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THE 100 GROUP
Pensions Committee

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Donald Cranswick
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

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Dear Mr Cranswick

The Pensions Regulator/FCA Joint Call for Input: "Regulating the pensions and retirement income sector"

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

The 100 Group

The 100 Group represents the finance directors of the FTSE 100, several large UK private companies and some UK operations of multinational groups. Our member companies represent the vast majority of the market capitalisation of the FTSE 100, collectively employing 7% of the UK workforce, and in 2016 paid, or generated, taxes equivalent to 13% of total UK government receipts. Our overall aim is to promote the competitiveness of the UK for UK businesses, particularly in the areas of tax, reporting, pensions, regulation, capital markets and corporate governance. The 100 Group represents companies sponsoring defined benefit (DB) pension schemes with assets of approximately £500bn and membership of 3.6m.

Whilst this letter expresses the views of the 100 Group of Finance Directors as a whole, these views are not necessarily those of our individual members or their respective employers.

General Comments

The companies represented by the 100 Group take seriously their pensions responsibilities to their employees and former employees, whether they are in defined benefit (DB) or defined contribution (DC) schemes. We broadly support the current regulatory framework for pensions, and think that it is important that short-term pressures from the media or politicians do not lead to unnecessary increases in the regulatory burdens faced by companies sponsoring pension scheme membership. We would be opposed to any significant additional regulatory burdens being placed on UK corporates.

1. FCA and TPR's remits intersect in some areas. Do you see this working effectively, or are there areas where this could be improved?

In general we think that the division between the responsibilities of the FCA (contract-based provision and individual advice) and TPR (trust-based provision and auto-enrolment) is well understood, and does not need to be changed.

One area where the interaction of the two regulators may have been less than effective that it could have been in recent years is the regulation of DB to DC transfers and the handling of pension scams, where the DB schemes themselves are regulated by TPR whilst the transfer activity is regulated by the FCA.

It is at least in part a matter for Government to legislate to make it easier for trustees to stop transfers to vehicles that they suspect are scams, and the regulators cannot be blamed for the apparent slowness of Government to take action on this. However, it seems likely that tighter working between the two regulators might have reduced the number of members making poorly advised transfers, or even transferring to scam vehicles.

The introduction of new consolidator vehicles could present new opportunities for scammers to approach pension scheme members suggesting that their scam vehicle is more attractive than the proposed consolidator and so the regulators should be ready to deal with these (and other) new challenges as well.

2. Do you agree that the areas we have identified are the right ones? If not, which themes would you add or remove from our list? In which areas could the FCA and TPR singly or jointly have the most impact?

We agree with the areas that you have identified.

3. Given our regulatory remits, what more, if anything, should the FCA and TPR do to support people as they start to save in a pension?

The 100 Group does not have a particular view on this question.

4. Is there more scope for TPR/FCA working, either singly or jointly, in this area [effective governance and secure funding]? To what extent should the emphasis be on collaboration with a wider group of bodies to improve the advice and services supplied to schemes (e.g. administrators, investment consultants)?

The pension schemes sponsored by 100 Group companies generally provide very high standards of governance. Our concern is therefore that measures designed to improve governance for smaller and less well-governed schemes and employers may lead to unnecessary regulatory burdens being placed on schemes and employers that are already doing the right thing.

In particular, in the DB context, we are concerned that proposed changes to TPR's DB funding code of practice could move too far from the current scheme-specific approach and replace it with a minimum funding standard that would bring all pension schemes down to the lowest common denominator. It is important for regulators to understand that the UK pensions market is very broad and complex, and therefore one size does not fit all.

5. How can pension providers and schemes, employers and other firms in the sector improve the security of the money and data they hold? What role is there for FCA and TPR in further driving up standards?

The 100 Group does not have a particular view on this question.

6. Are there any further opportunities for FCA and TPR to support the delivery of value for money, either singly or together?

The 100 Group does not have a particular view on this question.

7. How can FCA and TPR work, singly or together, to ensure that information and advice helps people make appropriate decisions? When are people most vulnerable to taking poor decisions?

As noted in our response to Q1, we have particular concerns that gaps in regulation may lead members of DB schemes to take sub-optimal decisions such as transferring from DB to DC schemes, with the risk that they ultimately come back and blame their employers for the loss of their retirement income. This will need to be addressed by Government as well as by regulators.

8. Do you believe that the macro trends that we have identified are those most likely to drive change across the pensions and retirement sector? If not, what are the trends that matter? Which trends should be the highest priority for TPR and FCA? How will those trends (and any other drivers of future risks and opportunities) affect the areas we have identified?

TPR and FCA might also wish to consider some more corporate-focused macro trends, for example the increased unwillingness of corporates to engage with DB schemes as a result of the increasing cost, risk and volatility of such schemes.

Employers are also aware of the risk of increased future litigation as former employees reach retirement and find that their DC provision is inadequate. Whilst employers and pension schemes do have a role to play in the provision of information to employees so that they understand their likely pension income well in advance of retirement, there is a much wider need for broad financial education in which the regulators should play a part.

As noted above, the emergence of new consolidator vehicles may also lead to new trends in the pensions market.

We hope that you find these comments useful. Please do not hesitate to contact me if you would like to discuss any of the points raised.

Yours sincerely,

Alan Stewart
Chairman
The 100 Group Pensions Committee