TISA Response to

Security and Sustainability in Defined Benefit Pension Schemes:

Green Paper

April 2017

About TISA

TISA is a unique, consumer focused membership organisation. Our aim is to improve the financial wellbeing of UK consumers by aligning the interests of people, the financial services industry and the UK economy. We achieve this by delivering innovative, evidence based proposals to government, policy makers and regulators.

TISA's growing membership comprises over 160 firms involved in the supply and distribution of savings and investment products and services. These members represent all sectors of the financial services industry, including asset managers, insurance companies, fund managers, distributors, building societies, investment managers, third party administrators, FinTech, consultants and advisers, software providers, financial advisers, pension providers, banks and stockbrokers.

Current themes of TISA policy work include:

- Brexit: developing proposals for government that will enable the savings and investments sector to prosper on a global scale
- Digitalisation: a digital identity for consumers of financial services, innovation, standards and data responsibilities
- ISA's: LISA, simplification of the regime
- Retirement saving: the Auto Enrolment review, self-employed and pension tax relief
- Housing: the use of property to supplement retirement income
- Guidance: developing a framework and services to make guidance more widely available
- Education: supporting the education of young people to make them aware of the impact of finance on their life.

TISA also provides support on a range of operational and technical issues targeted at improving infrastructure and processes, standards of good practice and the interpretation and implementation of new rules and regulations. TISA has a successful track record in working cooperatively with government, regulators, HMT, DWP and HMRC to improve industry effectiveness by reducing cost and risk and to enhance customer outcomes. This work currently includes: MiFID II, CASS, the UK Fund Settlement initiative and Payments Strategy Forum. TISA Exchange (TeX) is providing a model for transfers and re-registrations.

Summary and response

TISA welcomes the opportunity to provide a response to DWP regarding the Security and Sustainability in Defined Benefit Pension Schemes - Green Paper.

We would like to focus on one particular area of the Green Paper, which looks into the concept of scheme consolidation.

At a high level, the benefits of consolidation could, in certain scenarios, create a more stable environment for schemes and their members. This could result in less schemes transferring to the PPF, and a reduction in running costs driven through economies of scale. Crucially and most importantly, it would allow the new scheme to adopt and manage a different investment strategy, which could potentially yield higher returns. This could significantly reduce scheme funding deficits and move into fully funded positions meaning employers would not need to meet these costs at their expense. This is the overarching benefit that consolidation could bring as currently, many schemes have a cautious approach, resulting in small gains or possibly losses when inflation is taken into account. Smaller schemes do not have the capacity for loss and can therefore not pursue these more sophisticated strategies.

Given the complexities of consolidating active schemes, it would be appropriate to restrict this, at least initially, to schemes which are closed to future accrual and comprise deferred members only. This accounts for 35% of DB schemes, spanning across schemes of all sizes and accounting for 20% of scheme members according to Purple Book 2016. This would allow the process to be established for the most straightforward scenario. Once this has been embedded and potentially refined through practical application, it may be possible to enhance this to cater for other schemes.

It would also be appropriate to restrict consolidations to schemes within the same sector, where existing scheme rules and strategies may be more aligned. This also makes defining a future consolidated scheme strategy easier to agree.

The process is complex and could be lengthy, expensive and ultimately result in adverse member outcomes if undertaken incorrectly.

We therefore recommend that an industry working group is established, to consider all aspects and develop and document a full end to end consolidation process, which will set out a list of protocols that should be adhered to. This would be used for all scheme consolidation exercises, irrespective of scheme size or job sector and would standardise the process, delivering efficiencies in keeping associated costs and timescales to a minimum, whilst creating a level playing field for the industry.

Given TISA's position within Financial Services, we are well placed to create and lead an industry led initiative, focused on producing a DB Scheme Consolidation Protocols document, which forms the benchmark for all consolidations.

We recognise that in certain circumstances, it may not be possible or in a scheme's best interest to consolidate with another. There needs a mechanism in place for such schemes, that also fall within a predetermined funding position, to apply for approval to reduce their liabilities without causing significant impact to their members' retirement position. One possibility is to grant permission for a scheme bound by RPI escalation to switch to CPI. Whilst this will negatively impact retirement outcomes, this may not be as significant as the scheme being transferred to the PPF.