PRESS RELEASE

Billions of pounds of pension wealth could be saved by putting stressed pension schemes on a sounder footing

- **Thousands of workers underestimate the risk that their pension benefits will not be paid in full from their schemes if the scheme sponsor becomes insolvent**
- **Doing nothing is unfair to younger workers**
- **The Pensions Regulator needs to use its existing powers more effectively by allowing 'second best' outcomes**
- **Claims that defined benefit contributions required are unaffordable are unjustified for most companies**

LONDON Embargoed for Wednesday 21 June 2017: The Pensions Institute, part of Cass Business School, launches today a new discussion paper calling on the Government to shift UK pensions policy towards delivering fair pensions for the greatest number of people who are members of private-sector defined benefit (DB) pension schemes. The Government needs to recognise the reality that many workers will not get their full pension because the sponsor will become insolvent well before their scheme is restored to full funding.

"Greatest Good 2" follows on from a previous discussion paper published in 2015, in which the Pensions Institute highlighted the acute pressure faced by many companies sponsoring DB pension schemes and their trustees as they both strive to meet their long-term promises.

As highlighted by the BHS and Tata Steel cases, many DB pension scheme sponsors could collapse under the current policy which obliges scheme sponsors to adhere to the binary outcomes of either ensuring schemes can pay benefits in full or leaving the scheme underfunded if the sponsoring company goes bust. The Pensions Institute recommends a policy of 'second best' outcomes, allowing schemes with weak sponsors at a risk of insolvency to negotiate settlements for their members between full benefits and the level of compensation provided through the Pension Protection Fund (PPF) safety-net.

Professor David Blake, Director of the Pensions Institute, said: "The difference between the potential value of negotiated benefits and PPF benefits represents a significant loss to members, sponsor organisations, PPF levy payers and society as a whole. Instead seeking 'the greatest good for the greatest number' would prevent the destruction of billions of pounds in economic value. It would also produce a more equitable distribution of benefits for younger members who stand to lose much more on insolvency because of the way PPF benefits are calculated. But fortunately, we find that most companies can afford to make their pension contributions."

The discussion paper makes a number of findings and recommendations to improve the security and sustainability of UK DB pension schemes, including:

1. There is no evidence that deficit repair contributions are unaffordable on average (FTSE 100 companies pay five times more in dividends than in pension contributions) or that there is a crisis that should permit schemes across the board to reduce indexation to the statutory minimum. However, the Government should establish a statutory minimum contribution rate for all sponsors with schemes in PPF deficit, except where there is clear evidence this would make a sponsor with an otherwise realistic chance of recovery become insolvent in the near future.
2. To enable 'second-best' outcomes for stressed schemes, trustees should have access to a streamlined Regulated Apportionment Arrangement (RAA) if they conclude, based on actuarial and covenant advice, that full benefits are unlikely to be paid, that insolvency is likely, and that the result is better than insolvency.
3. The PPF compensation 'cliff-edge' is unfair for younger pre-normal retirement age members. Phased rules for PPF compensation levels to remove cliff edges would introduce greater equity between member cohorts. The phased approach should be based on age and length of service.
4. The Pensions Regulator (TPR) should collect additional funding data to create an 'early warning system' for schemes in stress to trigger interventions in order to produce better outcomes for members, sponsors and PPF levy payers.
5. TPR's existing powers could deliver second-best outcomes but it does not use them due to government policy and lack of resources.
6. Provide TPR with resources and incentives to allow 'second-best outcomes to deliver the greatest good for the greatest number', under the condition that it should produce detailed information on how its measures have been used in its annual report.
7. TPR should have powers to compel stakeholders to attend interviews where appropriate. It should also have powers to direct trustees to reduce the benefits of active and deferred members, including preserved benefits, to help deliver fairer second-best outcomes.

Darren Redmayne, CEO of covenant advisors Lincoln Pensions, said: "Research from both the Pensions Institute and the Pensions Regulator shows that some 10-15% of DB schemes are unlikely to deliver benefits in full to members. Under current regulation these "walking dead schemes" battle on, incurring substantial and unnecessary ongoing fees and being forced to take bigger and bigger bets on investments returns in the absence of other alternatives. In doing so, if the bet doesn't pay off, value is destroyed for members and also other PPF levy payers who will pick up the tab.

"The discussion paper finds a "third-way" for cases where the sponsor covenant is demonstrably and overtly unable to support the scheme – which aims at maximising benefits for members and save the scheme from going into the PPF. We are glad to be one of the six firms co-sponsoring this important research into potential solutions for stressed DB schemes."

-ENDS-

Notes to Editors

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The Pensions Institute at Cass Business School is the first and only independent academic pensions research organisation in the UK (http://www.pensions-institute.org/).

Greatest Good 2: Response to the Department of Work & Pensions Green Paper, *Security and Sustainability in Defined Benefit Pension Schemes*

Available at: http://www.pensions-institute.org/reports/GG2.pdf

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