Department for Work & Pensions

# **Defined Ambition:**
# Reshaping workplace pensions for future generations

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# Overall strategy

- **Building on the foundation of automatic enrolment and single tier –** more people saving, more employers contributing, but incomes for future generations may be less stable;
- **Ensuring people saving in quality schemes and getting good value –** protect savers from excessive charges in automatic enrolment schemes; ensure schemes governed/administered in members' interests;
- **Traditional DC** – right product for many, lack of innovation in risk sharing; fails to meet consumers needs for greater confidence about what their savings will amount to;
- **Traditional DB** – risk sharing inhibited by regulatory framework; fails to meet employers needs for greater confidence about their long-term costs;
- **Consultation Paper** – range of options, challenged industry to be innovative and creative - not for Government to design products, but to create the space for innovation;

# Pension Schemes Bill 2014-15

The Bill introduces new definitions to the legislative framework for private pensions based on the type of promise.

*Defined Benefits:* full pensions promise relating to the full income from the scheme;

*Defined Contribution*: no promise during the savings period about the level income of or savings;

*Shared Risk or 'Defined Ambition':* A 'shared risk' scheme is defined as one in which there is a promise about at least some of the retirement benefits, whether income or lump sum;

*Collective Benefits:* these work by pooling risks, such as investment risk and longevity, between members, which may result in more stable pension outcomes for members.

Bill defines a 'Collective' at benefit level, as a 'building block' for schemes; also makes provision for reg-making powers in relation to matters such as the setting of targets in relation to benefits, valuation, reporting requirements and governance;

# The New Private Pensions Landscape

## Defined Benefit Schemes

Nature of promise in the accumulation phase

- Full pensions promise in relation to all of the retirement benefits
- Income for life
- NPA is fixed for all

Employer bears the whole risk.

## Defined Ambition Schemes

(Shared risk)

Nature of promise in the accumulation phase

Pensions promise in relation to at least some of the retirement benefits (whether income or lump sum)

Schemes offering collective benefits
Risks may be shared with other members

Members bear some of the risk, and share some with another party. The other party might be either the employer, an insurance provider, or the scheme itself.

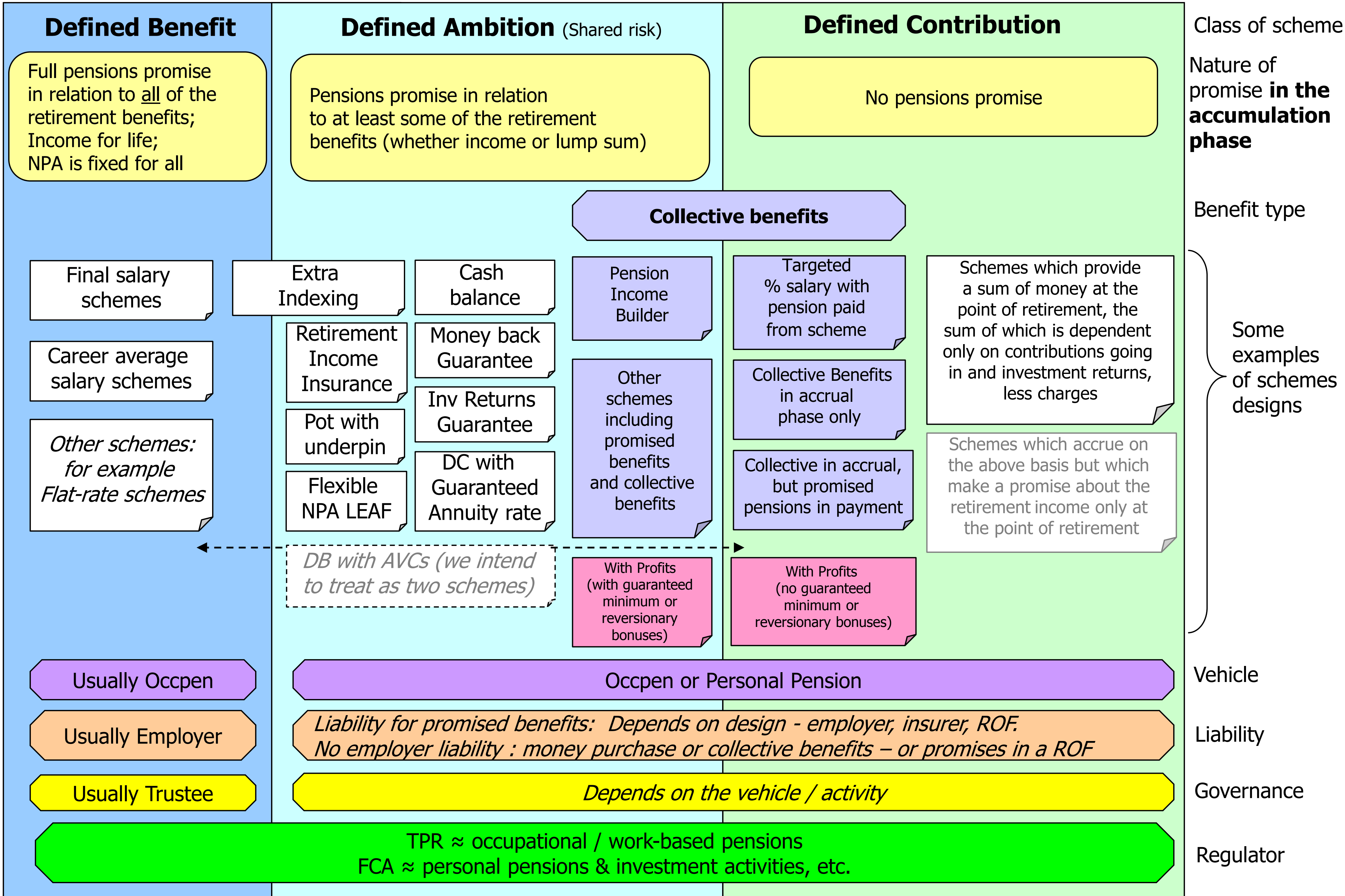
## Defined Contribution Schemes

Nature of promise in the accumulation phase

No pensions promise

Members bear the whole risk in the saving phase. These risks may be pooled between members. Risk might be shared when the pension is paid (for example – if it is paid by an annuity product or scheme pension).

# Pension Schemes and Benefit Types under DA/Collectives policy



## Budget Flexibilities

The Bill delivers a number of measures to create more more flexibility and encourage innovation –

- enabling collectives and setting out the space for DA schemes
- along with Pensions Tax Bill, the Bill delivers on the 2014 Budget announcement about flexibilities in accessing pension savings at retirement.
- Budget flexibilities recognises no obvious default yet at decumulation – diversity of situations at retirement, unlike in getting people into pensions;
- While some people will value ‘the cash’, others will still value an ‘income’ product – collectives and some DA options offer a new alternative to annuities;
- DA and collectives work with these decumulation flexibilities;
- Flexibilities are pitched at a benefit level rather at scheme level;

## Highlights from the Debates

General cross party consensus on  high-level policy rationale;

**Commons Committee:** pushed to a division on two points; re: fiduciary duty (merits of trust vs contract-based schemes) and decumulation;

**Lords 2nd Reading:** opposition's 3 test on the flexibilities;

**Lords Committee:**

Opposition pressed to require regulation to be made, rather than that they 'may; be made.  Indication of likely continued support for regulation making phase. Pressed for DPPRC recommendation to make some powers affirmative;

*Recurrent topics:* review of guidance, and flexibilities more generally, second lines of defence, fiduciary duty, scale and annuity brokerage;

## Major Government Amendments since Bill Introduction

- Power to make regulations to require managers of non trust-based schemes to act in the best interests of members in respect of specified decisions.
- Single probability ‘level’ amended to a ‘range’;
- Regulation-making powers around trustee discretion in ‘policies’;
- Detailed provisions covering Guidance Service to pensioners;

# Next Steps & Indicative Timetable for DA/Collectives Regs

- **Jan–Feb 2015:** continue informal discussions with industry to establish priority regs, e.g. collectives;
- **Feb–March 2015:** develop initial propositions  around collectives regs to test in discussion with industry/consumer groups – potential publication;
- **End of March:** Purdah;
- **May 2015: General Election;**
- **Spring/Summer 2015:** develop detail following feedback on propositions;
- **Summer 2015** - formal consultation;
- **Autumn / Winter 2015-16** – finalise collectives regs in response to the consultation;
- **Dec 2015–April 2016** – Parliamentary procedure for first package of key affirmative and negative regulations;