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Rt Hon Frank Field MP
Chairman
Work and Pensions Committee
[redacted]
London
[redacted]

Dear Mr Field

I am writing to provide details of the number of defined benefit schemes which have recovery plans of 10 years and above and 16 years and above in length.

As context for these figures, I want to emphasise that the legislation provides a flexible funding framework that is designed to balance the interests of the scheme, Pension Protection Fund levy payers, and the sponsoring employer. Where a scheme is in deficit, a scheme is simply required to have an appropriate recovery plan in place to repair the deficit. There is no prescribed time period set out in legislation. From our perspective as regulator, the length of recovery plan in isolation is not necessarily a reliable indicator of the risk presented by a scheme.

For example, a pension scheme may be better protected by a longer recovery plan where prudent assumptions have been used to calculate the scheme's funding target (i.e. the amount required to meet the long term liabilities) than a scheme with a shorter recovery plan but where long-term liabilities have been calculated less prudently. In fact, we would be concerned if our regulatory approach was perceived as focussed too heavily on the length of the recovery plan, if this encouraged trustees and employers to target a lower funding objective.

Based on the latest data we have[1], the median length of a recovery plan is 7 years. The recovery plans of 1,093 schemes (20%) are 10 years or above in length and 269 schemes (5%) have recovery plans of 16 years or more.

Approximately one third of schemes undergo their triennial valuation each year. In respect of the Carillion pension schemes' 2011 valuations, the median length of recovery plan for all schemes that fell within that tranche of valuations (Sept 2011 – Sept 2012) was 8 years. A

[1] Schemes falling within the three triennial valuation cycles between September 2013 and September 2016.

total of 519 schemes within that tranche had recovery plans of 10 years and above (26% of the tranche) and 126 schemes (6%) had recovery plans of 16 years and above.

As Mr Birch and I mentioned in evidence, the agreed recovery plans in respect of the 2011 valuations was kept in place at the next valuations which reported lower deficits due to an improvement in economic conditions, thus reflecting the expectation that the deficits would be repaired through 12 years of scheduled payments.

Every pension scheme's situation is different. When assessing the appropriateness of a recovery plan we take into account a range of factors, not just its length. These include the employer covenant, contributions going into the scheme, level of investment risk and scheme governance.

Full details of all our risk indicators in relation to DB funding can be found in Appendix C of our *Defined Benefit Funding – regulatory and enforcement policy* at the following link:

www.thepensionsregulator.gov.uk/docs/db-funding-regulatory-enforcement-policy.pdf

I hope this is helpful in answering your question and I will write again shortly with more information about the 200 DB schemes subject to higher levels of scrutiny from TPR.

Yours sincerely

Lesley Titcomb
Chief Executive