

# The Trustee toolkit downloadable

## DB recovery plans, contributions and funding principles

### Scenario three

In this scenario you and your fellow trustees begin work on the schedule of contributions.

You also identify the information you will need to include in the statement of funding principles.

As you work through this scenario you will be tested on your knowledge at decision points. Here you will have the option to work through a related technical tutorial before returning to the scenario or you can skip the tutorial. You can always work through the tutorial separately later if you would prefer. This scenario includes two tutorials:

- ▶ Agreeing a schedule of contributions
- ▶ The statement of funding principles

#### Glossary

A detailed glossary of technical terms can be downloaded from the Resources tab when you log in at [www.trusteetoolkit.com](http://www.trusteetoolkit.com)

The Pensions  
Regulator

## Setting the schedule

You have received a message about the next trustee meeting. Tony's email reads:

'Hello all,

As you know, we've got a lot of work to do now the valuation is complete, so Charlotte has suggested that we have a whole day meeting. It's to plan your next steps up to producing the schedule of contributions. Robert will come for part of it to give you a briefing.

I will email you an agenda shortly and will send the papers tomorrow.

Regards, Tony'

### Agenda

1. Minutes of last meeting.
2. Matters arising.
3. Meeting with Edmund: Report back.
4. Actuary's briefing: Statement of Funding Principles (SFP).
5. Investment strategy.
6. Any other business.

## Reporting back

Alicia has agreed to report back to the board.



Alicia says: "Well, as you would expect, given that it's Edmund, it was a very good meeting in the sense that we were all able to communicate openly and amicably. However, there's no denying that we may have some difficulties ahead. Edmund was very frank about the company's financial position and gave us an indication of what he feels it can afford, but he didn't feel he could commit to the recovery plan we had drafted. So we're looking at extending the recovery period and potentially back-end loading increased contributions until after the loan is repaid. But if that doesn't work, I'm not sure what we can do, although Edmund was reasonably confident."

## Finding the way forward

Alicia has finished briefing the board about your meeting with Edmund.

Charlotte says: "Thanks Alicia, that was very helpful. So, that's the position. We have eventually to construct a schedule of contributions that is acceptable to both parties. Mind you, this schedule of contributions must include regular contributions for current and future service, as well as any deficit repair contributions which are part of the recovery plan."

John says: "I must admit, I was aware there would probably be difficulties with that recovery plan. I'm not surprised that Edmund has refused to agree."

Alicia says: "He hasn't refused exactly – he just wants to adapt it. Actually I don't think he can refuse. He has to pay the additional contributions in the recovery plan, as they relate to benefits that have already been earned."

Rodney comments: "Well of course, you can't renege on the pension promise. So do we keep to the recovery plan?"

Alicia says: "That would no doubt be fine for you Rodney! But some of us are concerned about future service contributions too. If Edmund is under too much financial pressure, from having to make the contributions in the recovery plan, he might want to opt out

of keeping the scheme going. And, demanding too much could affect sustainable growth."

Charlotte says: "That's correct, but I don't think it's likely to happen. If Edmund did do that we would find our task becomes a lot more complex and difficult. But he wants to come to an agreement, as do we. He's discussing it again with his actuary."



### Decision point: What next?

While Edmund is discussing options with his actuary, what action can you take?

1. Press on with the current draft schedule of contributions
2. Prepare two or three draft schedules of contributions on the basis of different options (eg the extended recovery period)
3. Ask The Pensions Regulator (TPR) to mediate
4. Investigate the alternative dispute resolution procedure (ADR)
5. Suggest to Edmund that you further modify the benefits for future service

Answers at the back



Need help with this question? Read the [Tutorial 'Agreeing a schedule of contributions'](#)

## Robert arrives

You and your fellow trustees have decided that you're going to prepare two or three draft schedules of contributions. But that's not the only document you've got to prepare, which is why Robert has joined you.

Charlotte says: "As you know, the schedule of contributions is just one of the documents we have to produce. We also need to formulate our Statement of Funding Principles (SFP). So, I've asked Robert to give us a briefing. Thanks for coming Robert."

Robert replies: "My pleasure. I haven't prepared a very formal presentation. I thought it might be better if you asked me questions – is that all right?"

Charlotte says: "Oh yes, that's fine. I just wanted us all to have an opportunity of getting our heads round the SFP."

Adrian comments: "The problem is, all these documents are interlinked, and it seems to be very hard to complete one without starting another. It seems to me to be a somewhat circular process."

Rodney responds: "I know what you mean Adrian. The recovery plan seems to pop up everywhere, for example. Maybe you could start, Robert, by telling us what should be in the SFP."

## Robert explains

Robert is answering Rodney's question about the SFP.

Robert says: "Well, the SFP needs to include, among other things, the actuarial method and the assumptions that have been used for the valuation of the technical provisions. It needs to be consistent with both the investment strategy and employer covenant. It also needs to detail your policy for making good any deficit, both in terms of the timing and of the size of the contributions which relate to the past service deficit. In other words, we're back to the recovery plan."



### Decision point: What is the SFP?

Robert continues to answer the trustees' questions about the SFP. Which two of the statements below do you think he might make?

1. The SFP is prepared by the actuary to summarise the policy for meeting the statutory funding objective.
2. The SFP is prepared by the trustees to summarise the policy for meeting the statutory funding objective.
3. The SFP is produced jointly by the trustees and employer to record how they reached agreement over the schedule of contributions.
4. The SFP is produced by the trustees, often in conjunction with the Statement of Investment Principles (SIP).
5. The SFP is produced by the actuary and distributed to members to give them information about the funding position.

Answers at the back



Need help with this question? Read the [Tutorial 'The Statement of Funding Principles'](#)

Now that you have completed this scenario we would recommend that you begin to work through the 'Check your scheme' worksheet for this module.

# Answers

## Decision point: What next?

Option two is correct.

Your aim is to find a level of contributions and a schedule for paying them that reflects a reasonable balance between the need to pay promised benefits and minimising any adverse impact on the employer's sustainable growth. So it makes sense to work out two or three options.

Trying to proceed with the current draft of the recovery plan is unlikely to work, as Edmund has made it clear he can't afford it. You certainly don't need to call TPR in (and it is not a mediator as such), and it's too early to consider the alternative dispute resolution at this point, though this may be useful if you are close to agreeing but really can't finalise the figures between you. Modifying benefits for future service is not such a good idea, as that's already been done. In any case, the real problem lies in making up the deficit in past service liabilities which would be unaffected by that course of action.

## Decision point: What is the SFP?

Statements two and four are correct.

It's the trustees, rather than the actuary or the employer, who prepare the statement of funding principles. Its purpose is to summarise the process leading up to the production of the schedule of contributions, and it may well be prepared in conjunction with the SIP. Members can see the SFP on request but it is not automatically distributed to them.