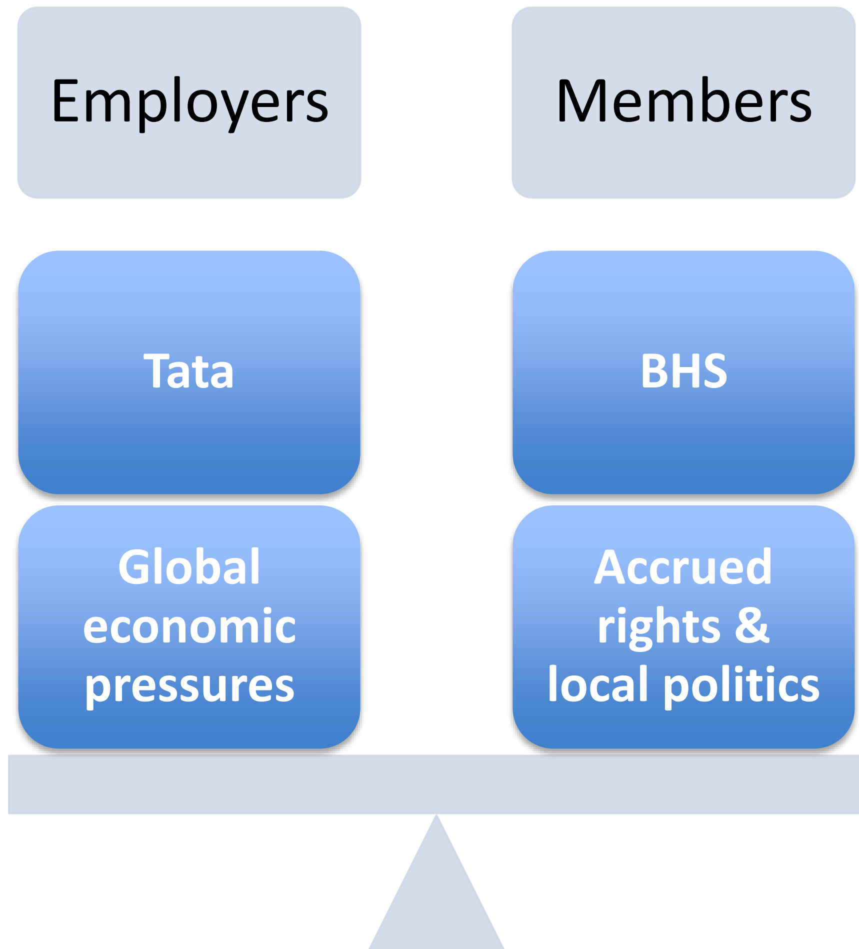
The Green Paper on DB Pensions

Joint APL/ACA talk

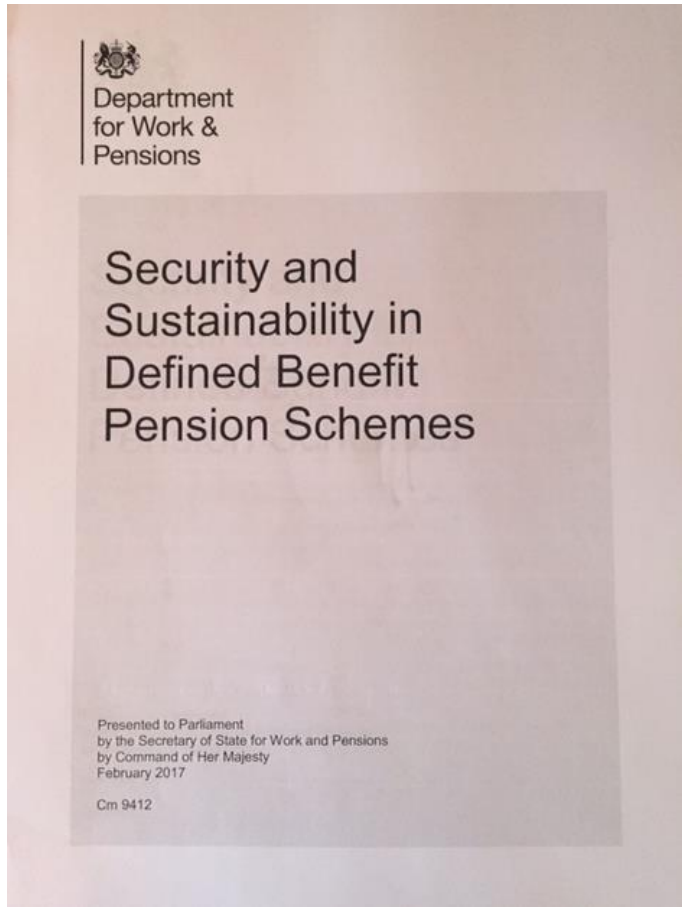
Thursday 23rd March

Jason Coates – Gowling WLG and Stewart Hastie - KPMG

Balance of interests



The Not Green Paper



Department
for Work &
Pensions

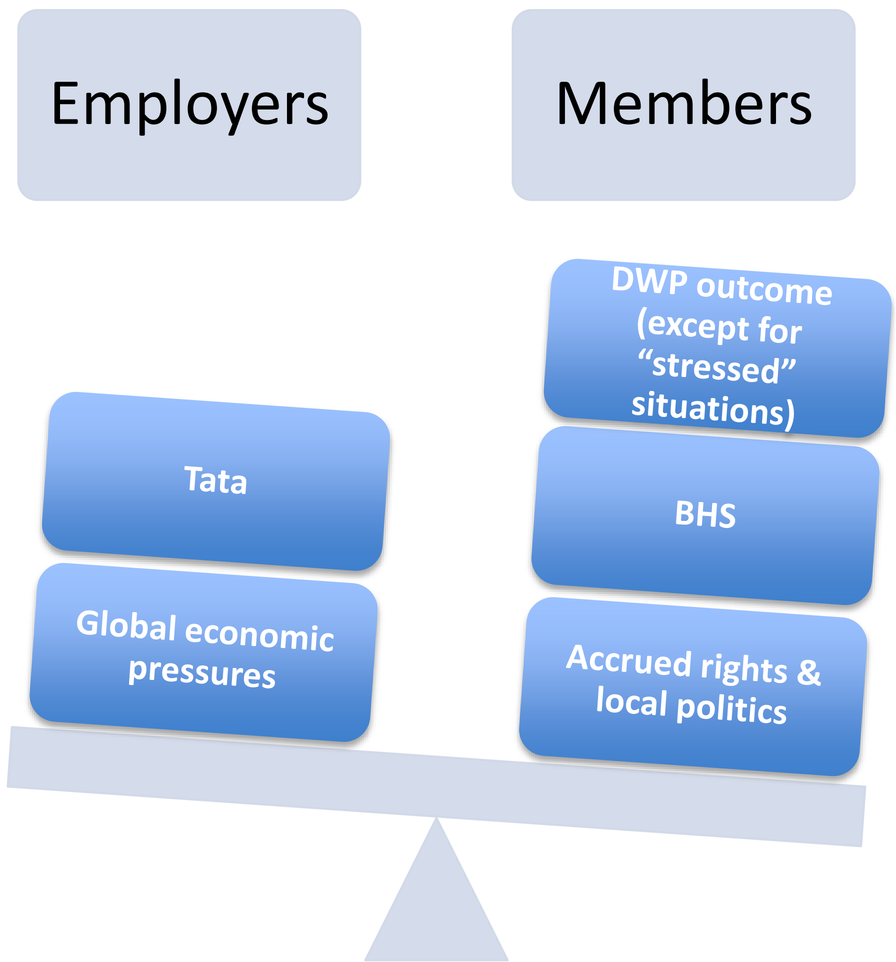
Security and
Sustainability in
Defined Benefit
Pension Schemes

Presented to Parliament
by the Secretary of State for Work and Pensions
by Command of Her Majesty
February 2017

Cm 9412

No major overhaul

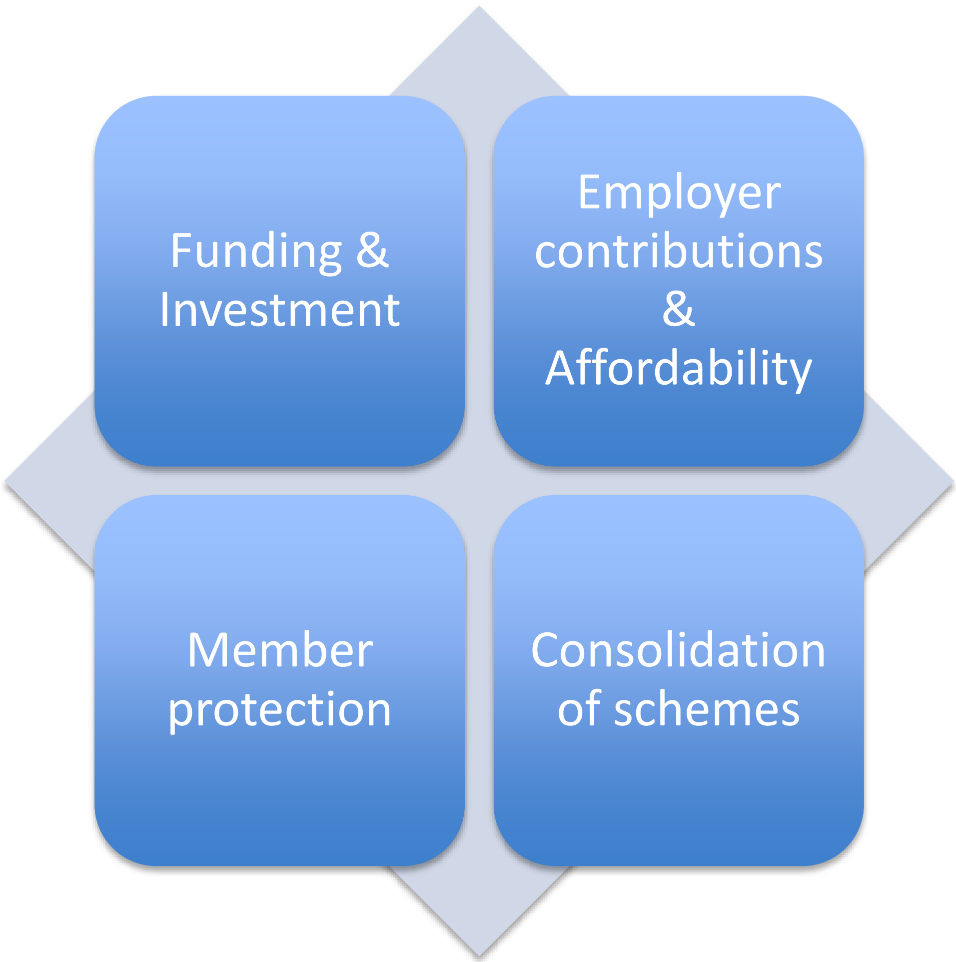
Balance of interests



Role of industry

INNOVATE

Four areas


Funding & Investment
Employer contributions & Affordability
Member protection
Consolidation of schemes

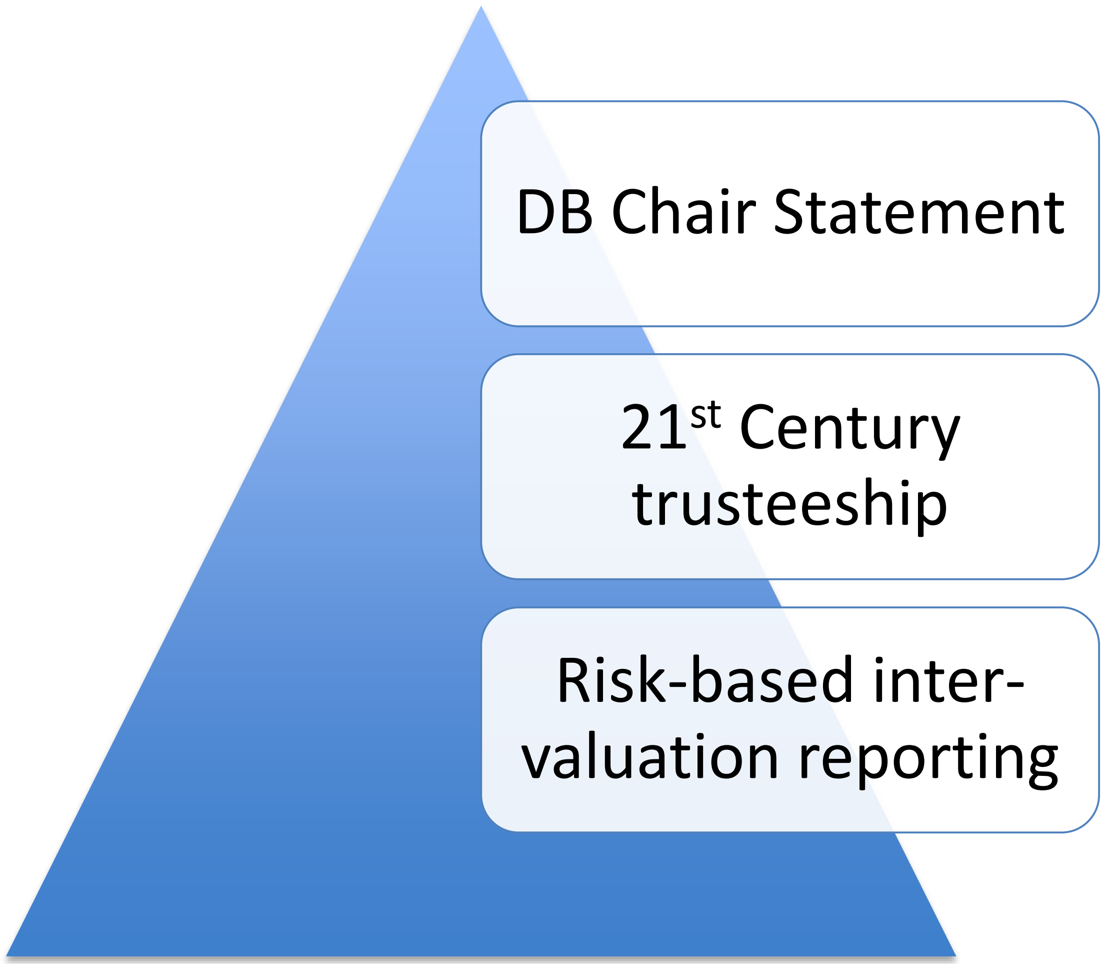
Funding & Investment

Discount rates NOT pessimistic

NOT systemic issue

Variable valuation cycles / shorter timescales

Funding & Investment



Employer contributions & Affordability

INTENSIVE CARE STATUS

1. Employer has not acted inappropriately

2. No realistic prospect of scheme benefits being met in full over a reasonable period without unreasonably high investment risk

3. Reasonable prospect that "restructuring plan" can (a) deliver better outcome for members (PPF) and (b) allow employer to survive and trade profitably grow over medium term

Anti-embarrassment?

Employer contributions & affordability

Stressed schemes / sponsors

Difficulty to set objective criteria

Severely underfunded schemes

With significantly resourced sponsors

- Hard limits on recovery plans?
- Interim funding targets & greater tPR monitoring?

Again difficulty to set objective criteria - PPF, MFR2?

Rationalising indexation

c.75% of schemes have RPI written into their rules

Options

- Statutory power to switch from RPI to CPI?
- Should 'stressed' schemes be allowed to suspend increases?
- Should switch cover revaluation as well as indexation?

Impact

Switching from RPI to CPI indexation c.5-10% of aggregate TPs

Indexation

Audience participation

Q1: Do you think there should be a statutory override to change RPI indexation to another inflation measure?

Pensions Regulator Powers

Scheme Funding – two options

1. Either set out in legislation but MFR2 risk
2. Or tPR provides explicit standards with comply or explain regime – similar issues to 1. but more flex

Mandatory clearance

Narrow set of transactions only

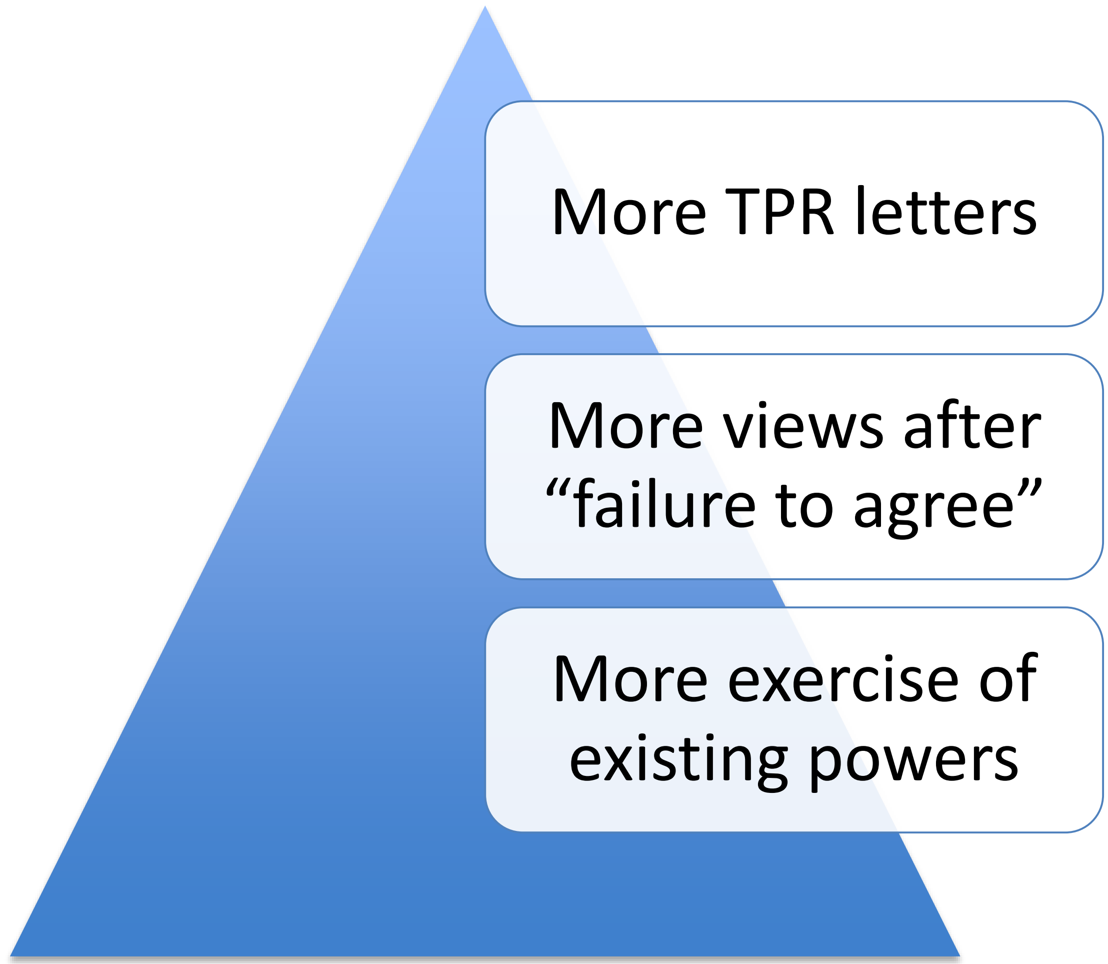
Includes dividends?

Plus info gathering powers, duties to co-operate, etc

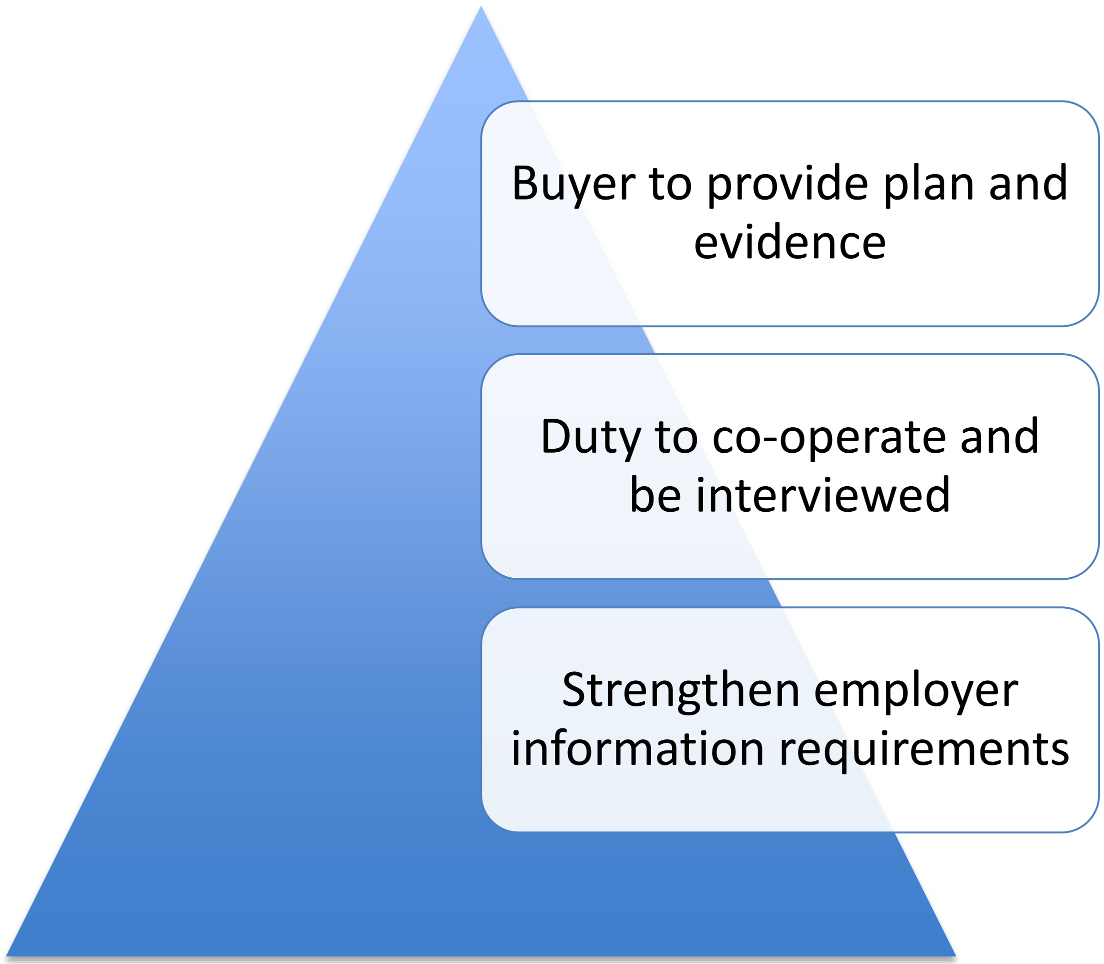
Keeping it narrow


LIONHEART

Member protection



Member protection



Audience participation

Q2: Do you think the Regulator should set explicit standards for funding with a comply or explain regime?

Consolidation

BIGGER IS BETTER

Consolidation

Potential obstacles

- Need to simplify complex benefit structures
- Cross-subsidies between members / sponsors / PPF

Models

- Ring-fenced
- Full consolidation
- Superfunds

Audience participation

Q3: Do you think legislation should make it easier to simplify and reshape DB pensions?


More innovation?

Questions