy must be reviewed and updated within 15 months of submitting the actuarial valuation[38], it is assumed schemes are evenly distributed between triennial tranches. Therefore 1,710 schemes per year will need to do this. Applying these assumptions and figures gives a cost estimate of **£5.3m[39] per year** for the ongoing costs of the funding and investment strategy and the statement of strategy.

72. In addition, it is expected there will be some ongoing costs of schemes in surplus on a SFO basis[40], submitting the actuarial valuation, as part of the statement of strategy. This comes from additional time spent by the scheme's administrator or actuary in adding this information into the statement. There are currently around 1,400 schemes estimated to be in surplus[41] on a SFO basis. Given triennial valuations being submitted, and schemes in surplus are assumed to be evenly distributed between tranches, therefore around 500 schemes in surplus per year will need to submit their actuarial valuation. Schemes are already expected in the baseline to undertake a valuation and to upload some of this information in the 'Scheme in surplus' component of the scheme return. As such, it is assumed that the changes to the requirements will result in an extra hour of work for either a scheme administrator or actuary. This produces a total per annum cost of approximately **£130,000**[42] for schemes.

73. This leads to an overall ongoing cost of **around £5.4m per year** to schemes.

***Sensitivity Analysis***

74. Although the estimates of implementation and ongoing costs are based on the best available evidence and been tested via the consultation Impact Assessment stage, it is recognised that there is still considerable uncertainty, and this will differ scheme-by-scheme. To highlight the sensitivity of implementation costs, the most uncertain and sensitive input has been adjusted – time required. This is because it drives the cost (as hourly wages and fees are used) and is uncertain (will vary across schemes), and subject to change (as the final Code of Practice and

---

[38] The actuarial valuation is done every year, but only needs to be submitted every 3 years. Schemes are broadly split into 3 tranches so each year, around one-third of schemes submit their valuations to TPR.

[39] Calculation: [1710 x 3.2 x 6 x (25.67 x 1.27)] + [1710 x 6 x £280.55] + [1710 x 3.2 x 2 x (25.67 x 1.27)]

[40] See Paragraph 4 for detailed explanation.

[41] Tranche Scheme Returns Data https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/scheme-funding-analysis-2022

[42] Calculation: 462 x £280.55

Guidance may be more or less detailed).

75. To illustrate the effect, the time required **on all steps** is adjusted (which have been outlined above) by:
    - 50% greater time requirements – Upper estimate
    - 50% lower time requirements – Lower estimate

76. TPR's trustee research suggests that schemes were more likely to have only non-professional trustees (46%) than only professional/corporate ones (27%), and a quarter of schemes (26%) had both types of trustees[43]. This shows there is a wide difference in the range of capability and knowledge of trustees for schemes between each individual pension schemes, those with non-professional trustees may require more time to familiarise themselves with the regulations and vice versa. Similarly, research from the Regulator shows greater awareness of regulations and changes for very large schemes (schemes with 10,000+ members)[44], who are more likely to have the resources to already be aware of the proposed regulations and be better able to process them quickly, whereas smaller schemes may not. Hence a large variance in the upper and lower estimate is used within the sensitivity analysis to reflect this. Lastly, industry feedback on the consultation cost estimates were wide ranging. Although many supported the estimates, there were disagreements on the additional level of administrative burden and familiarisation required (some thought too low; some thought too high). The use of a wide range of sensitivity to the time-estimates reflects this wide variation.

77. As Table 1 shows, changes in the time required could mean year 1 implementation and familiarisation costs range from around £18m to £55m (or around from £4,000 to £11,000 per scheme). Ongoing costs will range from around £3m to £8m per annum. This is an area which will be monitored closely post-implementation to understand the impacts on schemes.

Table 1: Sensitivity analysis on familiarisation and implementation costs

| **Cost type** | **Central Estimate** | **Upper Estimate** | **Lower Estimate** |
|---|---:|---:|---:|
| Familiarisation – *one-off cost* | £15.8m | £23.7m | £7.9m |
| Implementation of the funding and investment strategy (FIS) – *one-off cost* | £12.3m | £18.4m | £6.1m |
| Implementation of the statement of strategy (SoS) – *one-off cost* | £8.8m | £13.1m | £4.4m |
| Ongoing implementation costs – *annual cost* | £5.4m | £8.1m | £2.7m |

***Changes to Deficit Reduction Contributions***

78. The most notable potential change of the regulations is this may lead to changes in funding targets and recovery plans (plans agreed between sponsoring employers and schemes at addressing pension deficits) and thus an increase in Deficit Reduction Contributions (DRCs) paid to repair any funding deficits. These are important payments made by employers to help ensure the pension scheme is fully funded and will meet its promise to pay pensions in the

[43] Figure 3.1.2 https://webarchive.nationalarchives.gov.uk/ukgwa/20170712122409/http:/www.thepensionsregulator.gov.uk/docs/trustee-landscape-quantitative-research-2015.pdf

[44] https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/defined-benefit-schemes-survey-research-report-2021.ashx

future. In many cases it is the timing of the DRCs that has been brought forward rather than necessarily being brand new costs to an employer as the regulations do not change the real (underlying) pension liability; but it alters the way the scheme is being serviced. Some contributions into the scheme are brought forward, but the overall funding requirement (and cost to employer) over the scheme's lifetime are not altered.

79. The regulations set the framework for the DB scheme funding code to provide parameters to help guide schemes which may change the calculation of important assumptions, including:
    - **Discount Rates –** As liabilities are a flow of pension payments due in the future, these need to be discounted to the present day by a discount factor reflecting the assets held to pay the benefit payments. A higher discount rate may show an improved funding position, as it leads to lower liabilities, but may not necessarily be representative of a well-funded scheme.
    - **Maturity Point –** It is expected that as schemes mature, less risk will be taken and more conservative assumptions (discount rates) used. The regulations will determine when "significant maturity" is reached.
    - **Risk –** As schemes mature, there is an expectation investment will move from growth assets (such as equities) into safer assets (such as government bonds). This will lower the discount rate (hence higher liabilities), as assets will be expected to provide a lower future return.
    - **Long Term Objective (LTO) –** Helping schemes plan what the long-term objective of the scheme should be, for example such as reaching buy-out (where an insurer buys the scheme and the employer is no longer responsible), or alternatively running the scheme on in a low-risk manner.

80. The current lack of clarity in funding requirements and a clear end goal means some schemes may be applying more cautious assumptions for the purposes of their valuations, relative to legislative minimums, leading to higher deficit estimates, higher DRCs, and associated costs. They may do this in order to reduce risk of volatility on members and sponsors, and as part of a strategy to buy out on the insurance market in the future. Equally, some schemes may not have a LTO or be currently targeting artificially low pension scheme liabilities and/or inconsistently with their LTO leading to lower DRCs than what is needed. This may also apply to investment strategies, with some schemes taking on more risk (aiming for higher growth but at the cost of greater volatility) or schemes being more cautious in investment risks (helping reduce volatility but leading to additional DRC costs from employers).

81. It is important to note the legislation does not specifically stipulate investment strategies or that each scheme should respond in exactly the same way. Schemes can make tailored and bespoke decisions in response to the regulations; the framework helps support schemes in what the expectations are. TPR's Code is still to be finalised and subject to change, in line with the amended Regulations, however in the interests of transparency, TPR have best modelled a pragmatic approach, in that 50% of schemes may take action, in order to estimate the potential impacts recognising these regulations will lead to some schemes taking action. This will vary scheme-by-scheme, hence additional sensitivity analysis is included on the level of action taken and will vary across all schemes and is dependent on the final code.

82. It is also recognised that many schemes may weaken their funding position as a result of the change. This is expected; clearer funding standards set out much more explicitly what the required funding levels looks like. The regulations aim to ensure schemes are at, or above, this level.

83. To model the DB universe over the next 10 years, modelling by TPR has been undertaken. The key assumptions for the counterfactual are:

- **Data –** Data is modelled from the point of 31 March 2021 based on the latest available information for each individual scheme on assets and liabilities. Adjustments are made between the latest valuation (which may be pre/post 2021) and 31 March 2021 by accounting for assets changes in line with market indices (for each asset class) and allowing for DRC payments which have been promised to be paid over the period. Projection of liabilities and assets are made for 10 years with further adjustments by the unwinding of the discount rate over time, assumed net returns, DRCs, and expected cashflows from pension payments.
- **Future DRCs –** Current levels of DRCs (average of the last three years) are assumed, with an allowance of up to an extra 20% if this would eliminate the estimated funding deficit as at 31 March 2021 from the agreed recovery plan. If this is not possible, the recovery plan length is extended using 20% higher DRCs than currently until the deficit is expected to be removed. No adjustment for inflation linked increases to DRCs is made. For the projections, once the modelled DRCs remove the deficit, no further DRCs are assumed to be made for any future year.
- **Derisking –** Where schemes have less than 15% of their assets in return seeking assets (e.g., equities), no further derisking is expected. For other schemes, the level of return seeking assets reduces 5% each duration year until the growth allocation is 20%; then reduced a further 1% each duration year until the growth allocation is 15%. This is not applied to schemes which remain "open" (i.e., where members are still accruing benefits).

As mentioned in paragraphs 22-30, it is believed these assumptions and the modelling provide the best estimate of the potential impacts. Further details of these assumptions can be found in Annex 1.

84. To model the potential impact of the planned changes, key assumptions used to value the liabilities are adjusted in relation to "Fast Track" parameters outlined in TPR's consultation. This is the best estimate of the potential interpretation and approach schemes may make (but as mentioned, schemes may choose bespoke options in applying the rules which would impact the final cost):

- **Behavioural assumptions –** Adjustments to the assumptions above compared to the counterfactual may lead to an increase/decrease in scheme funding position. This would require less/more DRCs. There is no available evidence on how schemes may respond to the rules, therefore in the absence of any evidence it has been assumed for the central approach that in aggregate, where required, 50% of schemes will change their behaviour and adopt the Fast Track approach and the remaining 50% will retain their existing approach. As it is impossible to predict which particular schemes would change their approach and which schemes would maintain their existing approach, it has instead been assumed that all schemes move their liabilities 50% of the way towards Fast Track. This will result in a change in the starting deficit and to calculate the starting DRCs:
    - Any allowance for investment out-performance in the recovery plan is removed
    - If DRCs need to increase (as liabilities and thus deficit is greater and there is no investment outperformance), they are increased up to a maximum of 20%. If this does not address the shortfall within the current Recovery Plan, then the plan length is extended (up to a maximum of 16 years, at which point the DRCs will be increased accordingly to remove the deficit using a 16-year Recovery Plan).
- Some schemes may "level down" their DRCs as their liabilities are now estimated to be lower compared to the counterfactual. Equally, some schemes liabilities may now be higher compared to the counterfactual so are required to "level up". Under the central

approach, liabilities are assumed to be 50% of Fast Track liabilities and 50% of initial counterfactual liabilities.

- **Fast Track Liabilities** are calculated using a forward discount rate of Bank of England (BoE) Gilt curve + 2%, de-risking over time to, forward discount rate of BoE Gilt curve + 0.5% at the point of significant maturity.
- **Fast Track Asset de-risking –** Broadly, assets are projected using a similar approach to the counterfactual with gradual de-risking over time until the growth allocation is 15% at the point of significant maturity. However, under Fast Track, the asset allocations are adjusted such that the initial level of growth assets are broadly at the maximum limit of what would be acceptable using Fast Track and that de-risking starts at the point the scheme reaches a duration of 17 years. The rate at which the scheme de-risks under a Fast Track approach is higher than that assumed under the counterfactual approach, 9% per duration year.

85. Recognising this as a broad assumption in the light of limited evidence to derive a more accurate behavioural response, the sensitivity of the central assumption is shown with two alternative scenarios:

1) **"Higher DRCs"** - Under the higher DRC approach, it has been assumed that, for those schemes who level up, rather than move 50% of the way to Fast track they move 75% of the way towards Fast Track. However, for those schemes who are assumed to level down, it is instead assumed that they only move 25% of the way towards Fast Track. As such for both types of schemes, this will result in higher technical provisions compared to the central behaviour approach and hence higher deficits leading to overall higher DRCs.
2) **"Lower DRCs"** - The opposite applies for the lower DRC approach in that, the levelling up schemes only move 25% of the way towards Fast track, whilst levelling down schemes move 75% of the way towards Fast Track, with the resulting lower technical provisions compared to the central behaviour approach and hence lower deficits and overall lower DRCs.

86. Table 2 shows the starting position of the DB universe under the counterfactual and central positions (along with the sensitivity). As can be seen, the asset positions are the same reflecting no adjustment is made to asset values at the start. There is a small difference in liabilities under the Central approach reflecting scheme levelling up are broadly equal to schemes levelling down – though it is important to note the sensitivity with around +/- £12bn on higher/lower scenarios.

**Table 2: Assets & Liabilities of DB Universe at Year 1**

| £bns | Counterfactual | Central | Higher | Lower |
|---|---|---|---|---|
| **Assets** | £1,710 | £1,710 | £1,710 | £1,710 |
| **Liabilities** | £1,712 | £1,711 | £1,723 | £1,699 |
| **Surplus / (Deficit)** | (£2) | (£1) | (£14) | £11 |
| **Funding Level** | 100% | 100% | 99% | 101% |

However, this hides a more significant difference shown in Table 3 when looking at schemes in surplus (more assets than liabilities) and in deficit (more liabilities than assets). There are around an extra 100 schemes modelled to be in surplus under this central approach.

**Table 3: Aggregate Funding split by schemes in surplus or deficit**

| £bns | Counterfactual | Central | Higher | Lower |
|---|---|---|---|---|
| | Schemes in Surplus | | | |
| No. of Schemes | 2,256 | 2,365 | 2,185 | 2,553 |
| Assets | £928 | £993 | £924 | £1,039 |
| Liabilities | £860 | £927 | £860 | £969 |
| Surplus / (Deficit) | £67 | £66 | £64 | £70 |
| Funding Level | 107.8% | 107.2% | 107.4% | 107.2% |
| | Schemes in Deficit | | | |
| No. of Schemes | 2,795 | 2,686 | 2,866 | 2,498 |
| Assets | £782 | £717 | £785 | £671 |
| Liabilities | £852 | £784 | £863 | £730 |
| Surplus / (Deficit) | (£70) | (£68) | (£78) | (£59) |
| Funding Level | 91.8% | 91.4% | 91.0% | 91.9% |

87. Table 4 identifies the groups based on a combination of their counterfactual funding approach and funding level and whether there is an impact from the change in approach:

- Around 30% (of liabilities) are in schemes who are already applying more prudent assumptions than Fast Track and are in surplus –**no impact is expected on the changes on this group**
- Around 4% (of liabilities but 10% by numbers) are scheme who are currently targeting a LTO and are in deficit –**it is expected these schemes will continue to target their LTO and therefore do not make any changes**
- The top 25 schemes account for around 30% of liabilities –**changes from this group are not expected** (as discussed previously).
- The remaining approximately 35% of liabilities (or around 55% of schemes by number) **are schemes modelled as responding to the changes.** This is largely made-up of:
    - 1,381 schemes who may "level down" DRCs as they are currently applying more prudent assumptions
    - 1,446 schemes who may "level up" as currently less prudent assumptions (though not all will require DRC changes).

**Table 4: Counterfactual split by funding category**

| | | No. of schemes | % | Counterfactual Liabilities | % |
|---|---|---|---|---|---|
| **Counterfactual TPs more prudent than Fast Track and…** | **…in surplus** | 1,680 | 33% | £551bn | 32% |
| | **…in deficit (and funding basis equal to LTO)** | 519 | 10% | £64bn | 4% |
| | **…in deficit (but still need to get to LTO)** | 1,381 | 27% | £326bn | 19% |
| **Counterfactual TPs less prudent than FT** | | 1,446 | 29% | £223bn | 13% |
| **Top 25 schemes** | | 25 | 0% | £549bn | 32% |
| **Total** | | **5,051** | **100%** | **£1,712bn** | **100%** |

88. The overall modelling finds **aggregate DRCs will be around £0.26bn lower over the 10 year period under the change compared to the counterfactual,** as set out in Table 5. A further breakdown of this table, detailing the total increases and decreases to DRC payments can be found in Table 12 in Annex 2. This is largely a reflection of the additional cost to schemes having assumed to "level up" by increasing DRCs is offset by schemes who may choose to "level down". When applying the higher and lower assumptions, this could result in DRCs increasing by around £7bn or decreasing by around £7bn – a significantly wide margin (though this should also be seen in the context of around £1.7trillion liabilities). The fluctuation year to year reflects different recovery plan lengths in place. It also highlights the sensitivity of assumptions.

**Table 5: Estimated DRCs over next 10 years (£bns, rounded to nearest £100m)**

| £bns | Y1 | Y2 | Y3 | Y4 | Y5 | Y6 | Y7 | Y8 | Y9 | Y10 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Counterfactual** | £13.4 | £12.2 | £8.9 | £6.9 | £5.9 | £4.5 | £3.7 | £2.7 | £2.1 | £1.8 | **£62.1** |
| **Central** | £13.2 | £12.1 | £8.6 | £7.1 | £6.0 | £4.6 | £3.5 | £2.8 | £2.1 | £1.9 | **£61.9** |
| **Higher** | £14.3 | £13.2 | £9.7 | £8.0 | £6.8 | £5.5 | £4.2 | £3.2 | £2.4 | £2.1 | **£69.4** |
| **Lower** | £12.1 | £11.1 | £7.7 | £6.1 | £5.2 | £4.0 | £3.2 | £2.4 | £1.8 | £1.6 | **£55.2** |
| **Central Net increase** | -£0.20 | -£0.10 | -£0.30 | £0.20 | £0.10 | £0.10 | -£0.20 | £0.10 | £0.00 | £0.10 | **-£0.30** |
| **Higher Net increase** | £0.90 | £1.00 | £0.80 | £1.10 | £0.90 | £1.00 | £0.50 | £0.50 | £0.30 | £0.30 | **£7.30** |
| **Lower Net increase** | -£1.30 | -£1.10 | -£1.20 | -£0.80 | -£0.70 | -£0.50 | -£0.50 | -£0.30 | -£0.30 | -£0.20 | **-£6.90** |

89. Whilst the aggregate picture may be lower DRCs, it is important to note there are some schemes who will have higher DRCs and some schemes could choose to have lower DRCs. At an individual level, this does result in some schemes paying significantly more or less:

- Around 1,200 schemes are expected to pay more DRCs – with their payments increasing around £7.1bn over the 10 years (a 45% increase compared to the counterfactual). At an aggregate level the mean increase in year 1 is around £911,000 per scheme/employer, the median increase is only around £50,000 showing this is significantly skewed towards just a few schemes.

- Around 1,400 schemes are expected to pay less DRCs – their payments decreasing around £7.4bn over the 10 years (a 27% decrease compared to the counterfactual). At an aggregate level the mean decrease in year 1 is around £885,000 per scheme/employer, the median decrease is £87,000 showing this is significantly skewed towards just a few schemes.

**Table 6: Number of schemes changing DRCs**

| | No of schemes | % |
|---|---|---|
| **Increase DRCs** | 1,158 | 23% |
| **Stay the same** | 2,512 | 50% |
| **Decrease DRCs** | 1,381 | 27% |
| **Total** | **5,051** | **100%** |

**Table 7: DRCs by whether increase/decrease**

| £bns | Counterfactual | | | Central | | |
|---|---|---|---|---|---|---|
| Year | DRCs increasing | DRCs staying the same | DRCs decreasing | DRCs increasing | DRCs staying the same | DRCs decreasing |
| 1 | £2.3 | £5.6 | £5.5 | £3.3 | £5.6 | £4.2 |
| 2 | £2.2 | £5.0 | £5.0 | £3.2 | £5.0 | £4.0 |
| 3 | £2.0 | £2.5 | £4.4 | £2.9 | £2.5 | £3.2 |
| 4 | £1.7 | £1.7 | £3.4 | £2.7 | £1.7 | £2.6 |
| 5 | £1.6 | £1.6 | £2.8 | £2.4 | £1.6 | £2.1 |
| 6 | £1.5 | £1.1 | £2.0 | £2.2 | £1.1 | £1.4 |
| 7 | £1.3 | £0.7 | £1.7 | £1.8 | £0.7 | £1.0 |
| 8 | £1.2 | £0.3 | £1.3 | £1.6 | £0.3 | £0.9 |
| 9 | £1.1 | £0.1 | £0.9 | £1.5 | £0.1 | £0.5 |
| 10 | £1.0 | £0.1 | £0.7 | £1.4 | £0.1 | £0.4 |

90. Under a higher DRC scenario:

- Around 1,200 schemes are expected to pay more DRCs – with their payments increasing around £10.6bn over the 10 years (67% increase)
- Around 1,200 schemes are expected to pay less DRCs – with their payments decreasing around £3.6bn over the 10 years (13% decrease)

91. Under a lower DRC scenario:

- Around 1,200 schemes are expected to pay more DRCs – with their payments increasing around £3.5bn over the 10 years (22% increase)
- Around 1,400 schemes are expected to pay less DRCs – with their payments decreasing around £10.6bn over the 10 years (38% decrease)

92. The overall impact will be very dependent on both the level of movement adopted by schemes and the number of schemes amending approaches following the introduction of the revised funding regime. Of equal importance to the overall net cost is the number of schemes who choose to level down as well as those who may choose to level up. It should

also be noted that in many cases it is the timing of the DRCs which has changed (being brought forward) rather than necessarily a brand-new cost being created for employers. Whilst, due to discounting, this would still lead to a business cost; it is important context to consider.

93. As outlined above, there is not complete data which captures the full picture over the course of 2022 as global interest rates (and Gilt yields) have been rising significantly and with high degree of expected continued volatility in future interest rates. This would impact the estimated costs but there are many counteracting points to consider, for example:

   - **Liabilities have fallen –** As discussed above, there has been a significant decrease in DB liabilities given rising Gilt yields which are often used to derive discount rates used in liability calculations (and which are used for the calculation of Fast Track liabilities). Where a scheme had hedged their assets to move exactly in proportion to their movements in liabilities – their net funding position will not have changed. Where this was not the case, liabilities may have fallen more than assets and therefore improved the funding position (and thus reduce the need for DRCs). Overall liabilities measured in relation to gilt yields would, however, in all cases have fallen.
   - **Schemes are more mature –** However, as liabilities may have fallen, this means schemes will have matured faster than previously expected (this is because pension payments remain unaffected and hence annual pension payments as a percentage of total assets or liabilities has increased). The implications of this is that less risk should be taken thus potentially requiring more DRCs as lower asset returns can be achieved due to lower levels of investment in return-seeking assets in order to meet the LTO.

94. TPR modelling suggests that the improved funding from higher liabilities led to a reduction in counterfactual DRCs by broadly 50% when compared to the position as at 31 March 2021. For example, counterfactual DRCs are estimated in year 1 at £6.9bn compared to £13.4bn. However, the significantly greater maturity leads to a net impact of the new funding regime of an estimated overall net cost of around £1.5bn on the central basis over 10 years (albeit the total amount of DRCs in absolute terms is materially lower than the central basis as at 31 March 2021).

95. However, the consultation on the draft regulations highlighted some potential issues with the maturity methodology and definitions, such as highlighted above, and these are currently subject to review. As an example, using 31 March 2021 yields in order to calculate maturity only (i.e., a fixed approach to calculating maturity rather than a market-led approach), the impact of the improved market conditions leads to an overall net saving of around £1.6bn over the ten years under the central basis compared to the counterfactual, with significantly lower levels of total DRCs under both compared to 31 March 2021. Given the limited data on how the regulations, TPR's Code, and Fast Track might be amended and continued market volatility, this is included for sensitivity but use data from 2021 to inform the final costs given the more accurate picture this presents.

### *Benefits to Business*

96. As set out in the White Paper[45], this measure is expected to support trustees and their sponsoring employers to make the best possible long-term decisions to meet the pension liabilities of all members of the pension scheme over time. These long-term plans should help improve governance, reduce the risk of significant unplanned expenditure, and make it

---

[45] https://www.gov.uk/government/publications/dwp-white-paper-protecting-defined-benefit-pension-schemes-a-gad-technical-bulletin

easier to plan for the future, as pension costs should be more stable and predictable. This will also limit the need and risk of the scheme requiring additional employer contributions once the scheme has reached significantly maturity.

97. As a result, given DB pension schemes are sponsored by an employer, improved scheme governance and accountability as a result of the proposed requirements is likely to benefit the sponsoring businesses through reducing cost pressure on them over the long term.

98. Further, given the changes in market conditions over 2022 and 2023, many employers will see their DB scheme have lower liabilities and result in a lower level of DRCs being required compared to existing recovery plans. This should help support businesses through reducing the likelihood of insolvency if business and pension costs are lowered.

99. It is important to recognise that the new regulations introduce the requirement for recovery plans to be based on reasonable affordability of the sponsor. This will help ensure that the funding of schemes properly recognise the need to be affordable for employers. For schemes where DRCs may need to increase, any increase will therefore be limited by a scheme specific assessment of the employer's affordability. However, quantifying the benefit of all of these factors would be disproportionate as isolating those impacts from other factors would be a very complex and resource intensive exercise.

100. The Regulations make clear that the trustees of most DB schemes are potentially taking less risk than will be required by legislation (for example around 70-75% of schemes satisfy TPR's Fast Track parameters in relation to investment risk and are broadly the same in relation to technical provisions). The analysis estimates that the Regulations could provide a greater incentive for around 1380 schemes to invest more productively, which may help unlock up to £5bn of further investment in private equity and venture capital.

101. The Regulations make it explicit that open schemes can take account of both new entrants and future accruals, meaning open schemes have a longer period of time before they begin to de-risk. This in turn will allow open schemes to thrive and provide a greater opportunity for these schemes to invest in long-term return-seeking assets, which can reduce the cost of providing DB benefits and drive growth in the UK economy.

102. The Regulations make it clear that trustees can continue to invest in a wide range of assets, including growth assets that are productive for the UK economy. They provide additional flexibility for pension scheme surpluses to be used and managed more effectively – this will help unlock the potential for DB schemes, as investors of large amounts of capital, to support UK growth and the transition to net zero.

### ***Costs to Members***

*Pension Contributions*

103. There is **unlikely to be a cost to members**. The requirement is aimed and designed to improve scheme risk management, governance, and decisions making, which in turn is intended to make scheme running more efficient, economically viable, and secure. In most instances, costs from the regulations cannot be passed onto members as they are promised a pension amount based on earnings and tenure and is therefore irrespective of scheme costs.

104. The only exception may be in schemes which share costs and are still open for accrual. These schemes could ask members to pay more to contribute towards the higher costs. In 2022, around 10% of DB schemes were still open (or around 20% of DB members were in open schemes). Given this is the minority and, on a per scheme basis, the average costs are

estimated to be low, there is not anticipated to be any material impact on members in aggregate.

*Wages*

105. Previous analysis conducted by Resolution Foundation[46] has explored the role of DB deficits, DRCs, and wage impacts. This found *"a strongly significant negative correlation between deficit payments and employee pay levels"*. Given the Regulations may lead to changes in DRCs, the potential impact this may have on wages has not been considered. However, this is not anticipated to be material nor have the evidence to monetise given:

- The net change in DRCs is for a lower level of contributions. Therefore, whilst some schemes/employers may pay in more (and this could impact wage levels), this would only be for a small number of employers and could be more than offset by employers who may need to pay less DRCs (and thus pass on greater wage levels).
- The research highlights the regression analysis does not identify what firms should have done when faced with greater costs nor the attitudes/views of employers and employees to the pay and reward which arises from DRCs.
- The study was done during a period of significant DRCs and DB funding deficits. Schemes are in a much stronger position (as shown by lowering DRC levels, even under a counterfactual position).

*DC Contribution Levels*

106. Feedback from the consultation suggested the impact of increased DB funding (via greater DRCs) may lead to lower levels (or no future increase) of Defined Contribution levels for other pension savers within that employer. However, there is no evidence of employers levelling down DC rates and, as the analysis shows, the net change in DRCs is for a lower level of contributions. However, this may be a risk for selected individuals.

***Benefit to Members***

107. If the employer stands behind a DB scheme and is able to provide sufficient financial support, then members will receive their benefits in full. Equally, many DB schemes reach their "end goal", for example by moving their assets and liabilities to an insurer to guarantee benefits (and mean the employer no longer has to back the scheme). The main risk to DB members (and the PPF) is insolvency of the sponsoring business at any point when the scheme is underfunded. At the point of insolvency, the position of the scheme is crystallised in which underfunded schemes (as measured on a buyout basis) will not be able to secure their members' benefits in full.

108. Members may potentially lose out if a sponsoring employer goes insolvent depending on the existing funding levels of the scheme on a buyout basis:

a) **If a scheme is fully funded** on a buy-out basis**,** then the DB scheme can be transferred to an insurance firm ("buy-out") and members will receive their full pension entitlement.
b) **If a scheme has sufficient resources to buy out benefits better than PPF compensation levels,** then the DB scheme may be transferred to an insurance firm, though members may receive a lower amount than their full entitlement.
c) **If a scheme has insufficient resources to buy out at or above PPF compensation levels,** it is likely the scheme will move into the PPF, meaning members will likely receive

---

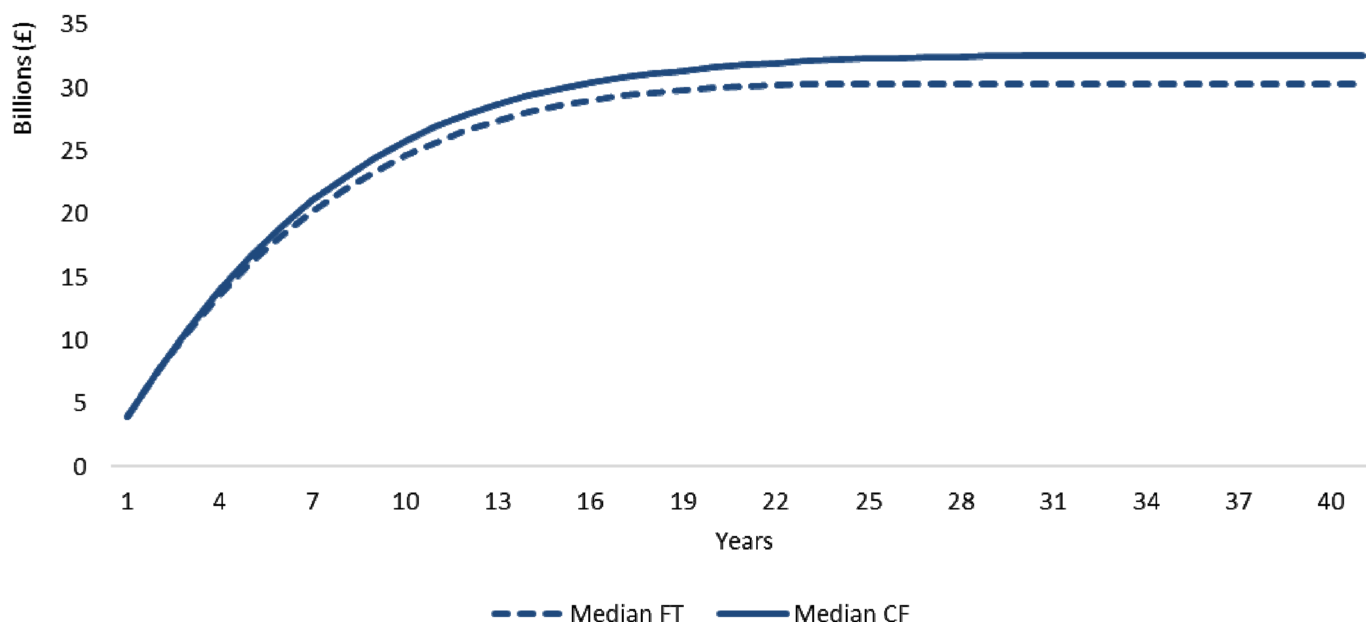
[46] https://www.resolutionfoundation.org/app/uploads/2017/05/The-pay-deficit.pdf) & https://www.resolutionfoundation.org/app/uploads/2018/05/A-New-Generational-Contract-Full-PDF.pdf

less of their promised pension.

109. Helping schemes improve their funding position and reduce employer dependency may result in a consumer benefit. However, estimating the potential monetary benefit is incredibly challenging given it cannot be known how schemes will behave and which employers in the future may go insolvent. As part of the stochastic model developed by GAD, the potential benefit to members was demonstrated by calculating the liabilities at risk for members. This is found by calculating the difference in PPF and full buy-out liabilities subject to the level of assets in the scheme using a simplified modelling approach which looked at Fast Track and Counterfactual only, and by using historical sponsor insolvency rates of around 1% of schemes entering the PPF. TPR published this modelling alongside their Draft DB funding code consultation in December 2022.[47]

110. As outlined in DRCs section, the overall impact of levelling up of DRCs improves the funding position of those schemes whilst levelling down is not expected to materially change funding positions; therefore, the overall funding position is improved. This should translate into greater security for members. The GAD modelling at the median outcome suggests the regulations will result in lower cumulative liabilities at risk: £24.6bn cumulative liabilities at risk in Fast Track compared to £25.8bn under the Counterfactual by the 10 year period. This assumes all schemes follow the FT approach (note this is a different approach to the TPR modelling of the DRC estimates above)). At the median level of outcomes this results in a net £1.2bn lower cumulative liabilities being at risk over the 10 year period – meaning members are more likely to receive their full pension and increasing member security.

**Figure 1: Member Security – Cumulative Liabilities at Risk (GAD modelling)**



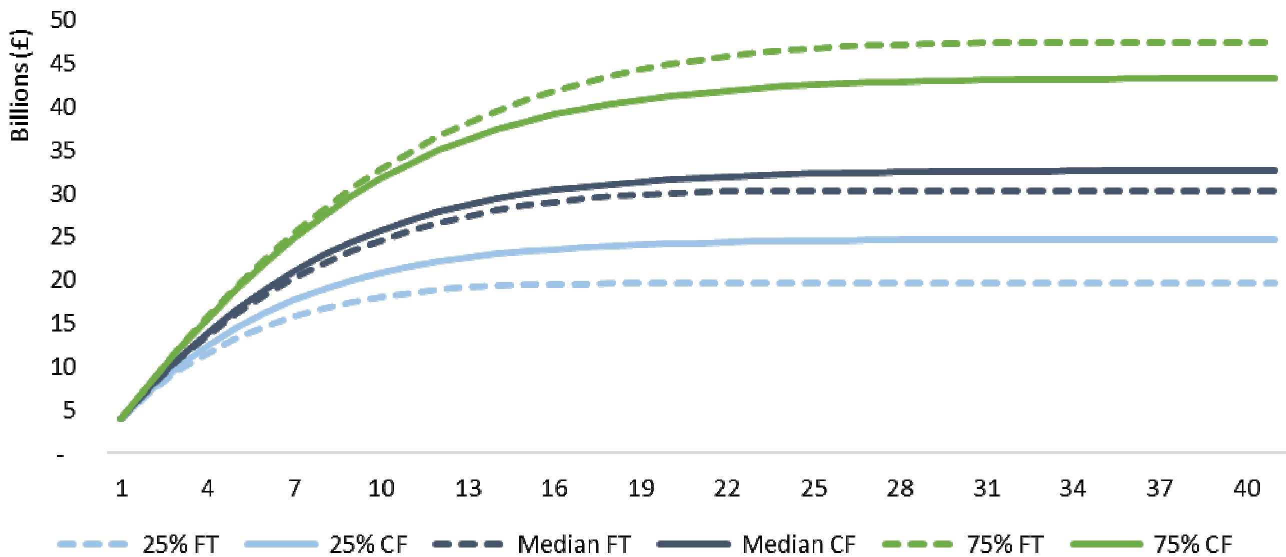

111. It is important to note the modelling considers the aggregate picture. At an individual level, the benefit to members for schemes whose funding and risk position is materially improved following these new regulations will be material.

112. For sensitivity, GAD analysed different scenarios. At the 25th percentile of outcomes after 10 years, the Fast Track cumulative liability at risk is around 14% lower than the counterfactual outcomes. Over the 40-year period modelled, up to and including the 60th percentile of outcomes, there is a higher member security in the Fast Track approach. Above the 60th percentile of outcomes, the Fast Track approach has a higher cumulative liability at

[47] https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/modelling-the-universe-of-defined-benefit-pension-schemes.ashx

risk and so there is less member security. There is a broader range of outcomes under the Fast Track approach across the percentiles and this is from the additional risk taken in the Fast Track investment strategy, where the downside of outcomes could be more significant. See Figure 2 for 25th, 50th and 75th percentile outcomes.

**Figure 2: Member Security – Sensitivity Analysis of Cumulative Liabilities at Risk (GAD Modelling)**




113. For simplification, the GAD modelling assumed all schemes will adopt Fast Track whereas, as outlined previously, this is not expected to be the case in practice. The model also assumes, for simplification, that all schemes are closed to future accrual, which is not reflective of the current landscape, in which 48% of schemes are open to future accrual (albeit for many of these, future accrual is relatively minor) of some form[48]. The model cannot be adjusted to reflect this, nor can the figures derived be adjusted to reflect the assumptions underlying the analysis by TPR for the DRC costs in order to make them comparable. However, it is included to give a sense of scale of the potential benefit to members rather than to monetise the benefits given the inherent uncertainty.

### *Benefits to the Pension Protection Fund (PPF)*

114. As previously outlined, the regulations should lead to improved funding positions for schemes and improved member security. As a result, the PPF, a public corporation which protects schemes where employers become insolvent, should have an improved funding position. This will be driven both by schemes being better funded, and therefore less likely to need any PPF support in the event of employer insolvency, or where PPF support is needed, schemes having an improved funding position compared to the counterfactual.

115. GAD modelling[49] over a 40-year period assessed PPF potential losses by looking at the PPF cumulative shortfall over time and applying an annual insolvency rate across all segments of the universe. Up to the 79th percentile of outcomes, the PPF security is improved under the Fast Track approach, with a lower cumulative total of liabilities projected to fall to the PPF. This is driven by the greater allocation to growth assets in the Fast Track, which is expected to improve

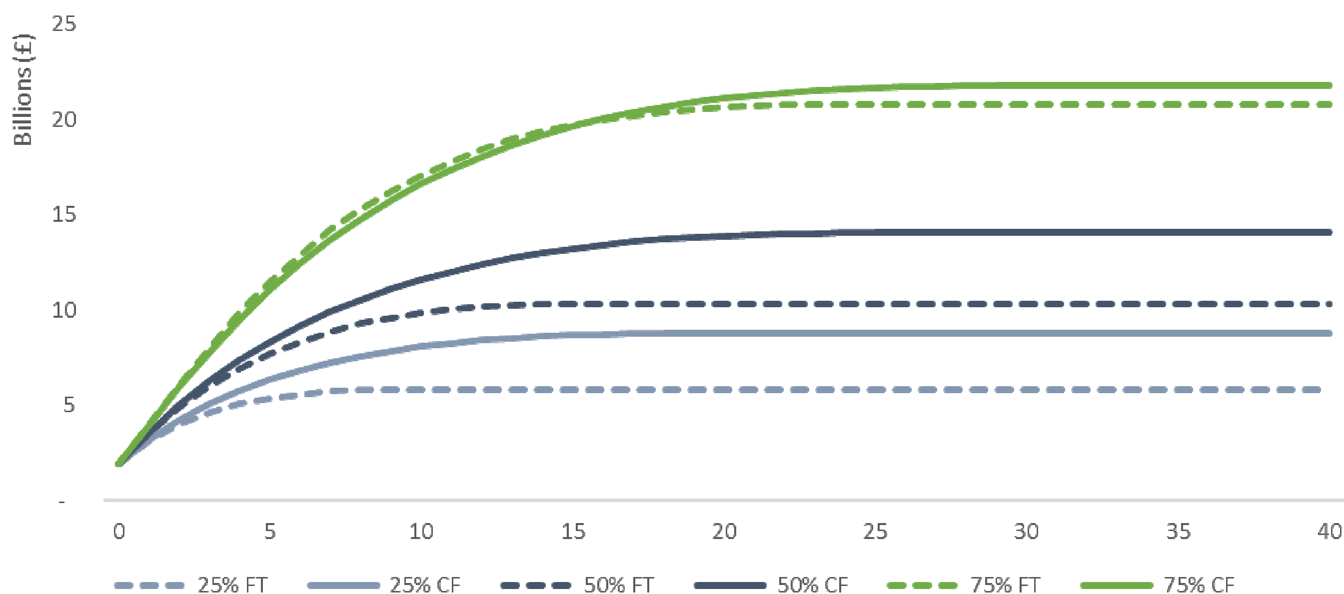
---

48 https://www.ppf.co.uk/sites/default/files/2022-11/PPF_PurpleBook_2022.pdf

49 https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/modelling-the-universe-of-defined-benefit-pension-schemes.ashx

funding for those with the weakest starting funding position, leading to smaller shortfalls for model points over the projection period. See Figure 3.

**Figure 3: Cumulative PPF Insolvency Shortfall between Counterfactual (CF) and Fast Track (FT) at 25th, 50th, 75th percentiles of outcomes over a 40 year period**




***Costs to The Pensions Regulator***

116. The potential impact on TPR falls into 3 main areas.

*Collecting new information flowing from the regulations*

117. The new requirements will include the submission of additional data items to TPR in the form of the Statement of Strategy (SoS). These data items will need to be submitted by all schemes (with exemptions for some smaller schemes). with a funding and investment strategy (FIS) and will include both quantitative and qualitative information. TPR will need to adjust their systems to be ready to receive and process this new information. The exact details of what this information will include are not yet known as the regulations allow some freedom for TPR to define what is required. TPR are also considering whether they can reduce other data asks on schemes, for example in the scheme return, in the light of the new requirements under the SoS. TPR plan to consult on this later in 2023.

118. TPR is also in the process of updating its IT systems including design and development of a new digital service. This will improve their efficiency and effectiveness, in particular when it comes to data management. This updating process is part of a wider update to TPR's systems, moving away from their existing systems that were not fit for purpose for the longer term. This wider update was necessary and underway already irrespective of these regulations.

119. It would not be possible to easily isolate the additional costs relating to the SoS as part of this. TPR aims to include the additional requirements within existing plans for systems updates and expected efficiencies they will bring.

*Analysing the new information*

120. TPR has in place a process for analysing and risk assessing DB schemes to identify schemes where further engagement may be needed, alongside wider landscape and risk analysis. The additional information coming as part of the SoS, along with any other changes TPR makes to data submission requirements, will enhance TPR's ability to assess scheme risks. This will enable them to make better targeted decisions around the nature, and number, of interventions in relation to scheme funding.

121. The level of the risk assessment and/or additional analysis applied to scheme data is an ongoing operational and prioritisation decision for TPR and is dependent year on year on their overall strategic prioritisation of their resources. The regulations themselves do not necessarily demand TPR carry out more or additional analysis but does provide a platform for this and it is expected that TPR will take the opportunity to improve and enhance its approach. This includes creating efficiencies and enable a more effective regulatory approach and decision making as TPR moves to being a more data led regulator.

122. Including the new information as part of this is not expected to be a material cost to TPR but rather may require some redistribution of resources, with a view to better prioritisation and more strategic interventions which should both create efficiencies and enhance TPR's impact. This will again be supported by the wider enhancements TPR is making to its data and digital systems to enable more effective and data driven regulation.

*Supervision and enforcement*

123. The third main element of potential impact on TPR relates to their supervision of DB schemes and enforcement of the new (and related existing) regulations. It is expected that the additional data and improved risk assessment process will enable TPR to be better targeted and more efficient in its supervisory approach as well as enhancing its ability to use powers effectively. The new regulations are not expected to add any material cost to TPR's supervisory and enforcement approach and decisions by TPR to prioritise regulation in this area will remain an operational and strategic one.

## Direct costs and benefits to business calculations

124. The role of costs being direct or indirect has been debated, identifying arguments it should be either. On one hand, there is some flexibility in how schemes can improve their funding positions and adjust the level of risk being taken (suggesting indirect). However, **there is a clear need to meet the regulations and show compliance** to the scheme funding regulations, code and TPRs tolerated risk parameters (suggesting direct).

125. On balance, **the costs are considered to be direct**. This is based on:

- **Increased DRCs** – Schemes/employers who need to increase their DRCs will need to do so in order to demonstrate to the regulator they are complying with the regulations and on-track to reach low dependency with their employer. For trustees of pension schemes, they would wish to improve the funding position as soon as reasonably possible to support this. Therefore, this is a direct cost employers/schemes need to meet.
- **Decreased DRCs** – Where a scheme would be able to reduce their DRC payments, it is anticipated they would negotiate this with trustees to reduce the costs the employer currently faces in paying into the DB schemes (and this would be in the employer's interest to address this). Even continuing to pay higher DRCs would bring the scheme

into a stronger funding position sooner (and total payment being lower due to an improved funding position) benefiting the employer in the long-run. This saves employers the cost in the future. Therefore, the cost is considered to be direct as the regulations will mean an employer would not need to pay as much into the pension scheme to comply.

- **Familiarisation/implementation costs** – All schemes will need to upskill and ensure they have the appropriate understanding and knowledge of the new regulations, and therefore the cost is immediate and unavoidable.

126. It is recognised in the modelling that not all schemes will necessarily comply in a uniform way; they have been modelled against TPR's "fast track" approach, but schemes are free to choose a bespoke approach to comply with the regulations. It is impossible to predict which particular schemes would change their approach and which schemes would maintain their existing approach, therefore it has instead been assumed in the model that all schemes move 50% of the way towards fast track, both positive and negative, meaning that schemes adjust their technical provisions by half the difference between their counterfactual liabilities and their fast track liabilities. This assessment is highly subjective as there is clearly uncertainty around how schemes will adjust their funding in light of the regulations, code and related guidance as there is no past experience that can be drawn on to make such behavioural assumptions. How schemes may amend liabilities is very subjective and so fast track has been used as a reference line, and sensitivity analysis on this is provided. In the absence of behavioural evidence, fast track is the only available reference point, and hence it is used for these modelling purposes for how schemes might amend their funding strategies. Ultimately, any DB scheme will need to ensure their scheme has sufficient funding levels to meet future pension payments; thereby making this a direct cost.

127. Overall costs include implementation, familiarisation, ongoing, and (higher) DRCs. Total benefits include the lower DRCs. Using the appropriate discounting rates (3.5%) and BIT calculator (using base price year of 2019), the final costs/benefits to business are estimated each year over the next 10 years are presented in Table 8. DRC payment figures are adjusted to 2023 prices, in order for all costs/benefits to have the same base year. These are then converted to 2019 prices and discounted in order to give the final costs/benefits figures for the regulations. A breakdown of the increases/decreases in DRC payment figures, including the original, and uprated figures used to estimate the final costs and benefits to business can be found in Annex 2.

Table 8 – Final costs and benefits to Business

| Year | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total Yearly Discounted Cost (£m)** | 1,256 | 1,095 | 1,022 | 1,041 | 839 | 682 | 420 | 446 | 362 | 299 | 7,463 |
| **Total Yearly Discounted Benefit (£m)** | 1,412 | 1,187 | 1,321 | 843 | 723 | 624 | 633 | 351 | 364 | 239 | 7,695 |
| **Net Discounted Cost/Benefit (£m)** | - 156 | - 92 | - 299 | 198 | 117 | 58 | - 213 | 96 | - 3 | 60 | -233 |

## Risks and assumptions

128. A number of key risks and assumptions have been discussed and outlined throughout the Impact Assessment. However, the main areas of risk include:

- **Modelling -** The model is intended to show an approximate impact from implementing the new DB Funding Code, at the level of the overall universe. The model compares current funding standards against the Fast Track approach only, however, schemes

could choose to take a “Bespoke” approach which may allow them to reduce costs relative to more prudent Fast Track parameters. The impact will be subject to a wide range of uncertainty. It is intended to provide results at an aggregate level over large groups of schemes and should not be used to draw conclusions for individual schemes. Due to the methodology adopted, it is not possible to use the results at an individual scheme level.

- **Behavioural Assumptions –** The assumption is made that, in the absence of any evidence available, 50% of schemes will adjust their behaviour. In the absence of predicting which schemes will/will not change their approach, it is assumed all schemes have adopted 50% of the required change from Counterfactual Liabilities to Fast Track liabilities.

- **Levelling Down –** For schemes, it is assumed they may “level down” their DRCs. It is recognised this may not necessarily happen (a scheme and employer may continue to pay in existing levels to accelerate the improvement in funding position). However, in the absence of evidence on behavioural change but knowing some employers may wish to lower DRCs to support other business requirements, feels proportionate to include. Government is keen to support schemes who want more exposure to equities and other productive assets, where these risks are supportable.

- **Data/market volatility –** As previously outlined, the model results are based on market conditions and data as at 31 March 2021. The date of calculation impacts upon the financial assumptions used to model scheme positions. It can have a material impact on the absolute values of liabilities, assets and hence deficits and DRCs estimated. If the modelling was carried out at a different date the results would vary, in particular TPR calculations as at 31 December 2022 indicate counterfactual DRCs are around 50% lower than modelled here.

- **Solvency of employer (and affordability to employers)** – Within the modelling, adjustments are not made to the impact on the number of schemes or on the employer of potential insolvencies or affordability constraints.

- **Economic assumptions/returns –** Estimates, such as inflation and Gilt yields are based on long-term assumptions. Growth assets are expected to return around 5% per annum in excess of Gilt Yields and safer assets return 0.32% per annum in excess of Gilt Yields.

- **TPR Code and Fast Track parameters** as currently drafted largely remains as is after consultation. Fast Track is a framework of quantitative parameters set by TPR in respect of technical provisions, recovery plan length and investment risk. In reality schemes may choose to follow the “Bespoke” approach instead, which allows flexibility for schemes in scheme-funding solutions on the basis the approach/actuarial valuation follow the legislative and code requirements. The regulations only provide the framework for which the TPR can then provide expectations for all schemes and Fast Track parameters to follow. If the TPR code and Fast Track assumptions were to subsequently change, this may change the estimates (but is anticipated to be outlined in the Business Impact document). As outlined previously, some areas, such as the definition of maturity is still to be finalised, which would impact the modelling once finalised. The modelling is sensitive to a wide range of behavioural changes as many schemes may opt for a more “Bespoke” approach which could lead to lower costs relative to the more prudent and conservative Fast Track approach.

- **Valuations -** The model assumes all schemes carry out valuations immediately on the introduction of the new Code. In reality, schemes’ funding approach would not change until the next scheduled valuation, so changes to DRCs would be phased in over three

years.

- **Top 25** schemes by asset size are assumed to have a bespoke arrangement and therefore do not make changes as a result of the change in overall regulations and code. It is possible these large schemes will make changes.

## Impact on small and micro businesses

129. The role of small and micro businesses has been considered closely within the policy-making process. Although there are a large number of small DB schemes (there are around 1,800 schemes with less than 100 members)[50], this does not necessarily translate into employer size (as employers may have run a scheme for a subset of employees). This makes it challenging to estimate accurately the potential impacts on small employers.

130. PPF data indicates small schemes are well-funded, with those with less than 100 members having an average aggregate funding ratio of 119% (March 2022 on an s179 basis)[51]. This is a stronger funding position than schemes slightly greater (100 to 1,000 members) where the funding ratio is 111%. Very large schemes (i.e., those with over 10,000 members), had an average funding ratio of 115%. It is anticipated funding levels have improved further since March 2022 given the rise in Gilt yields (increasing the discount level applied to liabilities). Therefore, it is not considered that small/micro businesses would be disproportionately impacted more than other schemes given the strong funding position.

131. However, to minimise the burdens on small businesses, the regulations do have flexibility, for example there is flexibility in payments of DRCs ensuring that no scheme can ask for money that is not reasonably affordable for the employer. Any increase in payments from the employer to the scheme must consider the affordability, appropriate time-period, and financial situation of the employer. This will help ensure payments fit within costs businesses can withstand. This is particularly important for smaller employers.

132. Furthermore, a small number of schemes with less than 100 members may be exempt from the regulations, if they meet the criteria as set out in Regulation 17 of the 2005 Scheme Funding Regulations. The number of schemes in this category are not available.

133. Nevertheless, it is important to note that DB payments are a promise the employer made to their employees (and did not need to offer). Therefore, any increase in funding required to meet those promises by the employer improves the security for those members and is designed in avoiding members being worse off via moving to PPF where they will not receive their full entitlement.

134. In addition, one of the potential benefits to smaller employers from all schemes improving their funding position may be a **reduced value of claims on the PPF.** This would reduce the levy required from other schemes to support the PPF in their reserves (reducing scheme costs and improving their funding position).

135. All DB schemes are in scope of the regulations, including those backed by small and micro businesses. This is to ensure all members can benefit from greater likelihood of receiving their pension entitlement. However, DB schemes are generally run by larger employers now (as they can be costly to run). Analysis of ASHE (Table 9) shows around 10% of members saving into a DB scheme work in a small/micro business; active savers are much more likely to be in very large employers.

---

[50] Purple Book 2022, figure 4.4 - https://www.ppf.co.uk/-/media/PPF-Website/Public/Years/2022-11/PPF_PurpleBook_2022.pdf

[51] Purple Book, Figure 4.4 - https://www.ppf.co.uk/-/media/PPF-Website/Public/Years/2022-11/PPF_PurpleBook_2022.pdf

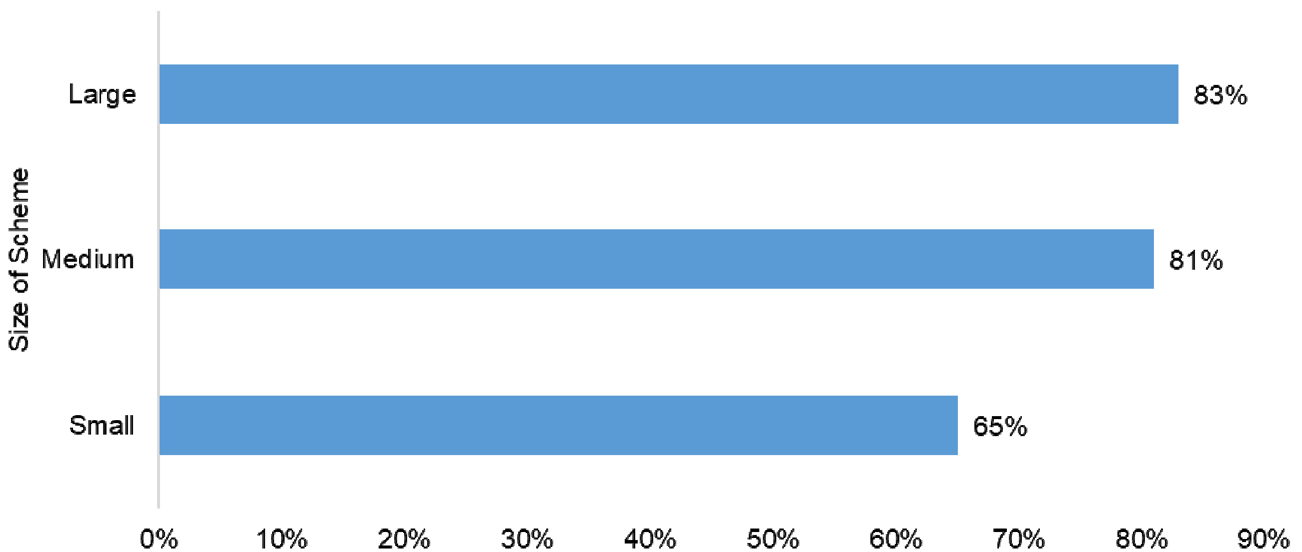
Table 9: Proportion of active DB members, by employer size[52]

| Size of Employers | Proportion of DB members[53] |
|---|---|
| 0 | 0% |
| 1-9 | 2% |
| 10-49 | 10% |
| 50-99 | 4% |
| 100-499 | 14% |
| 500-999 | 9% |
| 1000+ | 61% |
| **All sizes** | **100%** |

136. Whilst recognising ASHE does not account for closed schemes, historical analysis has shown this to be a similar trend over recent years, and the Purple Book estimates around 600 independent small employers and 400 "group" small employers[54] currently have DB schemes. The funding levels of smaller schemes appears similar, if not slightly greater than, the average.

137. However, it is recognised small/micro schemes may be less likely to be already following a number of the proposed standards. Therefore, they may be more likely to incur costs because of the proposed changes – see Figure 4 showing a lower proportion of smaller schemes reporting a journey plan for their scheme. As the sponsoring employer will be responsible for additional costs that need to be met, this may increase costs to smaller businesses.

**Figure 4: Proportion of trustees that reported having an aim for journey plan, by scheme size[55].**




138. As DB schemes will be employers themselves, and to be consistent with the Pensions Dashboard Impact Assessment 2022[56], Small and Micro businesses have been defined as DB

52 Source: DWP estimates derived from ONS Annual Survey of Hours and Earnings (GB)

53 Figures are rounded to the nearest 1%.

54 https://www.ppf.co.uk/sites/default/files/2022-11/PPF_PurpleBook_2022.pdf

55 Defined benefit trust-based pension schemes research summary report- page 24. http://www.thepensionsregulator.gov.uk/docs/db-research-summary-report-2017.PDF
https://webarchive.nationalarchives.gov.uk/ukgwa/20191028123143mp_/https:/www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/db-research-summary-report-2018.ashx
Small: 12-99 Members, Mid-sized: 100-999 Members and Large: 1000+ Members

56 Pensions Dashboards Impact Assessment https://www.legislation.gov.uk/ukia/2022/81/pdfs/ukia_20220081_en.pdf

schemes having fewer than 1,000 members. This is around 80% of DB schemes.

139. For familiarisation, implementation and ongoing costs, the same assumptions are applied as for all schemes with a few exceptions:
- Total number of schemes in scope are **4,084 schemes** (compared to 5,131 in total)
- **86%** of schemes have a LTO (compared with 90% used for all schemes) as evidence points towards fewer smaller/micro schemes having one in place
- **34%** of schemes which do have a LTO have it as aspirational and therefore would need to develop further (this is higher than all schemes where 32% was assumed).

140. Although there may be further differences between the average scheme and small/Micro schemes, it is also recognised some smaller schemes may have tighter budgetary constraints and therefore invest less in professional services. However, there is no available evidence to make further adjustments. As a result, the overall estimate of implementation and ongoing costs are presented in the table below.

**Table 10: Small & Micro Business Costs – Familiarisation, Implementation, and Ongoing**

| Costs | | Amount |
|---|---|---|
| Familiarisation | | £12.6m |
| Implementation | FIS LTO | £10.9m |
| | SOS JP | £4.0m |
| | SOS | £3.4m |
| Ongoing (Annual) | SOS + FIS | £4.2m |
| | Actuarial Valuation | £0.1m |
| Total | **Familiarisation** | **£12.6m** |
| | **Implementation** | **£18.3m** |
| | **Ongoing** | **£4.3m** |
| | **Total** | **£35.2m** |

141. There may also be changes to DRCs which may be required, though any estimate is inherently more uncertain. The same modelling approach has been used as for the overall impacts, though “small” scheme has been defined here as having less than £100m in liabilities. Although not exactly consistent with a membership approach, the average membership for these schemes was 176 (whereas the next category, with £100m to £1bn liabilities, had an average membership of 1,125).

142. The modelling, shown in Table 11, highlights that for most years, small schemes may need to increase their DRCs relative to the counterfactual position. This amounts to a total cost of around £313m over the ten years (not discounted). It is important to note that this may vary across schemes and not necessarily all smaller schemes will be supported by a small/micro business – but is the best estimate.

**Table 11: Estimated DRCs for Small Schemes under Counterfactual and Behavioural Approach**

| £millions | Counterfactual Total DRCs | Behavioural Assessment Total DRCs | Difference |
|---|---|---|---|
| **Year** | **Small Schemes** | **Small Schemes** | **Small Schemes** |
| **1** | £1,073 | £1,128 | £55 |
| **2** | £1,010 | £1,058 | £48 |
| **3** | £871 | £907 | £36 |
| **4** | £705 | £758 | £53 |
| **5** | £580 | £651 | £71 |
| **6** | £493 | £528 | £35 |
| **7** | £410 | £423 | £13 |
| **8** | £347 | £352 | £5 |
| **9** | £288 | £286 | -£2 |
| **10** | £235 | £234 | -£1 |
| **Total** | **£6,012** | **£6,325** | **£313** |

## Wider impacts

143. DB schemes, given their large size (£1.7 trillion assets) are incredibly important to the UK economy. Schemes invest in long-term infrastructure projects within the UK, they buy government bonds (helping finance government deficits) and will provide an income to around 10m people in retirement. Therefore, any changes on scheme funding may be expected to have impacts beyond schemes themselves. A number of potential impacts have been considered:

- **Impact of demand for Government Bonds** – Taking a lower risk strategy may lead to more UK government bonds (or Gilts) being in demand, helping to create the demand to meet future supply. However, some schemes may consider themselves too conservative and therefore move towards more growth assets (thus lowering demand). Any large change in asset allocations may impact the future price and demand of Gilts. However, given the long term trends towards holding bonds from DB schemes, a significant change in demand is not considered over the next 10 years.
- **Risk of herding**: DB schemes, as at March 2022[57], hold around £1.7 trillion in assets. As noted by TPR in their consultation, one possible area to consider from the regulations may be investment herding (schemes investing in similar assets over similar timeframes). This may be particularly the case around corporate bonds and Gilts, where movements at a similar time could impact prices and financial stability. This potential impact was demonstrated in September/October 2022 where DB schemes faced similar challenges as a result of rising Gilt yields. In practice however, this seems unlikely as:
  - Much of the directional move to bonds is likely to have already occurred, given the long-term trends towards holding bonds: currently on aggregate schemes invest 72% of assets in bonds.
  - Pension schemes will have different investment strategies, maturity levels, and end goals which will impact their risk tolerance and movement. Schemes would need to consider this and their own liabilities as part of their journey plan when making investment decisions.

[57] Defined benefit funding code consultation document | The Pensions Regulator

- The regulations still allow for significant flexibility around the investment strategies trustees can consider as part of their funding and investment strategy, therefore not all schemes will be driven to increase their allocations in bonds. Some schemes may choose to adjust their plans and therefore increase their levels of bonds/hedging to meet the new requirements; almost 75% of schemes are shown to be applying more prudent assumptions than the Regulator's Fast Track conditions and therefore TPR would tolerate an increase in their allocations towards return-seeking assets. Nevertheless, it is unlikely to be over the same time frame as each scheme will face a different set of circumstances.
- Therefore, it is not expected that the regulations themselves would increase the overall aggregate investment allocations to bonds at the same time, so the risk of herding is not increased as a result of the proposed regulations.

- **Systemic Risk**: DB schemes hold £1.7 trillion in assets, making them an important financial market. Regulations that impact how DB schemes invest can have wide ranging implications for schemes. This could lead to impacts beyond individual schemes and across the wider financial market.
  - While the regulations do encourage schemes to invest in a low dependency way by the time the scheme liabilities are significantly mature, not all schemes will reach this point at the same time and the duration of schemes will vary.
  - There may be an overlap between both mature and immature schemes investing in low dependency assets, however schemes already invest in similar assets and there is sufficient flexibility in the regulations to allow schemes to invest in different ways reflecting their covenants and level of maturity. When schemes have passed significant maturity, and have low dependency on their employers, schemes can continue to adopt different strategies and invest a proportion of their assets for growth or in other non-bond assets which broadly match cash flows.
  - Events in 2022 have highlighted the potential systemic risks from the use of leveraged LDI. As schemes mature, the level of leverage is expected to reduce, with little or no leverage needed at significant maturity depending on the schemes chosen strategy. The level of leverage assumed throughout Fast Track is broadly consistent with current market norms.
  - Actuarial consultancies have also projected an increase in schemes looking to buy-out. The buyout of scheme liabilities could reduce the demand for gilts as schemes looking to buy-out may transition their assets into a more buy-out friendly portfolio.
  - As the amount of liabilities paid out increases in the future as more members retire, with schemes getting smaller, the financial risks of defined benefit schemes should reduce (all else being equal). Improved governance and operational processes, lower leverage in matching assets, and higher levels of liquid collateral will mean that schemes are much more resilient to significant increases in gilt yields. Schemes are being encouraged to ensure these elements are in place[58]. This is an area which will continue to be monitored closely and will be a key aspect of evaluation in the post-implementation review of the regulations.
- **Lower investment from firms –** There is a risk that sponsoring employers may have to pay greater DRCs at the expense of other investments or expenditure within the firm (e.g., investment in new technologies which may impact productivity). This is a particular risk for employers who have to increase their DRCs over the next 10 years. However, the wider impact on employers is considered to be low given:

---

[58] https://www.thepensionsregulator.gov.uk/en/document-library/consultations/draft-defined-benefit-funding-code-of-practice-and-regulatory-approach-consultation/draft-db-funding-code-consultation-document#443b813ceb274f5980cfcf585a209b0c

- The Regulations and code explicitly ask schemes to consider the affordability of any extra contributions to sponsoring employers (and over the appropriate timeframe).
- More schemes are expected to "level down" DRCs than "level up" – this could mean some employers have more money available for investment.
- Sponsoring employers are responsible for the funding of the pension scheme, therefore the scheme being well funded is an important requirement of the employer and should be built into existing financial plans. Further, as DB deficits may be on an employer's balance sheet, improving this position will help the financial performance and credit rating of the employer in the medium to long term.

144. There is no clear evidence base in which to make a quantitative assessment of these impacts, therefore they are not included in the estimates. However, the impacts will be monitored closely.

## A summary of the potential trade implications of measure

145. DB pension schemes are large and important investors with around £1.7trillion of assets (as at March 2022)[59] held in private sector DB schemes, playing an important role in investment in the country. However, many schemes are maturing and over 70% of assets are held in bonds as the trend from equities to bonds has continued over the last 15 years as schemes mature and de-risk. Although "fast track" tolerates higher levels of investment risk than a large proportion of schemes currently observe, a large asset allocation change is not expected as a result of the Regulations. Consequently, the Regulations are not envisaged having an impact on investment levels on foreign direct investment.

[59] Purple Book, 2022.

## Annex 1 – TPR and GAD Modelling Assumptions

### TPR Modelling Assumptions

| | Counterfactual (CF) | Behavioural Assumptions (central) |
|---|---|---|
| **Projection to calculation date (Day 1)** | Adjusted by rolling forward or backward from latest valuation adjusted for changes in financial markets | Adjusted by rolling forward or backward from latest valuation adjusted for changes in financial markets |
| **Liabilities basis at calculation date (Day 1)** | Maintain existing financial assumptions relative to gilt yields whilst assuming demographic assumptions have not changed since the previous triennial valuation submitted to TPR. | **Largest 25 Schemes**<br>• For the largest 25 schemes, as measured by size of assets, it is assumed that they will follow a Bespoke approach in their implementation.<br>• For these purposes it is assumed that the liabilities are consistent with the CF liabilities.<br>For all other schemes, the liabilities are calculated in line with the following rules:<br>***CF liabilities more prudent than Fast Track (CF > FT)***<br>• If in surplus on Counterfactual, use CF liabilities<br>• If Counterfactual liabilities > Long Term Objective (calculated using Gilts +0.5% pa) – use CF liabilities<br>• Otherwise, set liabilities equal to 50% of CF liabilities and 50% of FT liabilities ***('level down')***<br>***CF liabilities less prudent than Fast Track (CF < FT)***<br>• If in surplus on Fast Track basis, use FT liabilities<br>• If in deficit on Fast Track basis, set liabilities equal to 50% of CF liabilities and 50% of FT liabilities ***('level up')*** |

| | Counterfactual (CF) | Behavioural Assumptions (central) |
|---|---|---|
| **Day 1 DRCs to clear deficit** | ▪ Deficit is reduced to allow for investment outperformance consistent with outperformance allowed for from previous valuation, assuming a maximum deficit reduction of 20%<br>▪ DRCs then calculated based on Counterfactual DRC calculation rules [1] | ▪ Deficit to clear is simply A – L at Day 1 with no reduction to allow for investment outperformance.<br>▪ Other rules in line with Behavioural assumptions DRC calculation rules [2]<br>▪ For the largest 25 schemes Behavioural DRC approach follows the CF approach |
| **Projection post Calculation date** | <u>Open schemes</u><br>For schemes that are open to new entrants or accrual where active liabilities are estimated to be more than 10% of total liabilities.<br>Assume remain in stable position with no change in duration over the next 10 years, and hence no allowance for de-risking. (Assumes scheme remains open to accrual for next 10 years)<br>Liabilities projected with adjustment for:<br>• Unwinding of discount rate (move along the curve)<br>• Benefit payments, assuming they are paid halfway through the year<br>• Future accrual, assuming it occurs halfway through the year<br>(Assumed to be in line with benefit | **Largest 25 Schemes**<br>○ For the largest 25 schemes, as measured by size of assets, it is assumed that they will follow a Bespoke approach in their implementation.<br>○ For these purposes it is assumed that the liability and asset projections are consistent with the CF liability and asset projections.<br>For all other schemes the projections are calculated in line with the following rules:<br><u>Open schemes</u><br>For schemes that are open to new entrants or accrual where active liabilities are estimated to be more than 10% of total liabilities.<br>Adjusted in line with above for day 0 then follow the rules for Counterfactual for open schemes<br>Assume remain in stable position with no change in duration over the next 10 years, and hence no allowance for de-risking.<br>Liabilities projected with adjustment for:<br>• Unwinding of discount rate<br>○ Benefit payments, assuming they are paid halfway through the year |

| | Counterfactual (CF) | Behavioural Assumptions (central) |
|---|---|---|
| | outgo in year 1 and then increased at 3% p.a. for all future years) | ○ Future accrual, assuming it occurs halfway through the year (assumed to be in line with benefit outgo in year 1 and then increased at 3% p.a. for all future years) |
| | Assets projected with adjustment for:<br>• Investment return applied based on asset strategy and asset returns per asset class<br>• Benefit payments, assuming they are paid halfway through the year<br>• Future accrual, assuming contributions match the value of the benefits accrued, and that they are paid halfway through the year<br>• Deficit Repair Contributions, assuming paid halfway through the year<br>• No change in asset strategy | Assets projected with adjustment for:<br>○ Investment return applied based on asset strategy and asset returns per asset class<br>○ Benefit payments, assuming they are paid halfway through the year<br>○ Future accrual, assuming contributions match the value of the benefits accrued, and that they are paid halfway through the year<br>○ Deficit Repair Contributions, assuming paid halfway through the year<br>○ No change in asset strategy |
| | <u>Closed schemes</u><br>**Liabilities**<br>Projected in line with the following:<br>• Unwinding of discount rate (move along the curve)<br>• Benefit payments, assuming they are paid halfway through the year<br>• Adjusting the discount rate as the scheme matures by reducing the forward yield by 0.15% per duration year until forward yield is equal to G+0.35% [3] | <u>Closed schemes</u><br>**Liabilities**<br>Projected with the following rules:<br>***<u>CF TPs more prudent than Fast Track (CF > FT)</u>***<br>○ If in surplus on Counterfactual, use CF liabilities at each projection period<br>○ If Counterfactual > Long Term Objective (calculated using Gilts +0.5% pa) - use CF liabilities at each projection period |

| | Counterfactual (CF) | Behavioural Assumptions (central) |
|---|---|---|
| | | ○ Otherwise, liabilities at each projection period are equal to 50% CF liabilities and 50% of FT liabilities ***('level down')***<br><br>***<u>CF TPs less prudent than Fast Track (CF < FT)</u>***<br><br>○ If in surplus on Fast Track basis, use Fast Track liabilities at each projection period<br>○ If in deficit on Fast Track basis, set liabilities at each projection period equal to 50% CF liabilities and 50% of FT liabilities ***('level up')*** |
| | **Assets**<br><br>Projected in line with the following:<br>• Investment return applied based on asset strategy at the start of the year and asset returns per asset class<br>• Benefit payments, assuming they are paid halfway through the year<br>• Deficit Repair contributions, assuming they are paid halfway through the year<br>• Adjusting the asset strategy to allow for de-risking as the scheme matures using the following rules:<br>  ○ For schemes with less than 15% of their assets in return seeking assets no further de-risking<br>  ○ For all other schemes, reduce the level of return seeking assets by 5% for each duration year until the growth allocation is 20% and then reduce this by a further 1% for each duration year until the growth allocation is 15% | **Assets**<br><br>Projected in line with the following rules:<br>○ If CF asset allocation to growth is less than FT asset allocation to growth at time 0 use CF assets at each projection period<br>○ If CF asset allocation to growth is higher than FT asset allocation to growth at time 0 use 50% CF assets and 50% FT assets at each projection period |

| | Counterfactual (CF) | Behavioural Assumptions (central) |
|---|---|---|
| **Fast Track** | Under the Fast Track projections, starting from the Day 1 Fast Track liabilities and asset allocation, apply the above rules as per counterfactual but with the above amendments<br>• the forward yield reduces by 0.3% per duration year but only between durations 17 to duration 12 at which point it is equivalent to G+0.5%<br>• the level of growth assets reduces by 9% per duration year but only between durations 17 to duration 12 at which point growth allocation is 15% | |

1. **Counterfactual DRCs**

   i. Calculate the deficit to clear as described above.

   ii. Take the RP length from the last valuation and calculate resulting DRCs to recover the reduced deficit within this time period. (If there was a surplus at the previous valuation then assume a 6-year initial RP length).

   iii. Adjust DRCs if necessary to ensure that they

      a. Do not reduce below the Current DRC amount

      b. Do not increase by more than 20% from the Current DRCs

   Recalculate the RP length as necessary, subject to a minimum length of 1 year.

   iv. Cap the Recovery Plan at 16 years (which is the 95th percentile of latest valuation RP lengths from schemes in deficit at 31 March 2021).

   If the RP was longer than this limit, then increase DRCs accordingly.

   v. Apply an overall affordability cap of 5% of LTO liabilities (which is approximately the 95th percentile of current DRCs vs estimated LTO liabilities at 31 March 2021).

   If DRCs are above this level, then increase the RP length accordingly. The schemes with modelled RP lengths over 16 years are due to being caught by this cap.

This gives the final Counterfactual DRCs and Recovery Plan length.

2. **Behavioural Assumptions DRCs**

   i. Calculate the deficit to clear as described above.

   ii. Take the RP length from the last valuation, capped at the Fast Track RP length, and calculate resulting DRCs. (If there was a surplus at the previous valuation then assume the Fast Track RP length).

   iii. Adjust DRCs if necessary to ensure that they

      a. Do not reduce below the current DRC amount

b. Do not increase by more than 25% from the Current DRCs

Recalculate the RP length as necessary, subject to a minimum length of 1 year.

iv. Cap the Recovery Plan at 16 years.

If the RP was longer than this limit, then increase DRCs accordingly.

v. Apply an overall affordability cap of 5% of LTO liabilities.

If DRCs are above this level, then increase the RP length accordingly.

This gives the final Impact Assessment DRCs and Recovery Plan length.

### 3. Forward yields

- Forward rates are estimate at time 0 by using the following rule of thumb:
  - i. calculating the single equivalent level of out-performance above gilts with-in the SEDR
  - ii. The year 1 forward yield is 2x premium above gilts for closed schemes: and
  - iii. 1.25x premium above gilts for open schemes.

### 4. Asset calculations

- Day 1 growth asset proportion is calculated with reference to the asset breakdown provided in the 31 March 2022 Scheme Return. It is assumed that assets recorded as Corporate Bonds are 25% growth and that the following are 100% Growth:
  - UK Equities
  - Overseas Equities
  - Private Equities
  - Property
  - Commodities
  - Insurance Funds
  - Hedge Funds
  - Other

- The remaining assets are assumed to be broadly matching/protection assets.

- The best-estimate return on the assets are assumed to be in line with the following:
  - Growth assets 5% per annum in excess of gilt yields.
  - Protection assets grow 0.32% per annum in excess of gilt yields (allowing for the fact that a proportion of them, such as corporate bonds are expected to produce returns slightly in excess of the gilt yield).

**GAD Modelling**

The GAD modelling, published in January 2023, was used to help understand the (non-monetised) benefits to PPF and pension savers. The report, including the key assumptions used in their modelling, are available here (particularly Appendix C):

https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/modelling-the-universe-of-defined-benefit-pension-schemes.ashx

# Annex 2: DRC Figures used for the EANDCB

### Changes to scheme DRC Payment Figures used in the EANDCB

Table 12 below presents the figures for the aggregate increases and decreases in DRC payments in 2021 prices, over the 10 year period, taken from the TPR modelling for the purpose of the EANDCB.

### Table 12: Changes in DRC payments (2021 prices)

| Year | 2021 Prices | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 |
|---|---|---|---|---|---|---|---|
| **Central Estimate** | Increased DRC's | 1,055.2 m | 976.4 m | 943.1 m | 994.5 m | 828.9 m | 696.4 m |
| | Decreased DRC's | 1,222.1 m | 1,063.7 m | 1,224.8 m | 808.7 m | 717.8 m | 641.3 m |
| **Higher Estimate** | Increased DRC's | 1,451.0 m | 1,376.5 m | 1,300.5 m | 1,299.5 m | 1,209.3 m | 1,031.7 m |
| | Decreased DRC's | 550.8 m | 450.2 m | 539.9 m | 220.0 m | 379.9 m | 68.9 m |
| **Lower Estimate** | Increased DRC's | 563.2 m | 528.5 m | 409.9 m | 422.4 m | 361.9 m | 307.4 m |
| | Decreased DRC's | 1,837.0 m | 1,678.7 m | 1,656.3 m | 1,251.3 m | 1,135.3 m | 836.2 m |
| **Year** | **2021 Prices** | **Year 7** | **Year 8** | **Year 9** | **Year 10** | **Total** | |
| **Central Estimate** | Increased DRC’s | 442.7 m | 487.1 m | 407.7 m | 348.1 m | 7,180.0 m | |
| | Decreased DRC’s | 674.1 m | 386.3 m | 415.2 m | 282.0 m | 7,435.9 m | |
| **Higher Estimate** | Increased DRC’s | 920.3 m | 881.8 m | 621.8 m | 521.6 m | 10,614.0 m | |
| | Decreased DRC’s | 431.4 m | 381.9 m | 340.3 m | 240.6 m | 3,604.0 m | |
| **Lower Estimate** | Increased DRC’s | 272.7 m | 282.3 m | 184.0 m | 179.9 m | 3,512.3 m | |
| | Decreased DRC’s | 738.0 m | 568.6 m | 485.8 m | 376.7 m | 10,564.2 m | |

Table 13 below, uses the figures from the above Table 12. These prices are adjusted by 15.5% in order to uprate by inflation, to give the figures in 2023 prices. These figures are used for the EANDCB calculation, and feed into Table 8.

**Table 13: Changes in DRC payments, adjusted for inflation (2023 prices)**

| **2023 Prices** | **Year** | **Year 1** | **Year 2** | **Year 3** | **Year 4** | **Year 5** | **Year 6** |
|---|---|---|---|---|---|---|---|
| **Central Estimate** | Increased DRC's | 1218.8 m | 1127.8 m | 1089.2 m | 1148.7 m | 957.4 m | 804.4 m |
| | Decreased DRC's | 1411.5 m | 1228.5 m | 1414.7 m | 934.1 m | 829.1 m | 740.7 m |
| **Higher Estimate** | Increased DRC's | 1675.9 m | 1589.8 m | 1502.1 m | 1501.0 m | 1396.8 m | 1191.6 m |
| | Decreased DRC's | 636.2 m | 520.0 m | 623.6 m | 254.1 m | 438.8 m | 79.5 m |
| **Lower Estimate** | Increased DRC's | 650.6 m | 610.5 m | 473.5 m | 487.9 m | 418.0 m | 355.1 m |
| | Decreased DRC's | 2121.8 m | 1939.0 m | 1913.1 m | 1445.3 m | 1311.3 m | 965.8 m |
| **2023 Prices** | **Year** | **Year 7** | **Year 8** | **Year 9** | **Year 10** | **Total** | |
| **Central Estimate** | Increased DRC's | 511.3 m | 562.6 m | 470.9 m | 402.1 m | 8293.1 m | |
| | Decreased DRC's | 778.6 m | 446.2 m | 479.6 m | 325.7 m | 8588.6 m | |
| **Higher Estimate** | Increased DRC's | 1063.0 m | 1018.5 m | 718.2 m | 602.5 m | 12259.3 m | |
| | Decreased DRC's | 498.3 m | 441.1 m | 393.1 m | 277.9 m | 4162.7 m | |
| **Lower Estimate** | Increased DRC's | 315.0 m | 326.1 m | 212.5 m | 207.7 m | 4056.8 m | |
| | Decreased DRC's | 852.5 m | 656.8 m | 561.2 m | 435.1 m | 12201.8 m | |

## Other Impacts

### Equality

1. In accordance with its duty under section 75 of the Northern Ireland Act 1998, the Department has conducted a screening exercise on these legislative proposals and has concluded that they would not have significant implications for equality of opportunity and considers that an Equality Impact Assessment is not necessary.

### Environmental

2. There are no implications.

### Rural proofing

3. There are no implications.

### Health

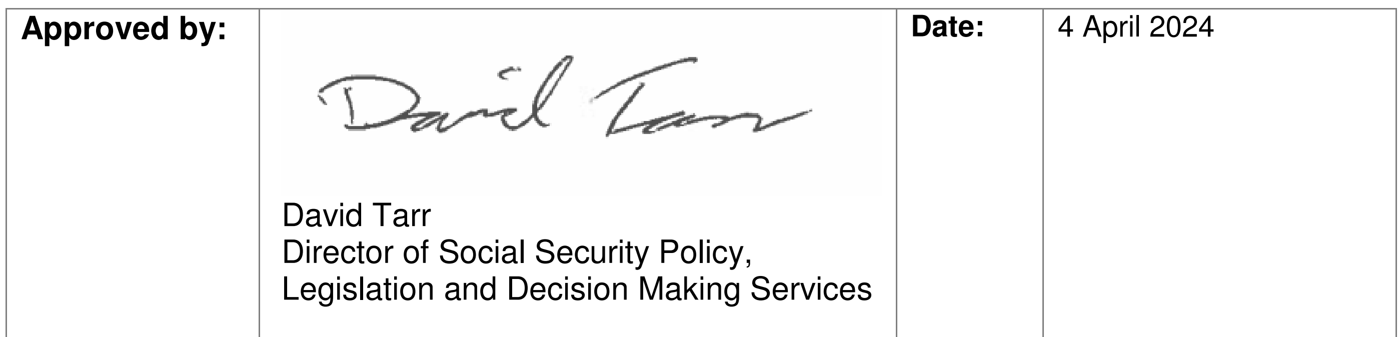
4. There are no implications.

### Human rights

5. The Department considers that the regulations are compliant with the Human Rights Act 1998.

### Competition

6. There are no implications.

| **Approved by:** | <br>David Tarr<br>Director of Social Security Policy,<br>Legislation and Decision Making Services | **Date:** | 4 April 2024 |
|---|---|---|---|

Contact point: Stuart Orr, Social Security Policy, Legislation and Decision Making Services,
Level 8, Causeway Exchange, 1–7 Bedford Street,
BELFAST BT2 7EG
E-mail: stuart.orr@communities-ni.gov.uk