PENSIONS AND LIFETIME SAVINGS ASSOCIATION

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BREXIT AND PENSION SCHEMES: GETTING THE RIGHT DEAL FOR BRITAIN'S SAVERS

1. **The UK has the largest pensions sector in the EU**. The PLSA's members provide pensions for 20 million workers, savers and pensioners. Auto-enrolment has brought 10 million more people into pension saving – a great British success story that many other EU Member States are looking to emulate.

2. **Strong workplace pension schemes need strong sponsoring employers.** It is vital for UK savers – and for the employers that support their pension schemes – that the UK economy gets a good Brexit.

3. **The ability of UK pension schemes to deliver good pensions to British savers depends on: (i) the success of the British economy; (ii) having the right regulatory regime; and (iii) ready access to efficient financial services.**

    a. *Employers that sponsor defined benefit pension schemes* are under an obligation – 'the sponsor covenant' – to ensure their schemes are properly funded. Low interest rates and renewed Quantitative Easing have increased scheme deficits, increasing the pressure on employers and the risk of savers' pensions not being paid in full.

    b. *In addition, nearly all new pension saving is in defined contribution schemes*. Current levels of contributions to these pensions are too low to provide adequate retirement incomes for Britain's savers. Therefore, it is essential that contributions increase in the near future – both from employers and employees.

    c. *Pension schemes are subject to EU legislation* – both as institutional investors affected by EU financial market regulation and, very significantly, directly under the IORP Directive on workplace pension schemes. IORP II came into effect in January 2019 - including in the UK.

    d. During the negotiation of IORP II, the UK was successful in warding off the *threat of an EU solvency regime for pensions,* which could have resulted in a bill for British business of up to €650 billion. This remains on the agenda of EIOPA, the EU-level pensions regulatory body. While we believe high levels of access to the Single Market are very important, it is also essential that any future moves by the EU to propose a new EU solvency regime should not apply to defined benefit schemes in the UK, unless they also operate outside the UK.

    e. *Pension schemes need full access to global markets and to the world-class expertise* currently available from the UK's successful financial services sector. Any dilution of the City's strength would have a negative effect on pension saving.

4. **Pensions concentrated in strategic sectors.** The UK's pension liabilities are concentrated in parts of the economy that have been identified by the Government as key strategic sectors for the Brexit negotiations, especially financial services, manufacturing and the wider services sector. Brexit particularly needs to work for pension schemes in these sectors, as well as for the companies that sponsor them.

5. **What does success look like?** From the pension scheme perspective, a successful outcome from the Brexit negotiations would include the following:

   a. **for a strong economy***:* replication of both the current UK-EU framework for free trade in goods and existing EU free trade agreements with third countries. Also, a new immigration policy that continues to allow flows of talent and labour from the EU for the good of the wider economy in general and pension schemes in particular.

   b. **for the right regulation***:* the maximum possible access to the Single Market in services – while also exempting pension schemes that operate only in the UK from damaging EU pensions regulation, such as a potential solvency-based regime for pension funds.

   c. **for strong financial services***:* a framework that allows continued free flows of investment services across UK-EU borders and grandfathering of existing contracts so that pension funds can invest and manage their liabilities efficiently.

6. **Transitional regime.** We welcome the Government's commitment to an implementation period. This will be essential to avoid major economic disruption – both to pension schemes as investors and to the companies that sponsor them as employers.

7. **WTO-only would cause major disruption.** On no account could the pension fund industry support a regime based only on WTO rules. This would be likely to cause economic harm, create regulatory barriers and undermine essential pensions support services.

ABOUT THE PLSA

The Pensions and Lifetime Savings Association is the national association with a ninety-year history of helping pension professionals run better pension schemes.

PLSA members control £1 trillion of assets and provide valuable investment across the European and global economy.

With the support of over 1,300 pension schemes and over 400 supporting businesses, the PLSA is the voice for pensions and lifetime savings in Westminster, Whitehall and Brussels.

Our purpose is simple: to help everyone to achieve a better income in retirement. We work to get more money into retirement savings, to get more value out of those savings and to build the confidence and understanding of savers.