

# One year on:

Five lessons from the  
defined benefit funding code  
for corporate sponsors

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# Five lessons from the defined benefit funding code for corporate sponsors

The Pensions Regulator's Defined Benefit (DB) funding code (the funding code) marked a step-change in how pension schemes and sponsors approach long-term funding. One year on, what have we learned? For sponsors of DB schemes, the funding code is not just a trustee issue, it is a business issue. Here are the five practical lessons to help you stay ahead:



1

Be led by your strategy, not by a fast track or bespoke submission



2


Plan your journey from today's position to low dependency



3


Tell your covenant story and support it with metrics

One year on



4

Make contingent assets work in your favour



5

Engage early on appropriate expense allowance

We explore these lessons in more detail in the rest of this paper.



1

# Be led by your strategy, not by a fast track or bespoke submission

Fast track looks simple but its parameters can be restrictive. Bespoke offers flexibility but requires more robust evidence, especially for recovery plans beyond six years.

## Key takeaways for sponsors:

Fast track is a helpful reference point and many advisers understandably start there, but it is still only a benchmark.

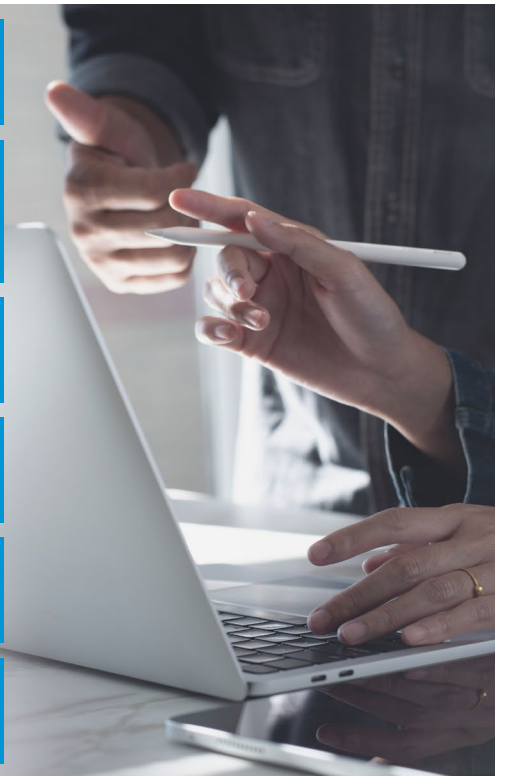
It is not the right fit for every scheme. Where the covenant is strong and investment risk is justified, experienced scheme actuaries regularly move away from fast track parameters.

Fast track does not permit investment outperformance in the recovery plan, so for most schemes it leads to an expected overfunded position.

Don't let the tail wag the dog. Don't redesign your whole strategy just to tick fast track boxes.

If you need a longer recovery plan or want to retain investment risk, Bespoke can be the better route, provided you bring the evidence.

Consider the impact on your accounting position, especially for schemes where additional contributions could lead to additional IFRIC14 liabilities.



## Checklist:

Test your current approach against fast track parameters.

Decode what matters most for the valuation process: speed or flexibility.

Check the accounting implications.

Prepare an evidence pack for bespoke routes.

# 2

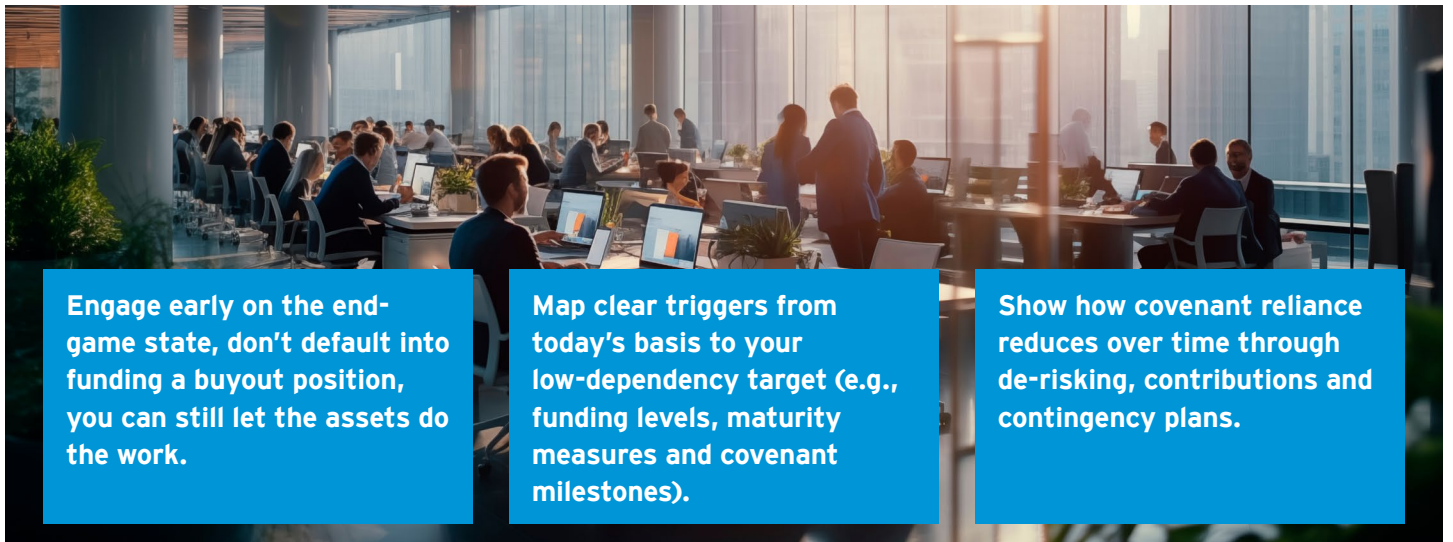
## Plan your journey from today's position to low dependency



The funding code is clear: at significant maturity\*, the low dependency funding target should be at least gilts +0.5%. Trustees with more cautious objectives (including buyout) may push to move sooner, especially where covenant visibility is limited.

Sponsors do not have to adopt the end-state immediately if they have a credible journey plan.

### Key takeaways for sponsors:



**Engage early on the end-game state, don't default into funding a buyout position, you can still let the assets do the work.**

**Map clear triggers from today's basis to your low-dependency target (e.g., funding levels, maturity measures and covenant milestones).**

**Show how covenant reliance reduces over time through de-risking, contributions and contingency plans.**



### Insight

Treat the discount rate as a signal. Pair it with clear triggers and governance so trustees can see covenant reliance reducing in line with investment risk.

\* Significant maturity is the point at which the scheme reaches a duration of 10 years (8 years for cash balance schemes) based on current cashflows and market conditions as at 31 March 2023 on the "low dependency basis".

# 3

## Tell your covenant story and support it with metrics

The employer covenant underpins trustees' funding and investment decisions. Under the funding code, trustees are required to assess covenant reliability over the long term and to calibrate scheme reliance accordingly. If you don't provide a clear, evidence-based narrative, trustees will likely default to more cautious assumptions.

**What good looks like:** Rather than providing everything, focus on intentional, relevant information sharing that helps trustees understand the business and its capacity to support the scheme, such as:

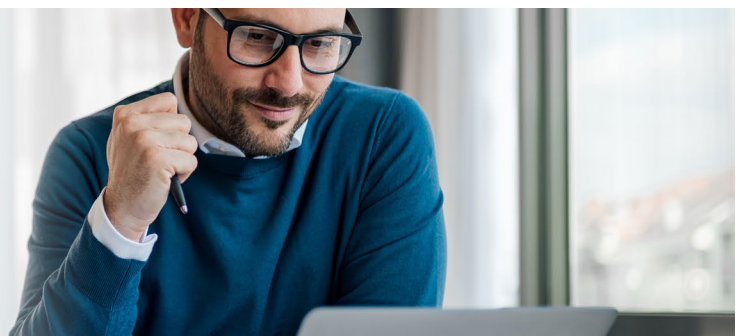


- **Cash generation and resilience:** Show how the business generates reliable cash and can withstand typical market pressures.
- **Liquidity and financing visibility:** Explain available liquidity and key refinancing points so trustees can see that near-term obligations and shocks are manageable.
- **Financial headroom:** Set out prudent leverage and headroom to demonstrate flexibility if trading weakens.
- **Downside preparedness:** Provide simple stress tests and your likely management actions to give trustees confidence you can respond effectively.

**Why this matters:** With clear, relevant information, trustees can avoid overly prudent assumptions and set funding and investment strategies that reflect the business's true capacity to support the scheme.

### Insight

Be deliberate about what you share and why. A covenant story that is forward-looking, metric-led and supported by proportionate evidence is far more persuasive than broad assertions. Strong messages need credible, relevant data behind them.



# 4

## Make contingent assets work in your favour



Contingent assets (such as parental guarantees, security, escrow) can support higher investment risk or longer recovery plans if they hit certain criteria and can be used as a tool to avoid scheme overfunding. They are also key for run-on strategies where covenant reliance extends far into the future.

### What trustees value:



Sponsors should expect legal diligence and ongoing monitoring, but a well-structured asset that meets the Pensions Regulator's criteria can materially increase trustee confidence.

### Insight

Contingent assets are powerful when they are simple, robust and easy to monitor.



# 5

## Engage early on an appropriate expense allowance

The funding code does not explicitly require an expense reserve in technical provisions, but it is required within the low dependency basis and as such is often included by default.

### Practical positioning for sponsors:



#### Compromise is common

Trustees need to demonstrate a path to include expense allowance, but partial allowances phased in across valuations is usually acceptable.



#### Get assumptions right

Long-term expenses can often lead many years into the future, so small changes in assumptions such as expense inflation can have a material impact.



#### Call out one-offs explicitly

Large projects (e.g., Guaranteed Minimum Pension (GMP) equalisation and benefit rectification) should be timed explicitly, not smoothed invisibly through technical provisions.

### Insight

Early engagement on expense assumptions with supportable evidence avoids trustees anchoring to an expense position.



# Turning compliance into competitive advantage

The funding code has redefined the landscape, moving from short-term valuations to long-term resilience. For corporate sponsors, this is more than a regulatory shift; it is a chance to shape outcomes that protect business priorities while meeting trustee expectations.

## The winners? Those who act early

Choose your strategy for the long term, independent of the regulation.

Develop a credible journey plan toward low dependency.

Own your covenant story with forward-looking evidence and robust stress tests.

Clarify expense reserves and assess their broader financing and accounting implications.

Choose the optimal route, fast track or Bespoke, based on your priorities, rather than convenience.

Leverage contingent assets strategically to unlock funding and investment freedom while managing risk effectively.

### One year in, the message is clear:

Treat pension strategy as a business issue, not just a trustee issue. For corporate sponsors with upcoming valuations under the Funding Code, the choice is clear:

**lead the process rather than be led by it**

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