11 October 2022

Alex Burghart MP
Parliamentary Under Secretary of State, Department of Work and Pensions
Caxton House
Tothill Street
London
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Dear Mr Burghart

WTW, whose clients are amongst the UK's largest companies and defined benefit pension funds, is concerned that the current DWP consultation on draft funding and investment regulations could have significant and damaging consequences for pension schemes and the wider UK economy.

Whilst WTW is supportive of an overall aim for all DB pension schemes to have clearly-articulated funding and investment strategies with an appropriate focus on the longer-term and sound risk management, the draft funding and investment regulations are too constraining and impose a simplistic approach to journey planning that jeopardises the scheme-specific framework that has worked well for the vast majority of schemes through a range of economic conditions (as the Government recognised in its 2018 White Paper). Our concerns are that:

- The proposed legal requirement that deficits must be eliminated as quickly as sponsors can reasonably afford, combined with stronger and more rigid funding targets will immediately begin to draw more capital into pension schemes, reducing the ability of sponsors to invest to generate economic growth in the UK over the coming years and constraining dividend payments.
- The way that the draft regulations define 'low-dependency' will act as a strong disincentive for schemes to invest in assets such as infrastructure and other secure income asset classes, resulting in portfolios concentrated in gilts and credit that target very low returns and with limited variation from scheme to scheme. The macro-economic consequences of this inefficient concentration of assets will be compounded by the lack of any flexibility over the timescales for reaching low dependency.

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- The overly rigid structure for the 'target date', which is a fundamental component of the draft regulations, could force schemes into inefficient and illogical changes to investment and funding arrangements for years to come. Over the past 12 months investment market movements have resulted in the relevant date for some schemes reducing by 7 years. Trustees and sponsors simply cannot design and implement strategies based on such variable and arbitrary yardsticks.
- The proposals impose the same requirements for schemes that remain open to new entrants or future accrual as for schemes that are closed, which is disproportionate and could lead to unnecessary benefit reductions or even the closure of these schemes
- Excessive de-risking and the imposition of higher funding targets than necessary will increase the cost of providing benefits. This may not generate better outcomes for members as it also risks reduced levels of future benefit accrual and lower discretionary benefit increases
- The 'one size fits all' low-dependency position envisaged in the draft regulations gives no credit for even the strongest of covenants or for other forms of external security once a scheme is 'significantly mature', pushing trustees towards potentially excessive de-risking that is likely to increase costs for many employers. This in turn will constrain employer investment in their businesses, with consequential lower growth in the economy.

WTW urges the government not to impose the rigid funding and investment framework contained within the draft regulations and instead reconsider how the Pensions Regulator could more effectively oversee UK DB pension schemes without forcing them to disinvest from the real economy. We would be very happy to assist the government in exploring how to frame the new funding and investment regime in a way that works for pension scheme members, trustees, sponsors and the UK economy.

Yours faithfully

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