Hewitt

Deregulatory Review of Private Pensions – Consultation Paper

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This presentation covers only part of the valuation process and hence does not contain the information required to comply fully with the actuarial guidance note GN9.

Terms of reference

To examine regulation with the aim of simplifying and reducing the burden of legislation governing private pensions,

• drawing on proposals from stakeholders;

• seeking consensus on the balance between member protection and encouraging employer provision of pensions; and

• having regard to appropriate legal and other constraints.

Aims

- “light touch” regulation for future service
- well governed, but with greater flexibility
- appropriate protection for accrued benefits
- regulations that are easier to understand

Issues covered

"Key areas"

Regulatory Framework

Technical Proposals

Risk Sharing

Key areas

- Pension increases
- Revaluation
- Normal Pension Age
- Legislative overrides

Key areas – pension increases

1 - Are schemes likely to remove the promise of LPI for accruals after 2008, if allowed to do so?

2 – Would employers be more likely to continue defined benefit plans in LPI were optional?

3 – Would employers be more likely to establish risk sharing schemes if LPI were made optional?

4 – Do you have any information on the impact on scheme costs?

5 – Are there particular approaches to LPI that appeal to you?

6 – Does the cost savings to pension schemes if LPI is no longer mandatory outweigh the reduction of benefits to members?

Key areas - Revaluation

1 – Are schemes likely to make use of a reduction in the cap on mandatory revaluation for accruals after 2008?

2 – Would a reduction maintain a fair balance between stayers and leavers?

3 – Would a reduced cap have a significant impact on labour mobility?

4 – Do you have any information on impact on scheme costs?

5 – Would there be an impact on long term funding strategy if a 2.5% cap applied?

6 – Would employers be more likely to continue DB plans?

7 – Would employers be more likely to implement risk sharing schemes?

8 – Would the cost savings to schemes outweigh the loss of benefits to members?

Key areas – Normal Pension Age

1 – Is a link to a longevity index feasible?

2 – What changes to present laws/procedures/regulations would be required?

3 – Should schemes be allowed to change NPA for past service?

4 – If yes, what protection would be appropriate?

5 – If yes (to 3) should this option be available only in limited circumstances – for example, only open schemes?

6 – Do you have information on savings and costs in relation to your responses to the above questions?

Key areas – Legislative overrides

1 - Would a statutory override be appropriate for future service benefit changes? In what circumstances?

2 – Would a statutory override be appropriate for past service benefit changes? In what circumstances?

3 – What form should it take?

Regulatory Framework

- Principle based regulation
- Disclosure
- Trustees

Regulatory Framework – Principle based?

1 – Is a principles based approach appropriate? Why/why not?

2 – Are certain areas particularly suitable? Why?

3 – Would this lead to cost savings? To who?

4 – What could be done to allay concerns about lack of certainty?

5 – Would this have a positive or negative impact on member protection?

6 – What impact would it have on the regulatory authority’s running costs?

7 – Would CoPs/Guidance still be required?

8 – What impact would this have on skills, knowledge and understanding of trustees, employers and advisers?

Regulatory Framework - Disclosure

1 – Would a principles based approach work for disclosure?

2 – If yes, should this be high level, include some details or be outcome focused?

3 – If no, are there other improvements that could be made?

4 – Are there circumstances in which members/trustees should be required to consult or obtain permission of spouses or civil partners?

5 – Do you agree there are particular disclosure issues for risk sharing schemes? How should these be handled?

6 – Should trustees be required to provide more information at retirement? What sort of information?

Regulatory Framework - Trustees

1 – Is finding suitable trustees more difficult? If so, why?

2 – Are conflicts inevitable, or are certain regulations causing needless concern?

3 – On personal liability, could steps be taken to protect both trustees and member interests? Would a statutory exemption be advisable?

4 – Do the current TKU requirements discourage individuals with valuable experience from becoming trustees?

5 – Would your above answers differ for professional trustees?

6 – Would principles based regulations help recruitment?

7 – What impact will moving to 50% MNTs have on these issues?

Technical Proposals

- Return of surplus to the employer
- Section 67
- Employer debts
- FRS17

Technical Proposals - Return of Surplus

1 – Does the current legislation discourage employers from agreeing to appropriate contribution levels?

2 – If yes to 1, is the threshold the problem? Is there a threshold that would achieve a better balance?

3 – If yes to 1, is the problem the trustees ability to block any return of surplus?

4 – Should surplus be refunded on employer request above a certain threshold? Should this be a premium over the buy-out level of funding?

Technical Proposals - Section 67

1 – Does section 67 stop trustees from making small changes what would help their schemes run more efficiently?

2 – Are the procedures set out in Section 67 too complex and, if so, how should they be simplified?

3 – Under what circumstances do you think an exemption from section 67 – whether or not it retains its current form – would be justified?

4 – Would it be useful to allow some leeway for changes in actuarial value? To what degree?

5 – Would it be helpful to define "subsisting rights" in more detail? How would you define them?

Technical Proposals - Employer Debt

1 – Does the operation of present section 75 and its regulations create unnecessary problems? When and why do these problems arise?

2 – Are there ways in which the present legislation could be amended to minimise these problems, keeping in mind their purpose to protect members of the scheme and minimise calls on the PPF? For example, should the circumstances under which a section 75 debt is triggered in multi-employer schemes be changed?

3 – Are the present requirements or procedures relating to withdrawal arrangements too onerous? Which requirements and in what way?

Technical Proposals - FRS17

1 – Has FRS17 had an impact on DB pension provision by employers?

2 – If yes, please explain whether this impact has been good or bad, and why?

Risk Sharing

1 – Are employees interests service by more risk sharing? What risks are most appropriately shared?

2 – Are employers interested in more risk sharing than offered by traditional DB/DC?

3 – Has the present framework prevented specific novel risk sharing arrangements?

4 - What are the main obstructions to creative scheme design? Should they be removed?

5 – Should specific forms of risk sharing be recognised, with safeguards, or would looser regulation be preferable? What disclosure challenges are presented?

6 – What should the role of the PPF be? Changes to Levy/wind-up rules?

Summary

Key areas

- Pension increases
- Revaluation
- NPA
- Legislative overrides

Risk Sharing

Regulatory Framework

- Principles based approach
- Disclosure
- Trustees

Technical proposals

- Return of surplus
- Section 67
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