

Jargon buster

This document provides definitions of some of the technical terms found in the funding and investment strategy (FIS) regulations and The Pensions Regulator's (TPR's) funding code and other accompanying guidance. The definitions below are not regulatory definitions or industry standards in all cases, but more an attempt to provide lay explanations for these terms. The terms defined in this document all refer to the new FIS requirements and may have slightly different definitions in other circumstances.

Term	Definition
Bespoke	TPR proposes a twin track approach to assessing valuations – bespoke and Fast Track. The bespoke approach provides trustees with the flexibility to agree a funding and investment strategy tailored to the unique characteristics and needs of their specific scheme.
Covenant longevity	Timeframe whereby the trustees can be reasonably certain that the employer will be able to continue to support the scheme.
Covenant reliability	Timeframe whereby trustees can be reasonably certain that they can rely on an assessment of the employer's cash flows and prospects.
Duration	The weighted mean time until all pensions and other benefits have been paid out under a scheme, with the weighting based on the discounted value of those payments.
Employer covenant	The financial ability of the employer to support the scheme and the expected level of support for the scheme from any legally enforceable contingent assets that would be expected to provide support when needed.
Fast Track	TPR proposes a twin track approach to assessing valuations – bespoke and Fast Track. Fast Track is a regulatory filter for TPR's assessment of actuarial valuations. If a valuation submission meets the parameters, TPR is unlikely to scrutinise it further and is less likely to engage with trustees. Schemes that meet Fast Track can also expect to provide less information in the statement of strategy. TPR will review the Fast Track parameters every three years.
Funding and investment strategy	A plan determined and periodically reviewed by the trustees or managers of a pension scheme, specifying how they intend to ensure that pensions and other benefits under the scheme can be provided over the long term, including targeted funding levels and investment allocations.
Funding journey plan	For schemes that have not yet reached the relevant date, the plan for how trustees intend the scheme to reach its low dependency funding target from the current funding position. Trustees should plan for how the scheme will reach a position of being at least 100% funded on a low dependency funding basis on and after the relevant date. Forms part of the overall funding and investment strategy.
Long-term objective	The way in which it is agreed that pensions and other benefits under the scheme are to be provided over the long term. Forms part of the overall funding and investment strategy.

Low dependency funding basis	A basis such that, once fully funded on this basis and invested in the low dependency investment allocation, no further employer contributions are expected to be required under most reasonably foreseeable circumstances. This is the low dependency funding test.
Low dependency funding target	The funding level the scheme is intended to achieve on a low dependency funding basis at the relevant date. Forms part of the overall funding and investment strategy.
Low dependency investment allocation (LDIA)	A notional investment strategy where the value of the assets relative to the liabilities is highly resilient to short-term adverse changes in market conditions with sufficient liquidity to meet cash flow requirements. Forms part of the overall funding and investment strategy.
Low dependency test	See 'Low dependency funding basis.'
Maximum affordable contributions	Defined as the employer's cash flows after reasonable adjustments have been made for alternative uses of cash and deficit reduction contributions (DRCs) payable to the scheme and other DB schemes sponsored by the employer. To the extent the employer has agreed to pay DRCs from its liquid assets, these amounts should also be included.
Reasonable affordability	Deficits must be recovered as soon as the employer can reasonably afford. Reasonable affordability should be assessed by reference to an employer's available cash, comprising cash flows and liquid, or readily recoverable, balance sheet assets.
Relevant date	No later than the scheme year end in which significant maturity is reached, or the actuarial valuation date if already significantly mature.
Scheme stress event	Example stress events would be a significant economic downturn that negatively impacts the scheme's funding level, or corporate restructures that would have an impact on the strength of the employer covenant.
Significant maturity	The duration at which schemes reach significant maturity is ten years for schemes without cash balance benefits and eight years for those with only cash balance benefits. Mixed schemes should use a weighted average. The duration must be calculated on a scheme's low dependency funding basis, except with economic assumptions as at 31 March 2023 market conditions.
Smaller schemes	Defined to be schemes with 200 members or fewer.
Statement of strategy	A formal submission made by trustees to TPR as part of the valuation process within the usual 15-month deadline for submission of an actuarial valuation. It will include detail on all elements of the agreed funding and investment strategy including the long-term objective, how the trustees intend to reach low dependency by significant maturity, and assumptions in the low dependency funding basis. Other matters that must be commented on include the key covenant, investment, and funding risks inherent in the strategy, and associated mitigations.
Supportable risk	The maximum affordable contributions over the reliability period that would be available to fund a deterioration in the deficit and any contingent assets which would be available to the scheme in a scheme stress event.