In Defence of Small Pension Schemes – Big Isn't Always Better

First Actuarial's Henry Tapper takes the measure of attacks on small pension schemes, in the wake of recent superfund announcements

No sooner than the Government announces plans to "encourage consolidation of UK defined benefit schemes" than Disruptive Capital's Ed Truell, as reported in the FT argues that:

> "A lot of employers are fed up with their pensions and want to see the back of them. They want to see their pension fund going to a good home."

No disinterested observer in this development, Truell is supporting a Pension Superfund that will "pool the assets and liabilities of private-sector retirement plans".

So what lies behind the idea of a pension superfund, and what do smaller employers really think about their pension commitments?

The recent DWP White Paper, Protecting defined benefit pension schemes, suggests that the Government is taking steps to encourage consolidation. Certainly there will be consulting over coming months to put together a framework for consolidation, offering pension innovation with safeguards to protect member benefits.

The White Paper also refers specifically to the Superfund proposal, and includes a provisional cost saving analysis. The PLSA, which has swung its weight behind the Superfund, provides a useful definition in its DB Taskforce Opportunities for Change report.

So how true is Truell?

Judging by Truell's comments on jaded employers, and looking at these initiatives as a whole, it seems that everyone's got it in for small pension schemes. But what is the reality of pension provision in UK SMEs?

Contrary to the picture painted of uncaring organisations, there is a robust tradition of staff care in many small-to-medium manufacturing companies, service providers, charities, NGOs schools and research institutions.

We can glibly dismiss this as 'paternalism' if we like, but running a business, or not-for-profit organisation, with the view to perpetuating a 'good thing' is a laudable aspiration. And many of them see it as an integral part of their social purpose to uphold a tradition of paying people in both today's wages and tomorrow's deferred pay – what we know as a *pension*.

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A central function of any organisation is to look after its staff. Many employers see no conflict between meeting their pension obligations and managing business as usual. They don't always operate as venture capitalists would like them to, but as they want to.

Some, in fact, see venture capitalists, investment bankers and fund managers as the people who have put them and their pension schemes in the state they are in today. That, of course, is debatable, but what is certainly untrue is that well-meaning employers are somehow sick of their pensions.

Protecting pension rights when the employer stops caring

Alan Rubenstein, who along with Edi Truell is launching the new superfund scheme, says:

> "We know that many businesses are constrained by their pension liabilities and need to find a more affordable way to fulfil their promises to pension scheme members, trustees and sponsoring employers."

It's easy to demote the rights of people who are no longer working in an organisation, and no longer of strategic importance to its executive. But they have certain legal rights, meaning that the promises made to them must be kept. Should any company not meet its funding obligations to these people, the Pensions Regulator has the right to demand that organisation put its pension scheme into the PPF and enter administration.

This is far from a pleasant process. It means people can lose their jobs and part of their pension (quite a large part if they are well pensioned). Nevertheless, the Pension Protection Fund does provide a safety net and many small schemes cherish its security.

In praise of smaller pension schemes

Putting aside arguments about grandfathering scheme liabilities, and the lack of evidence that employers could fulfil their pension obligations more efficiently through a superfund,

SMEs play a valuable part in the economic life of the country. Many are well run and even those that find themselves in difficulty can return to solvency, given the right economic tailwinds. And SMEs themselves are a confident bunch. This year, the CBI has reported that 23% of UK SMEs are predicting average revenue growth of over 10% for the next three years.

First Actuarial and small pension schemes

I work with one of the few consultancies interested in advising smaller pension schemes and I declare an interest. Here at First Actuarial, we're happy to support these schemes, helping them to remain appropriately funded, governed and administered. I wonder how many of our clients would respond to being described as "fed up with their pensions" and wanting "to see the back of them".

Far from being sick of pensions, many of our clients – most of them, I would like to think – are wholeheartedly behind their pension scheme and work with firms such as ours to keep those schemes affordable, well governed and well administered.

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Some of our clients who are already involved in superfunds find that *last man standing* defined benefit master trusts are failing to meet their needs. They find themselves locked in by section 75 and have little control of their pension costs. Neither do they have much say in the overall direction of the super trust, so they're basically taking the pain without the credit from staff that makes pension provision worthwhile.

On the other hand, superfunds can be a viable option for some trustees and employers, so we keep an open mind and look the detail as we enter into strategic discussions with our clients.

Bigger is not always better

Superfunds are unlikely to wave a magic wand that will ease the pain. Taking a patient out of a loving environment, a local cottage hospital for example, and moving them to a much larger general hospital – may sound more efficient to the accountants, but it won't necessarily make the patient better.

Every pension scheme should be considered on its merits and not on its size. To argue otherwise is to disparage the many trustees who are doing their level best to pay the pensions they promise – and under their own steam.

After all, it's the responsibility of every organisation, big or small, to look after its staff. We should not assume that big is better – any more than assume that "small is beautiful".

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About us

First Actuarial LLP is a nationwide partnership with more than 250 staff covering five offices. Each office provides our full range of services.

We help you to run your pension scheme smoothly and effectively, at reasonable cost.

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