Technical Briefing

No.16

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New Summary Funding Statement Requirement

Trustees of defined benefit schemes must now issue new "Summary Funding Statements" to their members and beneficiaries under recent regulations.

In general, the statements must provide details of the latest ongoing funding position and recovery plan, and also confirm the scheme's latest solvency position (ie its estimated buyout position on winding up).

Schemes must issue their first statements no later than 22 September 2006.

Background

The new disclosure requirements apply to all schemes that are subject to the new Scheme Funding regulations (SI 2005/3377), which came into effect late last year. Under these regulations, schemes are required to send each member and beneficiary an annual summary funding statement.

Members and beneficiaries

Each member and beneficiary must be sent a statement, except deferred or pension credit members whose present address is not known and for whom recent correspondence sent to them by the trustees has been returned.

Frequency of statements

In broad terms, statements must be sent out within a "reasonable period" of the statutory deadline for completion of an actuarial valuation or actuarial report that uses an effective date after 22 September 2005. The Pensions Regulator has issued a Code of Practice regarding reasonable periods.

The regulations require a valuation or report to be completed each year and so statements must also be sent out each year (but see *small schemes* below).

Where schemes have not yet completed a valuation under the new regulations, an adjusted statement must be sent to each member and beneficiary by 22 September 2006 and by each subsequent anniversary until such a valuation is completed.

Minimum content of statements

Statements must cover a minimum set of items. For schemes that have completed a valuation under the new funding regime, the minimum set is as follows:

- A summary of the last valuation and any actuarial report subsequently received, showing the extent to which assets cover technical provisions.
- An explanation of any change in the funding position since the last funding statement (or previous valuation under the old funding regime).
- The actuary's estimate of the scheme's solvency in the last actuarial valuation.
- A summary of any recovery plan prepared under the new funding regime.
- Whether the scheme has been subject to intervention by the Pensions Regulator resulting in modification, direction or a schedule of contributions, together with an account of the circumstances in which these took place.
- Whether any payment of surplus has been made to the employer in the last 12 months and, if so, the size of that payment.
- A statement that further information about the scheme can be obtained by members and beneficiaries.
- The address to which enquiries should be sent.

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For schemes that have yet to obtain a valuation under the new funding regime, the minimum set differs in the following way:

- The valuation summary must instead be based on the last valuation report and summarise the extent to which assets cover ongoing liabilities.
- An explanation of any change between the most recent ongoing funding positions under the previous funding regime.

Small schemes

Under the new funding regulations, small schemes are not required to obtain annual interim actuarial reports between triennial actuarial valuations. A small scheme is one that has less than 100 members at the effective date of the last valuation completed under the new funding regime.

If trustees decide not to obtain interim reports, then they are not required to produce interim statements.

A similar exemption exists for small schemes that have not yet obtained a valuation under the new funding regime. In order to qualify for this exemption, a "small scheme" is defined as having had less than 100 members at all times in the year ending 31 August.

Schemes in wind up

Schemes that have commenced winding up are subject to different disclosure and reporting requirements.

The Pensions Regulator

Example statements have been issued by the Pensions Regulator and can been found at: *http://www.thepensionsregulator.gov.uk/scheme Funding/Examples/index.aspx*

The Regulator's examples include more information than the statutory minimum, such as a description of the scheme's assets, a full list of documents members and beneficiaries can request and brief explanations of the way the scheme operates.

CPRM Commentary

Increased disclosure is designed to (i) improve scheme governance (ii) raise member awareness and understanding of the scheme benefits, and (iii) spur members on to review their plans on saving for retirement.

It is arguable whether these aims will be met in practice. For example, members are unlikely to understand why schemes fund towards the lower, ongoing funding position and not the estimated buyout target.

What is certain is that this will increase scheme running costs, firstly because statements must now be sent automatically (not just on request) and to all traceable members (not just certain membership groups), and secondly because administrators and trustees will be required to answer more queries from concerned members.

If you would like further advice on this or other pension issues, please contact either Walker Yule or Philip Wheeler in Edinburgh (0131 220 8247) or Simon Chrystal in Newcastle (0191 233 9408).