Sackers 50 FIFTY YEARS OF PARTNERSHIP

DB schemes survey

November 2016

It is clear that DB schemes and their sponsors are facing real challenges in the current economic and regulatory conditions. We recently surveyed more than 50 individuals from the UK's top DB pension schemes to find out what they thought about the current DB landscape. Here is what they told us.

Is the DB pensions industry in crisis, or is it just a myth created by the media?

41%	13%	36%
Yes	No	Partly

Sackers' view

"News is a 24/7 pursuit whereas pensions are a long term investment. As the PLSA DB Taskforce interim report shows, the DB system is under pressure but it's not due to just one factor. The industry's difficulties are real though, it's not just all media hype."

Pension deficits have reached a record high. Is it proper for a company (and its trustees) to agree to restructure its DB scheme benefits?

80%	9%	11%
Yes, in some circumstances	Yes, in all circumstances	No

Sackers' view

"We agree with the view of the majority of our respondents. Although security of benefits is paramount for a trustee, it's no good clinging on to the hope of members being paid in full if the employer won't be around to pay full benefits and the scheme will end up in the PPF. Where there is a viable underlying business, what employers and trustees really need is a good range of tools to take forward sensible restructuring discussions."

In the light of press coverage on the British Steel consultation, should the Government have agreed to a statutory override on RPI / CPI for all schemes?

43% yes **57% no**

Sackers' view

"The British Steel consultation only ever considered relaxing s67 (to allow less generous indexation) for the British Steel scheme. But the industry is crying out for a wider consultation. Until there is some over-riding statutory easement, we will continue to have a "lottery effect" with some employers/trustees being able to act (because their rules allow them to) while others can't. The current debate about "can you" distracts from the arguably more important question of "should you" in any particular case."

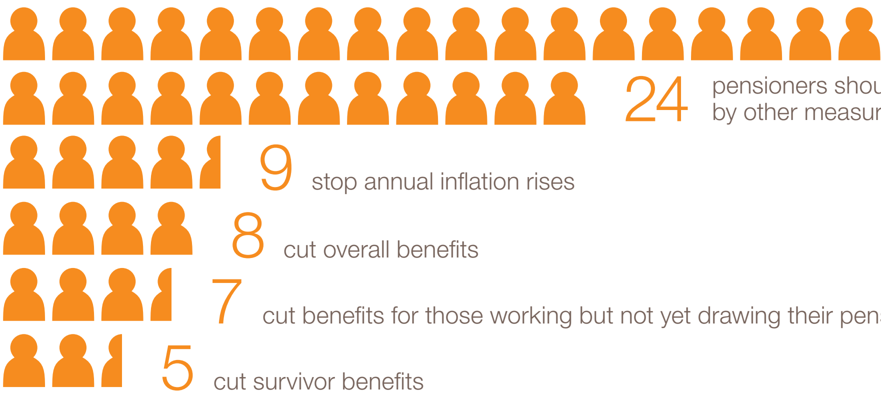
Recent press coverage of pensions suggests that the balance between shareholders and pensioners has tipped too far in the direction of shareholders. Do you agree?

- 43% Yes
- 38% No
- 19% It's a function of the economic cycle and will pass in time

Sackers' view

"No. There will always be a tension with a company's shareholders because the pension scheme is a material unsecured creditor of the company and there is only so much cake to go round. But employers (and schemes) need shareholders to keep investing. TPR's relatively new statutory objective – to minimise adverse impact on an employer's sustainable growth – has boosted shareholders to an extent but there is still plenty of legislation and regulation protecting pensioners."

How should DB scheme benefits be restricted to manage deficits for those already drawing pensions?



- 36 reduce annual inflation rises, for example, switch from RPI to CPI
- 24 pensioners should not be affected, this can be managed by other measures such as higher PPF levies
- 9 stop annual inflation rises
- 8 cut overall benefits
- 7 cut benefits for those working but not yet drawing their pensions
- 5 cut survivor benefits

Sackers' view

"As the lack of consensus shown by our respondents demonstrates, there is no perfect solution about how to restructure DB liabilities. The exact position of each scheme and its relationship with the employer will invariably produce different solutions. In reality, there's generally not much scope to restructure significantly other than pension increases and revaluation without starting to prejudice what members might otherwise get from PPF compensation."

TPR has indicated that it may wish to have greater powers. Do you think these are needed?

41%	17%	42%
Yes	No	Maybe

Sackers' view

It is interesting to see the split views. Should TPR be bolder in testing the powers it has already? Does TPR need greater powers? Perhaps with more resource and a few high profile uses of the current powers, TPR might persuade a few of the 42% back to no?

As the PPF becomes increasingly important to managing UK pension scheme deficits, how many years can it continue to survive in its present form?

18%	39%	29%	14%
1-5 years	5-10 years	10-20 years	20-30 years

Sackers' view

The more the safety net is tested, the more the remaining schemes will be looking for the PPF to be self-sustaining or scaling back benefits.

Would you recommend being a DB trustee to a friend?

67% yes

33% no

Sackers' view

Just goes to show that pensions is genuinely interesting, as we've known all along.... Greater engagement is a good thing, but we can't see the challenges of pensions trusteeship getting any easier, and trustee boards are going to need to balance enthusiasm with experience to get the job done.

If an employer runs both DB and DC schemes, will this inevitably lead to intergenerational unfairness?

Sackers' view

It seems likely that it will lead to intergenerational unfairness as the DB deficit and DC contributions make competing demands on the employer. There will be inherent tension between the two as the question of DC adequacy of contributions becomes more prominent given the growing DC active workforce.

Conclusion

The PLSA DB Taskforce has said that the current approach to benefit change is too rigid and that work should be undertaken to investigate how a more flexible approach to benefit design could be implemented to help sustain DB schemes. But as our survey shows, there is a lack of consensus about the best way to do this. While RPI / CPI is currently getting a lot of attention, there are other solutions which may be right for particular schemes, as the recent solvent restructuring of the Halcrow Group Pension Scheme we were involved in shows. All involved need to be prepared to think more widely about DB schemes, in order to introduce more flexibility into the system and help both members and sponsors.

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