

## Protecting

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# DB pension schemes

**Defined Benefit (DB) schemes have been under pressure for quite some time, and the costs of running such schemes have increased considerably over the last decade. A number of high profile cases (including those of BHS and British Steel), have led some commentators to suggest that there is a fundamental problem with the funding and regulation of DB schemes.**

### DWP's Green and White papers

With this in mind, the DWP published a Green Paper on DB private sector pensions in February 2017, posing questions for consultation. The DWP stated that it believed that the majority of employers should be able to continue funding their schemes and managing the risk their schemes were running. It found little evidence that scheme deficits were driving companies to insolvency. However, it recognised that the single biggest risk to members was still the possible collapse of a scheme's sponsoring employer, and acknowledged concerns that the current regime was 'not working as well as it could'.

**The DWP's long awaited follow-up White Paper, 'Protecting Defined Benefit Pension Schemes', was published on 19th March 2018 and set out its 'approach for the future of the Defined Benefit system'. The Government's proposals are aimed at improving the way the current system works and increasing the protection of members' benefits.**

### //A stronger Regulator

The Government is looking to give the Pensions Regulator (TPR) new powers, to be used 'proportionately'.

To guard against 'the risk that a small number of people may take action detrimental to a scheme's prospects of paying full benefits', the Government proposes giving TPR enhanced information gathering powers, strengthening the effectiveness and efficiency of TPR's existing anti-avoidance powers, introducing fines, and making it a criminal offence to deliberately or recklessly put their pension scheme at risk.

### //Optimising scheme funding

With the aim of 'improving decision making and governance across the sector', the Government plans to implement a new package of measures which are intended to 'optimise' scheme funding and 'ensure [TPR] has the right tools to respond to poor decisions'.

Proposals include a revised DB Funding Code of Practice, focusing on how prudence is demonstrated when assessing scheme liabilities, what factors are appropriate when considering recovery plans, and ensuring a long-term view is considered when setting the statutory funding objective.

Following in the footsteps of DC arrangements, the DWP has also proposed a new requirement for DB schemes to appoint a chair, and to provide a DB Chair's statement (with information on the trustees' key funding decisions), to TPR alongside the scheme's triennial valuation.

## // Consolidation of schemes

With more DB schemes approaching maturity, and their sponsoring employers seeking to secure members' benefits or transfer risk, the Government is persuaded that there is "a space that new commercial consolidators could fill". Under this model, a private company could set up a new DB scheme, and take over the responsibility for meeting the liabilities of other pension schemes, in return for a one-off or structured set of payments from the previous sponsoring employer; the covenant being provided by additional capital supplied by external investors. The Government is to consult on a legislative framework and authorisation and accreditation regimes to enable consolidation whilst retaining member protection.

## Next steps

**There is no proposal for an RPI/CPI "statutory override" for now, and no changes to the employer debt legislation, although these issues are unlikely to be gone forever. In particular, the Government says it will continue to monitor developments in the use of inflation indices.**

**There will be a "phased delivery" of the White Paper's proposed changes, with consultations on key areas during 2018/2019 to ensure the industry gets a say in the shape of the future.**