ASSOCIATION OF CONSULTING ACTUARIES

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futuretrusteeship@tpr.gov.uk

Mark Potter
Regulatory Policy Directorate
TPR
Napier House
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Dear Mark

Consultation on Future of Trusteeship and Governance

I am writing on behalf of the **Association of Consulting Actuaries** in response to the above-named consultation issued by the TPR on the above.

Our response is to the following questions:

15. Do respondents have any other solutions for winding up schemes with guarantees without detriment to savers?

No.

We have the following comments on the solutions being considered:

(a) Only move savers without guarantees, and retain savers with guarantees in the scheme

Whilst this approach would preserve benefits for members with guarantees, it would not achieve TPR's objectives of looking to wind up and consolidate smaller DC schemes. In fact, it would be likely to create a set of even smaller DC schemes on which trustees are even less likely to want to spend time on managing member benefits, and so members with guarantees would potentially be left stranded in schemes with poor governance.

(b) Assign policies to individual members

This would seem the most attractive solution, in that members' guarantees would be preserved, whilst pension schemes with poor governance would be removed from the scene. We would expect the DWP to discuss the practicalities of this with those providers whose policies include guarantees. We assume that any such assignment would be done on a no-consent basis. It is not clear what legal steps would need to be taken in order to achieve this, but assuming the assignment could happen relatively straightforwardly this would appear to be the cheapest solution.

(c) Provide compensation for savers who surrender guarantees via increases in pot size

The wording of this approach (in particular the use of 'surrender') suggests that it could only operate on a consent basis. If so, it would carry the same risks as the first option of potentially creating even smaller, less well-governed schemes for those members who opt not to surrender. It would be preferable for trustees to be able to carry out such conversion of benefits on a no-consent basis for all members.

However, this raises the question of how the increase should be determined. First, there may well not be a scheme actuary appointed who is able to calculate the value of the guarantee being given up (and so one would need to be appointed), and, even if there is, the nature of the calculation will be fundamentally different from the 'broadly no less favourable test' used for transfers between DB schemes. Whatever calculation methodology is used, it is possible that there will be significant winners and losers depending on the assumptions made about the investment return in the receiving investment vehicle.

It is probable that this route would involve individual calculations, and therefore this is likely to be the most expensive of the routes being considered.

16. Would it be helpful for TPR to provide guidance on the factors to be considered when winding up schemes with guarantees?

Yes.

Trustees may well be reluctant to assign or transfer the benefits of members with guarantees, and therefore any reassurance that TPR could provide on what good practice looks like would be very welcome.

17. Are there any factors that respondents feel must be considered when winding up schemes with guarantees?

Yes

A (non-comprehensive) list would include:

- Legal advice on the proposed method
- The cost of administering the benefit under the current arrangement compared to the cost of winding up
- Actuarial advice on the value of the guarantee relative to the overall size of the pot and on any compensation (where this method is being used)
- The nature of the receiving vehicle
- If the pot is going to remain with the same provider (e.g. on assignment), checks to ensure that it remains an appropriate vehicle for members' benefits
- If the pot is transferring to a different provider, checks to ensure that it is an appropriate vehicle (e.g. authorised master trust)

18. **Do respondents have a view as to whether the costs involved in winding up a scheme with guarantees would be affordable for small and micro schemes?**

Yes

Winding up a scheme with guarantees is likely to involve significant upfront costs, especially if a route involving individual compensation calculations is used. However, these costs need to be weighed against the overall capitalised value of continuing to operate a scheme over its lifetime, especially given the likelihood of increased regulatory demands on the scheme to improve its governance.

Anything that can be done by DWP or TPR to reduce the costs of winding up, for example by providing an easy method for assigning policies alongside clear guidance on how to achieve this, would obviously be welcome.

19. **Do respondents have a view regarding the loss of trustee oversight if benefits are assigned to individual savers?**

Yes

There might be an argument that the loss of trustee oversight was significant if say benefits were being transferred from a well-governed vehicle (such as an authorised master trust) to an individual vehicle. However, in this case, these are generally small trusts about which TPR already has significant regulatory concerns, and, therefore whilst there may be some loss of oversight, it does not appear that that oversight is particularly valuable to members.

If you wish to follow up any points please contact either Hugh Nolan, Chair of our DC Committee, on hugh_nolan@spenceandpartners.co.uk or Peter Williams, Chair of our Pension Schemes Committee, at peter.williams@aon.com

Yours sincerely

David Robertson
Secretariat
On behalf of the Association of Consulting Actuaries Limited

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.