

Dear Sir

Review of Pensions Institutions - Response to the Consultation paper of March 2007

Jardine Lloyd Thompson provides consulting, actuarial and administration services to trustees and employers in relation to 1,000 or so work-based pension arrangements with assets ranging from a few thousand pounds to over £1,000m, and to individuals with regard to individual pensions. We employ approximately 750 pensions staff in the UK. This letter sets out JLT's response to the consultation, deliberately briefly and focusing on main points.

First I wish to thank Paul for preparing this excellent document in such a very short timescale. I am sure it will provoke a good debate and hopefully result in some meaningful simplification of the pensions landscape resulting in reductions in costs and duplication of effort.

Second I make some opening remarks and quote from the introduction to the consultation paper:

*"The key principles for the purposes of this review are: reducing the number of regulators where possible to avoid duplication of effort and division of responsibility, **and enabling a holistic approach to risk assessment.**"* (My emphasis).

The risks involved in the current topic include insolvency of employers with occupational pension schemes, inadequacy of State basic pension provision (now and in the future), unwillingness of future generations to support the elderly possibly leading to effective confiscation of saved pension wealth, inadequacy of pension provision by individuals along with delusions such as thinking that one's home might provide adequate security, increasing reluctance of employers to do more than the compelled minimum, lack of compulsion, means testing, division of society between public and private sector, lack of committed long termism by the collective political parties, calls on government to aid unsatisfied groups, and **profound** ignorance of the financial needs to attain an adequate pension and of the financial risks of both defined contribution and defined benefit pensions.

This consultation focuses on the roles of the current bodies, which are many, with overlaps and some lack of clarity, as is perhaps implicit in the wording of the consultation. Given the environment implied by the previous paragraph it is unlikely that a report to be given to the Government in Spring 2007 will be able to produce recommendations that would achieve a significantly improved collection of institutions and roles. But it could pave the way to such a goal, and given the significance of the date 2012 (for better or worse), this could be a timely start.

Finally in this introduction, I ask therefore the apparently odd question as to whether it likely that a new body (non-politically partisan and probably on a temporary basis) will be created to formulate recommendations and manage the change, since all the current bodies are conflicted.

Turning now to specific aspects of the consultation, and keeping the above remarks in mind, our comments are as follows.

Para 13 Key Factors

The factors you describe are key to considering the roles of the institutions. However the current climate calls for a wider debate as highlighted in my introductory remarks.

Para 16 Pension Changes

The climate is constantly changing and not least because of the increasing influence of European legislation. Any review needs to ensure that known and likely changes can be accommodated. Nevertheless I believe the current bodies are sufficient, although the necessity for continuance of all is debated below.

Para 23 Merger of the Pensions Regulator and the Pension Protection Fund

TPR and the PPF have different roles and should in our opinion be kept apart. Any overlaps should be abolished, though of course liaison could continue **where appropriate**. There is currently the danger that TPR may be swayed by the requirement to reduce the likelihood of calls upon the PPF, and start treating "PPF benefits on buyout" as a funding standard. Indeed TPR has suggested that S179 liabilities are a very relevant consideration of ongoing funding. We suggest that this statutory objective of TPR be **removed** entirely and instead TPR concentrate (with regard to scheme funding) on ongoing funding and clearance or otherwise of financial restructuring issues affecting pensions. The PPF attends to the employer insolvency risk via the risk based levies - "insurance premiums" and employers should be able to choose their level of risk. The change to TPR's responsibilities would be publicised to convey to people that there is risk in occupational defined benefit schemes.

Para 29 Merger of Financial Services Authority and the Pensions Regulator

The FSA (in our context) governs the selling of personal pensions and annuities, and regulatory responsibility of providers and fund managers. These functions are all distinct from TPR activities, and this proper separation should usefully remain. The FSA also has *"a statutory responsibility to promote public awareness of the financial system, which extends to all forms of pension provision."* Here we have an issue. As mentioned in the introductory paragraphs, we (and no doubt most other people involved in pensions) have great concerns about public understanding of pensions and risk, and there should be a major thrust to try and better address this before 2012. Certainly only one body should be tasked with leading this topic; if that body is to remain the FSA then it needs to have a high profile. Our observation of the FSA is that currently it has been mainly concerned with selling type concepts (which remain important) and the promotion of product risk. The emphasis in pension education is more concerned with funding, longevity and financial risk - so the FSA would need to adjust its emphasis.

Para 32 Merger of Pensions Ombudsman and Financial Ombudsman Service

We feel FOS and PO could be usefully merged, with a probable alignment of their statutory (and pragmatic) duties.

Para 33 Functions of Pensions Ombudsman, Pension Protection Fund Ombudsman and the Pensions Advisory Service

TPAS and the Pensions Ombudsman are distinct bodies dealing with complaints, mediation and compensation after (with occupational pension schemes) the

complaint has first been through the Internal Disputes Resolution Procedures. So we have 3 successive levels of complaints handling, which at first glance seems to call out for simplification and streamlining. However, the current approach seems to work and seems to be proportionate to the task. TPAS is to be congratulated in screening complaints to PO. Nevertheless probably too many complaints are still pursued to PO - but we can't think of a way around this whilst retaining the "no cost" right of members to appeal. The PPFO is already effectively part of PO and could successfully deal with FAS cases.

Para 35 Changes to the Financial Services Compensation Scheme

We see no need to make any revisions.

Para 36 Changes to Pensions Regulator Tribunal functions.

We see no need to make any changes

Para 41 Further Topics

Within the brief of this review we do not wish to raise any additional matters. Nevertheless there is a sense of "fiddling whilst Rome burns" given the desperately poor view of occupational and private pensions by the public at large.

Finally may I thank you for giving an opportunity to comment as well as, in advance, for the consideration of our comments.