Consolidation in UK Pension Schemes

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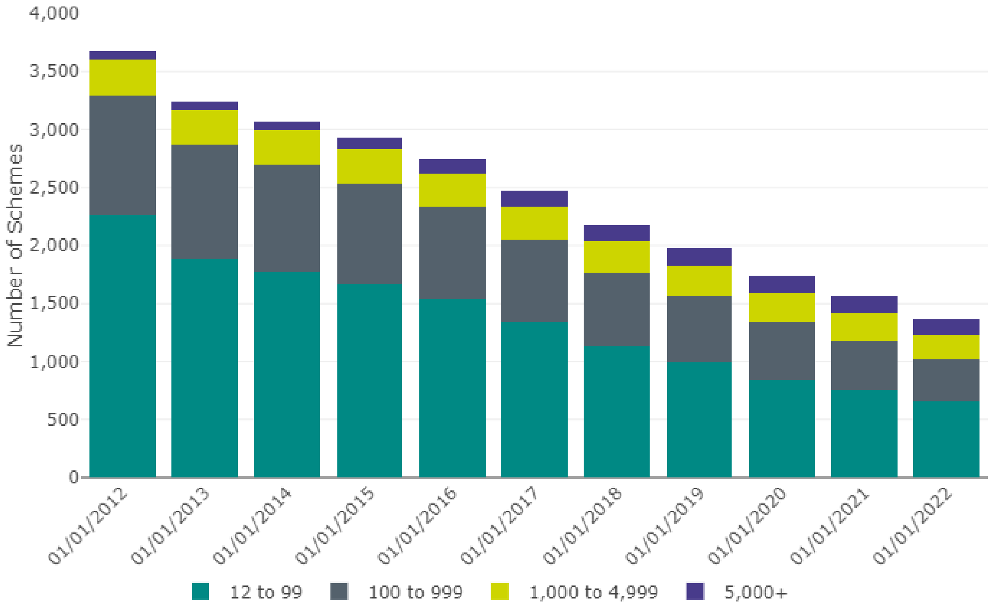
October 2022

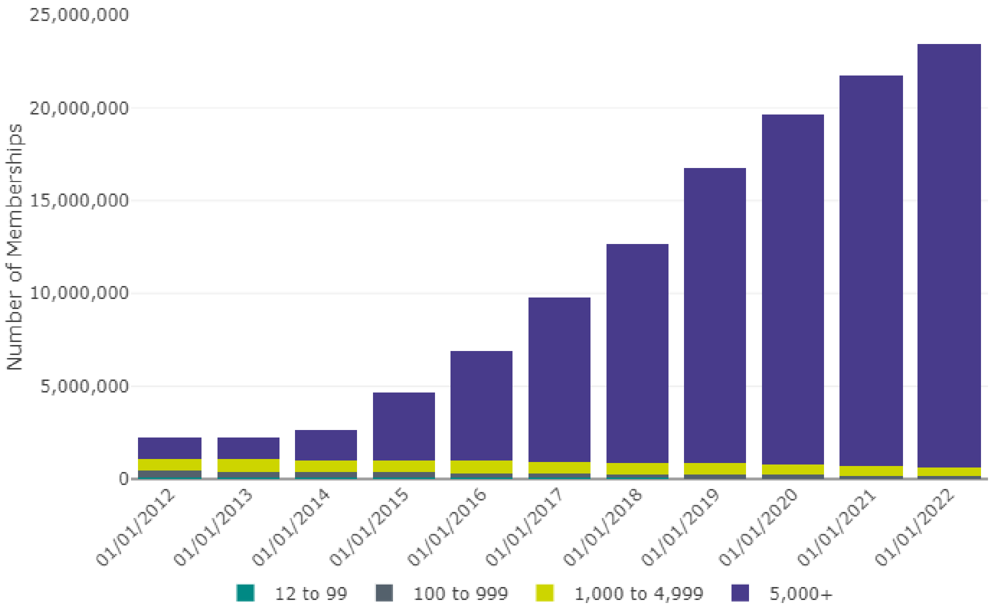
Background to UK Pensions

- There are c5,200 Defined Benefit (DB) Schemes of which 2,200 have less than 100 members
- There are 27,700 Defined Contribution (DC) Schemes of which 22,530 have identified themselves as Relevant Small Schemes or Executive Pension Plans (micro schemes).
- Since the beginning of 2012 the number of non-micro schemes, including hybrid schemes has declined by 63% from 3,660 to 1,370
- There are 36 Authorised Master Trusts accounting for 20.7million DC memberships

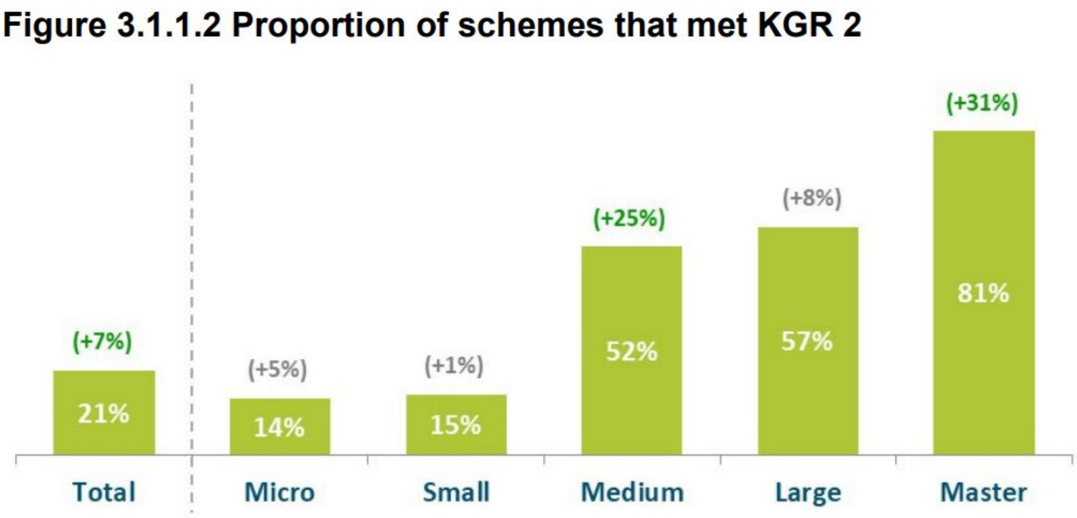
Occupational DC schemes by membership size group including hybrid schemes 2012-2022



Memberships of occupational DC schemes by membership size group including hybrid schemes 2012-2022



Schemes meeting Key Governance Requirements
KGR 2 – Value for Money Assessment



Base: All schemes - Total (305), Micro (65), Small (44), Medium (67), Large (108), Master trusts (21)
Statistically significant differences from 2020 are highlighted in red or green

OMB Research carried out on behalf of The Pensions Regulator

Value for Member Assessments

- Requirements from 31 December 2021 for schemes less than £100m
  - Calculate investment return net of transaction costs and charges for their default fund
  - Compare to 3 other schemes (with assets greater than £100m)
  - Assessment of value and quality of administration and governance
  - Promptness and accuracy of core financial transactions
  - Quality of data, default investment strategy, trustee knowledge and understanding, communication

Reasons for consolidation

- Improvement to governance and economies of scale to produce greater value for members – TPR and FCA focus on improving value for money – Risk adjusted investment returns, Governance and Services to members, costs and charges

- All Master Trusts and schemes with assets over £1bn need to produce climate related disclosures (TCFD framework disclosure)

- Promotion of productive finance – investment in infrastructure, illiquids and start up companies that might generate a green economic recovery

Tools to drive consolidation

- Regulatory burden
- Specific legislative requirements
  – Increasing burden
  – Directional powers
- Tougher regulatory environment – criminal sanctions

Barriers to consolidation

- Orphan schemes
- Schemes sold on a commission basis – Initial / accumulation units, Redemption penalties
- Guaranteed annuity rates
- Tax consequences
- Cost of wind up vs ongoing savings

Defined Benefit consolidation

- Superfunds
  - Superfunds can operate under existing legislation
  - TPR introduced a voluntary interim regime pending a full authorisation regime being introduced by legislation. Schemes need to have good governance, be run by fit and proper people, have appropriate systems and processes in place and meet funding and investment requirements with a capital buffer and be subject to intervention triggers.
- Defined Benefit Master Trusts
  - Unlike DC Master Trusts are not subject to an authorisation regime.