

## THORNTON REVIEW RESPONSE

### **Need for stability, not more shake-ups**

I have taken the time to respond to this review as I wish to express my concerns that the Government seems to be considering yet another huge shake-up of the institutions governing the UK pension system, so soon after the 2004 changes.

### **Focus on member protection**

I am particularly concerned about member protection, given the involvement I have had with members who have lost their pensions when their schemes began to wind-up before the Pension Protection Fund started. I believe that the introduction of the PPF is an essential measure for protecting members and it is only a shame that this was not actually done many years ago.

### **PPF operating well**

The PPF has been set up very professionally, is carrying out its tasks with competence and efficiency and I believe it is a model that other parts of the pension system could usefully emulate.

### **Merging PPF and tPR potentially dangerous for members**

The idea of merging the PPF with the Pensions Regulator is, in my view, very dangerous. This comment is not meant in any way as a criticism of the new Regulator itself, but is said because the two organisations have very different functions and merging them together is bound to create conflicts of interest, which are more likely to result in helping employers than benefiting members.

### **Criticism of PPF unwarranted**

I have watched the PPF develop and believe it is doing an impressive job. It has been disappointing to read the amount of unwarranted criticism and ill-informed scaremongering about the PPF that has been published in parts of the media. There are, of course, many employers and even pension professionals, who want to see the PPF fail. They do not want to have to pay any extra to insure their scheme members' pensions and would rather go back to the 'good old days' when employers were able to fudge figures and make pension promises to workers without having to pay much into the schemes. They would like to be able to lobby Government and achieve cost cutting and this would be far easier if there was no PPF and if there was just one organisation to deal with.

### **Carefully crafted investment strategy**

There is also a great deal of misunderstanding and misrepresentation of the PPFs funding position. It is inevitable that the PPF will be in 'deficit' for the first few years of its operations, but its investment strategy is carefully designed to overcome the deficit and be able to afford to pay benefits over the long term. This is a vital function which is in the best interests of scheme members. Employers and government have often operated on the premise that the only thing that is really important is for employers to be encouraged to keep running their final salary schemes. If employers lobby hard and insist that they cannot comply with the latest regulatory burdens (such as MFR or PPF

levy) the risk is that the Government will bow to this pressure and reduce the burdens – especially at a time of economic weakness which is just when the protection is most needed. This ultimately means that members’ security could be compromised. Members need to know that someone is there to represent them and that they do not run too much risk of reduced benefit levels in the PPF.

### **Member protection could be reduced if PPF not independent**

As the PPF is working well, I cannot see the advantage – from a member protection perspective – of it being merged with the Regulator. Both organisations were only established in the 2004 Pensions Act, so even thinking of changing them to soon seems to suggest an absence of long-term strategy. The PPF has been functioning for nearly 2 years – we had nothing like this before - and any talk of sweeping it into another organisation before it is even up and running for any length of time may undermine its effectiveness, morale and credibility.

PPF should not be merged with tPR but could consider taking on FAS

Given that it has already established administrative systems to pay pensions to members of failed pension schemes, it does seem to me sensible to consider putting the Financial Assistance Scheme under the umbrella of the PPF. This would be far more effective in terms of delivering benefits and more cost-effective than running the two systems separately. The expertise for FAS already lies in the PPF.

### **PPF needs to deliver benefits, not regulate**

The PPF is a delivery authority – and is responsible for paying out benefits to all its members. This is a fundamentally different skill-set from regulatory oversight. Furthermore, the PPF is charged with maximising assets and managing its investment portfolio to ensure PPF benefits can be met and levy payers costs are also controlled. It has introduced very sensible investment strategy and the independence of its Board gives it an advantage in this respect. By contrast, the Regulator needs to take clearing decisions which may lead to conflicts and it is likely to come under significant pressure from employers to clear deals that may not be in the best interests of the PPF itself. Having two independent bodies helps to cope with this conflict.

### **Conflicts must be avoided**

There is also likely to be a conflict between the regulatory functions of the Regulator and the asset management operations of the PPF. Indeed, the PBGC in the US particularly commented to me on how wise it had been of the UK Government to establish the PPF as a separate independent body. If it were to be merged with the Regulator, that advantage would be lost and there would be a danger that employers would get deals cleared more easily and the member protection provided by the PPF would weaken as a result.