

2023 Pensions Reasonableness Review – Licensee questionnaire

The purpose of the questionnaire is to assist licensees in satisfying the requirements of Paragraph 7.22¹ of the Financial Handbook. This requires licensees to explain and provide evidence on how they have considered the interests of consumers² in the governance of applicable pension schemes, including setting investment and risk strategies, as well as how they have responded to any recommendations set out by the Authority in preceding Reasonableness Reviews.

The questionnaire has been designed to assist all licensees and we recognise that there can be a wide range of suitable responses. If you think that some questions are not applicable to your pension scheme, please justify why you have taken this view. Supporting evidence should be provided wherever possible. The responses should focus on changes since the 2020 Pensions Reasonableness Review ('2020 Review'), however information submitted for the 2020 Review can be provided to the extent it is considered material and relevant.

Summary of pension scheme

1. Please provide a high-level overview of the applicable pension schemes. This could include the current status of the scheme, any key membership details of the scheme and any material changes since the 2020 Review.
2. Please complete the below table to summarise the key changes from the previous actuarial valuation.

	Current/most recent valuation	Preceding valuation
Valuation date		
Funding Level on Technical Provisions basis		
Pre-retirement discount rate outperformance (see Annex)		
Post-retirement discount rate outperformance (see Annex)		
Additional commentary on discount rate outperformance (see Annex)		

¹ Paragraph 7.23 GT2 Price Control Financial Handbook. Paragraph 5.22 ESO Price Control Financial Handbook

² Interest of consumers should consider both existing and future consumers. In your submission, please describe considerations to balance the interests of existing and future consumers where appropriate.

% of total liabilities in respect of pensioners On Technical Provisions basis		
Contributions payable (as % of payroll) Provide split between member, employer normal, employer deficit recovery and additional/voluntary employer.		
Recovery period (with high-level breakdown of contribution pattern)		
Asset allocation in return-seeking assets Growth assets determined using definition of 'Return-seeking assets' used by the Pensions Regulator in their annual scheme funding strategy (see Annex)		
Level of inflation hedging The sensitivity of the scheme's assets to a small change in inflation (asset IE01) divided by the sensitivity of the scheme's liabilities (measured using Gilt yields) to a small change in inflation (liability IE01)		
Level of interest rate hedging The sensitivity of the scheme's assets to a small change in interest rates (asset PV01) divided by the sensitivity of the scheme's liabilities (measured using Gilt yields) to a small change in interest rates (liability PV01)		
Changes in scheme design since previous valuation For example, any changes to contribution structure, benefit entitlements or new sections.		

2020 Review

- Please describe what actions you have taken as a result of the recommendations (general and specific) from the 2020 Review.³

Management of the pension scheme

- Pension scheme management and governance

³ <https://www.ofgem.gov.uk/publications/revised-pension-allowance-values-and-completion-2020-reasonableness-review>

- a. Please describe how the company engages with the Trustees in their governance of the pension scheme, with reference to the framework in place and any professional advice obtained
- b. Please explain how regularly the pension scheme Trustees assess the sponsor covenant and, if agreed with the Trustees, provide details on the outcome of the most recent assessment.

5. Company-Trustee relationship

- a. Please describe the working relationship between the company and the Trustees, including details on how and when you engage with the Trustees.
- b. Please describe how the company has influenced Trustee decisions, with reference to the valuation negotiations process and setting the assumptions in light of the interest of consumers.

Pension Scheme Strategy

6. Long-term objective

- a. Please describe the long-term funding objective, how this was agreed including considerations of the interest of consumers and the process for reviewing the objective. Please provide details on how the scheme is meeting/moving towards its long-term objective.

7. Investment Strategy

- a. Please provide details on the most recent review of the investment strategy (e.g. how/when it was conducted, Trustee-company engagement, any professional advice or scenario analysis obtained).
- b. Please describe the current investment strategy and explain how the balance of risk and returns is in the interest of consumers, with particular details on how the strategy has changed since the 2020 Review. This may include details on de-risking, hedging, funding triggers, contingent assets, etc.
- c. Please provide details on how you considered environmental, social and governance issues for the purpose of influencing the Trustees' investment strategy.
- d. Please provide details on how the asset allocation and actual investment performance of the pension scheme have compared with the investment strategy in place at the 2020 Review and steps taken by the Trustees to address any underperformance.

8. Risk management

- a. Please provide details on how the company participates with the Trustees in their management of key risks and explain why this approach was taken with reference to the interest of the consumer. This should include details on how the pensions risks to the scheme are evaluated and how these are monitored and prioritised.

9. Please provide details on any other changes to the pension scheme strategy since the 2020 Review that are relevant to this submission and how the strategy can be justified with reference to the interest of the consumer.

Reducing costs to the consumers

10. Recovery plan and surplus management

- a. If the scheme has a deficit, please explain considerations of consumer interests in negotiating the deficit repair contributions and deficit repair period
- b. Please describe to what extent the scheme has sought to minimise the risk of a stranded surplus and processes to manage any current or future stranded surplus (e.g. escrow arrangement, asset-backed liabilities, reduction in deficit repair payments).
- c. Please confirm whether the requirement to determine established and incremental deficits has led to any changes in the funding approach since the 2020 Review. Please provide details if so.

11. Controlling costs

- a. Please provide details, with reference to the interest of the consumer, of any exercises to manage liabilities or future pension costs (e.g. flexible retirement ages, supporting benefit transfers, changes to benefits or member contributions, cap on pensionable pay). This should specify which exercises were implemented or give reasons why the exercise was not implemented.
- b. Please describe how the company monitors and influences pension scheme operating costs (e.g. administrative and investment expenses, service provider costs, monitoring performance).
- c. Please describe your approach, if applicable, to the PPF Levy and any steps taken to reduce the cost.

Understanding consumer interests

12. What steps did you take to understand consumer interests (e.g. obtaining professional advice in ensuring the investment and risk strategy reflects consumer interests, conducting and acting on consumer research)?

Any further comments

13. Please set out any further comments you wish to submit.

Annex

Discount rate outperformance

Assumed outperformance above gilt yield curve on Technical Provisions basis.

Not all schemes will split discount rates between pre and post retirement. For guidance:

- If a different discount rate is used for past and future service, please provide details of both.
- If the discount rate is a single discount rate, please confirm the pre and post retirement rate.
- If the discount rate is set with reference to a horizon year, please enter the pre horizon year discount rate in pre-retirement and post horizon year discount rate in post-retirement. In additional commentary, please state that it is with reference to a horizon year and provide the horizon year.
- If a different approach is used, please leave the pre and post retirement discount rates blank and set out the discount rate structure in the additional commentary.

Return-seeking assets

'Return-seeking assets' as a proportion of total assets held comprise the sum of:

- 100% of a scheme's allocation to equities
- 75% of property
- 100% of commodities
- 60% of Insurance policies⁴
- 80% of hedge funds
- 25% of corporate bonds
- 100% of assets held in the 'other' category

⁴ Excludes buy-in insurance policies