

A view from the front line

The future of
pensions is here



As regular readers will know, our Future of Pensions blog and hub have been up and running for over a year now, providing a multi-media store of topical content on the issues which are shaping the direction of our industry.

The next phase in the campaign was the launch on 12 February of our Future of Pensions report. This summarises the findings of our year-long research project – conducted with our research partner, Winmark – into what the future of pensions will look like.

Why have we done this? Because we are in a time of great pensions flux – we have seen seismic changes over the past 25 years, and more change is coming. Throwing our minds forward is likely to result in a better pensions saving system overall. This obviously benefits members and savers, but also sponsors in the sense that they will be better able to manage their workforce, and thereby minimise any reputational damage around retirement and succession planning. And trustees with well-run plans will be less open to future challenge that they could and should have done more.

It is impossible to cover in a single paper everything which flowed from the research, so the report concentrates on the four major themes which consistently came up:

A CVA proposal cannot proceed unless at least 75% - by value - of creditors vote in support of it. Often the size of the company's potential section 75 debt, relative to the value of other creditors' claims, is such that the PPF can, if it wishes, use its voting power to prevent a CVA from being approved. According to the PPF, most CVAs are not successful in the medium-long term, and the PPF only votes in support of a CVA proposal if it decides (in line with its published 'restructuring principles') that the pension plan would be adequately protected. The PPF has faced criticism of its perceived 'super creditor' status and some landlords have recently challenged CVAs that lessened a company's property lease obligations but not its other liabilities (such as pension liabilities). It will be interesting to see whether this results in a modified approach being taken to pension plan liabilities.

Theme 1: The Future of DB

Private sector DB plans are now largely closed. TPR and the government are encouraging them to work on their endgame and new structures are emerging to allow this. DB is unlikely to be part of the future of pensions for many outside the public sector but it will be critical to achieve what we call a "safe landing" in the private sector - bringing legacy DB arrangements to a close over the coming decades.

Theme 2: The Future of DC

It is not clear if DC plans, whether individual or collective, will be able to fill the gap left by DB. How do we get people to save more, and have access to better options in retirement? This is likely to be a particular issue with the "forgotten" cohort aged 35-45 – too young to have DB security but too old to have enough time to save for a decent DC retirement. There are solutions to the problem – higher contributions, longer working lives, innovative, tailored retirement products and a better understanding of what a "living" DC pot would look like – but these all carry consequences. Better governance, economies of scale and the ability to develop innovative solutions to decumulation are likely to drive further consolidation: the DC future probably lies with a small number of large-scale authorised master trusts.



Theme 3: The Future of Long Term Planning and Collaboration

Pensions are a long-term issue which spans many parliaments, governments, election cycles and Chancellors. So pensions, tax policy and legislation should not be left in the hands of politicians whose livelihoods inevitably require a focus on short-term gains. We need a longer-term planning approach – perhaps in the hands of a permanent pensions commission – to “take the pensions out of politics”, and allow pension plans, corporates and individuals to plan much better for the future. Any commission must also ensure that the collaboration process is a genuinely diverse effort, reflecting the full make-up of society.

Theme 4: The Future of Pensions Engagement and Communication

Automatic enrolment has achieved excellent coverage in pension saving but, because it is “done to” people, this has been at the expense of active engagement. Achieving realistic pension incomes in retirement will depend on engaging people to save more. The dashboard has a role to play here but realistically still feels a long way off. In the meantime, the simpler annual benefit statement is one of several ideas which could make a real difference.

The report contains a summary and domestic commentary on each of the four themes, and also calls out some “international lessons” where other jurisdictions may have lessons to learn from - or pass onto - the UK. One of the highlights of the report is the “Innovations Checklist” – 18 ideas that came out of our research exercise to make the future of pensions a better place, and on which we surveyed over 350 pensions professionals. My personal favourite is no.5 - legislation to make it easier and safer for trustees to signpost their members towards good independent financial advice. What’s yours?

If the ideas on the innovations checklist are developed and made real, the future of pensions promises to be a better place for everyone – and the journey will be an exciting one with a whole host of new challenges to deal with.

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