DWP call for evidence on “Options for DB schemes”

ACA Webinar, August 2023

- What is our proposal?
- The LCP and Tony Blair Institute proposals ‘side by side’
- Who gets a slice of the pie – a nice problem to have?
- Why is the PPF underpin so important?

What is "the LCP idea"?

Our proposal

We propose creating a new "opt in" system for well-funded DB schemes, with two key changes:

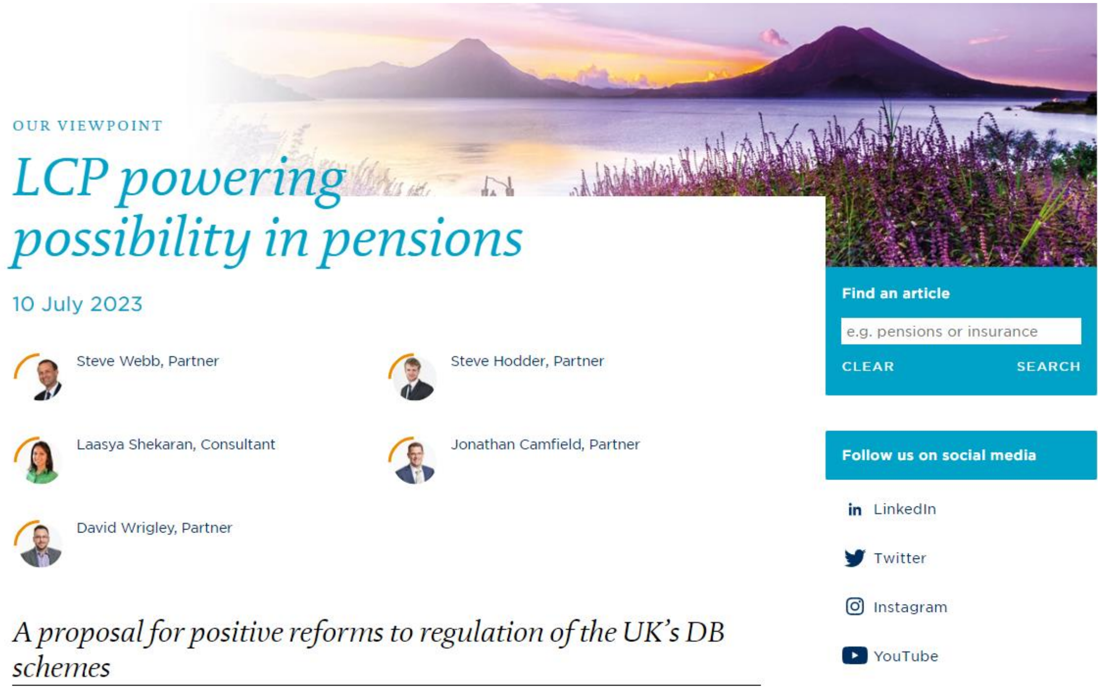
1. PPF cover increased to 100% of member benefits, building on the proven success of the PPF approach.
2. Ability to extract surpluses on an ongoing basis (with suitable protections) to fund improved DC savings, invest in UK plc and boost DB member benefits.

We believe that these two changes would fundamentally change the incentive structure for those running UK DB pension schemes, delivering:

1. **Full protection to DB members' benefits** in a more efficient way than complete investment de-risking.
2. **Incentive for schemes to invest for growth**, deploying the huge DB asset base to support the UK economy and transition to net zero.
3. **Opportunity to generate hundreds of £bns of surpluses** to share between DB members, DC savers and investing in corporate Britain.

Full details here:

https://www.lcp.com/our-viewpoint/2023/07/lcp-powering-possibility-in-pensions/



Comparison of LCP and TBI proposals

	LCP	Tony Blair Institute
What's the idea?	Companies / Trustees "opt in" for 100% PPF cover of member benefits, then continue to run the scheme to grow and access surpluses	Companies / Trustees transfer their scheme fully to the PPF
Which schemes is it aimed at?	Very well-funded schemes	Initially all but the largest 500 DB Schemes (in due course, all DB, DC and LGPS)
What happens to the schemes?	Continue to operate	Wound up
Where do the assets end up?	Remain in scheme Trust	Invested with PPF
How are the assets invested?	As Trustees / Companies agree (perhaps with incentive to invest "more productively")	As determined by PPF
Who pays the pensions?	Scheme administrators	PPF
What happens to Trustees?	Continue to manage Trust, with adjusted incentives	Trust wound up
Who benefits from surpluses?	Scheme members and sponsoring employers	PPF
What will PPF need to do differently?	- Set higher levies for "opt in" schemes to cover full benefits - Administer any "opt in" schemes where sponsors become insolvent	- Take on and administer thousands of new schemes, paying each scheme's unique benefits - Invest vastly increased asset base
What would be required to implement?	- Amendment to PPF legislation for 100% cover - Introduction of mechanism to access surpluses - Trustees / Companies adapt ongoing scheme strategy - Works within new Funding Code	- Wide-ranging legislative changes - Significant detail to be established on terms of transfer to PPF - Vast increase to PPF operating capabilities & take-on of thousands of new schemes / benefits - Large scale disruption in trustee, investment, insurance, advisory and administration markets

Dividing the pie
- A challenging problem, but better than no pie

DB members

Sponsoring employers

DC workforce

Treasury

Why is the PPF underpin so important?

- Trustees have a key role in any ‘re-risking’ decision
- Messaging from government and regulators has been seen as strongly steering schemes in one direction for years:
  - Progressively de-risk
  - Achieve low-dependency
  - Buy out
- Whether they are considering buyout, a superfund or another option, the top priority of trustees is the security of member benefits
- Without confidence over the security of member benefits, trustees are unlikely to engage with a conversation over re-risking
- Having 100% underpin of full scheme benefits provided by the PPF provides a very high level of security and does so immediately
- Trustees are then content to see appropriate ‘re-risking’, knowing that member benefits are secure

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