



Occupational Pensioners' Alliance

Written Submission to the

Review of Pensions Institutions

Consultation Paper: Emerging Issues

March 2007

Review of Pensions Institutions

About the OPA

1. The Occupational Pensioners' Alliance (OPA) comprises members from 40 occupational pensioner organisations nationwide and represents the interests of over two million pensioners
2. The OPA welcomes the opportunity to make a submission to the consultation on the Review of Pensions Institutions
3. Contact details (removed)

Introduction

4. The OPA notes that there has been a round of consultation with some stakeholders, but is disappointed, as a representative organisation for large numbers of occupational pensioners, not to have been involved earlier.
5. However we now welcome this opportunity to make our comments albeit late in the day.
6. Since 1995 there has been a seemingly never ending flow of Pensions legislation and the setting up of regulatory bodies and new regulations. All

of this activity was driven by the problems which came to light in the Maxwell scandal. It was clear, in the early 1990s, that pension scheme members had little or no protection against rogue employers, or poor decision making by trustees.

7. It was inevitable therefore that the pendulum swung back towards protecting the interests of scheme members. Some have said that the pendulum has swung too far, causing employers to close their DB schemes. The OPA disagrees that legislation and regulation in general are the main drivers of this. The dramatic slump in the stock markets at the start of the twenty first century, and lower ongoing investment returns, turned many pension scheme surpluses into deficits almost overnight. Furthermore, the late realisation by actuaries that longevity estimates were way off, leading to large increases in longevity assumptions significantly increased the deficits. The introduction of FRS17 led to massive “black holes” in pension schemes being reported in the press, even though those reporting the deficits knew that FRS17 was distorting the liabilities of a scheme. This has been used widely as an excuse by employers to close their DB schemes by claiming that they are unable to afford them and are not prepared to take any further risk.
8. The OPA accepts that there has been a significant increase in the regulations faced by pension schemes, and that a review is necessary to

ensure that unnecessary regulations are removed. The OPA also accepts that new regulatory bodies were necessary to oversee the introduction and policing of the regulations. However, the regulations were put in place to deal with specific problems and, unless and until those problems have been removed and will not return, the regulations should remain in place.

9. This Consultation is asking if there is scope to reduce the number of institutions with a remit to deal with occupational pensions. Again the OPA accepts the need for such a review, but is concerned that not enough time has elapsed (only 2 years) between the setting up of some of the institutions properly to assess their value, and that decisions taken now will be ill informed and cause problems and confusion. The driver for change must not be only cost saving. Any change must be justified by an improved service, improved security and clarity for pension scheme members. The old adage, "if it isn't broke don't fix it" is worth bearing in mind.

Responses to Questions

A. *Is there a good case to bring the PPF and TPR closer together?*

10. The evidence presented by TPR states that the PPF is not running a pension scheme and so there should be no conflict if the two institutions were merged. The OPA believe this to be a perverse statement.
11. If those people who are now receiving payments from the PPF were asked what their payment was, they would respond “my pension due when my company collapsed.” The PPF was established to pay “compensation” to those affected, in addition to any pension payment due from their defunct scheme, to bring their pension payments up to 90 percent of their entitlement (for active and deferred members) and 100 per cent for pensioner members. Therefore, for many, a significant part of their PPF payments will be the pensions from the defunct scheme.
12. When a scheme enters the PPF all its assets are transferred and invested to cover future liabilities. The levies are roughly equivalent to the employer contributions. The PPF is therefore identical to a pension scheme and, as such, should come under the same regulatory regime as all other pension schemes. If they do not the OPA believes the message

that will be sent out is that companies have to honour their promises by being prudent, and abide by the Pensions Regulator's guidance etc, have agreed Statement of Investment Principles etc, but the PPF does not. The PPF investment arm must also abide by these rules.

13. It would be sensible to review the data requirements and devise one form for data collection for both organisations. This would reduce administration time on companies and pension schemes.
14. If a merger of PPF and the TPR takes place then the OPA believes there will be a massive conflict of interest. How will the new TPR regulate itself?
15. The OPA opposes the potential merger of TPR and PPF.

B. Is there a good case for bringing the FSA and TPR together?

16. There is a grey area around occupational pensions concerning advice, and so there may be a case for FSA and TPR to be brought together. However TPR has only been in existence for 2 years and that is not sufficient time properly to assess the value of this separate regulatory body. We particularly agree with the statement in paragraph 26 of your document that "the arrangement of functions seems to work well in

practice. The delineation of boundaries is proving workable and flexible. The boundaries seem to be understood by TPR and FSA, with, for example, an effective Memorandum of Understanding in place.” The other bullet points in this paragraph also make powerful arguments not to change.

17. The OPA would oppose such a merger at this time.

C. Is there a good case for bringing the PO and FOS closer together?

18. There may be a good case for bringing the Pensions Ombudsman and Financial Ombudsman Service together. If merger is chosen then there must be a distinct Pension Ombudsman within the merged organisation so that people with pensions know where to go to complain, and that pensions are not swallowed up and treated with less priority than other issues.
19. However, it would not make sense to have a separate regulator for pensions and financial services but merge the Ombudsmen, so on balance we do not favour a merger.

20. Making the Pensions Ombudsman responsible for all pension issues would make sense.

D. Any case for changes to TPAS functions and boundaries?

21. No. TPAS plays an important and understood mediation and information role and should remain independent of the regulatory bodies.

E. Other area for consideration

22. The Review should consider the merging of the PPF and the FAS. Both are organisations providing compensation top-ups to reduced DB pensions following the collapse of the employer. The only difference is the level of compensation and eligibility. The PPF has demonstrated a level of operational efficiency which has been clearly lacking in the FAS. If the funds from the schemes in the FAS (which are at present being used to purchase annuities) were to be merged with the ongoing PPF scheme there would be considerable cost savings too.