The defined benefit funding code of practice

Glossary of key terms

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The New Regime

The DB funding code of practice introduces a plethora of new requirements for trustees and their advisers. The code also introduces a lot of new terminology, some of which is a formalisation of existing concepts and some of which is brand new. This document serves as a reference of the new terminology introduced by The Pension Regulator (TPR) in the revised funding code.

Point of significant maturity	Calculated by the Scheme Actuary, this is the calendar year in which the scheme's duration is expected to fall below 10 years. TPR stipulates exactly how this calculation should be carried out (including that the financial conditions used must be based on 31 March 2023).
Relevant date	Set by trustees, this can be no later than the end of the scheme year in which the scheme reaches the **point of significant maturity**.
Reliability period	The period over which trustees have reasonable certainty over the employer's cash flow to fund the scheme. In this period, the level of risk in the **investment journey plan** should be supportable by the employer's covenant.
Post-reliability period	The period between the end of the **reliability period** and the **relevant date**. In this period, trustees are expected to begin de-risking in order to transition to low dependency by the **relevant date**.
Longevity period	The period over which the trustees have reasonable certainty that the employer will be able to continue to support the scheme. Trustees are expected to take the longevity period into account when deciding the timing and pace with which to transition to low dependency during the **post-reliability period**.
Funding and investment strategy	Composed of four parts, the **long-term objective**, the **low dependency funding target**, the **low dependency investment allocation**, and the **funding journey plan**. These are defined below.
Long-term objective	How trustees intend to provide benefits over the long term, for example buying out with an insurer, or purposefully running on the scheme.
Low dependency funding target	The funding level that trustees intend to reach on a low dependency basis by the **relevant date**.
Low dependency investment allocation	The investments that trustees intend to hold at the **relevant date**. Also referred to in the code as the **notional allocation at significant maturity**.

Funding journey plan	How trustees intend to go from the current funding position to the **low dependency funding target** by the relevant date, this encompasses how the actuarial assumptions underlying the basis will evolve over time.
Investment journey plan	How trustees intend to go from the current notional investment strategy to the **low dependency investment allocation**.
Low dependency funding basis	A new basis which is required for valuations going forward. On this basis it is assumed that if the scheme was fully funded, and invested in the **low dependency investment allocation**, then no further employer contributions would be required.
Fast Track	The first of two routes through which schemes can submit a valuation. This route is intended to be simpler with a small number of Fast Track tests which schemes must pass to demonstrate compliance, covering funding level, investment risk and recovery plan. If a scheme can demonstrate it passes these tests, then less data is required to be submitted in the **Statement of strategy** and TPR are unlikely to scrutinise the valuation submission further.
Bespoke	The second of two routes through which schemes can submit a valuation. This route offers trustees greater flexibility to choose an approach that suits the specifics of their scheme. Schemes will have to submit via the Bespoke route if they cannot pass the **Fast Track** tests. If a valuation is submitted via the Bespoke route, there will be a greater burden of evidence and explanation required in the **Statement of Strategy**.
Statement of strategy	A document made up of two parts which must be submitted to TPR as part of each valuation. Part 1 records the **funding and investment strategy**. Part 2 records supplementary matters. The sponsor needs to agree Part 1 and be consulted on Part 2. TPR has set out four templates, depending on whether you are before or after the **relevant date** and whether you are submitting under **Fast Track** or **Bespoke**. There are around 100-300 data points required, depending on the template and the specifics of your scheme.

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