

Part 6 - Key questions and challenges

The Funding and Investment Strategy (FIS) regulations came into effect on 22 September 2024, introducing a new framework for how defined benefit pension schemes plan for the long-term. Now, more than a year after the effective date, many schemes have completed or are nearing completion of their first valuation under the new regime, while others are at various stages in the valuation process.

This period has revealed practical challenges and raised key questions as trustees and employers work to interpret and implement the requirements of the regulations, The Pensions Regulator's (TPR's) funding code, and further direction provided through TPR's detailed covenant guidance and its annual funding statement 2025.

Parts one to five of the FIS Companion were designed to guide trustees and employers through their first valuation under the new funding regime in a structured and practical way, highlighting key considerations for both parties. As a reminder:

- Your scheme **must set a long-term strategy**, agreed between the trustees and employer, that targets a state of low dependency on the employer within a certain timeframe. This was explored in **Part 1 - Setting a long-term strategy**.
- Set out in law for the first time, **formal consideration of the employer covenant** is now a requirement. There are new covenant concepts to consider and measure, as discussed in **Part 2 - The covenant assessment**.
- You are required to **agree a low dependency investment allocation (LDIA)** and target investing in it within a certain timeframe. This was explored in **Part 3 - Scheme investments under the new regime**.
- By significant maturity, your scheme's **technical provisions (funding) basis** must be at least as strong as the low dependency basis. More risk can be taken by less mature schemes and those with stronger covenants. This was explored in **Part 4 - The funding valuation and journey plan**.
- Many schemes will want to **assess their valuation against the Fast Track parameters**. We explored the conditions that must be met and the pros and cons of both a Fast Track and Bespoke valuation submission in **Part 5 - Fast Track versus Bespoke**.

Since the new regulations became effective, we have engaged in debate and discussions - including with TPR - on a wide range of topics where queries have arisen.

Part 6 of your FIS Companion consolidates responses to the most common queries we've seen on covenant, low dependency funding and investment strategies, and the valuation process to help trustees and employers apply the regulations and guidance effectively.

In the following pages, we first address the key questions that have emerged under each part of the FIS Companion, sharing our responses informed by practical experience and insight. We then turn to scheme-specific scenarios, examining the main challenges and concerns these situations present.

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

View full document [here](#)

2 The covenant assessment

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3 Scheme investments under the new regime

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4 The funding valuation and journey plan

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5 Fast Track versus Bespoke

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Key questions and challenges: Setting a long-term strategy

In Part 1 of your FIS Companion, we explained that schemes must set a long-term strategy that targets low dependency on the employer within a certain timeframe. Whilst the regulations formalised the requirement to have a long-term objective, many schemes will already have had a formal or informal one in place. The obligation to achieve low dependency within a specific timeframe however, and the additional documentation required, introduced a fresh challenge for most schemes.

Question	Response
I've had a long-term objective in place for several years; do I need to do anything different this valuation?	Yes. Under the new regulations, your funding and investment strategy must explicitly include achieving low dependency by the relevant date which must be on or before significant maturity. This requirement is probably not reflected in your existing long-term objective, so it will need to be reviewed and updated accordingly. There are also extensive additional reporting requirements.
How do I determine my scheme's long-term objective?	The ultimate goal is to provide members with their benefits in full, so a scheme's long-term objective should ensure this is achieved. Key considerations when setting this objective should include the scheme's maturity, funding position and employer support. TPR guidance on options for DB pension schemes published in June 2025 explicitly states that trustees must consider the full breath of options for their scheme's long-term objective including insurance, superfunds/condolidators and run-on.
How much flexibility I have in setting a long-term objective?	The regulations and code do not constrain schemes to a prescribed long-term objective, so trustees and employers have a lot of flexibility! The long-term objective also can and should be reviewed periodically and updated when necessary.
The employer is hesitant to formalise buyout as the long-term objective, (perhaps for corporate accounting reasons). Can trustees overrule this?	The funding and investment strategy, which includes the long-term objective, must be agreed with the employer. It is understandable that employers may be hesitant to commit to buyout in writing, for many reasons. Trustees and employers, with guidance from their advisors, can frame the long-term objective in a way that reflects the trustees' intentions while avoiding any premature commitments that the employer is uncomfortable with. Employers can add comments to the statement of strategy if they wish to.
Does having buyout as the long-term objective mean the scheme must be fully funded on buyout by the relevant date?	No - you can have buyout as the long-term objective without committing to being fully funded on buyout by the relevant date. The trustee and employer can agree on a low dependency target to achieve by the relevant date and then plan to bridge the gap to buyout later, for example through investment outperformance.
What is the difference between the long-term objective and the low dependency requirement?	The long-term objective defines how the scheme intends to provide benefits over the long term, such as running on and paying benefits from the scheme or securing benefits with an insurer or superfund. The low dependency requirement, on the other hand, is a regulatory minimum funding target with a specified timeframe. Low dependency is not an approach to providing benefits but rather a baseline that must be met.
What is the difference between 'technical provisions' and 'low dependency'?	Technical provisions are set assuming that the scheme will continue to run with employer support. Any technical provisions deficit must be addressed through a recovery plan. In contrast, a low dependency funding basis uses actuarial assumptions aimed at ensuring that no further employer contributions are expected if the scheme is fully funded and its assets are invested according to a low dependency investment allocation, targeting minimal reliance on the employer. There is also the requirement for technical provisions to be consistent with low dependency basis from the relevant date onwards so they will converge in the long run.





Key questions and challenges: Covenant

In Part 2 of your FIS Companion, we discussed the requirement for trustees to formally assess employer covenant and explored what the regulatory requirements and guidance from TPR might mean in practice for schemes.

Question	Response
Do we need to undertake a formal covenant assessment?	Yes. While there is no legal obligation to appoint an external covenant adviser, trustees are legally required to assess the employer covenant. If considering an internal assessment, a trustee board need to take a clear cold look at its ability to review the covenant and be objective. For added assurance, you may ask an external covenant expert to review an internal covenant assessment.
I have a well-funded scheme. How does this impact my covenant assessment?	TPR expects trustees to be proportionate when assessing employer covenant. Where schemes are well-funded and have less reliance on the employer, the expectation is that a lighter-touch assessment would be more appropriate than if the scheme was poorly-funded with a greater reliance on the employer.
Are contingent assets useful?	Contingent assets, if enforceable and accessible, can strengthen scheme security in addition to that provided from the employer, provide an extra layer of security for members, and may be essential to support the overall funding and investment strategy. They may help schemes with large shortfalls relatively to employer size or allow trustees to take slightly more risk where appropriate. Trustees and employers should consider their use during valuations, and review any existing contingent assets to establish what support they can provide under the new regulations.
Can trustees place any reliance on Pension Protection Fund standard guarantees?	PPF standard guarantees have historically been quite common but under the new funding regime, such guarantees may not be as valuable as they once might have been. Non-look-through guarantees (such as a PPF standard guarantee) triggered only by insolvency or missed contributions cannot easily support investment risk in the journey plan because assessments of affordable contributions rely on statutory employer cashflows. However, they can still help. For example, supporting the assessment of the longevity period based on that of the guarantor and the reliability period towards the higher end of the range for the employer.
Can my scheme run an investment strategy that is not supported by the covenant?	TPR recognises that some schemes may not be able to fully demonstrate that the level of risk taken is 'supportable' over the reliability period. Trustees may take investment risk not supported by the covenant if it benefits members, but should seek to maximise covenant support by: <ul style="list-style-type: none"> • Restricting value outflows (e.g. dividends) • Preventing detriment from corporate events (e.g. employer debt financing) • Improving scheme's security • Providing contingent assets or wider group support Trustees must justify decisions as being in members' best interests.
Do covenant considerations differ for alternative business models, such as those in regulated industries or not-for-profit organisations.	Yes. TPR allows some flexibility in how trustees assess affordability and supportable risk. For example, in regulated industries it may be appropriate to consider the employer's maximum debt capacity. Trustees must justify their approach, demonstrate compliance with the code and covenant guidance and will likely need professional advice when assessing supportable risk for unique business models. TPR guidance is based on an average business model, therefore external covenant assessment can be particularly important here.





Key questions and challenges: Investment - the LDIA

In Part 3 of your FIS Companion, we focused on the low dependency investment allocation (LDIA) and how adherence to regulatory requirements can be achieved alongside adopting an LDIA appropriate for your scheme.

Question	Response
What is the purpose of an LDIA?	<p>The LDIA is a notional investment strategy to be targeted by the relevant date designed to ensure that the value of a scheme's assets relative to its liabilities remains stable and resilient against short-term adverse market conditions, reducing the likelihood of requiring further employer contributions.</p> <p>The LDIA is expected to be biased towards liquid assets that match the scheme's liabilities albeit some allocation to growth assets or illiquid assets can be acceptable.</p>
How do we determine if our assets are 'highly resilient'?	<p>The expectation is that a 'highly resilient' LDIA must withstand unexpected, short-term market shocks without compromising the ability for trustees to make payments to members. Trustees have the flexibility to determine how to consider the resilience of their scheme's LDIA.</p> <p>TPR has suggested a '1-in-6' stress test followed by a six-year 'bounce-back' period for the funding level to recover. Details of how this works in practice can be found in Part 3 of your FIS Companion.</p>
Have there been any challenges with the high-resilience test?	<p>Low-risk strategies may fail bounce-back tests when they lack sufficient return to restore full funding in time. Adopting higher-risk strategies to pass resilience tests goes against the spirit of the regulations if it's not in the scheme's best interests. Counter intuitively, surpluses cannot be considered in high-resilience tests, which assume funding is at 100% before the stress is applied. Trustees, with advisor support, should explore appropriate methods for testing resilience based on their scheme's circumstances.</p>
When testing high resilience, do we need to use the bounce-back test set out in TPR's code	<p>The resilience test set out in the funding code is just an example. Trustees must demonstrate high resilience using a sensible test for their scheme, with clear decision making. Advisors should apply judgment and are not be bound to a specific test.</p>
The LDIA (and current investment strategy) are 'notional'. What does this actually mean?	<p>Notional means a theoretical or anticipated allocation of a scheme's assets at the relevant date. The current investment strategy and the LDIA are used to derive a scheme's technical provisions and low dependency discount rates. While the actual investment allocations may differ, it is expected that trustees will aim to align the real investments closely with the notional strategies to effectively manage risks and meet long-term objectives.</p>
When could schemes deviate from their notional investment strategy?	<p>Trustees may deviate from the notional LDIA if they believe it is in members' interests to do so. Circumstances could include:</p> <ul style="list-style-type: none"> • Taking advantage of favourable market conditions or avoid being a forced buyer/seller, providing doing so doesn't compromise funding member benefits; or • The scheme reaches surplus under a low dependency funding basis. This could allow Trustees to adopt a different asset allocation which further reduces the need for employer contributions in the future whilst still meeting the scheme's long-term objective.
What is a 'material surplus' where deviating from the LDIA is acceptable?	<p>This has not been quantified, but larger surpluses can be stipulated as a reason to justify greater deviation from the LDIA into riskier assets.</p>





Key questions and challenges: Valuation requirements

In Part 4 of your FIS Companion, we explored how the valuation process has evolved and introduced journey planning under the new funding regulations.

Question	Response
Is a scheme-specific demographic analysis required as part of the valuation process?	While not mandatory, trustees are expected to give serious consideration to scheme-specific demographic analysis, and TPR anticipates many schemes will undertake one. Without an evidence-based best estimate for mortality, it is difficult to gauge prudence in assumptions or confirm compliance with the low dependency test. TPR stresses that the assumption for mortality is particularly likely to be a material source of uncertainty for smaller schemes - for those schemes a scheme specific analysis provides a means of quantifying the prudence in their chosen assumption. Exceptions may apply where schemes are fully bought-in or have negligible demographic risk (e.g., cash-only schemes), where such analysis may add little value.
Is a journey plan required?	Many schemes will need both an investment and a funding journey plan, while some may require only one or none. Schemes that are already significantly mature or have set their relevant date to the valuation date, should already be assumed to be invested in their LDIA and adopting technical provisions at least as strong as low dependency, so a journey plan may not be necessary. However, even these schemes may choose to have a plan to stay on track toward their long-term objective or may need one in future should they fall into deficit on low dependency.
Do we still require a recovery plan?	A recovery plan is required if your scheme remains in deficit on a technical provisions basis. Schemes in surplus do not need one.
Do we need to include an allowance for expenses in the low dependency liabilities?	Legislation does not explicitly mandate an expense reserve. However, TPR interprets low dependency as including an expense reserve in its guidance. Trustees can consider an expense reserve and decide not to include one if they believe it is appropriate and justifiable for their scheme, but this may invite significant challenge from TPR. For schemes where there is a requirement under the rules for the employer to pay expenses, TPR nonetheless encourages trustees to consider an expense reserve.
We plan to buy out prior to significant maturity, so surely, we don't need to include an allowance for expenses?	In this case, the projected expenses are expected to be incurred before the relevant date, so technically they fall outside TPR's guidance. However, trustees and employers may still wish to include a reserve. Given the short timeframe, expenses can be estimated more accurately, reducing the risk of overfunding. To mitigate this risk further, TPR suggests options such as setting up a separate account for expenses.
What happens if on its first effective date, a scheme is already at significant maturity and there is a deficit on the low dependency funding basis? Is there a transitional period for running off that deficit?	Schemes that are already past their relevant date must adopt a technical provisions basis that is at least as strong as the low dependency basis. Any deficit on this basis should be recovered as soon as the employer can reasonably afford. While these schemes may not be able to achieve full funding on a low dependency basis immediately - as they ought to be given they are beyond significant maturity - TPR expects the deficit to be eliminated in short order. Covenant, investment, and actuarial advice will be essential to determine what is affordable and to develop a practical, workable recovery plan. It may be worth noting that TPR has new enforcement powers linked to the funding and investment strategy, but these are powers on amending strategy not funding.





Key questions and challenges: Valuation requirements

In Part 5 of your FIS Companion, we explored the conditions of a ‘Fast track’ valuation submission and how this might compare to Bespoke. We also considered the statement of strategy.

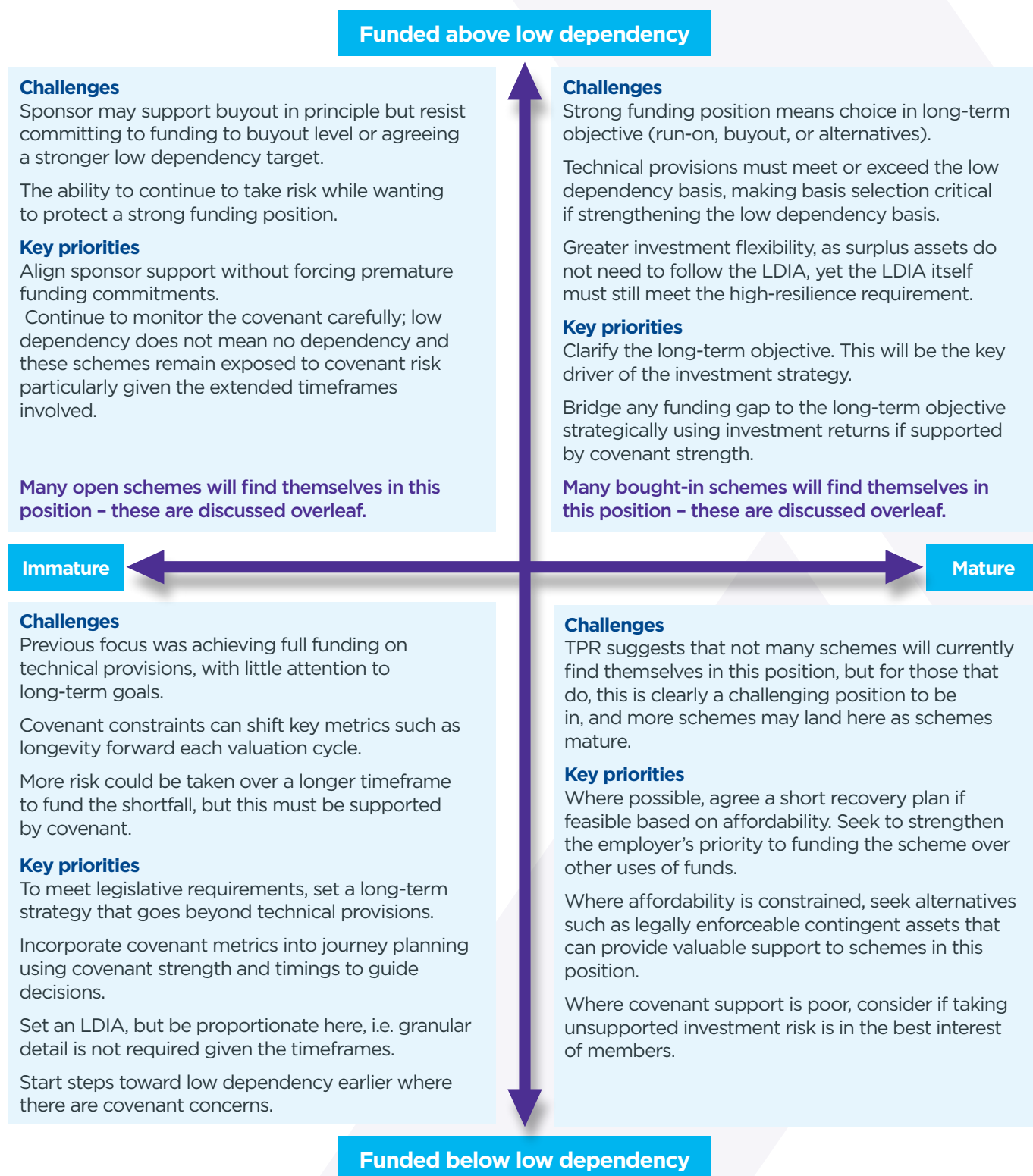
Question	Response
What does the scheme actuary need to confirm for a Fast Track submission?	The scheme actuary must confirm that the Fast Track guidance is being followed for all aspects where there is a clear requirement beyond the principles in the funding code. This means confirming that the scheme meets all Fast Track parameters and that assumptions for the low dependency funding basis, along with other items specified in TPR’s actuarial confirmation wording, are satisfied.
Is the scheme actuary required to confirm compliance with legislation or the funding code principles?	No. The scheme actuary is not being asked to confirm whether Fast Track is appropriate or whether legislation and principles in the code are complied with. They are confirming matters of fact, not matters of judgment and it is the trustees that ultimately must be satisfied that the valuation is compliant.
What are the additional documentation requirements for a Bespoke valuation?	There is no additional specific documentation, but trustees and employers should expect to provide more detail, both quantitative and qualitative, in the statement of strategy. However, for schemes that meet the criteria of a ‘small scheme’ or ‘low risk scheme’ the level of detail required is reduced, even under a Bespoke valuation submission.
What factors should I consider when deciding between a Fast Track or Bespoke valuation approach?	Many trustees will not commit to either Fast Track or Bespoke at the outset of the valuation. Instead, they will concentrate on agreeing a funding and investment strategy suited to their scheme, without reference to either approach. Only later, typically towards the end will they assess whether Fast Track requirements are met or could be achieved with minor adjustments. However, for some trustees, the appeal of reduced complexity and lower TPR engagement makes Fast Track an attractive goal from the start. Conversely, many trustees will conclude early on that Bespoke is the only option, either because Fast Track is unattainable or because the greater flexibility aligns more closely with their scheme’s needs.
I want to set the relevant date equal to the valuation to have a less onerous statement of strategy. At the next or subsequent valuations would it be problematic to change this?	It is possible to change the relevant date at future valuations and make it later than it was previously. This includes moving it away from being set at the valuation date, to a later date, as long as the new relevant date is no later than the end of the scheme year in which the scheme is expected to reach significant maturity.
Once I’ve received all the valuation advice and made decisions, is the statement of strategy easy to complete?	Not necessarily, The level of detail required depends, among other things, on whether the valuation is Fast Track or Bespoke, and whether the scheme is before or after its relevant date. Even with all the advice and decisions to hand, the statement of strategy can still involve significant effort and coordination, particularly the first time round given this is a new document for the trustees and employer to agree. It will be vital to understand who takes ownership of the collation, completion and submission of the statement of strategy. This may be secretarial support, or a lead advisor such as the scheme actuary who will have provided much of the advice needed throughout the valuation process.
Has the deadline to complete the valuation changed?	No. Schemes must still complete their valuation within 15-months of the valuation date, including all the additional steps under the new requirements.





Key questions and challenges Scheme-specific circumstances

Trustees and employers often struggle to know where to start with the new legislation and funding code. If this is you, a practical first step might be to understand your scheme's position in terms of funding and maturity.





Key questions and challenges Scheme-specific circumstances

Trustees of open schemes (in particular those that are open to new entrants as well as future accrual of benefits) and fully bought-in schemes, often question the relevance of the new regulations. However, compliance is still required.

Open schemes

Question	Response
Why is there frustration with adhering to the regulations for some open schemes?	Because these schemes - some government-backed or with very strong employers - are required to comply even though they are likely to continue indefinitely with the same investment strategy and overall approach. The perceived upshot of compliance can be increased liabilities and higher accrual costs without any practical benefit for the scheme.
Can the relevant date be beyond covenant longevity for these schemes?	Provided longevity is not defined by a specific covenant event and you expect to extend it at the next valuation, then you don't have to plan to be fully de-risked to low dependency by longevity. In these cases, the relevant date may extend beyond longevity. However, extending this period by more than three years (a valuation cycle) could be problematic because you must demonstrate that risk run post longevity is appropriate - this may be difficult.
What difficulties arise from the code's approach to discount rates?	Using a gilts plus approach for the low dependency discount rate can conflict with technical provisions discount rates derived differently, e.g., inflation plus, which is common on open schemes. This can lead to volatility and results that don't make sense under changing market conditions. TPR's guidance notes alternative approaches (asset led or inflation plus for example) that trustees can adopt for low dependency as long as they can evidence legislative compliance.

Bought-in schemes

Question	Response
Do schemes with a buy-in still need to comply?	Yes, the regulations must still be followed. The good news is that compliance is generally more straightforward because these schemes should be "low-risk," reducing the number of questions to answer in the statement of strategy. If submitted under Fast Track, reporting requirements may be further reduced.
How can having a buy-in simplify the scheme's liability valuation?	The scheme actuary may advise trustees to set technical provisions and low dependency bases equal to a buyout basis. This means only one valuation is needed instead of three separate ones, reducing workload.
Can a scheme qualify as Fast Track low-risk if GMP equalisation is incomplete?	Yes, provided the scheme has fully bought-in benefits with an insurer, holds sufficient reserves for GMP equalisation, and meets all other Fast Track requirements.
A question in the statement of strategy asks if the scheme is fully bought-in. Should the answer reflect the status at the valuation date or the submission date?	When completing the statement of strategy, the question regarding whether the scheme is fully bought-in should be answered as at the effective date of the valuation.

We will continue to discuss our experiences of completing valuations under the new funding regime with clients, internally, and with TPR. These conversations shape and challenge thinking, and we'll share valuable insights as they emerge.





We trust that our six-part 'FIS Companion' series has helped trustee boards and employers navigate their first valuations under the new regime in a logical, practical way and that it remains a go-to resource for tackling these requirements.

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Find out more

To discuss any of the issues covered the FIS Companion series, please get in touch with **Pauline McConville**, **Heidi Webster** or **George Sullivan**. Alternatively, please speak to your usual XPS contact.



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