ASSOCIATION OF CONSULTING ACTUARIES

PRESS RELEASE: IMMEDIATE

ACA thumbs up for surplus flexibility, thumbs down for aspects of public consolidator

18 April 2024: The Association of Consulting Actuaries (ACA) in its response to the DWP *Options for Defined Benefit schemes* consultation is supportive of the greater flexibility to allow surplus refunds but pours cold water on some of the wider aspects sought for a public sector consolidator.

ACA Chair, Steven Taylor, commented:

"Our view is that a statutory override allowing surplus payments to be made to scheme sponsors would be helpful, provided appropriate safeguards are put in place to protect the interests of scheme members. Additional flexibility to make one-off payments to members without adverse tax consequences will also be of use.

In combination, these changes will likely make investing for surplus by DB schemes more attractive, with a view to sharing surplus between members and employers and may also encourage greater investment in growth assets. However, appropriate regulatory guidance for trustees will also be essential to encourage these behaviours."

If operating efficiently, ACA says this approach might offer greater balance to the current funding regime and more appropriately reflect the significantly improved state of UK scheme funding in general. Surplus refunds might then effectively mirror a traditional recovery plan (or as a "reverse recovery plan") allowing payments to be made to employers over a period where scheme funding is and remains above a given target level and alongside appropriate covenant or security safeguards.

For some schemes an option to protect benefits in full (the "100% underpin") could further support behavioural change if it is pitched at the right pricing point. However, at present ACA has some concerns around how the proposal would be implemented, the high estimated cost of providing this protection and over the moral hazard risks that might arise from this option.

ACA has significant concerns about the proposed approach to eligibility for the Public Sector Consolidator (PSC), particularly given the PPF's published initial views on the scale with which it envisages the PSC operating. The proposed model appears to give the PSC significant competitive advantages, which ACA says is not warranted – namely, the ability to simplify benefits on entry, the ability to accept schemes with deficits (that should be operating normally in the Scheme Funding regime) and backing (perceived or actual) of Government underpinning the scheme. We have concerns that this could cause significant disruption to the commercial settlement market.

These features are likely to result in the PSC being extremely attractive to a wide range of schemes. For example, as currently outlined, even schemes that are very close to buyout might find the

prospect of benefit enhancements and a refund of surplus (above the levels that would be available on a commercial buy-out), followed by entry into the PSC with government backing, very attractive. Clearly if very large numbers of schemes, including large schemes, enter the PSC this would have significant implications for concentration of risks, potentially at a systemic level.

ACA is very supportive of the ability to simplify benefits on entry. However, if pursued ACA believes it should be made available to all consolidators, and insurers on buy-out – with appropriate safeguards - rather than being a commercial differentiator for the PSC only.

More generally, the PSC should set out a very clear focus on the market areas in which it is most needed. These are the very small DB schemes (where access to other exit routes can be challenging) and also the limited number of very poorly funded schemes with weak or stressed covenants that are already well-known to TPR.

Peter Williams, ACA Pension Schemes Committee Chair, who led the response team said:

"For most DB schemes we believe that existing end-game options are effective and that insurance markets function well. Combined with the new funding regime for schemes that want to run-on, and commercial Superfund solutions now emerging, most trustees already have the tools they need to complete their journey plans over coming years. We believe Government should focus on getting the Superfund regime in place, including providing clarity on extraction of profit and when this can happen."

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About the Association of Consulting Actuaries (ACA)

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and all actuarial advice given is subject to the Actuaries' Code. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of private sector defined benefit pension schemes. The ACA is the representative body for UK consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body.