



The Actuarial Profession

making financial sense of the future

consultation response

**Response to the Department for Work and Pensions
Consultation document: Deregulatory review of private
pensions**

April 2007

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19 April 2007

Dear Gabrielle,

Deregulatory Review of Private Pensions

Thank you for providing the Actuarial Profession with the opportunity to comment on this consultation. We make some general points below but our detailed, question-by-question comments are contained in an appendix to this letter.

One of our main concerns is some of the measures discussed could or would reduce the value of members' accrued rights and this would further damage public trust in the whole pension system. For example, one measure discussed would allow normal pension age to increase in future in line with an index of longevity. This appears very reasonable on actuarial grounds but, if made retrospective, would surely be seen by ordinary pension scheme members as a retrospective rewriting of their benefit promise.

We would point out that a lot of the legislative requirements which are now being considered for deregulation were introduced in the first place in response to specific historic incidents of inadequate member protection. Our concern is that if these are removed and the overall economic environment for business worsens (for example if the long-term inflation rate were to be higher than currently anticipated) the full cycle may again repeat and member protection may prove to be inadequate. Again, this has potentially serious implications for public confidence in pension arrangements.

We would stress that we would hope that any changes introduced would be both proportionate and worthwhile. We question, for example, whether there is enough to be gained from establishing a new legislative category specifically for risk-sharing schemes and would ask you to consider carefully whether your desired outcomes could be achieved instead through minor

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changes to existing categories. We have considered and crafted our replies to the detailed questions in the appendix with the idea in mind that any change should be worthwhile.

If you have any questions or wish to discuss any of the matters raised in the response, please do not hesitate to get in touch.

Yours sincerely

Ross Russell
Chairman, Current Issues Committee of the Pensions Board

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APPENDIX – RESPONSES TO SPECIFIC QUESTIONS

Risk sharing

1. Do you consider that the interests of employees will be served by the presence of more risk sharing schemes? What risks do you believe are most appropriately shared?

Potentially yes, but extreme care would be needed in structure and governance of such schemes. Risk sharing sometimes means implementing scheme designs which will let the member down just when needed, and/or are likely to provoke a legislative response which imposes unanticipated liability on the sponsor. The risks most appropriately shared with members are longevity during the pre-retirement period and some investment risk; the argument for sharing risk during retirement is much less convincing.

2. Do you believe that employers are interested in supporting schemes in which the risks taken by employers and employees are balanced differently than under traditional money purchase or defined benefit schemes?

Some would be interested, but we suspect that not that many would implement such arrangements in practice. We believe many employers would be hesitant to go down this route partly out of concern that the cycle of regulation would repeat and the legislation altered in future in a way that would negatively impact or eliminate any such arrangements introduced now.

3. Are you aware of situations in which the present framework has prevented the implementation of an arrangement under which risks were shared between the employer and the member in a novel way? Can you describe what specifically prevented implementation?

At present, schemes need to fit design around rules designed for pure DB or pure DC and this can limit the range of structures possible. The most obvious example of a scheme which has been handicapped by current legislation is the KPMG scheme. We would emphasise that a clear distinction should be made between schemes which share risks between scheme members (where, we would argue, there is no need for the full weight of DB legislation to apply) and schemes where the risk is shared between the employer and employee/scheme member. Greater clarity in this area would be welcome.

4. What do you believe to be the main obstructions to creativity in scheme design? Do you believe that they should be removed?

A certain level of complexity of pensions is unavoidable and this means that it is easier to work within the framework of existing DB or DC legislation for which systems and techniques exist. However, cash balance schemes are not entirely well catered for under the current system. Although this is an issue for the PPF not for government, there is some evidence that this type of scheme is being hit with higher PPF levies than are perhaps strictly warranted

since they tend to expose the PPF to lower risks than other schemes which receive more favourable levy treatment.

5. Would you favour an approach under which specific forms of shared risk schemes are recognised, along with appropriate safeguards, or would you prefer that current regulations be loosened to allow a variety of approaches?

We believe that it has usually been a mistake to favour particular designs in legislation as they may not stand the test of experience – it is better to stick with principles.

We believe that the preferred approach should be to widen the current definition of DC slightly, for example to allow employer-sponsored schemes to offer investment returns on a with-profits basis (without using an insurance company with profit fund) without being subject to DB legislation.

6. What challenges do you see in the effective disclosure to members of the nature of the risks they are running and how their benefits may be affected in risk sharing schemes?

We believe that the main risk is that these schemes are seen as less risky than DC schemes when actually the risks are just different – they often involve a higher degree of certainty for members (than an equivalent DC scheme) in “normal” conditions but with the risk of more major shocks in extreme circumstances such as persistent high inflation or persistent low investment returns. This may be an appropriate risk profile but care needs to be taken to explain it.

7. What should the role of the PPF be in risk sharing schemes? Are there changes to the present legislation pertaining to the levy and treatment of schemes on wind-up that would be necessary in order to fairly regulate these schemes?

We are not convinced that changes to the levy would be a practical way forward (although see our comments above about cash balance plans and the risks they pose to PPF). A more elegant solution would be to require such schemes to turn into either DB or DC on employer insolvency and be levied accordingly. Naturally this alteration, and its implications, would need disclosing to members.

Limited price indexation of pensions in payment

1. How likely are schemes to remove the promise of LPI for pension accruals going forward if they were allowed to do so?

Employers in the process of revamping their pension schemes (for example switching to lower accrual rates or career average schemes) might well take the opportunity to reconsider the rate of pension increase guaranteed for future service. There is also data that suggests that 40-50% of schemes changed to 2.5% LPI in spite of the arguably marginal benefit to

employers of doing so. It seems likely that the major risk is that members will prefer underestimating their own life expectancy and the impact of inflation on their benefits. It should not be assumed, however, that employees will universally object to scheme designs which do not include LPI – given the choice between (say) 80ths accrual of benefits with LPI or 70ths with a lesser increase provision, the latter can be a rational choice on the part of self-interested members.

It is also relevant that such a change would increase scheme complexity as it would add another tranche of benefits with different increases in payment. For example an individual member could have some pre 97 benefits with no increases, post 97 but pre 2005 with 5% LPI, post 2005 but pre, say, 2008 with 2.5% LPI and post 2008 with no increases.

2. **Would employers be more likely to continue defined benefit plans if LPI were made optional?**

We believe that the impact would be marginal, albeit non-zero. It is also almost impossible to measure.

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

As with question 2, the answer is yes but only at the margin. Many risk sharing designs have pension increases or revaluations which are discretionary to a degree so a less prescriptive LPI requirement would facilitate further development of such schemes. Others want to mix DB and DC and get stuck on the lack of a level playing field between the two. We believe that this latter factor is a more compelling reason to remove compulsory LPI.

4. **Do you have any information on the impact that optional LPI would have on scheme costs?**

While we have not commissioned any specific research in this area, we would emphasise that a fixed increase scheme is not inherently less or more expensive than an LPI one. If employers want to cut costs, the option to switch to lower accrual rates or make other changes is already available to them.

5. **Are there particular approaches to LPI (see paragraph 30) that appeal to you? Why?**

The option to exchange a pension with LPI for one without, or with a different pattern of pension increases is one which we would favour, subject to appropriate disclosure to members and as long as it is done on a fair value basis. There is, of course, a risk that members choose to take the highest possible immediate income, at the expense of future inflation-proofing, as occurs, for example, in personal pension schemes where there are fewer restrictions on members' choice. But there are circumstances (for example, pensioners who are resident abroad or pensioners with other income streams that are more than inflation linked) where this would be a rational choice.

The biggest issue with this is that some wish to use a basis other than 'fair value'. One

possible solution to this, if LPI were made non-compulsory, would be to ensure there was an LPI/RPI option in every scheme (as there is in DC). This would ensure that members could get adequate inflation protection and highlight its cost/value.

We would also point out that RPI with a low cap like 2.5% is very poor compromise between providing inflation protection and minimising cost. It is potentially expensive for employers because of the risk that inflation stays at or below the level of the cap but still risky for employees because of the risk that inflation takes off and leaves them with a fixed increase which materially lags inflation. Effectively it provides inflation protection for members only in circumstances when such protection is least required. We recognise that it was a political compromise but are still concerned about some of its ramifications. Mechanisms which focus on full RPI but then reduce by a fraction (e.g. increases of 80% of RPI) or a certain amount (e.g. increases of 1% less than the RPI increase) either automatically or on some discretionary basis would be a better fit for members' needs and better justify the allocation of tax relief. There are significant risks to the state from encouraging non-inflation proofed pensions which will likely lead to more claims for state support during the later period of retirement.

6. Do you believe that the cost savings to pension schemes if LPI is no longer mandatory outweighs the reduction of benefits to members?

This is a political decision and we have no comment, other than to point out that making LPI voluntary would not necessarily reduce either scheme costs or members' benefits. It should be expected that such changes would often be made as part of a package of changes to members' future pension rights, some of which may preserve members' benefit expectations more than would otherwise be the case.

Revaluation of deferred pensions

1. How likely are schemes to implement a reduction in revaluation if the cap on mandatory revaluation is reduced for accruals after 2008?

We believe this is extremely likely since employers typically do not focus attention on benefits for early leavers.

2. Do you think that reducing the cap would maintain a fair balance between stayers and leavers in defined benefit schemes?

No, we believe the present compromise is about right (although our comments above relating to the inappropriate design of LPI on pensions in payment apply equally to revaluation of deferred benefits – RPI subject to a fixed upper limit is a poor compromise between inflation protection and cost limitation). If government policy is to encourage labour mobility at older ages and reduce age discrimination, then a return to the old days where the value of pension accrual for stayers is much higher than leavers at older ages would be misplaced.

3. Do you think that a reduced cap would have a significant impact on labour mobility?

At older ages, yes, we believe it would. The impact is greatest among members who have accrued material benefits (so not the youngest members) but who are still far enough from retirement age for the compounded impact of a reduced cap to be significant.

4. Do you have any information on the impact that this change would have on scheme costs?

Not specifically. Clearly, in particular, it would materially reduce the cost on a buy-out basis of future accruals and hence the extent to which solvency liabilities increase over time.

5. Would there be any impact on long term funding strategy if liabilities are measured based on a 2.5% cap?

Yes, particularly for a new scheme.

6. Would employers be more likely to continue defined benefit plans if revaluation is reduced?

Yes, but to a marginal degree and for the wrong reasons.

7. Would employers be more likely to implement risk-sharing schemes if the cap on revaluation is reduced?

Yes, but to a marginal degree and for the wrong reasons.

8. Do you believe that the cost savings to schemes that would result from reduced revaluation outweighs the loss of benefit to members?

We are not at all convinced that this would be the case. We think instead that it would just create a bias in the labour market. As highlighted earlier in our response, the rate of revaluation was set in the past in response to complaints that early leaver benefits were inadequately protected against inflation and we believe that those arguments are still valid.

Normal pension age

1. Do you believe that an NPA set to a longevity index is feasible (leaving aside any application to past accruals)? Why or why not? What changes to present laws and procedures would be required?

We believe that the current BAE Systems model is more or less workable and successfully achieves this so we think it is hard to say it can't be done under present legislation.

2. If you believe that an NPA set to a longevity index is feasible, would changes to present regulation of pensions be necessary? What changes would be required?

We do not believe any changes would be necessary since this has already been done in practice by at least one scheme.

3. Do you believe that established pension schemes should be allowed to set NPA to a longevity index, or to change NPA, in regard to the entire period of scheme membership? Why is this your view?

If the members consent to such a change and if the practical obstacles can be overcome, then we would have no objection to it in principle. But a change to such a fundamental part of a member's benefit promise such as his or her NPA is not something which in our view should be permitted without consent. Such a change would almost certainly be considered by an employer only if it were to reduce the liabilities of the scheme (relative to what they would have been without the change) or at best leave them unchanged.

Retrospective changes, especially those which are (or even could reasonably be viewed as) not in scheme members' favour, are also likely to further reduce confidence in the pension system overall and this is magnified if the changes can be introduced without consent. We recognise that the increasing life expectancy of members means that schemes and employers face the prospect of paying pensions for current employees for far longer than they might have anticipated. We also recognise that past social security legislation, while improving the benefits of members in key respects, has resulted in unanticipated burdens on employers. Whilst we can sympathise with those who are struggling to meet their burdens, we do not believe that the solution to this problem is to permit schemes to break the promises they have made to members.

Another issue is that a key part of any appropriate longevity index is the expected future change in longevity. Whereas current mortality rates (and hence implied longevity) can be measured objectively (albeit with some time-lag) from reliable statistics, the projection of future changes in mortality rates, which is necessary to establish a fair basis for assessing liabilities, is necessarily subjective.

4. If your answer to question (3) is "yes", should there be statutory protection for members in respect of these changes? What sorts of protection would be appropriate? For example, should members nearing retirement be allowed to keep a lower NPA?

As stated above, we believe that changes to the NPA should only be permitted with member consent. If a scheme is established in such a way that specific consent does not need to be obtained, we believe that the protection afforded members through the early retirement provisions and a (fair) CETV offered by most schemes is adequate in this context.

5. If your answer to question (3) is yes, would this be only under particular circumstances? What circumstances? Should a rise in NPA be allowed even for schemes that are closed?

As stated above, we believe that changes to the NPA should only be permitted with member consent.

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

Once again we believe that talk of savings and costs is largely irrelevant when other elements of scheme design including the accrual rate can be varied. A better question would be whether this type of design is better value-for-money or apportions risk better between employer and employee. For example, this might be because it is judged that employees are better able to manage longevity risk by extending their working careers whereas employers find it hard to manage this risk.

Legislative override

1. Would a statutory override to provisions in scheme trust deeds and rules that prevent changes to rights attributable to future service be appropriate? If it would be appropriate only in some circumstances, what would those circumstances be?

In our experience, most of these conditions were agreed by Government as part of privatisations. We believe this issue is only of relevance to a relatively small number of schemes and, given the history, that it is a matter of public policy for Government to decide.

2. Do you believe that a statutory override to provisions in scheme trust deeds and rules that would prevent changes to rights already accrued would be appropriate? If it would be appropriate only in some circumstances, what would those circumstances be?

Given the above, we offer no views on this point.

3. What form do you think any appropriate statutory override should take?

Given the above, we offer no views on this point.

Principles based regulation

1. Do you think a principles based approach would be appropriate for pensions regulation? Why or why not?

While in theory we support the concept of a principles-based approach, we are uncertain that

it would be practical or that it would achieve the intended aims. We would stress that a shorter list of principles doesn't automatically yield a simpler system and are sceptical that this would, in practice, deliver simplification at least in some areas of pension regulation. The EU Directive would be suitable for a principles-based approach since it is relatively short, covers the ground and the UK is obligated to comply with it anyway. Transition from the current system could also be painful.

2. Are there particular areas of existing legislation that you consider particularly suitable for a principle based approach? If there are, why?

The current scheme funding regime is largely principles-based and that area seems to be well-suited to this type of regulation. However, we would point out that introduction of this regime led to an increase in work in this area not a decrease. Regulation dealing with complex matters or complex schemes is likely to be complicated whether principles-based or not.

3. Do you believe there would be cost savings arising from a principles based approach? To whom would they accrue?

We have no specific comments to make in response to this question.

4. What steps could be taken to allay concerns about the lack of certainty that is inherent in a principles based approach?

We have no specific comments to make in response to this question.

5. Do you believe that a principles based approach will have any impact on member protection? If so, would this impact be positive or negative?

We have no specific comments to make in response to this question.

6. What impact do you consider this may have on the running costs of the regulatory authority?

We have no specific comments to make in response to this question.

7. If a principles based approach were adopted do you think there would be a continuing need for codes of practice and guidance notes to supplement primary and secondary legislation?

Based on our experience with new scheme funding regime, we think this is likely.

8. What impact do you consider this may have on the levels of skills, knowledge and understanding of trustees, employers and their advisers?

We have no specific comments to make in response to this question.

Disclosure

1. Do you think that a principles based approach to disclosure would work?
2. If the answer to question (1) is “yes”, do you feel that any of the approaches outlined above (or an alternative to those approaches) would be most appropriate and why?
3. If the answer to question (1) is “no” are there any other changes that should be made to improve the current disclosure regime?
4. Do you think there are circumstances in which members and/or trustees should be required to consult with or get the permission of spouses and civil partners - for example, where changes to scheme rules reduce their contingent benefits, or when the member is choosing a single life pension?
5. Do you agree that there are particular disclosure issues in relation to risk sharing schemes? How should these issues be handled?
6. Do you think that trustees should be required to provide more information at the point of retirement? What sorts of information should they provide?

Our response below is in respect of all six questions.

We would reiterate our previously stated view that disclosure to members needs to be fair and reasonable if it is to be of any value. Our view is that principles-based disclosure is unlikely to work in practice. Members can be easily misled, especially if schemes fail to disclose all the relevant information, and they cannot easily assess what additional information they should request; we believe this risk would increase with a principles-based approach to disclosure.

Trustees

1. Is it more difficult to find and retain suitable volunteers for trustee positions? If so, why do you think this is the case?

Experience varies enormously between schemes. Where there is a difficulty, the challenge of dealing with such large volumes of complex legislation is a key factor as is the potential for unlimited liability for trustees.

2. If conflict of interest is an issue, do you believe that conflicts are inevitable, or are there specific aspects of regulation that are causing individuals to be needlessly concerned that they may be compromised?

Conflicts are inevitable. The scheme specific funding regime and the specific obligation on trustees to negotiate over funding strategy have made this plain in many schemes. We are

not aware that this issue is being needlessly overstated – if anything the reverse is the case with some trustees attempting to manage conflicts of interest which have grown to be quite material.

3. If personal liability is an issue, are there steps that could be taken under the law that would protect both the trustees and the members' interests? Would a statutory exemption of trustees from all or most liabilities incurred in the course of their functions be advisable?

A statutory exemption from liability should be treated with extreme care. Although this is rare, there have been a number of cases of trustees materially failing in their duties, either deliberately or by giving inadequate attention to their duties or by not recognising or acting on a conflict of interest.

4. Do you believe that the current focus on trustee knowledge and understanding is discouraging individuals who have valuable expertise from volunteering to serve as trustees?

We are not aware that this is the case. It could be argued that the TKU framework makes more explicit the duties of trustees to become conversant with their scheme and with the regulatory framework which can only be a good thing.

5. Would your answers to any of the above questions depend in part on whether the trustee involved is a professional trustee, paid for his or her services to the scheme?

Yes. There is a healthy free market for professional trustees and in general such trustees are able to deal effectively with the above matters.

6. What would the impact of any change in this area be on scheme liabilities?

There would be no impact on the scheme liabilities.

7. Do you think moving to principles based regulation would have an impact on retaining or recruiting trustees?

Yes, but only if it has the impact of simplifying the regulatory framework, which we do not see as immediately obvious and indeed may be unlikely.

8. What bearing do your views in relation to the above bring to the proposal that at least 50% of trustee boards should be member trustees?

We have no specific comments to make in response to this question.

Return of surplus to employer

1. Do you believe that the current legislation discourages employers from agreeing to appropriate contribution levels due to concerns that any funding surplus would not be returned, should it arise?

This is an important issue, as highlighted by our experience that many large employers view it as a concern. Such employers tend to have better funded schemes. The evidence for this is the effort which goes into working round the problem (for example, payments into escrow, charges over employers' assets, etc) – solutions which require unnecessary effort and which are difficult for smaller employers to adopt due to cost of implementation

There is a related issue which is that the Trustees of a scheme can in effect force a stronger valuation basis whenever they consider this appropriate, to avoid the pension scheme valuation disclosing a surplus, however good the experience and whatever the level of previous employer contributions. This arises from a combination of the following factors:

- (at the very least) a requirement for Trustees to agree the assumptions for the technical provisions;
- a requirement for the discount rate to be prudent relative to the expected return on the actual investments;
- a unilateral power for the Trustees (subject only to consulting the employer) to change the investment strategy towards lower return investments;
- elimination of the possibility of the employer abandoning the scheme (if it believes the Trustees are being unreasonably demanding) without paying the full buyout deficit.

Our experience is that many employers are currently arguing for weaker technical provisions and slower recovery plans than they would be willing to commit to if they could expect to benefit (in the form of lower contributions) from subsequent good experience. The transfer of the overall balance of powers towards the Trustee may have gone so far that it is generating undesirable consequences.

2. If the answer to question 1 is “yes”, is your concern that the threshold at which a payment to the employer may be considered by the trustees is inappropriate? Is there a threshold to better balance interests of employers and members?

We believe that the present level is fine. The issue is less about the payment of surplus to the sponsor, more about the ability of the sponsor to benefit fully from that surplus by way of reductions in contributions in future .

3. If the answer to question 1 is “yes”, is your concern the ability of the trustees to block return of surplus where they do not believe it to be in members' interests?

As stated above, in our view the issue is less about the payment of surplus to the sponsor, more about the ability of the sponsor to benefit from reductions in contributions in future.

4. Do you agree that a refund should be payable on request to an employer once a scheme's funding level reaches a certain threshold? If so, what level should that be?

That threshold level is currently set at the cost of securing members' benefits by the purchase of annuities and this appears to us to be consistent with government policy on the desirable level of security for members' benefits.

Section 67 Pensions Act 1995

1. Does section 67 as currently drafted continue to stop trustees from making small changes that would help their schemes run more efficiently?

It is early to tell whether the revised version of section 67 applicable from April 2006 is preventing sensible changes.

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

We would question whether it should be necessary to consult with members as well as apply the other protections.

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

An exemption can be justified where the change required is to comply with legislation and where s67 would otherwise prevent the legislation from having effect. We would agree that the state may, in very limited circumstances, be justified in making changes which are adverse for members.

But a broader exemption for sponsors or trustees of schemes (or a loosening of the terms) of s67 would further undermine the trust that members or potential members of pension schemes have in pension schemes. If an employer or a trust has promised a certain level of benefits for an individual member, then reducing those benefits without that member's express consent is a retrospective weakening of the member's rights, regardless of the reasons for the change.

We are aware that some organisations have lobbied for greater freedom for schemes to amend members' accrued rights, often to unwind the impact of past legislation (such as revaluation of benefits) or to protect the sponsor or the scheme from the impact of some or all future improvements in longevity. It remains open to employers and trustees to amend the benefits which might be earned by employees in future and we should expect employers to increasingly do this. However, to re-write retrospectively the terms of accrued pension rights

currently promised to members and without the members' express consent is a very dangerous step to take.

4. Do you believe that it would be useful to allow some leeway for changes in actuarial value? To what degree?

We are uncertain exactly what is meant by this question and, therefore, offer no specific comments on this point at this time.

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

We are not yet aware of any problems caused by the current definition.

Employer Debt

1. Do you believe that the operation of present section 75 and its regulations create unnecessary problems? When and why do these problems arise?

The requirement to allocate of "orphan" liabilities when an employer leaves a scheme is the main area of difficulty. Employers and trustees had (quite reasonably) not anticipated prior to the introduction of this legislation that it would in future become necessary to maintain accurate records of employment history for all current and past employee members.

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?

In our view the trigger for a s75 debt is appropriate, but alternative withdrawal arrangements should be made less onerous (see our response to question 3 for details).

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

Yes. The requirement that a withdrawal arrangement is positively in the best interest of the withdrawing members is too tight a test. In most cases it is only possible if the employer assuming responsibility for the debt has no risk at all of default. A better test would be that the arrangement is in the best interests of the membership as a whole or more specifically, that the overall covenant is unchanged pre- and post- event. If this test were met (and clearly that would require judgement), there should be no debt at all, nor a need for specific guarantees. Clearance should be optional – in many cases the covenant comes from the principal employer whose status is not changing, and provided the trustees are satisfied of

this, it seems superfluous to require a specific extra guarantee from the entity which already provides that guarantee.

These relaxed trustee-supervised AWA criteria should extend to AWA-like events such as transferring liabilities to another scheme without triggering a debt or re-allocating liabilities between employers.

FRS 17

1. Do you consider FRS17 has had an impact on defined benefit pension provision by employers?

Yes. The FRS17 disclosure requirements make apparent the volatility inherent in the funding level of defined benefit pension schemes whose investment strategy is not closely matched to their liability profiles. Previously, under SSAP24, that volatility was effectively obscured from shareholders and other stakeholders in the employing entity. Employers have reacted to that transparency by being less willing to continue to take risks within their pension schemes and less willing to allow the size of their defined benefit pension liabilities to grow further.

FRS17 has however been used by some employers as an excuse for changes they have made in their schemes. It is usually the avoidance of risk that has driven scheme changes (such as closure to new entrants). The fact that that risk had become transparent rather than opaque merely accelerated the shift.

2. If your answer is yes, please explain whether this impact has been good or bad, and why.

It has been bad for employees (who have often seen their schemes closed to new entrants as a reaction against the new transparency). But it has been good for shareholders and other stakeholders in employing entities since it has made explicit the risk inherent in defined benefit schemes. Whether overall that is a good thing is a matter of judgement: although we would strongly caution against advocating opacity in pension accounting as a means of encouraging pension provision.