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The future role of the PPF post-Autumn Statement

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Agenda

1. Mansion House and Autumn Statement - proposals for DB pensions
2. Surplus extraction and 100% PPF underpin
3. Public sector consolidator
4. Next steps
5. Questions / discussion

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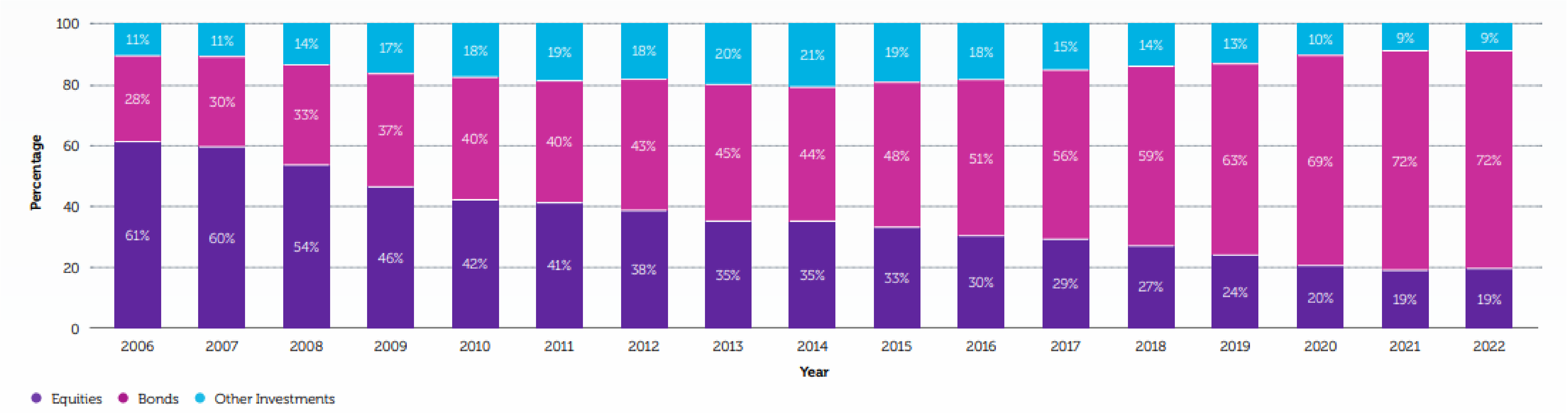
Mansion House and Autumn Statement – proposals for DB pensions

Context: asset allocation

Weighted average asset allocation in total assets



Source: The Purple Book 2022 - Figure 7.2

Mansion House reforms and the Autumn Statement

Chancellor's three golden rules:

1. Secure the best possible outcome for pension savers
2. Prioritise a strong and diversified gilt market
3. Strengthen the UK's position as a leading financial centre to create wealth and fund public services

Call for Evidence – Options for DB schemes (July)

- a higher level of benefits guaranteed in return for higher PPF levies?
- changes to surplus extraction rules to incentivise investment for growth?
- a public sector consolidator to operate alongside commercial consolidators?
- Should the PPF operate a public sector consolidator?

Government's response to the Call for Evidence (November)

- commitment to establishing a public sector consolidator by 2026, aimed at schemes unattractive to commercial providers, for schemes to choose to opt in
- the PPF has the necessary skills and experience and would be well placed to run it
- introduction of measures to make it easier for schemes and corporates to extract surpluses, including further exploration of the viability of a 100% PPF underpin
- a consultation on the above, planned for launch in winter

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Surplus extraction and 100% PPF underpin

Building and extracting surplus – the proposals

The Call for Evidence asked for views on:

- Enabling well-funded schemes that meet a certain criteria to be able to **extract their surplus**.
- Allowing trustees to invest surplus in investments with more risk and enable greater investment in UK assets.
- Well-funded schemes paying a **higher levy to the PPF** in return for **full benefit protection** for members and allowed to invest in productive finance.
- Using additional surplus generated by the DB scheme to provide **additional contributions** over and above statutory minimum contributions for auto enrolment for DC members

Building and extracting surplus – the responses

Responses to the Call for Evidence showed:

- Mixed views on the impact of surplus flexibilities on productive finance
- Limited scheme access to surplus before wind-up in the current landscape
- Mixed views on adding surplus flexibilities and a need for appropriate safeguards
- Some concerns around:
  - Trustee fiduciary duties
  - Misuse of scheme funds
  - Using surplus to enhance DC scheme benefits
- Some concern about the proposed 100% PPF underpin

DWP's conclusion:

"We will reduce the rate of taxation applicable to authorised surplus repayments to sponsoring employers and introduce measures to ensure surplus can be shared with scheme members.

"We note the need to ensure safeguards including levels at which surplus can be taken and covenant strength, and the possible benefits of a 100% PPF underpin. We will launch a consultation to consider the detail of these measures this winter."

The 100% PPF underpin

Benefits

- PPF underwriting downside risk could act as an incentive for schemes to take on the risks of investing in productive finance assets
- Members would receive full benefits

Challenges

- Which corporates will want to re-risk schemes?
- Entry criteria
- Would participation lead to increased investment in UK productive finance assets?
- If a low number of participants, scheme cannot be self-funding
- Access to external capital essential – with impacts on levy charge
- Moral hazard?

We will work with DWP and industry as the detailed consultation proposition is developed

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Public sector consolidator

Delivering on productive finance objectives

Government objectives for DB assets:

- Substantial investment in productive finance
- Strong and diversified gilt market
- Member security

This requires:

- Medium to long term time horizons and tolerance of short-term volatility
- Diversification and ability to invest in the full range of asset classes
- Interest and inflation risk management – achieved via use of gilt market
- Scale and professional asset management

Options:

- Status quo
- Surplus extraction
- Commercial consolidators
- Public consolidator (and LGPS)

How might the public consolidator work?

Complement existing solutions

Separate from the PPF and unsegregated

Full scheme benefits by value

Standardised benefit structure(s)

Funding basis forms 'entry price'

Investment approach similar to the PPF's

Key design considerations

Which schemes will be eligible?

Trade-offs on scale. Government has referenced schemes unattractive to commercial providers.

What about schemes in deficit?

Should they be able to transfer? On what conditions?

What shape do the benefit structure(s) and onboarding process take?

What would be the right benefit structure(s) to offer?

How can risk be underwritten?

- by government?
- by the PPF?

The PPF's track record – a reminder

Investment

We have a track-record of delivering on investment objectives and outperforming investment targets.

We would be able to increase AUM up to £300bn without impact on our ability to scale up allocations, if we adopt the same investment strategy.

Member services

Our award-winning member services teams provide expert support to 400,000 PPF and FAS members

Panel structure

Working through panels to deliver trustee and support services, audit services, data support, legal support, admin and actuarial services

Administration

In-house experience of transferring schemes, processing retirement, benefit payment

Sustainability

Market-leading approach to responsible investment

Our investment approach

Barry Kenneth
Chief Investment Officer

Matching Portfolio – Asset Class Teams

- LDI Team
- Private Credit [redacted]
- Public Credit
- Cash

- Risk
- Operations
- Trading

Growth Portfolio – Asset Class Teams

Productive Finance

- Private Equity
- Public Equity
- Infrastructure
- Real Estate

Non-Productive Finance

- Alternative Credit
- Emerging Market Debt
- Global Corporate Debt

AUM approximately 50/50 split between Matching and Growth portfolios. Productive Finance assets 30% of total AUM.

Next steps

Significant work needed before launch:

- Public consultation this winter
- Primary legislation – after general election
- Working with government and industry to shape the proposal

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Thank you

Any questions?