



A pragmatic approach to policy

✓ **The Pensions Regulator (TPR) head of policy, Fiona Frobisher, speaks to Francesca Fabrizi about the steps TPR has taken towards helping schemes in this time of unprecedented uncertainty**

➤ **We are living in unprecedented times and TPR has worked hard to guide employers and trustees through the challenges they are facing. How has your role as head of policy at TPR changed in the past few months, given the environment we find ourselves in?**

Although what I do hasn't changed, how I do it and what the team and I are focusing on has changed significantly. I lead a team of 25 people, so much of the initial focus was ensuring they had the flexibilities and infrastructure they needed to work effectively from home. Luckily, TPR already had established working from home systems in place, so the technology side has not been so difficult but the logistics and emotional aspects of adjusting to this situation cannot be overestimated.

One positive aspect of dealing with this crisis, considering new risks and policy responses, has been the need to work collaboratively both within TPR and across government and industry stakeholders. So, I have found myself spending the majority of my time in the past few weeks checking in with my colleagues across TPR, government and my industry contacts to develop policy that is aligned and answers the real challenges schemes are facing.

➤ **What key policy initiatives are you working on and has your focus had to change given the uncertainty?**

All our policy resource has been

temporarily diverted to consider the ways we can best support savers, trustees and employers in the current crisis. Most of this has meant revisiting ongoing policy initiatives and asking the team to think about what risks have emerged and how we help trustees, providers and others mitigate them. So, for teams working on DB funding, it has been what should trustees do if employers want to reduce deficit recovery contributions (DRCs) or they get requests for cash-equivalent transfer values (CETVs); for automatic enrolment (AE) teams there have been questions about how the government's job retention scheme interacts with AE duties; for teams looking at governance and administration issues, it has been what are the most important issues we need to ensure are happening and where can we offer any easements for schemes

that are struggling with compliance.

We have been really pleased with the positive responses to the guidance we have put out, and the acknowledgement that our increasing focus on governance, administration and contingency planning over the past few years has put schemes in a better place to weather the crisis than they might otherwise have been.

➤ **TPR recently launched its defined benefit funding code of practice consultation. What do you hope to come out of this?**

We have already done a significant amount of development work, including with external stakeholders in thinking about how we can make the funding requirements clearer and more objective whilst preserving the advantages of a scheme specific approach. We have



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suggested a twin track approach: A fast track with clear benchmarks for those who want to know that their valuation will fit with our expectations and a bespoke approach where those who want to do something different will be able to do so as long as they provide evidence to explain why their approach fits requirements. Both approaches are guided by the same set of principles for how to address the risks and uncertainties in DB funding.

We are looking for industry's input and ideas and in particular are seeking views on whether the proposed framework delivers our aims to improve the clarity, objectivity, transparency and enforceability of the funding regime while preserving scheme-specific flexibility and any potential implementation challenges for trustees, employers and advisers and risks of unintended consequences.

➤ Does the proposed approach in the draft code remain appropriate given the current crisis?

The Covid-19 crisis is taking up much of trustees' employers' and advisers' time. So, we have extended the deadline for response by three months to 2 September (subject to review) to make sure all interested parties are able to give the consultation their full attention and have the time and capacity to formulate their response.

Although pension schemes are in the grip of an unprecedented crisis, we think that there is sufficient flexibility in the funding regime for trustees and employers to be able to deal with the impacts on their schemes.

And the approach we are setting out in the code preserves that flexibility and its focus on long-term planning and risk management and affordability-driven recovery plans remains relevant for the Covid-19 and post-Covid-19 world.

We are not yet at the stage where we firm up the quantitative guidelines in the code – this will be the focus of our second consultation, but we will

develop them in view of the responses to our first consultation, an assessment of impacts and, importantly, prevailing market conditions. They will be regularly reviewed and updated as necessary.

➤ You have spoken before about the importance of employers fully supporting their pension schemes. What would be your message to employers who will be finding this more challenging than ever in the current environment?

With the current uncertainty, it is vital that savers are still able to rely on their pensions in the future, therefore it remains important that employers support their pension schemes and the trustees who run them. Where employers are finding it challenging to make the contributions they have promised, there may be some help from the government's coronavirus job retention scheme or some flexibility from providers. We have produced some guidance on this on our website.

➤ Issues such as ESG and diversity were, rightly so, getting heightened attention before the coronavirus outbreak. Is there a danger that issues such will be given less consideration while pension funds are worrying about funding and trying to manage the economic uncertainty?

I am aware this is a danger. However, the reason these issues were getting heightened attention is that they are not 'nice to haves'. While they may appear less immediate right now as trustees focus on the crisis, they are no less important, because better decision-making and governance from diverse input and a full understanding of the long-term risks ensure better outcomes.

We are part of the Pensions Climate Risk Industry Group, which is continuing with a consultation on climate risk guidance for pension schemes, as the risks that schemes face from climate change are not going away and so we want to support trustees

in developing scheme preparedness. Similarly, stewardship remains important to us, as resilience relies on strong, long-term relationships between asset owners, asset managers and investee companies. One interesting question is: will trustees draw on their experience of current uncertainty to build resilience to future disruptions, such as those likely to arise from climate change?

We expect there will be some learnings schemes can take from how they have been able to deal with the unexpected changes in the economic outlook to how they may consider ESG effect on schemes on investment portfolios. We will certainly be looking to help people make that connection.

➤ Looking to the future, which new policy initiatives can pension schemes look forward to from TPR?

For everyone tackling the coronavirus crisis, the situation is very dynamic and so predicting the future is challenging. We hope our work to fully consider the initial risks will be complete in May, but this will of course be an ongoing process in the months ahead.

Many of our current areas of Covid-19 guidance and easements are due for a three-month review in June and we will update where necessary, including to address any new risks that do emerge.

However, we hope to get back to the work that continues to be important, as well as tackling risks throughout this uncertain period, as soon as possible. This will include developing new expectations in our code for DB funding; looking at improving trusteeship, re-visiting the concept of trustee knowledge and understanding; looking at how we communicate standards and expectations including consulting on presenting all our codes in a cohesive, modular fashion and helping schemes understand and account for ESG and climate risk.

➤ Written by Francesca Fabrizi