

## Jon Forsyth (LCP)

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**Subject:** RE: Call for evidence: Defined benefit pensions with Liability Driven Investments

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**From:** Jonathan Camfield (LCP)

**Sent:** 09 February 2023 17:48

**To:** Work And Pensions Committee <[WORKPENCOM@parliament.uk](mailto:WORKPENCOM@parliament.uk)>

**Cc:** [REDACTED]

**Subject:** RE: Call for evidence: Defined benefit pensions with Liability Driven Investments

Thank you for your email. I have a few comments on recent developments, and then I suggest below two questions you may wish to pose to ministers.

I would be pleased to have a call or meeting with the committee to discuss any of the below further if helpful.

### Comments:

I stand by the evidence that I previously gave to the W&P Committee focussing on LDI systemic risk and the role of regulators. I was pleased to see the Lords' committee call for improved oversight of LDI systemic risks by regulators going forward, potentially backed by a new statutory objective for the Pensions Regulator relating to market risk.

However, I do not agree with the Lords' diagnosis that herding into LDI has been primarily a "measurement" problem (whether this is "accounting rules" or other rules). The underlying pension promises became guaranteed in UK law around 20 years ago (before that, companies could walk away from their pension promises if they wished). And once pension promises are guaranteed, they need a secure funding regime (a bit like an insurer), with proper market based measurements. This is to ensure member pensions are safe. Generally, within the current construct for UK pensions, the safer that Governments want a pension promise to be, the more that pension funds must, through regulation and appropriate measurement, be herded into safer assets.

### I would like to suggest the following question for the Treasury minister:

*Given Treasury's wider objective of wanting pension scheme money to be invested in the wider economy (infrastructure etc), could the minister please comment on how this objective fits with a) tightening of regulation around LDI that will push pension schemes further into low risk investments and b) the rigidity in the new funding and investment regulations, that underpin the Pension Regulator's funding Code, that also can be expected to further herd pension schemes into low risk investments?*

### I would like to suggest the following question for the DWP minister:

*Given the new funding and investment regulations require all schemes to be in low risk investments by the time the scheme is mature, ie mostly pensioners, have the DWP thought through the potential consequences of requiring many schemes that are **already mature** to derisk over the next few years? In particular, can you comment on the new short term systemic risks that this can be expected to create in investment markets, as many schemes try to move money around bond and other markets in similar directions, to comply with the new legal requirements, over just a relatively short time frame?*

The linked blog below, entitled "six to fix", provides further background on my concerns relating to the DWP's funding and investment regulations:

[TPR's funding code – six to fix | Lane Clark & Peacock LLP \(lcp.uk.com\)](#)

Kind regards

Jonathan

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From: Work And Pensions Committee <[WORKPENCOM@parliament.uk](mailto:WORKPENCOM@parliament.uk)>

Sent: 08 February 2023 16:41

To: Work And Pensions Committee <[WORKPENCOM@parliament.uk](mailto:WORKPENCOM@parliament.uk)>

Cc: [REDACTED]

Subject: Call for evidence: Defined benefit pensions with Liability Driven Investments

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You submitted written evidence to the Work and Pensions inquiry into the Defined benefit pensions with Liability Driven Investments. We are grateful to all those who have submitted written and oral evidence so far.

The Committee is interested in any further views to inform its session with the Minister for Pensions and the Economic Secretary to the Treasury in March. It would also welcome comments.

Read the call for evidence [here](#).

The deadline for submissions is **Friday 3 March 2023**.

[REDACTED]

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