

PRESS COMMENT

Monday, 19 March 2018

Welcome prospect of tougher rules

Following the publication of the Government's White Paper on protecting Defined Benefit Schemes, Simon Taylor, Actuary and Partner at Barnett Waddingham, welcomes the prospect of tougher rules for rogue pension scheme sponsors and increased powers for The Pensions Regulator to enforce these.

"The White Paper largely picks up where last year's Green Paper left off, with the Government clearly intent on cracking down on miscreant employers who deliberately fail to support, or neglect their DB pension schemes - henceforth to be a criminal offence.

"We applaud the extra powers to be given to The Pensions Regulator, including the ability to fine company bosses, however these will need to be exercised with care and discretion. Hopefully the powers will strike home where necessary. It is not clear whether the Regulator will need extra resources to carry out these additional duties, which are unlikely to receive legislative approval before 2019/20 at the earliest.

"It is positive to see an increased focus on the long-term for funding purposes and strategic thinking. This will help employers and trustees to work out an achievable end-game as many current exit plans are untested and potentially unaffordable if based on buy-out.

"Specifying how much prudence is within scheme funding valuations could be beneficial to all parties, particularly in helping trustees and employers to understand and manage the financial risks of running a pension scheme.

"The paper sets out further thought around the consolidation of schemes. We are not convinced this will realistically be achievable without significant changes, such as the ability to more easily simplify a scheme benefit structure. If the link to the employer is broken then the cost of consolidation will be too close to the cost of a buy-out to apply to many, and if link to the employer remains, then they will be wary of the inevitable loss of flexibility that will result.

"The Government has decided not to commit to allowing those schemes where pension increases are hardwired in the scheme rules to move from RPI to CPI, meaning the drafting lottery still persists. We understand the difficulty in balancing the affordability for employers with the higher inflationary protection for members."

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For further information:

STEPH ADMANS
PR manager

01494 788112 / 07590 176736
steph.admans@barnett-waddingham.co.uk

CALI SULLIVAN
PR executive

01494 788813
cali.sullivan@barnett-waddingham.co.uk



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