DB White Paper – the next steps

ACA Sessional meeting

26 April 2018

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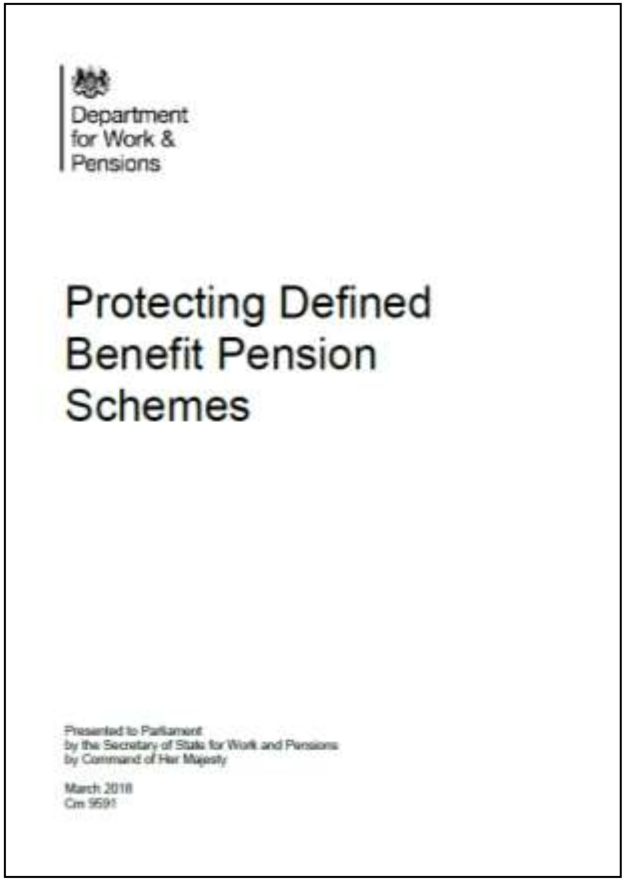
Outline

- Overview of the DB White Paper proposals
- What happens next
- A closer look at funding
- Questions


Department for Work & Pensions

Protecting Defined Benefit Pension Schemes

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

March 2018
Cm 9591

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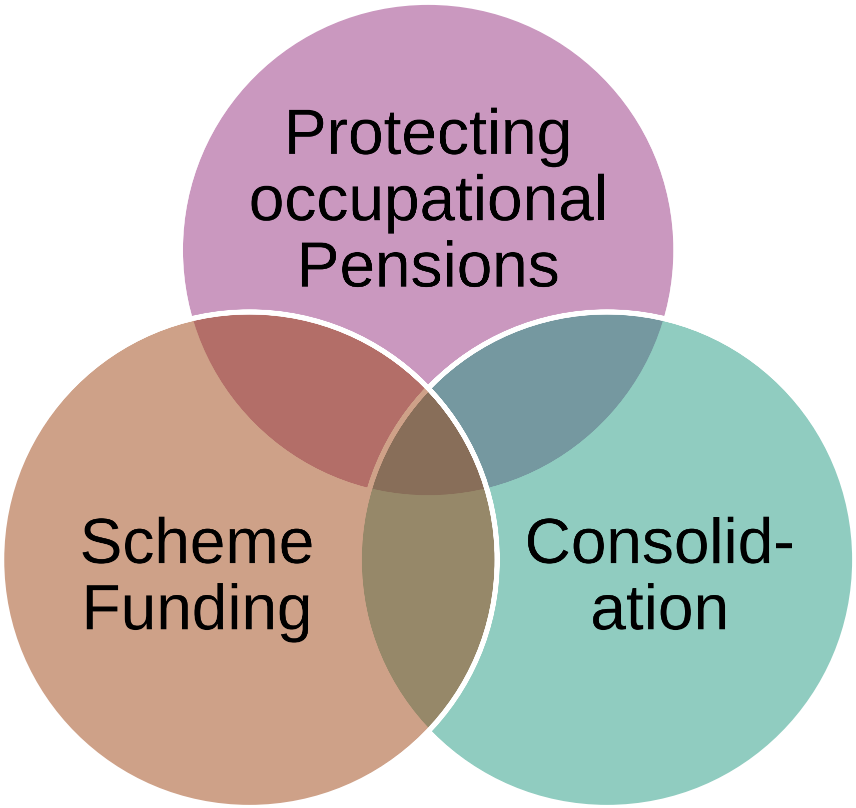
DB: White paper on sustainability of schemes



TPR to be provided with the *'right powers to do its job'*

- New powers to punish wrong doing
- Information gathering powers
- Revised funding code with new emphasis
- Authorisation regime

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DB White Paper recommendations – TPR powers

- Strengthen the regulatory framework and guard against the small minority of employers content to put their scheme at risk.

  - **Punitive fines**
  - **Criminal offence** **“**wilful or grossly reckless behaviour in relation to a pension scheme”
  - Strengthen the existing **notifiable events framework** and **voluntary clearance regime**
  - Harmonise and improve the Regulator’s **information-gathering powers**

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DB White Paper recommendations – Scheme funding

- Aim to keep the flexible elements of current framework but address weaknesses.

- **Revised funding code** focusing on:
  - how *prudence* is demonstrated when assessing scheme liabilities;
  - what factors are *appropriate* when considering recovery plans; and
  - ensuring a *long-term view* is considered when setting the Statutory Funding Objectives.

- **Chair's Statement**, submitted with the scheme's triennial valuation.

- **Legislative tweaks**

- DWP/TPR will also **review the RAA framework.**

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DB White Paper recommendations – Consolidation

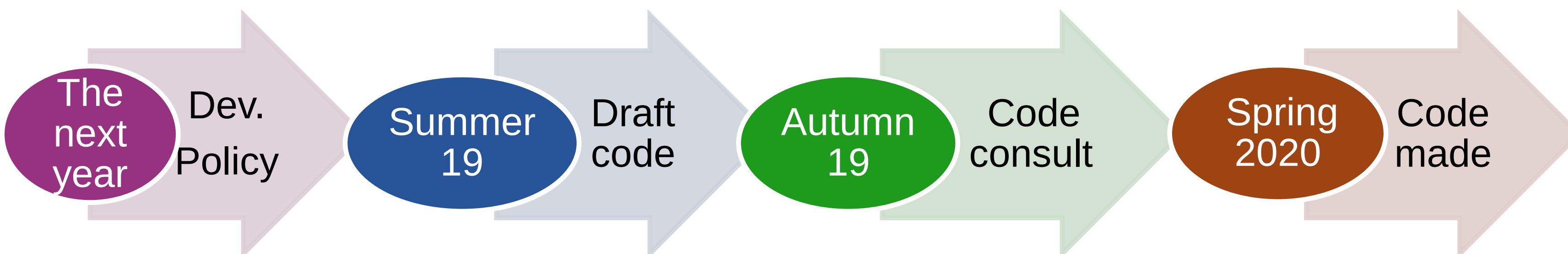
- DWP looking to raise awareness of existing forms of consolidation and facilitate market entry of new vehicles through appropriate safeguards.

- DWP will
  - Consult on an **authorisation regime for new forms of consolidations** vehicles
  - Consult on an **accreditation regime for existing forms of consolidation** (eg. master trusts, asset pooling, shared services, fiduciary management)
  - Work with TPR to raise awareness of benefits of consolidation
  - Consider legislative change to support limited benefit simplification
  - Explore developing collective defined contribution schemes

Review of the DB framework

DWP consults Autumn 18 ?

Pensions Bill 2019 ?



- Extensive engagement across industry
- Open policy making (DBchange@tpr.gov.uk)
- Keen to explore range of options
- Industry working group

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A closer look at scheme funding

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Scheme funding: The key issues

- Trustee decision-making and risk management does not always reflect good practice and the principles set out in TPR’s funding code
- Perception of short term focus instead of strategic thinking about long-term desired outcomes
- Concern about lack of accountability and transparency
- Lack of clear definition makes proving non-compliance and enforcement difficult, time consuming and costly

Scheme funding proposals (1)

Trustees and sponsors to agree a long term objective (LTO), and embed it in their statutory funding objective

- Examples of LTO could be to:
  - run-on with employer support (for open schemes);
  - reach self-sufficiency with low-risk investment strategy and run-off with minimal call on the employer;
  - buy-out by a set time; or
  - enter a consolidator vehicle within an agreed timeframe.
  - Others? What do you come across in practice?
- Current funding requirements (SFO, TPs, RPs) remain but will be linked to LTO.
  - Triennial valuations viewed as staging posts towards the LTO
  - LTO becomes a baseline against which scheme performance gets measured
- Formalisation of what many schemes already do?

Scheme funding proposals (2)

Provide more clarity on DB funding standards to ensure better compliance and strengthen TPR's enforcement capability

- By providing practical definitions of:
  - how ***prudence*** is demonstrated when assessing scheme liabilities;
  - what factors are ***appropriate*** when considering recovery plans; and
  - ensuring a ***long-term view*** is considered when setting the Statutory Funding Objective.
- How?
  - Some form of model driven probabilities?
  - A focus on outcomes and things that can happen to de-rail them?
  - Something else?

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Scheme funding proposals (3)

- **A DB Chair Statement, submitted with the scheme's triennial valuation.**

- We expect this to become a key component of 'do and show' by trustees. Key ingredients could be:
  - What's your chosen LTO and the rational behind it?
  - What's your management plan for reaching it?
  - How robust is that plan?
  - How good are you at keeping to the plan?

- But DWP has positioned it as a management tool first, for good reason:
  - Schemes may report to TPR every 3 years, but they are expected to be practising what they say they do all the time.
  - Telling TPR what they've done should follow as a by-product.

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Scheme funding proposals (4)

A new funding Code with clearer funding standards

- Which will
  - Put onus on trustees and sponsors to prove compliance
  - Designed to make enforcement quicker and more effective
  - DWP will legislate to require trustees and employers to comply with some or all of it and if necessary make changes to s231 to enable enforcement.
- Bring about some behavioural changes to improve and demonstrate quality of scheme management.
- Current TPR reporting requirements may not sit well with the White Paper proposals – we will streamline them.

Any questions?

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