PENSIONS AND LIFETIME SAVINGS ASSOCIATION

January 2017

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

- **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 7 million more people into pension saving – a great British success story that many other EU Member States are looking to emulate. UK pension funds provide important capital flows to the UK economy, as well as to those of the EU27. It is therefore important to British savers, and to the employers supporting those pension funds, that the UK economy gets a good Brexit.

- **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.**

  - *Employers that sponsor defined benefit pension schemes* are under an obligation – 'the sponsor covenant' – to ensure their schemes are properly funded. The post-referendum interest rate cut and renewed Quantitative Easing have increased scheme deficits, increasing the pressure on employers and the risk of savers' pensions not being paid in full. In the immediate aftermath of the referendum, a survey of PLSA members indicated that 74% were concerned that the outlook for pension schemes had deteriorated.

  - *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. If the OBR's forecast of faltering wage growth proves correct, it will be difficult for employers and employees to increase contributions. The vast majority of the population would then have to expect a poorer retirement.

  - *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 is due to be implemented in the UK by January 2019.

  - 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.

- *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.

- **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.

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

  - **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.

  - **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.

  - **for strong financial services***:* continuation of the passporting regime so that pension funds can invest efficiently.

- **A bespoke model.** These features indicate that the best outcome would be a bespoke set of arrangements covering free movement of goods, services and financial services. This would protect pension schemes from a damaging EU solvency regime in the future, while preserving most of the economic benefits of an open trading relationship and maintaining ready access to global markets via the UK's financial services sector.

- **Transitional regime.** If negotiating the new arrangements takes longer than the two years available under Article 50, then a transitional system will be essential to avoid major economic disruption – both to pension schemes as investors and to the companies that sponsor them as employers.

- **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.

UK pension schemes 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.