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### Options for DB schemes: How can scheme assets be used more flexibly?

On 11 July 2023, following the Chancellor of the Exchequer's [Mansion House speech](#), the DWP published a [call for evidence](#) that seeks to understand the consolidation options for DB pension schemes and how the assets of these schemes could be used to provide equity capital and finance for UK businesses including start-ups, infrastructure and private equity, as well as longer-term investments, typically in illiquid assets (known as investing in “productive finance”).

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In this issue: [Background](#) | [Areas covered by the call the evidence](#) | [What's next?](#)

#### Background

A key theme in the Chancellor's Mansion House speech was how pension schemes' assets could be used to benefit the UK economy.

This call for evidence seeks to support the development of innovative policy options which have the potential to offer more choices for DB pension scheme sponsors and trustees, increase protection for members, and also support wider economic initiatives.

Nearly ten million people rely on private sector DB pension schemes to support them in retirement and although many schemes are now closed, they hold around £1.7 trillion worth of funds which is roughly equivalent to 75% of UK annual GDP.

With this in mind, the government is keen to explore further how the spending power of DB schemes can be used to benefit the wider economy. The call for evidence very much represents the start of this journey, with the DWP seeking to understand potential areas to develop further. As such it is based on a series of 20 questions on certain themes, rather than any definite policy ideas.

The call for evidence runs until 5 September 2023.

## **Areas covered by the call for evidence**

### **Building surplus**

The DWP is investigating the barriers trustees currently experience in building up, and accessing, scheme surpluses ahead of a scheme wind-up, and whether enabling trustees and employers to extract surplus before wind-up would encourage more risk to be taken in DB investment strategies and enable greater investment in UK assets, including productive finance assets. There is also a question about whether greater PPF guarantees could simulate productive finance investment.

For cases where a sponsor also contributes to a DC pension scheme, the DWP is looking at whether it could be appropriate for additional surplus in the DB pension scheme to be used to provide additional contributions (above the statutory minimum for automatic enrolment) for DC members.

There is also the issue of whether changes need to be made to the pensions tax legislation to make repayment of surplus attractive to sponsors and trustees.

### **Consolidators**

There are currently few realistic alternatives to buying out benefits with an insurance company, and there are also concerns as to whether there is sufficient capacity within the buy-out market to meet the demand from DB schemes. The DWP is keen to gather evidence around possible options for the entire spectrum of DB schemes, whilst recognising the important role played by insurers in offering buy-outs to improve security for members in this market.

The DWP is supporting the development of superfunds where a buy-out is not a realistic option. The call for evidence explores the potential benefits and drawbacks of a public sector consolidator, which could both ensure investment objectives are met and also promote long-term investment timeframes that would support investment in UK productive finance.

### **A role for the Pension Protection Fund as a consolidator?**

The PPF's track record of investing for long-term objectives makes it a credible option to run a public consolidator for schemes.

A review of the PPF recently recommended that consideration be given to extending its remit to include "acting as a consolidator or provider of aggregated services for schemes which would benefit from this, but which are not attractive to commercial consolidators".

The DWP is, therefore, seeking feedback on whether the PPF's remit could be expanded in this way and to allow it to act as a public consolidator, including feedback on the risks and benefits of doing so, and the various options that might be considered for the structure and entry requirements of a PPF-run public consolidator.

### **What's next?**

Responses to the call for evidence will help to inform the government's understanding of the issues covered and will help inform the development of future policies. However, no timescale is given for this.

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