PENSIONS AND LIFETIME SAVINGS ASSOCIATION

CONSOLIDATION OF DEFINED BENEFIT PENSION SCHEMES

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ABOUT THE PLSA

We're the Pensions and Lifetime Savings Association; we bring together the pensions industry and other parties to raise standards, share best practice, and support our members. We represent over 1,300 pension schemes with 20 million members and £1 trillion in assets, across master trusts and defined benefit, defined contribution, and local government schemes. Our members also include some 400 businesses which provide essential services and advice to UK pensions providers. Our mission is to help everyone to achieve a better income in retirement. We work to get more people and money into retirement savings, to get more value out of those savings, and to build the confidence and understanding of savers.

EXECUTIVE SUMMARY

The DB Landscape

- The DWP's White Paper recognised that Definded Benefit (DB) schemes and their sponsors have faced an incredibly challenging environment over the last decade – a period that has resulted in the majority of schemes remaining in deficit, despite £400bn of funding contributions being made. In spite of this backdrop, the evidence suggests that the majority of schemes and employers should successfully deliver member benefits in full. However, a significant minority of schemes and employers will face a harsher reality.

- For these schemes, with up to three million members, and with weaker employer covenants, new options are needed to address the risk that they may not receive their full benefits. Companies with a weak employer covenant will likely only weaken as time goes on, with people living longer and with the economic uncertainty that may come when the UK exits the EU. Scheme members whose employers suffer an insolvency will enter into the Pension Protection Fund (PPF), where their pension will be protected, but will likely incur an average benefit reduction of approximately 20% over their lifetime.

- Superfunds provide a new option for underfunded schemes, and especially for those with weaker employer covenants, to protect member benefits. They create an incentive and achievable goal for employers to accelerate funding into their scheme(s) in exchange for greater certainity over their ongoing obligations.

- Superfunds are distinct from buy-outs, based on differences in affordability, definition, regulatory requirements and on international determinations on the inherent contrasts between pensions and insurance, which are all discussed in this response.

- It is important to note that when designing the authorisation and regulatory regime for superfunds, care must also be taken to not be overly prescriptive and to allow flexibility at this early stage of the superfund market; precise and narrow parameters may stifle innovation and stunt market growth before superfunds have the opportunity to contribute to addressing the challenges in the DB landscape in a meaningful way.

Fit and Proper Persons

- The PLSA supports the proposals for strong superfund governance and for those linked to a mandatory fit and proper persons requirement. The PLSA is pleased to see that the Department for Work and Pensions (DWP) has drawn on the robust authorisation and supervisory regime put in place for the Defined Contribution (DC) master trusts - which looks after the benefits of 10 million savers.

- It is important to recognise that different providers will have different structures. As such, it would be sensible to provide the Pensions Regulator (TPR) the flexibility to set out the specifics of the mandatory fit and proper persons requirement in guidance or codes of practice. By doing so, the requirements can be a "living document", and be agile enough to change quickly when necessary as the superfund market evolves.

- We do not believe a separate set of standards of conduct for superfunds' corporate board is necessary. Clear obligations already exist in the Corporate Governance Code, and there are already multiple standards of conduct issued by TPR and FCA in use.

Governance

- The superfund corporate boards – like other corporate boards, Independent Governance Committees (IGC) and Authorised Fund Managers (AFMs) – will be responsible for significant economic entities. Thus, they should be subject to similarly high governance standards, which include having a majority of independent directors.

- We believe that membership engagement is important in the new regime, in particular as the introduction of superfunds will change the relationship between scheme members and their employer. However, as with the current legislative framework for both DB schemes and DC master trusts, we believe flexibility will be important. This should include the option to only have independent trustees, or a mix of independents and Member Nominated Trustee's (MNTs), or for member panels.

Financial Sustainability, Objectives and Tests

- It is important that the funding regime for superfunds is robust, secure and affordable, and we do not underestimate the challenges posed when developing a new regulatory regime. The core aim of the proposals must however be to ensure better outcomes for members.

- As set out in the Government's White Paper and the latest consultation, we believe that it is essential that superfunds are closely supervised by TPR, and members protected by the Pension Protection Fund (PPF), as well as by a 'ring-fenced' capital buffer.

- The detailed level of funding or modelling requirements is undoubtedly highly complex, and this early stage in the development of superfunds models will need to accommodate a degree of variation in both the organisational structures and the associated financial models. At this time, we believe it is difficult to be overly prescriptive about the requirements, and would support providing the Regulator with the opportunity to assess superfunds on a bespoke basis. Nonetheless, it will be important for trustees, members and employers to be able to assess superfunds on a comparable basis. We would therefore recommend that the new regime requires providers to publish standardised assessments against any parameters required by the Regulator.

- In relation to where it would be appropriate to set a base level of funding, we note that for pension schemes this varies from country to country. Less than 5 years ago, the EU (and the UK government) carried out an extensive investigation into what should be the right funding regime for pension schemes. It considered a wide range of alternatives, including whether to apply a Solvency II approach, and concluded that this was the wrong approach in light of the differences between objectives and risks between the pensions and insurance regimes. In particular, it took account of the fact that, unlike insurance, which seeks to address unpredictable and highly variable financial needs, pensions are far more predictable and relatively well defined in terms of financial liability. As a result, the EU continues to oversee a wide range of different approaches to the funding of DB pensions e.g. in the Netherlands they operate a 97.5% funding objective and in Germany a non-funded regime based on book reserves.

- The consultation document sets out a variety of funding models, including the proposition for a 99% level of probability of securing member benefits over the long-term – which, depending on the methodology, would in fact be a tougher test than Solvency II (which over a 20-year period would equate to a 90% probability). In this context it is worth noting, that latest data from the PPF Purple book also shows that to provide the levels of protection under Solvency II, it would cost £584 billion for the sector as a whole; a level of cost that is simply unaffordable for many employers and leaves a large proportion of members' benefits at risk.

Gateway

- We agree with the principle set out in the consultation that schemes that would be in a position to buy-out should not transfer to superfunds. However, we do not believe the proposed Gateway is appropriate or would work in practice. As set out in the Government's White Paper and the Regulator's new DB Funding Code, schemes will in future, as part of the scheme specific funding regime, need to set out their 'end goal' which could include buy-out, consolidation, or running on. This approach, will effectively establish a path for schemes to identify and explore their options under the supervision and with the approval of the Regulator. The DB Funding Code has the added advantage of being flexible, with the ability to adjust to changing circumstances, whether that is an improvement in the scheme position or the rapid deterioration of the employer covenant. We therefore recommend that the new Funding Code, which is intended to be enforceable, is utilised instead of an arbitrary Gateway or timeline.

PART 2. REGULATING SUPERFUNDS

DEFINING SUPERFUNDS

Q1. Are these characteristics wide enough to define a superfund? If not, how could superfunds be defined for the purposes of a future regulatory regime?

- The PLSA agrees that the main characteristics of a superfund should be that (paragraph 24):

  - a superfund is, or contains, an occupational pension scheme set up for the purposes of effecting consolidation of DB pension schemes' liabilities;
  - a transferring scheme's link to a ceding employer is severed on transfer to the superfund;
  - the 'covenant' is a capital buffer provided through external investment that sits within the superfund structure;
  - there is a mechanism to enable returns to be payable to persons other than members or service providers.

- It is also important to ensure that the role of the new statutory employer and its relationship with the covenant is captured in the definition.

- Care must be taken to ensure that superfunds cannot also be inadvertently classified as master trusts by virtue of holding certain assets, such as Additional Voluntary Contributions (AVCs).

Q2. Given the differences of superfunds and traditional DB occupational pension schemes, what are the additional risks and challenges associated with TPR regulating superfunds?

- Regulating superfunds is likely to require additional resourcing from TPR, in particular to assess the financial structures of superfund models and to provide ongoing supervision.

PART 3: AUTHORISATION CRITERIA

Q3. Are the proposed authorisation criteria the right ones for the superfund regulatory regime?

- We concur with the proposed authorisation criteria, that superfunds:

  - can be effectively supervised;
  - are run by fit and proper persons;
  - have effective administration, governance and investment arrangements;
  - are financially sustainable;
  - have contingency plans in place to protect members.

- This aligns with the criteria PLSA suggested in its DB Taskforce Report, "Opportunities for Change":[1]

  - The people involved with the superfund are fit and proper;
  - It is financially sustainable, i.e. the Sponsor has sufficient assets to support the operation of the superfund;
  - It has adequate skill, systems and processes to ensure it is managed effectively; and
  - It has an adequate continuity strategy and sufficient capital.

- The proposed authorisation criteria are based on other authorisation regimes in pensions and broader financial services, such as that for DC master trusts and Prudential Regulation Authority (PRA) regulated firms, which provides important consistency across the industry.

Q4. Are there any circumstances in which it would be advantageous, or necessary, that the authorisation criteria are not applied to the whole superfund but instead to individual segregated sections when the superfund scheme is sectionalised?

- No, the authorisation criteria should be applied to the whole superfund, rather than to individual segregated sections.

SUPERVISABILITY

Q5. Are these restrictions the right ones to ensure that superfund corporate structures are transparent and compatible with regulatory supervision? Are there any other measures that would aid TPR's ability to supervise superfunds?

- The PLSA supports the restrictions set out in paragraphs 32 to 34:

  - The corporate entity of a superfund should be established as a body corporate incorporated in the UK, with their head office and their registered office maintained in the UK;
  - Any companies controlled by the superfund would also be required to be incorporated in the UK;

[1] PLSA (2017) DB Taskforce: Opportunities for Change, p. 25-26.
See: https://www.plsa.co.uk/Policy-and-Research-Document-library-DB-Taskforce-3rd-report-Opportunities-for-Change

- The Pensions Regulator (TPR) would need to be satisfied that it can effectively supervise a superfund;
- In particular, TPR needs to take into account the way the superfund is organised, consider close links with other persons; and
- Assess whether membership of a corporate group could hinder supervision.

- It may be helpful for TPR to set out in guidance or a code of practice the structures that it finds acceptable given changing case law and different legislative regimes across the UK.

Q6. Should the corporate entities of superfunds be permitted to be established as partnerships or should they be required to be set up as a UK limited company?

- It may be reasonable in some circumstances to establish superfunds with a partnerships arrangement. The particular legal structure should not matter, so long as the Regulator is satisfied that the superfund meets strict requirements for governance, transparency of affiliations and controlling interests, within the corporate structure (as discussed elsewhere in the consultation – see Q16).

FIT AND PROPER PERSONS

Q7. Should TPR have a discretionary power to require evidence that individuals outside the superfund structure meet the fit and proper persons requirement?

- In theory, TPR should have this discretionary power to require evidence that individuals outside the superfund structure meet the fit and proper persons requirement. However, there are practical considerations to ensure that the measure is proportionate.

- There will be capital providers coming into a superfund structure who may have already undergone an authorisation process elsewhere in the financial services industry. It will therefore be necessary to have a system or means of collaboration in place to ensure that individuals are not placed under disproportionate or duplicative levels of scrutiny which are unduly onerous, with the unintended consequence of obstructing participation with a superfund.

Q8. Would these requirements be sufficient to allow TPR to identify those subject to a mandatory fit and proper persons requirement?

- Yes, the PLSA agrees that these requirements (consultation paragraph 40) for governance will help with the identification process for a mandatory fit and proper persons requirement. These include:

    - The corporate entity and the pension scheme be required to clearly set out their governance arrangements on application, including the role of any committees and sub-committees. This would be supported by a statement of responsibilities, completed by those subject to the fit and proper persons requirement, which would outline their responsibilities and how their role fits within the wider superfund structure.

Q9. Should TPR have the power to interview individuals for the purposes of the fit and proper test?

- If TPR feels that its authorisation decision would be better informed with a face to face meeting with the individuals under the fit and proper test, then it should be granted the power to interview these individuals.
- It is crucial to import good practice from other areas of the pensions and wider financial services industry. Under the DC master trust authorisation process, TPR has the power to interview trustees and others involved in running the scheme. These meetings will come in Stage 1 of the post-application process, when TPR considers applications prior to a recommendation being made to the determinations panel.
- Under proposed changes to TPR's powers, consulted on this past year, it will be able to call upon individuals for interviews. It would therefore be sensible to introduce one power, rather than several variations. We note that it would be helpful to make the intention to interview clear upfront in the authorisation process. This measure was introduced late in the master trust authorisation process, which caused avoidable uncertainty for stakeholders.

ROLES WITHIN THE SUPERFUND SUBJECT TO A MANDATORY FIT AND PROPER PERSONS REQUIREMENT

Q10. Are there other areas that should be included as part of the mandatory fit and proper persons requirement?

- The list (paragraph 44) looks correct and comprehensive.
- DWP might consider putting on this list a person who is in charge of business development, such as a Commercial Director, and the Chief Actuary.
- It is important to recognise that different providers will have different structures. As such, it would be sensible to introduce a legislative 'hook' in the Pensions Bill, that provides TPR the flexibility to set out the specifics of the mandatory fit and proper persons requirement in guidance or codes of practice. By doing so the requirements can be a "living document", and be flexible enough to change quickly when necessary as the superfund market evolves.

THE FIT AND PROPER PERSONS TEST

Q11. Would introducing a set of standards of conduct for the superfund's corporate board be proportionate?

- No, this is not advisable. Clear obligations already exist in the Corporate Governance Code, and there are already multiple standards of conduct issued by TPR and FCA in use. It is not clear to us what added value another set of standards of conduct would serve and it may in fact cause confusion or may dilute important messages.[2]

[2] PLSA (2017) Good Governance – How to Get There: A PLSA Discussion Paper (see pages 10-11). https://www.plsa.co.uk/Portals/0/Documents/7042%20Good%20Governance%20report%20Aug%20FINAL.PDF

Q12. What in your view should form the basis of any standards of conduct?

- N/A (see answer to Q11)

Q13. In your view, are there any other elements that should form part of a potential integrity test, conduct requirement or competency test?

- N/A (see answer to Q11)

GOVERNANCE

The corporate board

Q14. Should there be a minimum requirement on the proportion of independent NEDs on the superfund's corporate board or should this be left to TPR discretion? If so, what would be a suitable proportion?

- The superfund corporate boards – like other corporate boards, Independent Governance Committees (IGCs) and Authorised Fund Managers (AFMs) – will be responsible for significant economic entities. Thus, superfund corporate boards should be subject to similarly high governance standards, which include having a majority of independent directors.

- In the PLSA's response to the FCA Asset Management Study consultation CP17/18, we stated that AFM boards would benefit from a stronger independent presence – that boards with a majority of independent directors would be subject to proper scrutiny and oversight. The Corporate Governance Code states that at least 50% of corporate board members (not including the chair) should be independent.[3]

Member representation

Q15. Should superfund trustee boards consist entirely of independent trustees?

- Existing obligations on the composition of trustee boards allow for a variety of approaches to be taken. This is likely to be the case for superfund boards. Given the differing nature of the structures to 'typical' schemes, it is however important to recognise that superfund trustees will be required to have a much greater 'day-to-day' involvement in the running of the scheme. With that in mind, it is essential that the trustee board is made up of people of sufficient quality and standard and that there is the right balance of skills and expertise, including non-financial experience.

- Board diversity extends to the importance of having member input as well. This could take the form of member panels, or Member Nominated Trustees (MNTs), which would help to retain the independent nature of some of the trustees that superfunds might be seeking.

[3] PLSA (2017) PLSA's response to the FCA Asset Management Market Study Consultation CP17/18 on Authorised Fund Manager Governance. https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2017/FCA-asset-management-market-study-consultation-on-fund-manager-governance-PLSA-response.pdf?ver=2017-09-29-162333-993

Q16. Should there be a non-affiliation requirement for the appointment of trustees to a superfund's trustee board?

- It is more important to have transparency of affiliations, rather than non-affiliation. Open disclosure of past relationships between businesses and individuals, as they relate to the superfund's financial activities, is more meaningful than a non-affiliation requirement.

Q17. Should superfund trustee boards be subject to the MNT/MND requirement?

- There should be meaningful membership engagement, but as is the case for many schemes already run by independent trustees, that does not have to take the form of a MNT/MND requirement.
- DC master trust regulation says that member engagement must be present, but it does not specify how the member engagement should work in practice. A similar principle should be put in place for superfund trustee boards. Systems and processes requirements for member communications for master trusts include:
    - facilitating members' engagement with the scheme;
    - bringing members' views to the attention of the trustees;
    - directing members' complaints to the correct channels for resolution.[4]
- In practice, a MNT/MND requirement may also be difficult to fulfil and maintain, for instance, in a situation where a superfund absorbs dozens of schemes with large memberships each.

Q18. Should superfunds be required to establish member panels? Would such panels be an effective and proportionate way of ensuring that members' views are represented?

- Member panels should be optional rather than mandatory, which would be consistent with current DC master trust regulation. As TPR's code of practice state that there only needs to be a process for members' views to be heard by trustees at the board level;[5] how member views need to be represented are not specified.

SYSTEMS AND PROCESSES

Q19. In your view, would the areas outlined in this section enable TPR to assess the effectiveness of a superfund's systems and processes? If not, what alternatives would you propose?

- As the consultation's section on systems and processes draws extensively from the DC master trust authorisation regime, bolstered by a future TPR Code of Practice (paragraph 69), we have nothing further to add.

[4] The Occupational Pension Schemes (Master Trusts) Regulations 2018, Schedule 4 (11).
[5] TPR (2018) Code of Practice no. 15: Authorisation and supervision of master trusts (p. 58).

Q20. Are there other areas that should be included as part of the systems and processes requirement for superfunds?

- No.

FINANCIAL SUSTAINABILITY

Q21. Should superfund financial adequacy be regulated through a pensions based funding requirement approach with an added test of probability of success or an insurance based approach using a Solvency II type balance sheet?

- Yes, superfund financial adequacy should be regulated through a pensions based funding requirement approach.
- We believe it is crucial to recognise that pension schemes are quite different in character from insurers. Unlike insurance products, pensions are paid over the long-term and in a relatively predictable manner. This was the position concluded by the governments of the UK, Netherlands, Germany, Ireland and Belgium when in 2013 the European Commission sought to impose insurance style (Solvency II) regime on UK schemes.
- Because of this fundamental difference in financial operations, the PLSA does not accept that a "difference in approach" between superfunds and insurance needs to be justified. On the contrary, what needs to be proven is the assumption that "applying the same approach" between the two regimes is necessary.
- Policy-makers should recognise that workplace pension funds have weathered the financial storm well and have proved to be resilient. Security should not be seen as being synonymous only with solvency; governance and regulatory oversight also have crucial roles to play.
- As such, it would be inappropriate to apply a Solvency II-style regime to pension funds in the UK, including superfunds, where members' benefits are protected by the work of the Pension Regulator and by the Pension Protection Fund, and in the case of superfunds, would be protected through a robust capital buffer.
- We note that the Netherlands pensions system operates with a funding regime with a financial buffer based on a 97.5% confidence level and that DB provision operates on a range different of funding requirements across the EU.
- The majority of schemes are not in a position to target buy-out or self-sufficiency. According to TPR's own analysis (Scheme Funding Statistics 2018), 48% of schemes are categorised as CG2 "tending to strong", and 27% of schemes are categorised as CG3, meaning they are highly unlikely to ever be able to reach insured buy-out. CG2 and CG3 are the part of the sector that superfunds can benefit most. Schemes with "weak funding" with CG4 employers (14%)[6] are highly likely to eventually fall into the PPF as well, with members likely to suffer benefit reductions, of approximately 20% on average.[7]

[6] TPR website, Scheme funding statistics 2018, 11% of schemes are categorised as CG1 "strong". https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis

[7] PLSA (2016) DB Taskforce: Interim report (p. 22) https://www.plsa.co.uk/portals/0/Documents/0597-DB-Taskforce-Interim-Report.pdf

- While we believe that schemes and sponsors from all the CG groupings should be allowed to access the benefits of superfunds (subject the their scheme specific funding 'end goal'), the case for doing so would be significantly stronger for schemes with a CG2, CG3 and the average CG4 employer.[8] For well-funded schemes with a strong employer, buy-out will continue to be the best third-party solution.

- Latest data from the PPF Purple book shows that to provide the levels of protection under Solvency II would cost £584 billion for the sector as a whole.[9] While it is desirable to achieve the highest standard for protection for members, the reality is that this level of cost is unaffordable for many employers and leaves a large proportion of members' benefits at risk.

- Superfunds provide a new option for underfunded schemes that does not currently exist. It creates an incentive and achievable goal for employers to make a one-off payment to reach self-sufficiency funding levels, without having to pay for the more expensive – and in many cases unachievable – insured buy-out option.

Q22. Which of the suggested models would best ensure appropriate financial adequacy, and balance the interests of the various parties? Are there elements of other options that you think should be combined with your preferred option?

- It will be important for schemes and employers to be able to assess and compare superfund providers. Therefore, it is logical that some common models or consistent assumptions are introduced. At the same time, it is important to recognise "model risk"; superfunds will likely have bespoke, and varying structures; which may change over time.

- Building on elements of options (i) "stochastic modelling approach" and (iii) "common long term-objective and minimum standards approach" are thus useful starting points to ensure appropriate financial adequacy.

Q23. Does a 99% probability of paying or securing members' benefits over the lifetime of the scheme adequately protect members' benefits, and effectively balance the competing priorities of employer affordability and member security? If not, what would an appropriate probability be, and why?

- A 99% probability of securing members' benefits may be a tougher test than a Solvency II requirement. Over a 20-year liability period, Solvency II, which provides for 0.5% risk each year, would cumulatively only provide 90.5% certainty of paying members' benefits, making such a high threshold inappropriate for the policy aim of superfunds, which is to provide a secure, but more affordable option for schemes that will never be able to afford an insurance buy-out.

- It is also important to recognise the distinction between superfunds and insurance in order to draw up the appropriate financial criteria for superfunds and to create "clear blue water" between the distinct types of provision. If the financial boundaries are set too narrowly, schemes and employers that would benefit most from superfunds will be priced out of the

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[8] PLSA (2017) DB Taskforce: Opportunities for Change (p. 29).
https://www.plsa.co.uk/Policy-and-Research-Document-library-DB-Taskforce-3rd-report-Opportunities-for-Change

[9] PPF (2018) The Purple Book: DB Pensions Universe Risk Profile
https://www.ppf.co.uk/sites/default/files/file-2018-12/the_purple_book_web_dec_18_2.pdf

market, as is already the case for the majority of schemes and employers with insurance buy-outs, as discussed under Q21.

- It would be appropriate to have a lower base case, such as 95%, which the PLSA's Taskforce modelling indicates would deliver a very high level of security for members.

Q24. Should a superfund have a long term objective to secure benefits with an insurance company?

- No. A superfund may wish to operate with that long-term objective, but it should not be a requisite for all superfund business models. The key objective is to safeguard member benefits to the highest level possible, where in the absence of the superfund option, schemes with a weak employer covenant would be unlikely to ever be able to afford an insurance buy-out.

- In practice, were a superfund to reach buy-out levels of funding, it is highly likely that the scheme trustees would wish to examine whether buy-out was appropriate, making an obligation obsolete.

Q25. Is the proposed authorisation basis suitable for this purpose? If not, what basis, if any, would you propose for this purpose?

- See response to Q21

Q26. Is a 97.5% probability of being 100% funded on an authorisation basis by the earlier of 2040 and the date the scheme reaches its estimated peak cash outflows consistent with the principle of a superfund having a 99% probability of paying or securing members' benefits at all times?

- Please see feedback on financial modelling, Q22.

Q27. Is the earlier of 2040 and the independently assessed point at which the superfund's membership reaches peak maturity a reasonable target date?

- We would expect this to be kept under review by the Regulator on a case-by-case basis, rather than setting an arbitrary deadline.

Q28. Are the additional minimum standards in (iii) needed, in order to ensure a high level of protection for member benefits? In particular, are the additional minimum standards (that the superfund scheme itself is funded to 87.5% on the authorisation basis) required for every scheme entering a superfund?

- The key principle underpinning the authorisation regime for a superfund is that the superfund can always provide sufficient security to the incoming members at all times.

- The price of entry and the funding levels for the transfer should be for the specific superfund in question, which will differ according to its own business modelling (and the authorisation floor).

- The superfund trustees should prevent inappropriate transfers, and it would be appropriate for the potential entry of lesser funded schemes – who have not identified consolidation as a targeted goal in their funding statement to TPR – to be a notifiable event.

Q29. Should superfunds be required to publish an annual balance sheet using market valuations and including liabilities valued on a buy-out basis together with a buffer fund based on the Solvency II approach?

- It may be appropriate for the Regulator to request balance sheet information in order for it to carry out its supervisory duties, but it is unnecessary to require the comparators as described.

- For potential transferring schemes, it will however be important for accurate funding information to be provided on any marketing materials or information channels. We would expect covenant and other advisors to inform trustees of their comparative options (i.e. whether an insurance buy-out is achievable) as part of the evaluation process ahead of any prospective transfer. A comparable assessment of the superfunds against standardised stress tests may also be important. For the majority of schemes considering transferring to a superfund, the key comparison will be against the security of their existing employer covenant.

SCHEMES REACHING BUYOUT FUNDING

Q30. Should superfunds be required to secure benefits with an insurance company as soon as practicable, once the scheme assets reach the buy-out level of liabilities?

- No. There is no obligation on pension schemes to secure their assets with a buy-out provider and it is inappropriate to require this of superfunds.

- There are a number of additional reasons why this is inappropriate:

    - It may unduly narrow the superfund models entering the market;
    - The buy-out market is still relatively small. It is currently £20 billion per annum, while there are £1.6 trillion in DB assets in aggregate.[10] It is unclear how the buy-out market, buy-out pricing (which is volatile) or buy-out capacity will develop in the future;
    - In practice we would expect superfunds to consider managing their liabilities through buy-in or buy-out when it was financially attractive to do so. However, a requirement to do so is too prescriptive on the how superfunds should be developed;
    - Any regulatory changes to Solvency II may have an unforeseen impact on the superfund market by virtue of connection – one that should be avoided if we keep to the policy aim of providing schemes with weaker employer covenants with an accessible consolidation option.

[10] PPF (2018) The Purple Book: The DB Pensions Universe Risk Profile. https://www.ppf.co.uk/news/purple-book-2018

Q31. Should superfunds be required to maintain a minimum level of scheme funding regardless of approach to financial adequacy? This could include a separate long term objective for the superfund scheme itself to reach a buy-out level of funding but to a lower level of probability than the superfund as a whole?

- Yes, a minimum threshold which ensures good outcomes for members should be required. Superfunds should be required to have robust funding plans to give transferring scheme trustees and employers sufficient confidence that the superfund would provide member benefits over the long-term and minimise the risk of any claims on the PPF.

- However, a long-term objective for the superfund scheme itself to reach a buy-out level of funding – but to a lower level of probability than the superfund as a whole – should not be mandatory. Mandating such a long-term objective may have unintended consequences of hindering a superfund's growth potential; such a requirement may not be a useful marker of robustness or returns.

- Precise levels would vary for each superfund, depending on, for instance, levels of investment risk or the capital buffer. The precise levels would of course carry the minimum threshold that ensures good member outcomes and they would need to be agreed between the trustees and sponsor before being submitted for approval to TPR as part of the business plan.

- The PLSA's DB Taskforce set out how different funding levels could work in practice (please see Table 1).[11] While the capital buffer and premiums paid by transferring scheme employers would secure strong initial funding levels, it is important that superfund funding is maintained on an ongoing basis. We believe that a tiered funding regime which governs all aspects of funding, from revenue distribution through to winding up triggers, would be a sensible approach. As seen in Table 1, the different funding levels – X, Y and Z – would take into account the sponsor's assets, the capital buffer and also the expected premiums to be paid by the transferring employers over a given period e.g. the next 12 months. Taken together with the annual valuation results, these factors would dictate the approach of TPR, the sponsor's executive team and trustees to the superfund's operation until the next actuarial valuation.

[11] PLSA (2017) DB Taskforce: Opportunities for Change (p. 26).
https://www.plsa.co.uk/Policy-and-Research-Document-library-DB-Taskforce-3rd-report-Opportunities-for-Change

Table 1: The Superfund Funding Levels[12]

FUNDING LEVEL (% OF FUNDING)	WHAT HAPPENS
X' or above (e.g. over 105%)	Sponsor can distribute an agreed percentage of assets above X to the capital providers.
Between 'X' and 'Y' (e.g. between 100-105%)	Superfund can operate and continue to accept transfers in from other schemes.
Between 'Y' and 'Z' (e.g. between 90-100%)	No new transfers in can be accepted by the Superfund unless additional capital buffer is added to the sponsor or the sponsor makes payments to the Superfund to bring funding to above a certain level. No impact on existing members' benefits.
Below 'Z' (e.g. below 90%)	The Regulator can direct the Superfund to wind up or merge at levels above PPF benefits.

- It will be important to manage the balance of interests between new entrants and scheme members which have already transferred. To ensure clarity for all parties, we would support setting out parameters e.g. on specific funding levels required in the business plan. This could include, for instance, allowing transfers in from schemes which are below the agreed funding level in exchange for set levels of increases in the contribution to the capital buffer.

PROPOSED TEST FOR FAILURE

Q32. Is the failure test in relation to the PPF funding level proportionate and what probability of failure is acceptable?

- This seems appropriate in principle, but in practice, it is difficult to see how it would be possible to reliably calculate probability of failure. It is also unclear who would determine this probability.

- If governance structures are properly in place, as are the capital buffers, then this seems like an unnecessary and rather arbitrary test to put in place.

Q33. What powers should TPR have to intervene should a funding level trigger be breached?

- We believe if a superfund has funding problems or failed to deliver against its business plan without effective mitigation, TPR should have the ability to direct a superfund to cease accepting new transfers, to wind up or to require a merger with another superfund.[13]

[12] PLSA (2017) DB Taskforce: Opportunities for Change (p. 26).
https://www.plsa.co.uk/Policy-and-Research-Document-library-DB-Taskforce-3rd-report-Opportunities-for-Change
[13] PLSA (2017) DB Taskforce: Opportunities for Change (p. 26).
https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2017/DB-Taskforce-third-report-Opportunities-for-Change.pdf

Q34. At what level above fully funded on the S179 basis should the winding up trigger be set?

- A threshold that ensures the scheme is no worse off than at the point of transfer is an appropriate starting point to consider the funding floor.

Q35. Is 3 months an appropriate period of grace to allow for any volatility in investments to recover before triggering a wind up?

- A set three-month timeframe is arbitrary; the period of wind up will need to be more flexible than this and it should reflect the status of the superfund funding before the funding level was breached. A short shock should be treated differently to a long period where the fund has been failing to meet targets or unable to write business because of funding issues. How the funding gap is covered by the buffer or additional buffer support will also be crucial in protecting member benefits before the need for triggering a wind up happens.

- Rather than being too prescriptive on the grace period, it is more important to ensure processes are in place to make TPR aware of a potential problem as soon as possible[14] and for the superfund to work with TPR on evaluation and monitoring of the situation. This approach forms part of the proposed new powers for TPR and for the master trust authorisation process.

- For example, the master trust authorisation and supervision stipulates that when “trustees decide that the master trust scheme is at risk of failure…it is necessary to follow continuity option 1 or 2[15]” and that the scheme funder, scheme strategist or the trustees must notify TPR “before the end of seven days starting with the date the person notifying became aware the event has occurred.”

- According to TPR, “When a significant event occurs, we need to understand the impact of the significant event and how it is being managed. Our focus will be whether we remain satisfied that the master trust continues to meet the authorisation criteria. If not, we may decide to take further action, including exercising our powers under section 10 of the Pensions Act 1995 or de-authorising the scheme. Our level of intervention will be determined by a number of factors. This includes the nature of the event and our level of confidence in the master trust’s ability to manage any risks arising from the event.”[16]

Q36. Is this minimum funding level trigger sufficient to provide adequate protection for the PPF while mitigating the risk that short term volatility might force a superfund into the PPF when it still might have a very good chance of meeting the long term objective?

- Well run authorised schemes should pose little risk to the PPF. It is important therefore that the minimum funding level sets a threshold that does not dilute the security of members who

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[14] TPR website, Master trust pension schemes: Significant event duties for master trusts
https://www.thepensionsregulator.gov.uk/en/master-trust-pension-schemes/significant-event-duties-for-master-trusts

[15] TPR website, Master trust pension schemes, Triggering Events and Authorisation
According to TPR, “When a master trust experiences a triggering event, the trustees must either: (a) transfer out all members and wind up (continuity option one) or (b) resolve the triggering event to continue operating (continuity option two).
https://www.thepensionsregulator.gov.uk/en/master-trust-pension-schemes/master-trust-triggering-events-and-authorisation

[16] TPR website, Master trust pension schemes: Significant event duties for master trusts
https://www.thepensionsregulator.gov.uk/en/master-trust-pension-schemes/significant-event-duties-for-master-trusts

have transferred but equally is not overly cautious (please see Q31 and Q35). It would not be in members' interests to enter the PPF where other routes (including with insurers) that could provide higher than PPF levels of benefits are available.

Q37. Do you agree that there should be a Tier 1 funding level trigger to protect members' benefits at this level?

- Please see response to Q31.

Q38. What would be the best way of expressing this trigger?

- Please see response to Q31.

Q39. Is 3 months an appropriate period of grace to allow for any volatility in investments to recover before allowing trustees access to the capital buffer?

- Creating a 'one-way' situation where the buffer is removed (and effectively closes the superfund) is undesirable. Instead, it would be preferable to ensure the combination of the buffer and the scheme funding should always be above the minimum threshold. The authorisation process requires the buffer to be 'locked in' to ensure this is the case and capital is always available to protect the scheme.

Q40. Should TPR have the power to intervene and require wind up or transfer if they believe the trigger has not been acted on in the best interests of members?

- If the superfund is unable to provide member benefits, it is appropriate that the Regulator can take action to intervene. In the first instance, we would expect the Regulator to consider replacing the trustees, or utilising its other powers, and to give the superfund a reasonable timeframe in which to address the challenges (please see Q35). In practice, the ability to withdraw authorisation is a wind up trigger in itself.

Q41. Is this a reasonable basis on which to prevent new business being written, or should this be left to the discretion of the superfund trustees on the basis they should not be accepting new business if it would have a detrimental effect on existing superfund members?

- Yes, clear funding levels should be set out so that if a superfund no longer meets the funding level requirement for authorisation, new schemes should not be acquired.

- The precise funding level triggers will vary for each superfund. It will depend on, for instance, the levels of investment risk or the capital buffer. The funding levels will need to be agreed between the trustees and sponsors before being submitted for approval to TPR as part of the business plan.

Q42. Is it reasonable to only allow investors to take a profit after they exceed the requirements for authorisation and if so on what basis?

- Yes, it is reasonable to allow investors to take a profit only after the superfund has gone above the agreed parameters.

- A superfund has to be commercially appealing in order to attract capital providers, and that commercial interest could derive from the following:[17]

  - A provision in the regulatory framework for capital providers to make a financial return on their investment in a way that does not harm member outcomes. This could happen with a return on capital, based on meeting agreed funding targets and refunds of capital being paid to the superfund should it move into an ongoing surplus position relative to its funding levels.

  - The provision of additional chargeable services to the superfund e.g. for administration services.

ADDITIONAL PROTECTIONS FROM EXCESSIVE OR INAPPROPRIATE PROFIT TAKING

Q43. Is it reasonable to retain investor profits for a period to mitigate against profits being taken from market volatility rather than genuine outperformance?

- Yes, it would be reasonable to consider vesting periods, for example, that straddle the superfunds' annual valuations.

Q44. Should superfunds be restricted from taking profit until the funding level is above that required to secure a buy-out?

- No, this restriction is not reasonable, as a superfund's required aim should not be to ready itself for a buy-out. These parameters would stifle financial innovation and would reduce the market offerings drastically.

- The PLSA is unaware of any similar restriction that exists on any other corporate entity.

- It is also unclear how profit is being defined in this question. Some superfund models will include charges for administration or other services, which are not directly linked to the funding level of the scheme but could generate revenue.

[17] PLSA (2017) DB Taskforce: Opportunities for Change (p. 24).
https://www.plsa.co.uk/Policy-and-Research-Document-library-DB-Taskforce-3rd-report-Opportunities-for-Change

SECTIONALSED SCHEMES

Q45. Is it reasonable to allow a sectionalised superfund to take profit or write new business if one or more sections are inadequately funded?

- This may be highly dependent on the number of sections and the model of the superfund. A superfund with 100 schemes and 1 underfunded is a different matter to a scenario where 50 schemes out of a 100 are underfunded.

- If the Regulator is satisfied that the underfunded scheme issues are being addressed then it would be appropriate for new business or profit to be taken, potentially with further conditions, such as additional contact between TPR and the trustees to monitor any potential sustainability issues.

Q46. In relation to the criteria for financial adequacy and funding level triggers discussed above, should each segregated section within a sectionalised scheme:

a) be considered separately for financial adequacy purposes and also considered separately for the funding level triggers

b) be aggregated together (along with the capital buffer) for assessing financial adequacy but each section is considered separately in relation to funding level triggers

c) be considered separately for assessing financial adequacy but be considered together as a whole when assessing whether the collective scheme funding position meets any of the funding level triggers; or be aggregated together (along with the capital buffer) for assessing financial adequacy and considered together as a whole when assessing whether the collective scheme funding position meets any of the funding level triggers?

- For authorisation, the superfund's business model should be considered as a whole, but it is sensible to consider the financial adequacy and funding level triggers for each segregated section separately.

CONTROL OF ASSETS AND ACCESS TO THE CAPITAL BUFFER

Q47. Does this approach provide adequate protection for members, while effectively balancing the interests of the investors?

Option 1: require the deficits within the scheme to be made good as they emerge by transferring the assets from the capital buffer into the scheme

Option 2: ring fence the assets in the capital buffer

- Option 2 would provide the adequate protection for members by ring-fencing the buffer assets while also balancing interests of investors.

- Please also see answer to Q42.

Q48. What are the minimum requirements on a buffer fund in order for the scheme to be able to rely upon the assets being available in the event they are needed?

- The superfund sponsor would need to provide a buffer in the form of a long-term capital reserve to ensure its continued solvency in event of any unexpectedly 'stressful' events and reduce any possible systemic risk. This would be necessary to ensure security of member benefits and would be based on the superfund's initial funding levels.[18]

- The PPF and TPR's contingent asset regime provide good examples of means to ensure the capital buffer is only there to support the scheme.

Q49. Should there be minimum standards on the capital buffer to ensure it can be relied upon in stressed situations?

- Yes, please see Q48.

EVIDENCE REQUIRED TO DEMONSTRATE THAT FINANCIAL SUSTAINABILITY REQUIREMENTS ARE SATISFIED FOR AUTHORISATION

Q50. Is it reasonable and proportionate to require superfunds to provide detailed fund guidelines, and does this provide the regulator with sufficient information?

- It is unclear what TPR would do with this information or how it would be used. It is of course important the Regulator is satisfied with the investment strategy and risk profile of superfunds as part of the authorisation and supervision. It would also be helpful to have the ability to review investment decisions, for example if the funding position drops considerably. However, it is highly unlikely to be useful or relevant for TPR to receive such detailed transactional information as "business as usual", as suggested in this section.

- While it is important to get the balance right between requiring transparency and accountability, such detailed reports may cause information overload or lack context for the Regulator, which may mean that TPR are not able to take timely and meaningful action or to unduly 'stand in the shoes' of the trustees.[19] It may also become onerous on superfunds to provide and explain regularly. It however remains important for the Regulator to be able to require any information as needed.

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[18] PLSA (2017) DB Taskforce: Opportunities for Change (p. 24).
https://www.plsa.co.uk/Policy-and-Research-Document-library-DB-Taskforce-3rd-report-Opportunities-for-Change

[19] The concern for information overload for TPR is discussed in the PLSA response to DWP's Consultation: Protecting Defined Benefit Pension Schemes – A stronger pensions regulator (2018) with regards to Notifiable Events. See:
https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2018/DWP%20consultation%20on%20new%20TPR%20powers_FINAL%202.pdf

Q51. Should superfunds be required to submit their modelling for TPR to review, or should TPR develop a model against which they can assess all superfund proposals?

- Given the relatively small number of superfunds and potential for varying models it would be sensible for the Regulator to review (or commission third party reviews) of superfund models on a bespoke basis. It would however be helpful for the Regulator to set out how the superfunds compare against a standard set of assumptions or stresses to ensure that schemes can assess their strengths effectively.

Q52. Should TPR have a 'fall back' model for cases when the modelling provided by superfunds is not adequate?

- No. If TPR has concluded that a superfund model is not adequate in its financial sustainability, then authorisation should not proceed.

PART 4. SUPERVISION

REPORTING

Q53. Should there be any other reporting requirements of either the corporate entity or pension scheme to ensure effective supervision?

- What is listed (business plan; latest set of accounts; and latest risk assessments) is reasonable and appropriate (paragraph 176).

Q54. Should the corporate entity and pension scheme have to disclose their strategic asset allocation and investment risk limits so that TPR can effectively supervise the investment strategy?

- Yes. We believe that the sponsor would need to submit a business plan incorporating the investment policy to TPR for approval, with the superfund trustees given responsibility for implementing investment strategy in line with the policy.[20]

Q55. Should superfunds be required to regularly publish publicly available material on their financial position and operations?

- It would be appropriate for the superfund to publish information that is relevant to prospective entrants, such as its annual report and accounts, Statement of Investment Principles and costs and charges. We believe transferring schemes should also be required to review such materials as part of their decision making process.

SIGNIFICANT EVENTS

Q56. Would the proposed events outlined in Table 1 meet the aims of the significant events framework?

- We agree with the list of proposed events.
- Although it is implicit in the points covering funding, and it is difficult to determine when the full details of the new funding regime are not known, there may be a need for a requirement to notify a payment to the investors above a certain amount or percentage.
- It would also be important to specify any occurrence that would effectively mean that the superfund had to exit the market – for instance, if the capital provider indicates that it is considering withdrawing support.
- As indicated in paragraph 184, this significant events table must be reviewed in tandem with TPR's existing and soon to be expanded notifiable events framework, under which employers

[20] PLSA (2017) DB Taskforce: Opportunities for Change (p. 24).
https://www.plsa.co.uk/Policy-and-Research-Document-library-DB-Taskforce-3rd-report-Opportunities-for-Change

and trustees are required to report certain events to TPR to provide early warning of a possible call on the PPF.

Q57. How could we define ‘significant deterioration’ in relation to investment performance and funding level?

- TPR would need to set the parameters for this in their guidance or code of practice.
- What TPR has outlined in the DC master trust code of practice requirement to notify a “failure to meet targets and milestones” provides a useful framework.
- There, it states that it expects the “scheme’s strategist to outline what they consider to be a significant failure for their master trust.” An equivalent role within the superfund could be tasked with providing a similar outline for the superfund’s particular financial modelling, as each superfund will have financial elements specific to their business plan.

TPR master trust Code of Practice[21]

Business plan: failure to meet targets or milestones

351. Any significant failure to meet a key milestone, target, estimate or assumption set out in the business plan is a significant event and must be reported to us as soon as reasonably practicable[114]. Please also see the section on significant events.

352. As the objectives, milestones and resources reflected in the business plan will differ for each master trust, we expect the scheme’s strategist to outline what they consider to be a significant failure for their master trust.

Q58. Should TPR’s executive arm have the power to unilaterally commission a skilled persons report in relation to superfunds with TPR acting as the end user?

- It is unclear why this additional power is needed. Existing powers and others proposed elsewhere in this consultation should provide TPR with what it needs to get the required information on the superfund and the persons running it.

RESPONDING TO MARKET RISK

Q59. Would an enforceable Code of Practice be sufficient to allow TPR to respond quickly and proactively to emerging market risks and supervise effectively?

- Yes, we support an enforceable code of practice, as long as it is clear on what counts as “triggering” or “significant” events for DB superfunds that must be reported to TPR immediately. It should also be a part of, or dovetail with, the new DB Funding Code that is proposed for the Pensions Bill.

[21] TPR (2018) Code of Practice No. 15: Authorisation and supervision of master trusts (p. 84). https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-15-authorisation-and-supervision-of-master-trusts

- It must also be clear that the code of practice is TPR's interpretation of legislation, and, that it is accepted that this interpretation is indeed the correct one that can be followed by superfunds.

Q60. In your view, what areas of a future code should be enforceable?

- This is very difficult to judge given the potential for legislation to cover many of the requirements; enforceable areas of a future code should align with any appropriate aspects of the authorisation regime.
- It is important as well that if the future code is enforceable, that it becomes clear that TPR's interpretation of the legislation is the definitive one, to avoid any future legal challenges.

Q61. Would the proposals outlined in Chapter 4 allow for the effective regulation of superfunds? Are there any other powers needed for TPR to intervene where necessary to effectively regulate superfunds?

- We think the proposals outlined in Chapter 4 are the rights ones needed to regulate superfunds.

COVERING THE COSTS OF SUPERVISION

Q62. Should superfunds be subject to a bespoke levy to fund their ongoing regulation?

- Authorisation should include a fee as per the master trust regime. As with other DB occupational pension schemes, superfunds will also be required to pay other levies e.g. to the PPF.

PART 5. SUPERFUND TRANSACTIONS

SUPERFUND GATEWAY

Q63. Do these principles achieve the policy aim?

- Yes.

Q64. Is 5 years a reasonable timeframe to assess a scheme's potential to reach buy-out in the foreseeable future?

- The Gateway is not an appropriate tool to assess a scheme's potential to reach buy-out and will be difficult to utilise in practice.
- It would be better to use the new DB Funding Code which will ask schemes on a scheme specific basis to identify their 'end-goal' which could be buy-out, running on or consolidation. The DB Funding Code will also assess the appropriateness of that classification as part of the process.
- If the position of the scheme or the employer changes, the scheme should have to notify the Regulator of a change in intent as well.

Q65. Are there any other important factors that trustees should take into consideration as part of the transfer to a superfund?

- It will be important for trustees and employers to be clearly discharged from their duties and obligations at the point of transfer.

Q66. Should a scheme looking to join a superfund be required to meet a specific minimum funding level at the point of transfer, for example 87.5% funded on the authorisation basis?

- Rather than requiring a superfund to meet a specific minimum funding level at the point of transfer, it is more important that the superfund is funded to the authorisation criteria. The Regulator should ensure schemes are maximising funding from employers as part of the scheme specific funding regime.

Q67. If you think there should be a minimum scheme funding level for entry to a superfund, should it be based on the authorisation basis or a buy-out basis? What percentage minimum funding threshold do you think would be appropriate?

- If one must be used, it should be based on the authorisation level or technical provisions. A buy-out basis will be unattainable for the majority of employers. A minimum scheme funding level for entry on a buy-out basis would defeat the objective of superfunds, which is to provide an affordable option to schemes with a weaker employer covenant — those that will likely never be able to afford buy-out.

- Table 2 below shows the make-up of DB sector schemes in deficit, broken down by covenant group, based on the latest analyses produced by TPR. It focuses on schemes in deficit and adopts TPR's definitions of covenant strength and scheme categorisation.
- As discussed in Q21, while we believe that schemes and sponsors from all the CG groupings should be allowed to access the benefits of Superfunds, the case for doing so would be significantly stronger for CG2 ("tending to strong"), CG3 ("tending to weak") and possibly the average CG4 employer ("weak"). CG1 employers would remain the target market for buy-outs and this would probably continue to be the best third-party solution for those schemes with a strong covenant and employer.[22]

Table 2: Schemes and the average funding level based on technical provisions

EMPLOYER CONVENANT GROUP	PROPORTION OF SCHEMES	AVERAGE FUNDING LEVEL BASED ON TECHNICAL PROVISIONS	AVERAGE LENGTH OF RECOVERY PLAN (YEARS)
CG1 – Strong	11%	85.5%	5.9
CG2 – Tending to strong	48%	83.3%	7.2
CG3 – Tending to weak	27%	80.3%	8.5
CG4 – Weak	14%	76.8%	10.2

TPR: Scheme Funding Statistics 2018[23]

Q68. Should external covenant advice be a mandatory requirement of the superfund transaction process? In what circumstances would covenant advice not be required?

- External covenant advice should be mandatory. Schemes or employers should however be able to utilise existing covenant advice if it is appropriate, rather than commission new advice. Another exception would be if the covenant is very obviously failing, then mandating advice may not be appropriate.

Q69. Should it be a requirement for those providing covenant advice to be regulated by either the FCA or the Financial Reporting Council?

- Yes, it needs to be a regulated service or via an appropriate professional body.

[22] PLSA (2017) DB Taskforce: Opportunities for Change (p. 29).
https://www.plsa.co.uk/Policy-and-Research-Document-library-DB-Taskforce-3rd-report-Opportunities-for-Change
[23] TPR (2018) Scheme funding statistics 2018: appendix
https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis

TRANSFERS TO A SUPERFUND

Q70. Do you agree that the current legislation regarding bulk transfers should apply to transfers to a superfund? Please give an explanation for any changes you recommend to the legislation.

- The regulations could be revised or elements removed – for example in Reg 12 (2) of the Occupational Pension Schemes (Preservation of Benefit) Regulations 1991 – where information is superfluous for the purposes of this consultation's policy aims. However, overall, the bulk transfers regulations as they are would be sufficient.

TPR'S ROLE

Q71. Should TPR decide whether each scheme transfer to a superfund can proceed or only have the power to prevent a scheme entering a superfund if they judge that the principles set out in the gateways are not being met?

- In the emerging market we would expect transfers to be scrutinised very closely by the Regulator. However, in the long-term, it would be appropriate for transfers to take place as business as usual for schemes that have identified consolidation as an 'end state', and for TPR's notifiable events regime to be utilised for schemes or circumstances that do not fit that criteria.

Q72. What checks should TPR do on a proportionate and objective basis to satisfy itself a transfer to a superfund is likely to be in the best interests of members?

- The DB funding code should form a core part of the analysis of whether transfer to a superfund is in the best interest of its members.
- It is also important to recognise that for the vast majority of schemes moving to a well run and funded authorised superfund will be a significant improvement to their current position.
- As seen in Table 3,[24] the probability of default/failure within 30 years by employer covenant grade is high. Those schemes that default will have to enter into the PPF, where members will be likely to suffer benefit reductions of approximately 20% on average.[25]

[24] PLSA (2017) DB Taskforce: The Case for Consolidation (p. 28)
See: https://www.plsa.co.uk/Policy-and-Research/Document-library/The-Case-for-Consolidation

[25] PLSA (2016) DB Taskforce: Interim report (p. 22)
See: https://www.plsa.co.uk/portals/0/Documents/0597-DB-Taskforce-Interim-Report.pdf

Table 3: Estimated Member Benefit Losses on Default

	ESTIMATED BENEFIT LOSSES ON DEFAULT	PROBABILITY OF DEFAULT	PROBABILITY WEIGHTED BENEFIT LOSSES
CG1 Strong	11%	6%	1%
CG2 Tending to strong	14%	20%	3%
CG3 Tending to weak	16%	40%	7%
CG4 Weak	19%	65%	12%

- The analysis in Table 4[26] also demonstrates the probability of a superfund reaching solvency funding versus existing employer covenant groups, clearly indicating that moving to a superfund is a marked improvement in securing member benefits for the vast majority of schemes.

Table 4: The probability of the superfund reaching solvency funding (upfront premium) versus existing employer covenant groups

SUPERFUND	AFTER 10 YEARS	AFTER 20 YEARS	AFTER 30 YEARS
5% buffer	79%	87%	87%
10% buffer	83%	96%	97%
CG1 Strong	51%	84%	90%
CG2 Tending to strong	31%	57%	67%
CG3 Tending to weak	24%	45%	52%
CG4 Weak	16%	29%	32%

SOURCE: GAZELLE 'MOUSETRAP'

Q73. What further powers should TPR be given to allow it to regulate effectively both superfunds and transfers to superfunds? Please provide reasons for any additional powers suggested.

- TPR should have powers to act if elements set out by the superfund's business plan are not met or change significantly. Additionally, TPR will have early sight of any "significant event", as set out in the consultation document (paragraphs 181 to 184 and Table 1 from DWP's consultation document), which will give it time to intervene appropriately.

[26] PLSA (2017) DB Taskforce: The Case for Consolidation (p. 32) https://www.plsa.co.uk/Policy-and-Research/Document-library/The-Case-for-Consolidation

PART 6: SECTION 75 EMPLOYER DEBT

No consultation questions

PART 7: PPF LEVY

No consultation questions

PART 8: OTHER LIVE ISSUES

DB MASTER TRUST ACCREDITATION

Q74. Should these schemes continue to be known as 'defined benefit master trusts' or is there a more suitable name that can be used to distinguish them from DC master trusts.

- Changing the name may cause confusion; DB master trusts are well established within the industry and have been for many years prior to the introduction of the DC master trust regime. Therefore, we would not support a name change. DB master trusts, DC master trusts, and superfunds, are all distinct enough in definition.