Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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05 September 2023

By email: caxtonhouse.dbcfe@dwp.gov.uk

Dear DWP,

Financial Services Consumer Panel response to DWP options for defined benefit schemes: a call for evidence

The Financial Services Consumer Panel (the Panel) is an independent statutory body. We represent the interests of individual and small business consumers in the development of financial services policy and regulation in the UK.

Our focus is predominantly on the work of the FCA, however, we also look at the impact on consumers of other bodies' activities and policy where relevant to the FCA's remit. Whilst the Panel does not have all the evidence necessary to respond to all of the questions, we have included responses to questions we do have insight on.

The Panel's vision for the market is as follows:

- Consumers can easily understand their pensions: where they are, how they are invested, their current value, the potential retirement income they will provide and where to get help.
- Those considering accessing their pensions for the first time receive high-quality impartial guidance on the options available to them
- Those withdrawing lump sums make fully informed decisions, including understanding any tax implications and the risks of holding cash
- Consumers understand the options available to them, and are able to select an option based on their immediate and potential long-term needs
- Firms act in consumers' best interests when managing pensions and pension assets and when providing advice
- Delivery of significant improvements in measurable outcomes including: sustainable withdrawal rates and evidence that consumers are selecting products that are appropriate for their needs at any particular point in time

- Pension products offer value for money

The proposals contained in this consultation are ultimately intended to stimulate the UK's capital markets by relaxing the rules governing Defined Benefit (DB) schemes. They may also improve outcomes for DB savers.

The Panel welcomes changes that will improve outcomes for DB scheme members but cautions against assumptions of good outcomes for members without a full consideration of the potential risks and mitigations. It is vitally important that unintended consequences to members are anticipated and managed-otherwise the costs to members and broader society will increase even while the capital markets are benefiting.

Please find the Panel's responses to the questions posed in Annex 1.

Yours sincerely,

Helen Charlton
Chair, Financial Services Consumer Panel

Annex A – Response to consultation questions

Q2. What changes might incentivise more trustees and sponsors of schemes to consider investing in productive assets while maintaining appropriate security of the benefits promised and meeting their other duties?

The Panel believe that the onus on Trustees is to maintain appropriate security of the benefits promised. Anything that DWP and other bodies can do to incentivise and encourage Trustees to do this is beneficial.

Q4. What should be the conditions, including level of surplus that a scheme should have before extended criteria for extracting surplus might apply?

The Panel are not supportive of the return surplus until the scheme has completed payment of all of the benefits and therefore has no members. If surplus removal is allowed, there should not be an abstract figure (eg . 110%) but a figure relative to past volatility, so, for example, excess above the assets required plus X times the greatest volatility over the previous 5 years. However, a suitably high minimum surplus should be retained.

The Panel's concern is that if the surplus is removed and the scheme then falls into significant deficit, the employer would not have the assets to bring the scheme back to surplus in a short time period.

Q5. Would enabling trustees and employers to extract surplus at a point before wind-up encourage more risk to be taken in DB investment strategies and enable greater investment in UK assets, including productive finance assets? What would the risks be?

The Panel are not supportive of the return surplus until the scheme has completed payment of all of the benefits and therefore has no members. If surplus removal is allowed, there should not be an abstract figure (i.e. 110%) but a figure relative to past volatility, so, for example, excess above the asset required plus X times the greatest volatility over the previous 5 years. However, a suitably high minimum surplus should be retained.

The Panel's concern is that if the surplus is removed by the scheme then falls into significant deficit, many employers would not have the assets to bring the scheme back to surplus in a short time period.

Q9. Could options to allow easier access to scheme surpluses lead to misuse of scheme funds?

Yes. The potential misuse of scheme funds is the source of the Panel's concerns listed above. The Panel would recommend the DWP consider the possibility of this ahead of any changes and ensure they have mitigations in place in the event that this occurs.

The proposals contained in this consultation are ultimately intended to stimulate the UK's capital markets by relaxing the rules governing DB schemes. The Panel would caution against assumptions of good outcomes for members without a full consideration of the potential risks and mitigations. It is vital that unintended consequences to members are anticipated and managed otherwise the cost to members and broader society will increase, even while capital markets are benefitting.