

**NORTH LONDON GROUP MEETING
19 SEPTEMBER 2023**

BACKGROUND

Recent initiatives – 2016-2023

- ▶ Patient Capital Review, Productive Finance Group 2020
- ▶ Charge Cap Reforms, Value for Money tests, LGPS asset pools 2018
- ▶ Budget Speech 2023

PLSA position on Pensions & Growth, June 2023

- ▶ Protect fiduciary duty and investment freedom
- ▶ Unlisted / illiquid assets more suitable for Open DB (private / LGPS) and Open DC schemes than closed DB – only limited %
- ▶ Consolidation / scale can help but many other factors - regulation, fiscal incentives, suitable investment opportunities

Mansion House Speech, July 2023

- ▶ Mansion House Compact
- ▶ Plans to explore consolidation of DB, DC and LGPS

SUMMER PENSION CONSULTATIONS / PUBLICATIONS

- ▶ **Options for DB schemes** – call for evidence
- ▶ **Pension Trustees: Skills, Capability & Culture** – Call for Evidence
- ▶ **Small Pots: Ending the Proliferation of Deferred Small Pots** – Consultation Response and further Consultation
- ▶ **LGPS: Next Steps on Investments** – Consultation
- ▶ **DC Decumulation: Helping Savers Understand their Pension Choices** – Consultation Response and further Consultation

- ▶ **DB Superfunds** – Consultation Response
- ▶ **CDC: Extending Opportunities** – Consultation Response
- ▶ **Value for Money Framework**– Consultation Response

WHAT HAS THE PLSA DONE?

The consultations closed on the 5th September and the 2nd October. All big issues for our members.

Since the launch we've:

- ▶ Published a summary of all the proposals for members
- ▶ Carried out two detailed surveys of members to gather views (c150 responses in total)
- ▶ Held multiple roundtables with members across all the topics
- ▶ Engaged with DWP, TPR, FCA, the JIF and members 121 to seek views and inform responses
- ▶ Provided members with updates on emerging views through special summary updates
- ▶ Provided regular media commentary
- ▶ Also held 4 separate roundtables with the BBB and members about how their remit could be extended to help pension schemes find suitable investment opportunities
- ▶ Prepared and circulated draft responses to the Policy Board on the 18th August

OPTIONS FOR DB SCHEMES

- ▶ DB pension schemes are keen to have a range of options as to how they provide and secure the pension scheme benefits of their members, especially in cases where they are closed to new accrual and are approaching the “DB end game”.
- ▶ The PLSA supports the Government’s proposal to establish a statutory basis for the regulation of DB Superfunds. DB schemes also welcome the option of using existing channels such as DB Master Trusts and buy-ins and buyouts via an insurer. As many as 44% of our members are in favour of more flexibility for surpluses to be returned to sponsors – but only in circumstances where the benefits of scheme members are secure, e.g., where a scheme, at a minimum, meets the Pensions Regulator’s “low dependency” funding level and additional safeguards are in place.
- ▶ Overall, PLSA members do not currently support the creation of a public “consolidator” of DB pensions, given the lack of evidence of a market failure.
- ▶ If PPF is given a role as a public consolidator, we believe it should only operate for parts of the market, e.g., smaller schemes, that cannot easily get a buyout or buy-in solution from an insurer or cannot move to a DB Mastertrust. If further market analysis indicates this type of vehicle is necessary and viable it should also set up a separate fund and operate independently from the current PPF so as to avoid inappropriate cross-subsidy between schemes and members.

PENSION TRUSTEES: SKILLS, CAPABILITY & CULTURE

- ▶ Among large schemes, trustees not only know and meet the knowledge and standards expected of them, but they also have the right knowledge and understanding to invest in the full breadth of available investment opportunities.
- ▶ The PLSA believes that TPR should review and strengthen its Trustee Knowledge and Understanding (TKU) toolkit – which is not considered sufficiently demanding – and consider offering additional guidance or continuing education opportunities for practicing trustees who have already completed TKU.
- ▶ The PLSA would like to see the creation of a register of trustees. As for professional trustees, we believe the bar should be stretching and tougher than current standards. Together with tougher TKU, governance standards would be further improved.
- ▶ To ensure that the advice affecting decision-making is always appropriate, we continue to call for the FCA to extend regulation to investment consultants who advise pension schemes and that the DWP do more to explore the decision-making role of employers, as advised by Corporate IFAs, and how this affects the investment offering in schemes.
- ▶ More generally, we believe there are a series of reasons why pension funds do not invest more in illiquid assets, some due to the nature of the scheme and investment time horizon,

SMALL POTS: ENDING THE PROLIFERATION OF DEFERRED SMALL POTS

- ▶ The Government has proposed that the Multiple Default Consolidator be the model for small pot consolidation. There are pros and cons with this option, as there are with all the options, and these will only become fully clear when the planned next phase of more detailed work is undertaken.
- ▶ Though the Clearing House option is preferred by the Government, the PLSA would rather it consider other options, such as a blended option of a Clearing House with Central Registry features.
- ▶ The proposals suggest two alternative ways of allocating small pots where an individual does not make a decision. We believe there are issues of concern with each approach and ask that the DWP consider some alternative approach based on the following principles: savers in mind; healthy market; and pension awareness.
- ▶ Many pension schemes and providers have found it hard to evaluate the proposals in this consultation due to uncertainty about the Government's ultimate vision for the automatic enrolment landscape, especially regarding the number of mass market pension schemes.
- ▶ The amount at which a pot is considered to be 'small,' and the definition of 'deferred members' may have knock-on effects to interconnected administration and infrastructure factors, such as the cost of transfers. The Government has proposed a maximum pot size of £1,000 whereas the PLSA and industry coordination group previously preferred a maximum pot size of £500.

DC DECUMULATION: HELPING SAVERS UNDERSTAND THEIR PENSION CHOICES

- ▶ The PLSA has long argued for a policy solution to protect savers who don't engage with their at-retirement choices from poor outcomes. We strongly support the government's proposals, which share many of the key components of our Guided Retirement Income Choices (GRIC) framework, including a statutory obligation on all DC trustees to support their members and offer them, directly or via partner, a suitable retirement solution.
- ▶ This duty is also an important component to protect trustees in designing a suitable solution for their members.
- ▶ The DWP is consulting only on a duty to provide at retirement products and services, and the proposals do not consider what communications and guidance savers should receive. These are essential elements of a saver's retirement decision making, even with a soft default. Therefore, we ask that these elements, which are an important pillar of our GRIC framework, are brought forward as soon as possible.
- ▶ The government's intention to legislate as soon as time allows is especially welcome.

WHAT NEXT?

Party conferences:

- ▶ **Liberal Democrat:** 23-26 September - Bournemouth
- ▶ **Conservative:** 01– 04 October – Manchester
- ▶ **Labour:** 08 - 11 October - Liverpool



WHAT NEXT?

- ▶ **King's speech - 07 November**



- ▶ **Autumn Statement – 22 November**



ANY QUESTIONS?