Powering possibility in pensions -
making the best use of £1.5tn of DB assets

DB schemes are in a position of strength – funding levels have never been higher, and on average schemes can now afford to target ultra-low investment returns. ***But should they?***

Current regulatory focus was born in a time of poorly-funded schemes running risky investment strategies. From that start point, a drive for reducing investment risk was sensible. But the situation has now changed, and we think it's right to reassess.

Does the continued drive for de-risking now come at too great a cost to corporate Britain, future generations and forgo opportunities to improve DB members benefits? At a time of a multitude of pressing financial needs, will the UK look back at the opportunity to better-invest £1.5tn of assets with regret?

Our proposal

We propose creating a new "opt in" system for well-funded DB schemes, with two key changes:

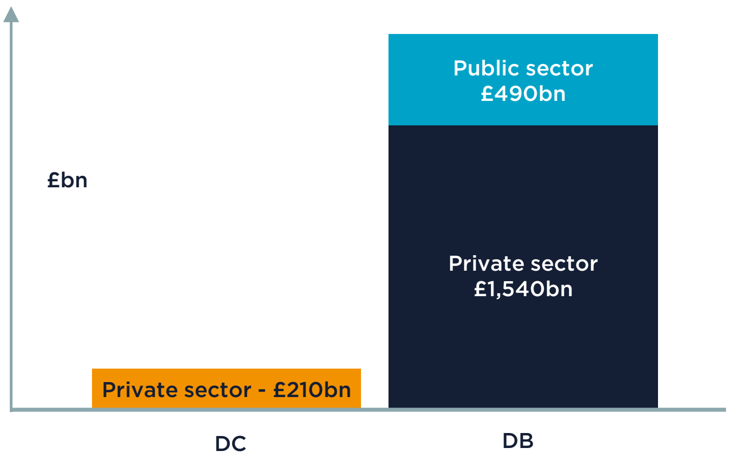
1. PPF cover increased to 100% of member benefits, building on the proven success of the PPF approach.
2. Ability to extract surpluses on an ongoing basis (with suitable protections) to fund improved DC savings, invest in UK plc and boost DB member benefits.

We believe that these two changes would fundamentally change the incentive structure for those running UK DB pension schemes, delivering:

1. **Full protection to DB members' benefits** in a more efficient way than complete investment de-risking.
2. **Incentive for schemes to invest for growth**, deploying the huge DB asset base to support the UK economy and transition to net zero.
3. **Opportunity to generate hundreds of £bns of surpluses** to share between DB members, DC savers and investing in corporate Britain.

We think the UK should ***now adopt a more ambitious approach to managing such well-funded*** *DB* ***schemes****, viewing them as an opportunity, not a problem.*

Scale of opportunity of UK DB pensions



Source: ONS "Funded occupational pension schemes in the UK – September 2022".

Summary of implications for various stakeholders

	Status quo	Our proposal
DB members / Trustees	PPF covers some, not all of benefits Benefits rarely protected from high inflation Limited potential for upside	Immediate 100% coverage of benefits through PPF Potential to share in future upside and/or increase inflation protection
DB scheme corporate sponsors	DB pensions = problem, risk and cost	DB pensions = opportunity to share in success
Corporate sponsor employees	DC savings widely projected to be inadequate for many[1]	A fairer balance of current vs legacy pensions provision?
PPF	Very successfully covers majority of benefits of poorly-funded schemes	Slight extension to coverage for very well-funded schemes
Government	DB schemes currently buy large volumes of gilts (but most are sold on buy-out) Schemes generally not "long-term" investors in UK economic growth Potential for DC savings crisis	DB schemes hold gilts for longer Schemes able / incentivised to invest in UK long-term assets Additional returns generated to support UK plc, DC savings and DB members in retirement

1 https://www.plsa.co.uk/Policy-and-Research/Document-library/Five-steps-to-better-pensions-time-for-a-new-consensus

What should you do now?

We encourage everyone involved in running a DB scheme to consider whether stronger funding levels present an opportunity to update your scheme objectives. If the type of solution outlined above looks appealing, please get in touch and we'd be happy to discuss with you.

We would encourage everyone to attend our webinar on Wednesday 24 May to hear about our proposal in more depth.

See also our response to the recent Work and Pensions Committee call for evidence on DB pensions, here.

Get in touch

Contact us using the details below or through your usual LCP contact and we'd be happy to talk you through our ideas in more depth.

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