Regulating defined benefit pension schemes – Business engagement assessment

RESPONSE FROM ICAS TO THE PENSIONS REGULATOR

20 March 2014
Introduction

The ICAS Pensions Committee welcomes the opportunity to comment on The Pensions Regulator’s (TPR’s) business engagement assessment of code of practice number 3 on scheme funding.

Our CA qualification is internationally recognised and respected. We are a professional body for over 20,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public and charity sectors.

Our Charter requires ICAS committees to act primarily in the public interest and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members’ views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount. For example, the ICAS Pensions Committee has published two high profile reports on pensions in an independent Scotland in the context of the Referendum debate. Our reports which have been published under the banner “Scotland’s pensions future” have successfully raised important issues on the implications of independence for the State pension, public sector pensions and private pensions.

Comments on the business engagement assessment

In our response to TPR’s consultation on code of practice number three and accompanying documents (7 February 2014), we raised a number of issues relevant to the business engagement assessment. We believe that TPR’s approach to the funding of DB schemes will impact disproportionately on smaller schemes and therefore do not entirely agree with the conclusion in the business engagement assessment that the code’s principles are ‘scalable to fit different schemes circumstances’.

TPR has a responsibility to protect the benefits of members of smaller schemes and we believe that the revised approach disadvantages smaller schemes for which the cost of complying with the code will be significant relative to the cost to larger schemes. As we expect that the additional costs for smaller schemes will be significant, for example, trustee training will be required, new actuarial advice, covenant assessment advice and new investment-for-funding advice, we would expect the business engagement assessment to provide some details of the likely additional costs.

In general terms, we believe that the sheer length of the revised code issued as part of this consultation is out of proportion to the messages that need to be conveyed to trustees. In our earlier response, we recommend that the code is stripped back and the use of jargon reduced with the aim of producing more succinct guidance for trustees. TPR indicated (at an NAPF South group meeting in Reigate on 9 December 2013) that it plans to produce a series of “Quick Guides” in April and May 2014. While we welcome this approach it may still be necessary for TPR to revisit its approach to the detailed material it has prepared.

As a separate point, we are not convinced that it is possible to deliver a realistic business engagement assessment without a properly scoped Balanced Funding Outcome (BFO) model. The BFO is proposed as the primary risk indicator. However, there was insufficient detail about this model in the earlier consultation papers to enable us to comment. Without more information about the BFO model we are equally unable to comment fully on the business engagement assessment.

Any enquiries should be addressed to Christine Scott, Assistant Director, Charities and Pensions, at cscott@icas.org.uk.