The *UK Government* breathes new life into *DB pension schemes*

Anthony Brewer
anthony.brewer@bwcigroup.com

> *This mind-set change is most definitely now happening*

My article in issue 4 2023 of Bandwagon "Pension surpluses - what now?" ended with the following thought:

"Ultimately a mind-set change may be warranted, as we move from an environment where schemes presented seemingly ever-growing liabilities, as yields fell, to one where they present opportunities to generate value for members and sponsors and even the broader society."

This mind-set change is most definitely now happening in the UK, particularly following the Government's announcement in June of a new Pension Schemes Bill which refocuses the discussion around schemes in surplus. Historically, pensions regulation has made accessing any surpluses in UK Defined Benefit ("DB") schemes challenging, but the new bill intends to overhaul the framework to:

"Allow trustees of well-funded DB pension schemes to release money back to employers and their scheme members, when safe to do so, unlocking some of the £160 billion surplus funds to be reinvested across the UK economy and boost business productivity and deliver for members."[1]

This follows a significant improvement in DB schemes' aggregate funding positions and pension schemes progressing rapidly towards buy-out or wind-up, usually through a buy-out with an insurer. The new bill may see a moderation in the desire to buy-out; critically for the Government, it is intended to stimulate more investment in the UK economy.

Crucially, these developments are not just relevant for using existing surplus - they provide a rationale to use a pension scheme's surplus assets to continue investing and generating more value for employers and members. This may increase the appetite of schemes in the UK to "run on" (ie continue to operate) rather than buy-out. The consequences of the bill may well lead to some DB schemes having a much longer time horizon for discharging their liabilities, than might previously have been thought just a few months ago.

Implications for Channel Island DB schemes

While the UK reforms do not directly apply to Channel Island DB schemes, they may serve as a catalyst for local trustees and sponsors to revisit surplus utilisation strategies. It is worth noting that some flexibilities are already (to some extent, and often scheme-specific) available locally, albeit infrequently used historically.

For the very small schemes, buy-out with an insurer, thereby allowing the scheme to wind-up, is likely to remain a reasonable endgame objective, as a small scheme does not have the scale needed to run-on cost effectively and efficiently. Ultimately, the attrition of on-going costs and uncertainty driven by a very small pool of members may outweigh the value which can be created from the scheme's assets.

However, larger schemes may wish to use the developments in the UK as a springboard to consider the whole range of strategic options. This is something we have already explored with a range of local schemes, some of which are looking to be run-on, and others are looking to buy-out.

The potential use of the surplus from an ongoing scheme needs to be built on collaboration between the trustee and the sponsor, to identify what options are available under the rules and relevant legislation and explore approaches which can release and generate value for both stakeholders.

It remains to be seen whether such actions might also stimulate local investment in the Channel Island economies.

If you would like to explore what options might be available, within your particular DB scheme to utilise surplus, please contact Anthony Brewer (anthony.brewer@bwcigroup.com) or your usual BWCI consultant.

[1] https://bills.parliament.uk/bills/3982
[2] https://www.gov.uk/government/news/20-million-workers-set-to-benefit-from-new-pension-schemes-bill