PPI Supporting Member's event 2007: *The changing landscape for private sector Defined Benefit pension schemes*

The Pensions Policy Institute held its annual supporting member's event on 8 October 2007. The event was chaired by Malcolm Kemp, Director and Head of Quantitative Research at Threadneedle, and a Fellow of the Institute of Actuaries. The seminar was hosted by Threadneedle, who also kindly paid for the cost of publishing the report.

The seminar was attended by 57 people representing a range of interest areas across the pensions sector.

Chris Curry (Research Director, PPI) presented the findings from the PPI's latest discussion paper, ***The changing landscape for private sector Defined Benefit pension schemes.***

Mike O'Brien MP, the Minister of State for Pensions Reform presented the view from the Government.

Nigel Waterson MP presented the view from the opposition party.

Chris Lewin, co-author of the Deregulatory Review of Private Pensions presented the findings from the Review with special emphasis on risk-sharing.

The seminar was held under Chatham House rules. Below is a summary of the discussion that took place during the event. The following are not the views of the PPI.

Discussion

Many of the figures used in the PPI report to describe the current state of DB schemes in the private sector were taken from ***The purple book***, a joint publication by TPR/PPF published in 2006. Although the publication is the most reliable source of information on private sector DB schemes, more recent figures suggest that the situation today is worse than that described in the report.

A number of people in the audience felt that regulation continues to play a key role in encouraging existing scheme sponsors from moving away from DB and in discouraging more employers from setting-up risk-sharing alternatives.

Legal uncertainty in the current system continues to be a barrier for DB schemes. Proponents of this view mentioned among other things, the increasing burden rules relating to pension guarantees have placed on DB schemes. It was argued that legislation prohibiting sponsors with schemes in deficit from walking away from the scheme has had a significant impact on the willingness to offer DB.

Others felt that regulation was not the problem and could therefore not be part of the solution. Some argued that the insurance industry, and not employers, is best placed to manage the inherent risks in pension provision. For this reason, DC schemes should be the way forward. They argued that government attention should move away from trying to get DB right to making sure DC schemes offer the products that people want and value.

Risk-sharing between employers and employees was of particular importance in the UK because there is little risk-sharing between the Government and employees. This is because of the relative lack of generosity of the UK state pension system.

Some people suggested that employers will simply offer less if they are forced by regulation to comply explicitly with promises made. People with this point of view argued that the existing regime is too rigid and that this was preventing employers from making the promises in the first place.

However, DC provision also has its risks. The same legislative uncertainty that befalls DB could also one day capture DC schemes. Some people in the audience argued that despite what is often heard in the media, some sponsors choose to provide a DB pension because it is the most cost effective way for them to provide the level of pension that they want to.

Others called for a more drastic shift in the debate. Instead of focusing solely on whether employers should offer a DB or DC scheme, it is in fact the market place that needs to offer more innovative products that cater for what people really value: the security that they will get back at least what they put in to a pension. Proponents of this view said that consumers do not understand the difference between DB and DC and that this is not of particular importance to them. Others made a similar point; that the value to members of a DB pension is not equal to the cost of providing that pension.

In a show of hands, some people in the audience (around 15) felt that the Deregulatory Review had not gone far enough to encourage more risk-sharing. A smaller number of people (around 7) felt that the recommendations got it just right while nobody in the audience felt that it had gone too far. Most attendees, however, did not vote.