

Summary of Consultation Questions

Question 1

Are the current valuation measures the right ones for the purposes for which they are used?

- a) Are the flexibilities in setting the Statutory Funding Objective discount rate being used appropriately?
 - If not, why, and in which way are they not being used appropriately?
 - What evidence is there to support this view?
 - How could sponsors and trustees be better encouraged to use them?
- b) Should we consider shorter valuation cycles for high risk schemes, and longer cycles for those that present a lower risk?
 - What should constitute a high or low risk?
 - Or should a risk based reporting and monitoring regime be considered?
- c) Should the time available to complete valuations be reduced from 15 months?
 - What would be an appropriate length of time to allow?
- d) Should other measures or valuation approaches, for example stochastic modelling, be mandated or encouraged?
 - If so, which ones and for what purpose?
 - How would the information provided to the Regulator to explain the agreed recovery plan differ from that at present?
 - What would the costs be, and would they outweigh the benefits?

Question 2

Do members need to understand the funding position of their scheme, and if so what information would be helpful?

- a) Should schemes do more to keep their members informed about the funding position of their schemes?
- b) Do we need Government communications to provide information to the wider public and media about the degree of certainty and risk in the regime?
 - What difference could this make?

Question 3

Is there any evidence to support the view that current investment choices may be sub-optimal? If yes, what are the main drivers of these behaviours and how could they be changed?

- a) Do trustees/funds have adequate and sufficient investment options on offer in the market?
 - Is there anything Government could do to address any issues?
- b) Do members need to understand the investment decisions that are being made?
 - If yes, are there any specific decisions that need articulating?
- c) Would it be appropriate for the Regulator to take a lead in influencing or determining an acceptable overall level of risk for a scheme in a more open and transparent way?
- d) Would asset pooling or scheme consolidation help schemes to access better investment opportunities?
- e) Is regulation (including liability measurement requirements) incentivising overly risk-averse behaviours/decisions that result in sub-optimal investment strategies?
 - If yes, which regulations and how do they impact on these decisions?
- f) Are you aware of evidence of herding or poor advice from the intermediaries and advisors?
- g) Are measures needed to improve trustee decision making: skills such as enhanced training, more Regulator guidance, or the professionalisation of trustees?

Question 4

Is there a case for making special arrangements for schemes and sponsors in certain circumstances such as a different regime for employers who can afford to pay more, and/or new or enhanced flexibilities for stressed sponsors and schemes?

- a) Do you have any evidence that Deficit Repair Contributions are currently unaffordable?
- b) Should we consider measures to encourage employers who have significant resources as well as significant DB deficits to repair those deficits more quickly?
 - If so, in what circumstances, and what might those measures be?
- c) If measures are needed for stressed sponsors and schemes, how could “stressed” be defined?
 - Should a general metric be used, or should this be decided on a case by case basis?
- d) Are there any circumstances where stressed employers should be able to separate from their schemes without having to demonstrate that they are likely to become insolvent in the near future?
- e) How would it be possible to avoid the moral hazard of employers manipulating such a system in order to off load their DB liabilities?

- Would some sort of 'quid pro quo' be appropriate to ensure the scheme is not disadvantaged relative to other creditors of the employer/stakeholders?
 - What could this look like?
- f) Are there any circumstances where employers should be able to renegotiate DB pensions and reduce accrued benefits?
- If so, in what circumstances?
- g) Is there any evidence to suggest that there is an affordability crisis that would warrant permitting schemes to reduce indexation to the statutory minimum?
- h) Should the Government consider a statutory over-ride to allow schemes to move to a different index, provided that protection against inflation is maintained?
- Should this also be for revaluation as well as indexation?
- i) Should the Government consider allowing schemes to suspend indexation in some circumstances?
- If so, in what circumstances?
- j) How would you prevent a sponsoring employer from only funding a scheme to a lower level in order to take advantage of such an easement?
- k) Should Government consider allowing or requiring longer, deferred or back loaded recovery plans?
- If so, in what circumstances?
 - Should other changes be considered, such as the valuation method of Technical Provisions?
- l) Should it be easier to take small pots as a lump sum through trivial commutation?

Question 5

Do members need further protection, and should this be delivered by a stronger and more proactive Regulator, and/or trustees with enhanced powers?

- a) Would greater clarity over the requirements for scheme funding be helpful to members and to sponsors?
- If so, would this be better set out in detail in legislation or through increased guidance and standards from the Regulator?
- b) Is it possible to design a system of compulsory proactive clearance by the Regulator of certain corporate transactions, without significant detriment to legitimate business activity?
- If so how?
 - What are the risks of giving the Regulator the power to do this?
- c) Should the Regulator be able to impose punitive fines for corporate transactions that are detrimental to schemes?

- If so, in what circumstances?
- d) What safeguards could ensure that any additional powers given to the Regulator do not impact on the competitiveness of the UK business or the attractiveness of the UK market?
- e) Should the Regulator have new information gathering powers?
- f) Should civil penalties be available for non-compliance?
- g) Should levy payers be asked to fund additional resources for the Regulator?
- h) Should trustees be given extra powers such as powers to demand timely information from sponsors, to strengthen their position?
- If so, what extra powers might be helpful?
- i) Should trustees be consulted when the employer plans to pay dividends if the scheme is underfunded – and if so, at what level of funding?
- j) Is action needed to ensure that members are aware of the value of and risks to their DB pensions?

Question 6

Should Government act to encourage, incentivise, or in some circumstances mandate the consolidation of smaller schemes into vehicles with greater scale and better governance in order to reduce the risk to members in future from the running down of closed, especially smaller, DB schemes?

- a) Is there anything in the existing legislative or regulatory system preventing schemes for consolidating?
- How might such barriers be overcome?
- b) What other barriers are there which are preventing schemes from consolidating?
- How might they be overcome?
- c) Should Government define a simplified benefit model to encourage consolidation?
- d) Should rules be changed to allow the reshaping of benefits without member consent?
- In what circumstances?
 - Should there be prescribed restrictions to the types or limits of such reshaping?
- e) Are costs and charges too high in DB schemes?
- f) Should schemes be required to be more transparent about their costs or justify why they do not consolidate?
- In what circumstances?
- g) Is there a case for mandatory consolidation?
- In what circumstances?
- h) Should the Government encourage the use of consolidation vehicles, including DB master trusts?

- If so how might it do so?
- i) Are further changes needed to the employer debt regime in multi-employer schemes to encourage further consolidation?
 - j) Is there a case for consolidation as a cheaper, but more efficient form of buy-out, with the employer and trustees discharged?
 - If so, (a) what should be the requirements for a scheme to enter such a consolidator, especially the level of funding; and
 - (b), should the residual risk be borne by the member, or by the PPF?
 - k) Should Government encourage creation of consolidation vehicles for stressed schemes?
 - l) Should employer debt legislation for multi-employer schemes require full buy-out and for the actuary to assess liabilities for an employer debt by estimating the cost of purchasing annuities?
 - m) How else could historic orphan liabilities be met if they were not shared between employers?
 - n) Are new measures needed to help those trustees of an association or employers who could be held individually liable for an employer debt?