XPS Group

XPS FIS
Your Funding and Investment Strategy Companion

Part 4 - The funding valuation and journey plan:

By significant maturity, your scheme's technical provisions (funding) basis must be at least as strong as the low dependency basis. Whilst on the journey to low dependency, more risk can be taken where the employer covenant is stronger and subject to covenant, more risk can be taken where a scheme is a long way from reaching its relevant date.

The new regulations and funding code direct trustees to adopt a long-term approach to scheme funding, placing greater emphasis on strategic planning than ever before. The triennial actuarial valuation will play a crucial role in assessing that a scheme's journey plan is on track to achieve low dependency on the employer by the relevant date.

What do the regulations and guidance say?

Regulatory requirements:

- **Journey planning:** Trustees are required to set a funding and investment strategy that includes a journey plan outlining how their scheme will move from its current funding position to being fully funded on a low dependency basis by its relevant date. The level of risk reflected in the funding assumptions along the journey plan should be appropriate to the strength of the employer covenant and the scheme's proximity to its relevant date.
- **Technical provisions:** A scheme's technical provisions must be calculated in a way that is consistent with the scheme's funding and investment strategy. This means that the assumptions used to calculate the technical provisions should be supportable by the planned evolution from its current investment strategy to its low dependency investment allocation.
- **Scheme deficits:** Any funding deficit must be recovered as soon as reasonably affordable for the employer although, among other things, trustees must now also take account of the impact of a recovery plan on 'the sustainable growth of the employer'.

Code guidance:

- TPR expects trustees to consider the funding valuation and the funding and investment strategy together as one, and to work collaboratively with the sponsoring employer during the valuation process. Assumptions used to calculate the technical provisions must be consistent with a scheme's funding and investment strategy, and these assumptions should be the same as or stronger than the low dependency funding basis after the relevant date.
- Detailed guidance is provided on how trustees should determine a scheme's technical provisions, along with the key considerations for ensuring an appropriate recovery plan is in place, where applicable.
- The detailed guidance on journey planning helps trustees set out how they expect to progress from the scheme's current funding position to its low dependency target. This includes support on determining a suitable evolution of the investment allocation throughout all stages of the journey plan, and on how covenant considerations should be taken into account.

In this fourth part of your FIS Companion, we explore how the valuation process has evolved under the new regulations, and the key elements of the journey plan.

Our six-part 'FIS Companion' series will help trustees and employers approach their first valuation under the new funding regime in a logical, practical order, while highlighting the key considerations for both.

1 Setting a long-term strategy	2 The covenant assessment	3 Scheme investments under the new regime	5 Fast Track versus Bespoke	6 Key questions and challenges
View full document here	View full document here	View full document here	Coming October 2025	Coming October 2025

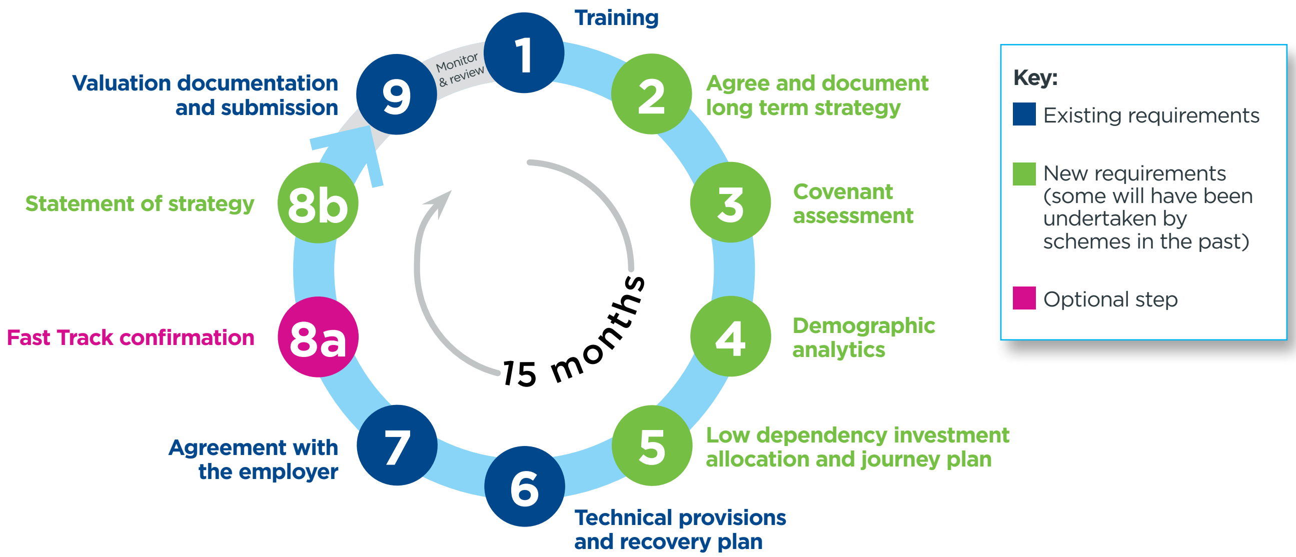
The funding valuation and journey plan: The valuation process

What's new...

TPR expects trustees to consider the funding valuation and the funding and investment strategy together as one, and for trustees and employers to work collaboratively during the valuation process.

To adhere to the new funding regulations, the valuation process introduces a key additional requirement; planning for the long-term funding of the scheme. This is in addition to the continuing requirement to assess the current funding position of the scheme and, where necessary, put a recovery plan in place. Long-term planning involves setting the funding and investment strategy, which includes determining: the long-term objective, the low dependency funding target, the low dependency investment allocation and the journey plan to low dependency. At the very least, this strategy will need to be reviewed and, if necessary, revised as part of each subsequent formal valuation.

The valuation process includes more steps under the new regulations as shown below.



A scheme's funding and investment strategy must be agreed as part of its first valuation under the new regulations. Despite the additional steps, the 15-month deadline to complete the valuation remains unchanged. To help manage this, some preparatory work can be undertaken prior to the valuation date, such as: initial discussions on the long-term strategy, early covenant analysis, consideration of the low dependency investment allocation and exploring journey planning options.

Planning will be key to completing everything on time - particularly for a scheme's first valuation under the new funding regime. Trustees will need to carry out the additional steps and submit their statement of strategy within the usual 15-month deadline for actuarial valuation submission. Where time permits, I encourage trustees to begin preparing well ahead of the valuation date.

Pauline McConville, Senior Consultant

4 The funding valuation and journey plan: Valuation requirements

What's new...

A scheme's technical provisions must be calculated in a way that is consistent with its funding and investment strategy. The technical provisions assumptions should be the same as or stronger than the low dependency funding basis after the relevant date.

The valuation process has evolved considerably under the new funding regulations. The emphasis has shifted towards ensuring schemes reach full funding on a low employer dependency basis - a position where further employer contributions are not expected to be necessary.

Below, we summarise how the key valuation requirements have changed under the new funding regulations and code.

Valuation component	Previous regime requirements	New requirements under the funding and investment strategy regulations and funding code
Setting a long-term objective	Trustees were encouraged to set a long-term objective that focused on maximising the security of members' benefits.	Trustees formally document a long-term objective which must include achieving full funding on a low-dependency basis by the relevant date. In most cases, the employer must agree the strategy. This is covered in further detail under Part 1 of your XPS FIS Companion.
Covenant assessment	Trustees were expected to form a view and produce a single employer rating.	Formal consideration of covenant is a legal requirement with new covenant concepts to consider. This is covered in detail under Part 2 of your XPS FIS Companion.
Technical provisions	Assumptions chosen prudently with regard to the employer covenant and taking into account the degree to which adverse events could be supported.	Trustees must set assumptions which are consistent with the scheme's funding and investment strategy. This means that in the period before the relevant date, technical provisions assumptions must be consistent with the journey plan to low dependency. In the period after the relevant date, technical provisions assumptions must be at least as strong as those used in the low dependency funding basis.
Journey planning	Although journey plans were not mandatory, many schemes had one in place.	Trustees formally set a journey plan that outlines how the scheme will move from its current funding position to being fully funded on a low dependency basis by its relevant date. Wider factors, including employer covenant, will need to be considered.
Recovery plan (if funding shortfall)	Trustees were required to agree a recovery plan with the employer which targeted full funding on a technical provisions basis.	Trustees must take additional considerations into account including covenant metrics and they must also take account of the impact of a recovery plan on the sustainable growth of the employer.
Statement of strategy	Not applicable	Trustees must submit the statement of strategy to TPR as part of each formal valuation. This statement outlines the trustees' plan for how they will deliver benefits to members over the long term and contains lots of supplementary information.
Role of the Scheme Actuary	Provide advice on assumptions and certify the calculation of the technical provisions (and in some cases qualify this certification).	In addition to previous requirements, the Scheme Actuary is expected to report to TPR where they do not believe that the assumptions chosen for technical provisions could be considered consistent with the funding and investment strategy.

The funding valuation and journey plan: An introduction to journey planning

What's new...

Trustees are required to set a journey plan that outlines how their scheme will move from its current funding position to being fully funded on a low-dependency basis by its relevant date.

While encouraged under the previous funding regime, the new regulations require trustees to set a journey plan which must, as a minimum, be expected to achieve full funding on a low dependency basis by the relevant date. Over time, trustees should monitor their scheme's progress against the journey plan and take corrective action where required.

Factors to consider

The code gives trustees detailed guidance on factors to consider when setting their journey plan, including:

- **Determining an appropriate level of supportable risk.** It is important to consider how risk evolves over time, how funding and investment risk is expected to change as the scheme moves towards a position of low dependency and also how the level of risk that the employer can support might change over time. For example, schemes supported by a strong employer covenant may choose to run with a higher level of funding and investment risk within their journey plan. Contingent assets can be taken into consideration when setting the journey plan.
- **Ongoing risk management.** The journey plan should reflect expected levels of risk now and in the future, and ensure they remain supportable. Trustees should also have a plan in place in case the scheme deviates materiality from the journey plan. This includes identifying key risks or challenges that could impact the scheme's ability to meet its long-term objective and put appropriate contingencies in place.
- **Evolution of notional investments.** This is how the trustees intend to transition from their current asset allocation to the low dependency investment allocation by the scheme's relevant date. The assets held now and over the journey plan should be driven by the level of supportable risk. TPR suggests various de-risking mechanisms and expects the timing and pace of de-risking to be particularly relevant during the post-reliability period and suggests various de-risking mechanisms.
- **The nature of the scheme.** Significant maturity (or earlier relevant date), and therefore the rate at which low dependency must be reached, is influenced by a scheme's membership. Schemes open to new entrants and/or future pension accrual can reflect this by pushing out their journey plan, since continued pension accrual tends to slow a scheme's rate of maturing.
- **Proportionality.** TPR recognises that trustees can, under certain circumstances, adopt a proportionate approach. For example, if the size of the employer is very large in comparison to the scheme, if the scheme is very well funded, if the scheme has bought-in, or the scheme is already adopting a very low risk strategy, then the trustees may be able to conclude that the risks being run are supportable without much analysis.

A journey plan of two halves

TPR expects the journey plan to consider the reliability and post-reliability period, with key factors for trustees:

During the reliability period

- Trustees are expected to assess whether their scheme has access to sufficient employer cashflows and contingent asset support to recover any existing deficit and one that could arise from a scheme-related stress.
- If the assessment shows the risk cannot be supported, trustees should consider changing their funding and investment strategy or seek additional forms of covenant support.

After the reliability period

- This is the period when trustees are expected to transition to low dependency by the relevant date; the pace and shape of de-risking depends on covenant support.
- Trustees should establish how far into the future the employer could support the scheme (i.e. covenant longevity). This includes support from contingent assets. Stronger covenant support could justify running higher risk for longer.
- In addition to covenant considerations, trustees could also justify running higher risk for longer if their scheme is immature.

On the following page we explore how the journey planning process could function in practice.

The funding valuation and journey plan: The journey planning process

Once trustees have established their long-term objective, they must then address the question "How do I set a journey plan?". We have outlined how to develop this in practice. As the employer will need to agree to their journey plan, trustees should be sure to collaborate through the whole process.

1	**Set your long-term objective and low dependency funding and investment allocation** • The journey plan must facilitate low dependency by the relevant date • If there is longer term objective (e.g. run-on or buyout), the journey plan should aim to facilitate this too
2	**Understand your employer covenant** • The employer's ability to support risk now and in the future is key to setting the journey plan • TPR expects trustees to consider covenant reliability and longevity when setting a journey plan • Affordability may be important if cash is required as part of the journey
3	**Determine when you need to reach low dependency** • Low dependency must be reached by significant maturity (or earlier relevant date), this puts a limit on the duration of the journey plan • Trustees can aim to reach low dependency earlier, this can provide more flexibility if the journey plan needs to be adjusted in future • A journey plan that targets low dependency after covenant longevity may be difficult to justify for some schemes. However, where covenant longevity is not driven by a specific event or limitation to the covenant, and the trustees can reasonably expect covenant longevity to be extended, or 'roll' at subsequent valuations, trustees are not expected to plan to move to low dependency by the end of covenant longevity, providing they can demonstrate that the level of risk being run after longevity is appropriate
4	**Consider journey plan options** • There are various routes schemes can take to get from their current position to low dependency (and beyond) • It can be helpful to set out a number of journey plan options at this stage to assess against. For example, options with a different pace of de-risking or cash contributions
5	**Evaluate journey plans against requirements and the trustees' and employer's objectives** • The journey plan must achieve low dependency by significant maturity (or earlier relevant date), risk taken must be supportable and cash contributions due to be paid by the sponsoring employer must be affordable. If these things are not achieved the journey plan is not a viable option • Consider trustee and employer objectives, for example desire to de-risk quickly or to limit cash contributions
6	**Consider implication for longer term or other objectives** • The requirement is to reach low dependency, but there may be other objectives to consider too. For example, does the journey plan facilitate a subsequent journey to run-on and extract surplus or to buyout? Might there be wider implications such as facilitating continued accrual?
7	**Potential refinements to the journey plan** • Once journey plan options have been assessed, refinements may take place before the journey plan is agreed • Trustees may need to reconsider their long-term objective or consider options for strengthening covenant before a journey plan can be agreed
8	**Agree and document the journey plan** • The journey plan must be agreed and documented in the statement of strategy
9	**Monitor, take action and review the journey plan** • Progress against the journey plan should be assessed and corrective action taken where required • The journey plan must be reviewed at least at every valuation • Any Integrated Risk Management frameworks in place should be reviewed and updated to reflect changes made under the new funding regime

Setting the journey plan may be an iterative process

The funding valuation and journey plan: What does a good journey plan look like?

A journey plan should be unique and reflect each scheme's own circumstances.

While there is no 'one size fits all' approach to journey planning, the illustration below sets out what journey plan may be appropriate depending on the funding and maturity of the scheme.

Potential journey plans

Scheme maturity: Relatively mature

Mature but not fully-funded

- Become fully-funded on a low dependency basis as fast as possible
- Level of risk must be supported by the covenant, consider contingent support if required
- Cash contributions may be required if affordable

Mature and well funded

- Opportunity to de-risk in the short term and secure low dependency position, cash contributions may not be required
- Start aligning to longer term goal, e.g. run-on strategy or buyout

Scheme maturity: Relatively immature

Immature and not fully-funded

- Scheme could take less risk for longer to reach full funding, subject to covenant
- Balance risk taking with cash availability and affordability

Immature and well funded

- Opportunity to de-risk in the short term
- Develop run-on strategy. Good governance key to maintain funding level over the longer term, e.g. risk and cost management

Not fully funded | Well funded

Funding level relative to low dependency

We have considered two case studies for how a journey plan can be developed and how it might be structured as a scheme matures below.

Case study 1 – developing a journey plan

A relatively mature scheme, which is not well funded against its low dependency basis took the following steps:

1. Strengthened technical provisions to align with new code. Calculated the level of underfunding on new technical provisions basis and the gap to low dependency and considered recovery plan scenarios.
2. Measured current level of funding and investment risk.
3. Assessed covenant. This concluded that the employer could not provide any additional cash, but the existing cash contributions could reasonably continue beyond the end date of the existing recovery plan. The existing risk in the scheme was not supportable by the employer, but being part of a wider group meant that cash to support the risk was available and existing contingent support might provide access to that funding.
4. Considered various funding and investment journeys and evaluated each against the requirements.

Outcome: following negotiation between the trustees and employer a journey plan was agreed that:

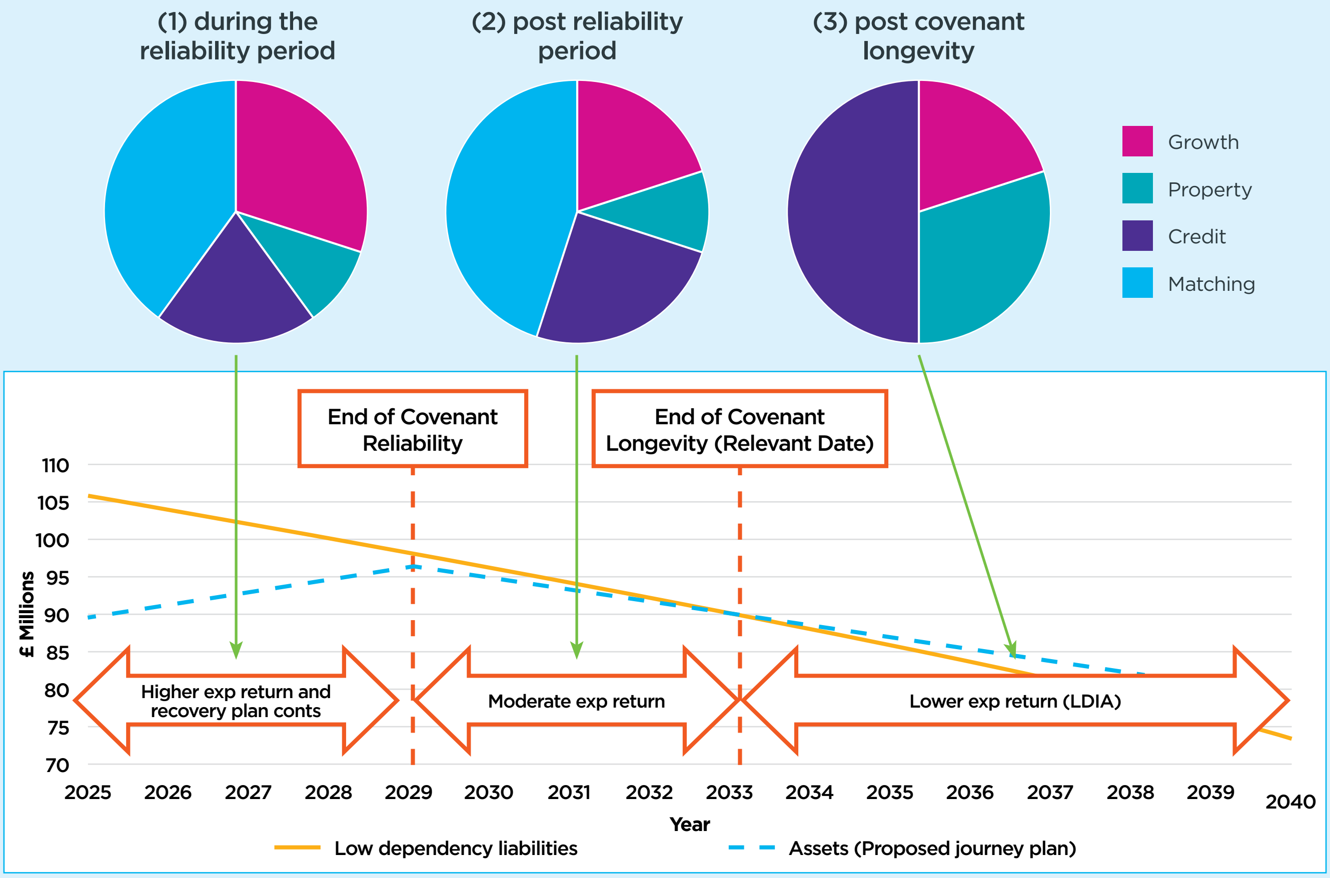
- ✓ Extended the existing recovery plan to reach full funding on a strengthened technical provisions basis, with investment returns anticipated to bridge the gap to low dependency a few years ahead of reaching significant maturity.
- ✓ Included derisking of the investment strategy at stepped intervals, if the journey remained on track.
- ✓ Put in place additional contingent support to (a) support existing risk level and a higher level of investment risk on the journey and (b) provide funding if the journey plan became materially behind target.

The funding valuation and journey plan: What does a good journey plan look like?

A journey plan can have several phases. TPR suggests that these phases may reflect covenant metrics, such as covenant reliability (the timeframe during which trustees have reasonable certainty over the employer's cash flow to fund the scheme) and covenant longevity (the timeframe during which the trustees can be reasonably certain that the employer will be able to continue to support the scheme). The case study below illustrates how this might look for a scheme.

Case study 2 – structuring a journey plan as a scheme matures

The journey plan for the below relatively immature scheme was split into 3 phases;



During reliability period

- Higher investment risk, but risk is supportable by covenant
- Cash from existing recovery plan is being paid

Outcome: funding gap to low dependency closes relatively quickly, but gap remains at the end of the period

Post reliability period

- Investment risk steps down
- Investments more cash generative to fund pension payroll
- Recovery plan ceases

Outcome: takes significantly longer to close the remaining funding gap to low dependency, but downside risk reduced

Post covenant longevity

- Investment risk steps down again to align with low dependency asset allocation
- Invests in more cash generative and liquid assets to fund pension payroll

Outcome: low dependency achieved. Some asset outperformance maintained to facilitate move to a longer term target

The above is just one example of the shape that a journey plan might take. Alternative de-risking strategies, such as 'Horizon' where the risk taken is initially lower but stays at this level for longer, are common and equally as valid. Trustees should adopt a journey plan that suits their scheme's specific characteristics.

The funding valuation and journey plan: Next Steps

Checklist for trustees

Develop a journey plan

- ✓ Reflect key objectives and parameters within the journey plan, such as the end point (i.e. low dependency or other long term objective) and required timeframe (i.e. significant maturity or earlier relevant date)
- ✓ Understand covenant and its impact on the journey plan, such as the supportable level of risk now and in the future, key covenant metrics (reliability and longevity periods) and whether contingent support might be available to strengthen the covenant.
- ✓ Evaluate various journey planning options and refine where required to ensure the best plan for your scheme circumstances and the trustees' and employer's objectives is chosen.
- ✓ Ensure that any journey plan facilitates an effective onward journey beyond reaching low dependency, for example run-on or buyout.

Complete the valuation

- ✓ Ensure that the relevant preparatory work has been completed, such as having set a low dependency funding and investment strategy, and reflect any new requirements or TPR guidance such as scheme-specific demographic analyses or incorporating expense reserves.
- ✓ Ensure that the valuation and the wider funding and investment strategy stacks up. The process may be iterative.

Agree and document the valuation and journey plan

- ✓ The valuation and journey plan needs to be agreed with the employer and documented in the statement of strategy which will need to be submitted 15 months after the first valuation date under the new regime.

Monitor and review the journey plan

- ✓ Put in place mechanisms to allow the trustees to actively take corrective action if the journey plan goes off track. The journey plan will need to be reviewed following any material change in the circumstances of the scheme or its employer, and as a minimum every 3 years.

The funding valuation and journey plan: Next Steps

Checklist for employers

Engage early

✓ There are only 15 months to agree the first valuation under the new regime and to agree the funding and investment strategy and accompanying journey plan. Engage early to facilitate effective and proactive collaboration with the trustees.

Consider the employer's objectives

✓ The journey plan in particular will be fairly flexible so can reflect the employer's (and trustees') objectives, such as preference for risk taking, cash contributions and timeframe for reaching the target. Being clear with the trustees upfront about the employer's objectives means they can be fed into the journey plan.

✓ The journey plan will be designed to meet the funding and investment strategy (e.g. low dependency) but there may be subsequent journey, for example run-on or buyout. The journey plan should ideally facilitate an efficient transition to the longer term target, so the employer should consider it's long term preference for the scheme too.

Consider offering contingent support

✓ Contingent assets may allow employers to improve their covenant strength and this might allow the trustees to accept more risk in the journey plan, meaning a quicker timeframe to reach the target or potentially less cash contributions.

Engage your own independent advisor

✓ Trustees will be taking professional advise when setting the journey plan, and employers should consider asking for support from their own advisors on this.

Jargon Buster

This jargon buster is designed to accompany this companion. It provides definitions of technical terms. **Click here**


XPS Group

Jargon buster

Find out more

To discuss any of the issues covered in this edition, please get in touch with Ollie Allen, Pauline McConville or Josh Pilley. Alternatively, please speak to your usual XPS contact.

Ollie Allen
Consultant
e ollie.allen@xpsgroup.com

Pauline McConville
Senior Consultant
e pauline.mcconville@xpsgroup.com

Josh Pilley
Senior Consultant
e josh.pilley@xpsgroup.com

in xpsgroup

About us

XPS Group is a leading UK consulting and administration business specialising in the pensions and insurance sectors. A FTSE 250 company, XPS combines expertise and insight with advanced technology and analytics to address the needs of over 1300 pension schemes and their sponsoring employers on an ongoing and project basis. We undertake pensions administration for over one million members and provide advisory services to schemes and corporate sponsors in respect of schemes of all sizes, including 86 with assets over £1bn. We also provide wider ranging support to insurance companies in the life and bulk annuities sector.

Award winning

Pensions advisory

Investment consulting

Administration

Corporate

Culture and Sustainability