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16 June 2016

Dear Sir

**British Steel Pension Scheme: Public Consultation**

I am writing on behalf of the Pensions Committee of the 100 Group of Finance Directors with regard to the above-named consultation.

The 100 Group of Finance Directors represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent around 90% of the market capitalisation of the UK FTSE 100 Index, and in 2015 paid, or generated, taxes equivalent to 14% of total UK Government receipts. Our aim is to contribute positively to the development of UK and international policy and practice on matters that affect our businesses, including pensions, taxation, financial reporting, corporate governance and capital market regulation. Specifically in a pensions context, we aim to promote fair, transparent and appropriate pensions regulation for employers and employees. Whilst this letter expresses the views of The 100 Group of Finance Directors as a whole, those views are not necessarily those of our individual members or their respective employers.

As we set out below, we are opposed to any new measures which allow pension schemes to reduce member benefits without consent and believe that existing regulatory options, including the Pension Protection Fund (PPF), employer debt and regulated apportionment arrangements, should be pursued instead. However, if the Government is determined for political reasons to make these changes in respect of the British Steel Pension Scheme, then we think that any new options should be extended to all pension schemes which meet certain strict criteria.

The 100 Group takes its pension obligations seriously. Our interest in arguing that any new options introduced should be extended to all pension schemes is to avoid others gaining a competitive advantage by reducing their costs at the expense of member benefits rather than because we expect that any 100 Group company would ever wish to make use of such options. Our strong preference, however, is for no such new regulatory measures to be introduced.

**The case for exceptional measures for the British Steel Pension Scheme has not been made**

Whilst we are sympathetic to the circumstances faced by Tata Steel UK and its employees and by the Trustee of the British Steel Pension Scheme and its members, we do not believe that the case has been made that the pension scheme should be treated as an exception to normal rules. Instead, we believe that the existing regulatory options, including regulated apportionment arrangements, should be explored further. In particular, in this as in all cases, the Pensions Regulator should satisfy itself that there are no possible recoveries either through statutory employer debt or through use of its moral hazard powers, either from the UK company or the overseas parent.

We also believe that there is a risk of undermining the value of the PPF in members' eyes, by suggesting that PPF compensation is in some way inadequate. The design of the PPF has arisen from a careful process of discussion between Government, levy payers and potential beneficiaries to ensure that there is an appropriate balance between the need to protect the majority of members' benefits where an employer can no longer support the scheme and the affordability of the PPF to levy payers. We do not therefore think that it is helpful to imply that the PPF does not provide sufficient protection for certain categories of employees. Those whose benefits are already in the PPF may question why such special deals were not available for them, whilst those not eligible for such special deals may view PPF compensation as a poor outcome as a result.

**The proposals will not remove the risk from PPF levy-payers**

As significant contributors to the PPF, we also have concerns about what the consultation may mean for the PPF and for its levy payers. If the Government does decide to change legislation in order to allow the Trustee to reduce the liabilities of the British Steel Pension Scheme, this does not remove the risk of PPF levy payers being ultimately liable for the scheme's section 179 deficit..

**If new measures are introduced, they should be applied consistently to all schemes**

Our fundamental belief is that **no** new legislative measures should be introduced as a result of this consultation and that existing regulatory measures should be pursued. However, we understand that, for political reasons, the Government may nevertheless decide to proceed with one or both of its Options 3 and 4 to allow members' accrued benefits to be reduced without member consent, without the scheme going into the PPF.

In the event that this does happen, we believe that any new options should be made available consistently to **all** schemes and employers and not limited to the British Steel Pension Scheme. This is in the interests of providing a level playing field for all pension schemes and the employers who sponsor them.

Any options to reduce accrued member benefits without member consent should only be available subject to strict protections, for example along the lines set out in paragraph 150 of the consultation paper (including in particular the requirement that the trustees reasonably believe that the scheme will enter a PPF assessment period within 12 months). However, the proposal to set a minimum number of members (as proposed for Option 4) is entirely arbitrary: it is not clear why a company sponsoring a scheme with more than 100,000 members should potentially be able to reduce its pension scheme liabilities more quickly and with much less expense that a competitor whose scheme only has 90,000 members and which therefore has to seek individual member consent.

Given such restricted eligibility criteria, we do not expect that any pension schemes sponsored by the 100 Group would be likely to use these options.

**The proposals risk introducing planning blight for all schemes**

Whilst the consultation is technically only focused on the British Steel Pension Scheme (or schemes with over 100,000 members for Option 4), there is widespread speculation that these (or similar) measures may be introduced to some or all pension schemes. Until there is clarity on this, there is likely to be a planning blight on existing funding valuations, given that the ability to compromise accrued pension benefits could have a significant impact on a scheme's liabilities. It could also impact on any pension increase exchange exercises currently being considered, if it is possible that non-statutory increases could be removed without any corresponding uplift through some new legislative measure.

**There is a need for CPI-linked issuance**

Whilst this is not a new issue specifically related to this consultation, the proposal to replace RPI increases with CPI statutory minimum increases highlights the increasing need for CPI-linked gilt issuance, given that existing RPI-linked instruments only provide a partial hedge to CPI-linked liabilities.

Yours faithfully,

**Alan Stewart**
*Chairman*
*The 100 Group Pensions Committee*