HOUSE OF COMMONS

Work and Pensions Committee

Oral evidence: Defined benefit pensions White Paper , HC 956

Wednesday 2 May 2018

Ordered by the House of Commons to be published on 2 May 2018.

Watch the meeting

Members present: Frank Field (Chair); Heidi Allen; Jack Brereton; Alex Burghart; Ruth George; Nigel Mills; Chris Stephens.

Questions 1-84

Witnesses

I: Alan Rubenstein, Chief Executive, the Pension SuperFund, and Luke Webster, Chief Investment Officer, the Pension SuperFund.

II: Ashok Gupta, former Chair, Pensions and Lifetime Savings Association Defined Benefit Taskforce, Jon Hatchett, Partner, Hymans Robertson, and Laura Mason, CEO, Legal and General Retirement Institutional.

Written evidence from witnesses:

The Pension SuperFund

Letter to Chair from Laura Mason, Legal and General, dated 23 April 2018

Examination of witnesses

Witnesses: Alan Rubenstein and Luke Webster.

Q1 **Chair:** Alan, will you begin by identifying yourself for the sake of the record?

Alan Rubenstein: Yes. I am Alan Rubenstein, Chief Executive of the Pension SuperFund, but probably better known to this Committee as the former Chief Executive of the Pension Protection Fund.

Chair: We have a few questions to begin with on that. Luke?

Luke Webster: I am Luke Webster. Along with Alan, I am one of the founders of the Pension SuperFund, where I am the Chief Investment Officer.

Q2 **Alex Burghart:** Alan, if we were starting all over again, would you advise that there be a single body doing the work of the Pensions Regulator and the PPF?

Alan Rubenstein: It is certainly something that one could consider. The model, obviously, is the Pension Benefit Guaranty Corporation in the US. Having spent time speaking to colleagues there, I think you will find that the union is more in theory than in practice and that the two arms—the regulatory arm and the compensation arm—do tend to operate fairly separately. In the UK, of course, we looked at it in the Thornton report back in 2008, and I am aware that the former Pensions Minister at least said he wanted to relook at it the next time it comes around.

It is something that could be looked at. Bear in mind that since the setting up of the Regulator and the PPF, the Regulator's responsibilities have changed and expanded. My view would be that the current structure works very well, with one body that does the regulation and one body that does the compensation.

Q3 **Alex Burghart:** Thinking about the US example that you have raised, where you have said that the union is more in theory than in practice, do you think that is because of the way our American friends have gone about setting it up? Do you think that you could have a union that was in practice as well as in theory?

Alan Rubenstein: You do have two very different functions. You have one arm that is effectively focused on a benefits administration business, and you have another arm that is focused on enforcing the rules and making sure that people actually fund their schemes and pay a levy. I think you could put them together. There is no reason why they could not sit alongside each other more closely, but I am not sure whether you gain anything in terms of functionality from that. Personally, I find the clarity and, you could almost say, the tension that you sometimes get between the two bodies helpful.

Q4 **Alex Burghart:** What sort of helpful tension are you thinking of?

Alan Rubenstein: The regulator has a very mixed set of responsibilities. They are supposed to be looking after the interests of members. They are also meant to be protecting the PPF, and they are also meant to be making sure they are not a burden on British business. Those are three quite contradictory things. On the other hand, the PPF has a very clear mandate that is to collect levies from sovereign pension schemes and to use those, plus its investment returns, to make sure that members receive PPF compensation. Sometimes those two can be in conflict, and I think that tension is good. I think you get better results from that.

Q5 **Heidi Allen:** Alan, I would like to ask you about having been at the end of the road, so to speak, and seeing stuff come to you from the Pensions Regulator. Talk to us about how effective you think the Pensions Regulator is; does it have the right powers? I know when you gave evidence to us before you thought that it pretty much had, but that the regime needed a little bit more, or some tweaks. Is it just about that, or is it about the quality of the leadership? Having taken evidence on Carillion recently, we could see the car crash happening. Trustees were desperate for help from the Pensions Regulator and no real help came. What is your view on how TPR operates?

Alan Rubenstein: My view remains the same; broadly speaking, the powers TPR has are appropriate. With hindsight, I think it would accept that it could have been faster using them on occasions. I think that is true. The proposals in the White Paper, particularly on punitive fines, for example—which this Committee has pushed for and which I support—will give it more power where it is needed. Broadly speaking, I think we are still in a good place.

Q6 **Heidi Allen:** Is there anything else that you would like to see in the White Paper, or are the fines pretty much all TPR needs in addition to the powers that it has now?

Alan Rubenstein: The only thing I would have liked to see in the White Paper that was not there was more action on the recovery periods for under-funded schemes. We have talked in this Committee before about 23-year periods being ridiculously long, and the Committee will know that my view is that 10 years is probably as long as one should get. Yet there are still around 22% of schemes with recovery periods longer than that. My proposal would be that we require schemes and sponsors in that position to effectively comply or explain in their annual accounts. They should be able to tell their members and the rest of us why they think such a long period is necessary.

Heidi Allen: Yes, rather than pushing the can down the road. Okay. Thank you.

Q7 **Ruth George:** Bearing that in mind about the need at times to push companies into shorter recovery periods and higher payments into pension funds, what do you think of the proposals on punitive fines within the White Paper and their use?

Alan Rubenstein: I absolutely support those. We know, or certainly I would hope, that the Regulator would never need to use that. It is there as a nuclear option. Again, this Committee has identified in the past that the number of schemes applying for clearance in the early years was in the hundreds every year. I think that by 2016 or so, it had dropped to single figures. Part of that is just people getting used to the regime. I am a fan of voluntary clearance because I don't think we want the system clogged up and British business unnecessarily slowed down by a mandatory clearance process, but for me the quid pro quo of that has to be that people know very clearly that if you deliberately step over the line, bad things will happen.

Q8 **Ruth George:** Do you think the proposals will adequately enable TPR to regulate that?

Alan Rubenstein: Yes, I believe so.

Q9 **Nigel Mills:** Can you perhaps talk us through what the superfund is, quickly?

Alan Rubenstein: The aim of the superfund is to consolidate defined benefit schemes in the UK by doing a bulk transfer in of assets and liabilities and so, as we grow in size, we will extract the benefits of consolidation. I think the benefits are well understood, but I would summarise them as: first, better cost control, thanks to economies of scale; secondly, better and wider investments and assets that small schemes cannot manage, such as infrastructure, which are a good match for pension liabilities; and, thirdly, better governance and management of schemes.

Q10 **Nigel Mills:** You launched this the day after the White Paper. Was that just a coincidence, or was there a reason for that?

Alan Rubenstein: It was not total coincidence. We had obviously been working on the proposition for a while. Luke in particular has been working on it for quite a time. We were obviously very encouraged by what we read in the White Paper and we thought that was an appropriate time to announce our intention.

Q11 **Nigel Mills:** You said you could do it under the existing framework, but I guess ideally you would like some new regulatory cover. Would that be useful?

Alan Rubenstein: From our point of view, it can be done under the existing framework, which is obviously why we have gone public. It is natural that the Regulator and the Government more generally will want to look at the framework and make sure it is adequate. Obviously, we are prepared for that and keen to assist in that.

Q12 **Nigel Mills:** You welcome it?

Alan Rubenstein: Yes.

Q13 **Nigel Mills:** I suppose you would not want everyone scared that this was going to be a way of having a bigger failure, rather than smaller ones. That is quite an important thing to get right.

Alan Rubenstein: Yes, that is absolutely right, although I think on the systemic point we do need to put it in context. We have an ambition to build up to £20 billion over five years. Roughly speaking, that is 1% of the defined benefit universe and probably about one third of the size of a big scheme such as USS. We have a way to go yet.

Q14 **Nigel Mills:** When are you expecting to start taking in your first schemes?

Alan Rubenstein: Ideally, we would like to be in a position to transfer our first scheme before the end of this year.

Q15 **Nigel Mills:** Would you like the new regulatory powers to be in place before you did that?

Alan Rubenstein: We obviously know they cannot be. The Department for Work and Pensions has been clear that it will consult towards the end of this year, and if any of those powers need legislation obviously that will take some time. We understand that there may be changes but, as I say, we are keen to work with the Regulator, with the Department and, indeed, the PPF to make sure that we are ready and able to accommodate whatever changes they wish to make.

Q16 **Chair:** Can I just add to Nigel's questions? Luke, this is a private initiative, isn't it?

Luke Webster: That is correct, yes.

Q17 **Chair:** If I, as an employer, think it is a very good way of protecting the longer-term interests of my workers who are in a pension scheme, what defence is there against an American company coming and buying up your company and setting up a totally different procedure about stripping assets and the rest?

Luke Webster: We have spent a lot of time, and are continuing to spend a great deal of time, developing a very robust governance framework for the entire structure, of which the role of the trustees of the superfund itself will be central. It would be hardcoded into the design of the overall structure that assets cannot be removed, for instance, without trustee consent while the system is operating. We would protect ourselves by hard rules in the agreements between the superfund, investors and management to make sure that sort of thing cannot happen.

Q18 **Chair:** That is set up now, isn't it, with the company? The question is whether the directors agree to a takeover. That would be the position of your trustees, wouldn't it?

Luke Webster: The company itself in this model has no substantive operations other than serving the pension fund. Our structure effectively consists of the superfund itself, a sponsor group of entities that is entirely focused on serving the needs of that scheme, and effectively a buffer vehicle, a pool of capital—an asset-back contribution, we call it—that holds investors' capital on behalf of the fund should it be needed. Effectively, we are replacing the ongoing covenant of an employer with a business with a financial covenant of a pool of capital.

Q19 **Chair:** But the shell within which this operation goes on could be bought speculatively by people outside this country, or inside this country.

Luke Webster: The structure is reasonably complex but is designed specifically to avoid that kind of thing happening.

Q20 **Chair:** "Avoid" is different from "prevent".

Luke Webster: The top sponsor company in this structure, for instance, would be a company limited by guarantee, so explicitly not for profit and not available for sale, to the extent that we can restrict that contractually.

Q21 **Chair:** To the extent that you can restrict it?

Luke Webster: Yes. Ultimately, any structures that we put in place will be subject to articles of association and contracts between the trustees, the investors and the company, obviously with the unanimous approval of all of those entities. Then things could change, but we would view it highly unlikely that the trustees would ever agree to any change that would imperil or dilute their covenant.

Q22 **Jack Brereton:** Leading on from that, on the Pension SuperFund, what is in it for the investors who are putting the capital in?

Luke Webster: We have a very prudent capital adequacy basis on which we would value the schemes' liabilities. To the extent that the superfund can generate returns that take the funding level above 100% on that prudent basis, that upside would be shared between the scheme members and, ultimately, this asset-backed contribution vehicle. Capital will accumulate in there as required, and after another threshold—an even more prudent barrier, which is indicatively 115% on our prudent basis—any surplus in that buffer vehicle can be distributed to investors.

There is a very clear waterfall. The first priority is keeping the scheme at full funding. Next, value goes directly to members and then, in the last stage of the waterfall, investors would potentially get a return.

Alan Rubenstein: Obviously, we don't know the design of other models, but we have sought in our design to try to make sure that we have aligned the interests of the members, the investors and the management team. Investors cannot get anything unless, first, members' benefits are fully protected; secondly, any upside has to be shared with the members as well as giving a return to the investors.

Q23 **Jack Brereton:** You have mentioned a buffer. Do you think that that should be a requirement, as is suggested in the White Paper, of all the consolidated model schemes?

Luke Webster: We certainly think that any potential consolidator should be able to demonstrate that the level of capital adequacy that they have is sufficient to generate a very high degree of certainty that members' benefits will be paid in full—and, in models like ours, potentially enhanced.

Q24 **Jack Brereton:** Do you think there need to be stress tests in legislation to make sure that, where things do go wrong and the scheme does come into difficulty, something is in place for the Regulator to make interventions if necessary?

Alan Rubenstein: One thing that is important is that such consolidation vehicles should be eligible for the PPF, not because I think the PPF will necessarily be needed but because I think it provides good reassurance to members as a backstop. If you look at our model, for example, even if the buffer were to be eroded we are still looking at a fund that is funded to 100% on a very prudent basis. Therefore, we would still provide benefits well in excess of PPF; indeed, we could in theory go into runoff.

Q25 **Jack Brereton:** The Government have been suggesting the potential of setting limits on the ability to extract profits from these schemes. Is that a concern for your business model?

Alan Rubenstein: Clearly, it would depend on what the Government chose to set. If the Government set limits such that it became impossible for investors to run a decent return, then clearly capital and consolidation on this basis could not take off. Certainly in our model, as Luke has alluded to, we do not see investors being able to make any return until funding is over a certain threshold. On that basis, as I said before, we are keen to work with the Department for Work and Pensions and with the Regulator in establishing this.

Q26 **Jack Brereton:** We are looking at how this could be applicable across the board. Do you think, if we do have companies coming in and taking excessive profits, there should be some limits to prevent that?

Alan Rubenstein: Certainly, there needs to be guidance from the Regulator as to what an acceptable funding standard and what an acceptable capital buffer would be. I think we have devised a very prudent model. There will be other models that might perhaps be less prudent. We would hope that the Regulator will look at all models, and we would hope that trustees would also look at the security they are being offered from the various alternatives.

Q27 **Chris Stephens:** The White Paper cautions that large consolidated vehicles clearly pose a very different concentrated risk to the Pension Protection Fund. Can I ask both of you how you will shield the Pension Protection Fund from that risk?

Alan Rubenstein: As I said, I think that we have to be cautious in assuming that consolidation is going to dominate the market instantly.

Our ambition—which some people have said is quite ambitious—is to be at £20 billion within about five years, and that would only be 1% of the market. If you look at the history in the Netherlands, you will see that consolidation there has taken place but it has taken them 20 years to get down from about 1,100-odd schemes to around 220; I think that is the figure as we sit here today.

It will take time, and I think there is plenty of opportunity to look at that problem as it emerges. Right now you have a number of large schemes, such as USS and British Telecom, which are much, much bigger than we are likely to be in certainly the next five years, and potentially the next 10 years.

Luke Webster: Alan has already alluded to the fact that we have spent a very great deal of time and energy ensuring that the design of this structure has alignment between all parties: the members, the trustees, the management and the investors. We are very much not incentivised to take high levels of investment risk. The ideal circumstance to generate good returns for investors and maintain the necessary high levels of capital in the system is a very slow and steady outperformance above the liabilities.

Were things to go wrong—obviously, it is possible that we may not do a very good job of managing assets and liabilities—that process would be gradual. In our modelling, the deep downside scenarios only really arise when you have multiple years of successive poor results. That trajectory would become obvious, and we would expect that we would engage in constructive dialogue with the Regulators and the trustees in that scenario.

Q28 **Chris Stephens:** How do you expect the Pension SuperFund to be treated within the levy framework in the pension protection?

Luke Webster: As I mentioned, we would expect the sponsor company to have no other business than serving the pension fund. We would expect to be treated as a scheme without a substantive sponsor and be subject to the risk-based levy, but our expectation is that we would maintain high enough levels of funding at all times that that will not be a material expense for the business.

Alan Rubenstein: As a firm, in the same way as we are in discussions with the Regulator to understand its thoughts, we are in discussions with the PPF—although, as you might expect, I have recused myself from those conversations.

Q29 **Heidi Allen:** I am not saying it is a bad idea; it is clearly innovative. The world is changing, and the way we used to think about pensions is changing. I suppose I am trying to think about the pros and cons. It is a very different way for an employee to have a relationship with their employer. What are the pros and cons, from your point of view, for the employees now of having this more distant pension relationship? What are the downsides?

Alan Rubenstein: It is clear that this applies mostly to schemes where the employer has ceased to accept new members and ceased to accept new accruals, and indeed people are probably saving into a different kind of scheme already. We see as the pro the fact that we are potentially moving from a situation where an employer does not have a long-term interest in funding their scheme—it might be subscale—to a position where you have a dedicated business, and it is a business, which is looking after the members' entitlements.

As part of the transition, in most cases that will see an immediate improvement in the covenant that the member enjoys because they will be giving up the promise of future contributions from the employer for a significant capital buffer now. It will give them the benefit of a business that is dedicated to governing and managing a pension fund to the highest standard. I see mostly upside.

It is also worth saying that this is not going to be for every pension fund in the UK. I think this will appeal to schemes and to employers who want to effectively separate the company from the pension fund but who find the cost of a buy-out prohibitive. This will give them an opportunity to transfer the pension fund to somebody who cares about it and who is going to run it properly, and let them get on with their business. If you look at the overall size of the market, as I say, the overall market is around £2 trillion. Our analysis would suggest that, as we sit here today, the addressable market is probably between 10% and 15% of that. No more.

Luke Webster: A very clear benefit is that, should things go well, there is a very high probability that the benefits that individual employers will receive will be enhanced.

Q30 **Heidi Allen:** How do you safeguard? What risk-assessment mechanisms do you have in place? Clearly you are ambitious and you want to grow, so you might say, "That scheme over there—we could just have that. Yes, we could do something with that." But that ends up being the riskiest of the lot and brings the whole house down. How do you safeguard against that?

Luke Webster: Governance is the cornerstone of that. We would envisage ultimately a tripartite commitment committee that would need to discuss new schemes transferring in. Every party involved in that discussion would have a veto. Clearly, the trustees of the superfund would never, in our expectation, consent to a transfer in that might be dilutive of their covenant or introduce new risks. Likewise, if investors perceive there to be significant risks, they are most unlikely to provide the capital necessary to promote the consolidation. That very strong governance arrangement in which every party has a veto would be the primary mitigation, coupled with investment in the right sorts of systems and expertise to assess those risks.

Alan Rubenstein: It is worth bringing out the fact that, unlike an insurance company where there is a business just making a decision, in our case there is a body of independent, member-nominated, elected trustees that oversee the superfund itself. Because this is done by a bulk transfer, they will be keen to make sure that their covenant and their capital backing is protected. Even if we were to see that scheme over there and think, "That looks nice. We would be willing to take the risk," they are there to say, "No, you have to make sure that it is funded in line with the rules that we have set out."

Q31 **Nigel Mills:** Can you tell us what level of return your investors are hoping to get from this? If I have put £500 million in, I presumably want something back. Is that a 10% annual return?

Alan Rubenstein: I think the returns will be very variable. It depends on the investment returns we achieve.

Q32 **Nigel Mills:** But they have set you a target, have they?

Alan Rubenstein: I was going to come on to that. Our expectation is that returns on this will be similar to the kinds of returns that an insurance company might make. If you think about it in that sense, we are doing very similar things in the sense that we are investing money and we are hoping to make a return in excess of the basis on which we took the fund on. That difference is how we make our money and, to that extent, it is similar to the way insurance would think about it. It is not unreasonable to assume that the returns on capital will be broadly similar. On that basis you are looking at returns in, let's say, the mid-to-high teens. There is a possibility that we might do better. There is the possibility that we might do worse.

Again, I would come back to the point that the only way investors can do well out of this is, first, if member benefits are protected, and, secondly, if members have also benefited from that upside because any excess in our model is shared one third to the members and two thirds to the investors. For investors to do well—we hope that they will—means that members will be doing well too.

Q33 **Nigel Mills:** A couple of follow-ups. If you think you should make the same return an insurance backed buy-out would get, the problem is generally that the funding you have to have of a scheme to go into an insurance buy-out is a lot higher than you would be targeting here, so you think you can make the same return for a much lower level of effective buffer at the start. How does that work?

Alan Rubenstein: Partly it is down to the capital structure and partly, also, it is because of the low return, well-matched strategy that we are also planning to follow.

Q34 **Nigel Mills:** My theoretical worry is this. You take, presumably, a fully funded scheme that is closed. It may not have been run very well, so it has been quite expensive to run, and perhaps the investment returns have not been the best. Then you just switch the assumptions round a bit, so you reduce the cost assumption and you up the investment return assumption. You say, "Hey ho; we have a nice surplus in this scheme now without doing any work. Let us extract that surplus. Everyone is happy, and I have met my target." You get your bonus, and in 10 years' time we find that we have just taken a load of money out of the scheme, in effect, and not really achieved anything. How do we stop that happening?

Alan Rubenstein: If anything—Luke may want to come in on this—I think it is the reverse. First, our funding basis will be stronger than most of the schemes out there. We expect that any fund coming into our vehicle will be making a top-up from the sponsor into the vehicle—into the fund—to make the transition possible. We expect funds that are probably, for the sake of argument, 80% to 100% funded on the current basis. They will need to be at least 100% funded to come into our scheme. From that point of view, I think that the basis will be stronger.

As far as costs go, the way we plan to do that is to drive the costs as low as possible and then they simply get passed on to the scheme directly with no loading or mark-up.

Luke Webster: The governance point comes in again here. Certainly, there would be no unilateral ability for the sponsor company to engage in any sort of actuarial gymnastics to revalue the liabilities. They would have a very clear, very transparent capital adequacy basis that controls all money flows around the structure. It would only be possible to vary that by mutual consent. Again, if the basis on which capital is held back as a buffer and fees are paid was to be changed, the trustees, the company, the relevant advisers and the investors would all have to agree.

Q35 **Nigel Mills:** The magic here of how you generate your mid-teen returns for your investors is simply that you can be so much more efficient and generate so much better investment returns that everybody wins. Is that the proposition?

Luke Webster: As I mentioned earlier, the proposition is to generate a modest but consistent outperformance of assets over liabilities over a period of time, and the ratio of that outperformance to the capital that investors inject produces a return.

Q36 **Chair:** I have two last questions, one of which is to you, Luke. What is there in the governance structure that prevents your investors from having an influence directly on trustees?

Luke Webster: As we are envisaging the structure, the trustee company will have an independent chair, and independents will appoint their own colleagues. There will be elected, member-nominated trustees, so those two groups together—the independents and the member nominated—will have a clear dominance of the trustee board.

Q37 **Chair:** When you say "a clear dominance", do you mean that the investors will be on the board as well?

Luke Webster: No. Investors typically would not be. Our working structure for the trustee board is that a third of control will be in the hands of independents, including the chair, a third of control will be with member nominated trustees and a third will be sponsor company representatives.

Q38 **Chair:** Very good; thank you. Alan, this is the first time that this idea is trying to get legs. What does it tell us about the pension industry that it has taken this long to get to this stage?

Alan Rubenstein: Of course people have looked at this kind of idea before and, as you say, Chairman, it has not taken off. What is different from, let's say, 10 years ago is that we now all recognise that we are moving towards an endgame for defined benefit pensions. One of the problems we face is how to terminate that in a way that makes sure members get their benefits and does not place an excessive burden on industry.

In 2012 you will recall that the Government fought very hard against EIOPA's proposals to apply Solvency II to pension schemes, which would have put a burden of about £1 trillion on UK pensions. We fought that off because we felt that that was the wrong approach for pensions. I think there is now a willingness to look at different ways of doing this. We have seen elsewhere—the Netherlands is one example—the benefits of consolidation, so I think there is now a greater willingness, which the White Paper supports, to look at how we might manage the runoff of our DP liabilities.

Q39 **Chair:** As we are running over time, I will write on behalf of the Committee, Alan, to get your ideas about that last point you made—that we are in the endgame for defined benefit schemes—and how you see the endgame developing, given the smallness of your contribution in the total market. Is that all right?

Alan Rubenstein: Certainly.

Chair: Thank you both very much for coming.

Examination of witnesses

Witnesses: Ashok Gupta, Jon Hatchett and Laura Mason.

Q40 **Chair:** Might you identify yourselves, members of the panel?

Ashok Gupta: I am Ashok Gupta. I chaired the Defined Benefit Taskforce set up by the Pensions and Lifetime Savings Association. The Taskforce has now completed its work and has been disbanded.

Laura Mason: I am Laura Mason. I work for Legal and General; I head up the business where we effectively look after half a million defined benefit pension holders in the UK. Those pension holders have arrived with us either through buy-out or buy-in over the last 30 years.

Q41 **Chair:** That is a sort of competitor to the idea we have heard about.

Laura Mason: Potentially.

Jon Hatchett: I am Jon Hatchett. I am a partner of Hymans Robertson, a leading independent adviser to DB schemes and also author of a report, "DB Consolidation: when, not if".

Chair: You will be pleased to know that the camera is catching that free advertisement.

Q42 **Chris Stephens:** My question is for Mr Gupta. Mr Gupta, what is your view of the White Paper proposals to strengthen the regulatory framework and scheme funding and enforcement?

Ashok Gupta: We believe that the proposed powers on strengthening scheme funding and enforcement can make pension schemes more successful, sustain confidence in the system and reduce the number of high-profile failures. They will also help the Regulator with early intervention and better oversight. While these are welcome solutions, we believe they are insufficient to address the wider systemic and structural issues facing the sector. Chairman, perhaps it would help if I gave some context for that statement.

Our remit was to look at the challenges facing the sector and to say what needs to be done to ensure that benefits are paid. Our study was unusual, if not unique, for two reasons. First, it was an independent and comprehensive review of the sector from all angles, and it took in all shareholder perspectives and stakeholder perspectives, drawing on experts from across the sector and from outside pensions. Secondly, we looked at the—

Q43 **Chair:** When you are saying "we", might you say which "we" you are indentifying?

Ashok Gupta: The Defined Benefit Taskforce. The second thing we did was to look at the sector through a systems lens. That is important because the sector has grown in an amorphous way. This helped us to understand that all the participants—the sponsors, the trustees, the advisers and the Regulator—are all behaving rationally from the perspective of their silos and their mandates, but the sector as a whole is behaving inefficiently and in places—I stress that it is only in places—is dysfunctional.

For example, the system works better for agents than it does for the principals, the members and the sponsors. The sector is highly fragmented and, we believe, excessively dependent on agents. That leads to cost inefficiencies and poor management of risk. In addition, schemes have this binary choice: they either carry on as they are, hoping to get the buy-out eventually, or they fall into the PPF. That leaves a vast number of schemes in the middle carrying on with their schemes, with employers effectively in limbo and members at an excessive risk of not getting their benefits paid in full.

Our whole focus was on: are members going to get their benefits? We calculated that 3 million out of the 11 million members of private sector DB schemes have only a 50:50 likelihood of getting their benefits paid in full. The regulatory powers on their own are good, but they will not address these issues. That is what led to our consolidation proposals, because we felt that it was necessary to address the structural issues.

Q44 **Chris Stephens:** Thank you very much, Mr Gupta. I think that is helpful. Could you say something, please, about the role of trustees? Obviously, as you know, some of us were on the Carillion inquiry. Would you agree with the view that trustees need more support from the Regulator in their dealings with sponsors?

Ashok Gupta: The UK has 6,000 schemes. Alan has done a comparison with the Netherlands, which has a similar number of assets and between 200 and 300 schemes. The reality is that the Regulator cannot oversee 6,000 schemes closely. That is why we feel that consolidation is necessary.

There are two issues here. One is scheme segmentation and the forces affecting sponsors. If you take the latter first, you find that DB liabilities tend to be weighted towards traditional industries: manufacturing, brick-and-mortar retailers. You find that these industries are under pressure from globalisation, digitalisation, automation and the uncertain economic outlook. Those pressures are going to intensify and, as they intensify, the pressure on schemes will also intensify.

Then you get to segmentation, and there you find the industry is not homogeneous. At the top you have a number of schemes that have scale, that are well-funded and that have strong governance. There the trustees need no help. The schemes will eventually get self-sufficiency and to buy-out, and there is little help needed. You then have the schemes at the bottom that do not have scale, that are not properly funded and that have weak governance. You can give those schemes as much help as you like, but they are likely to end up in the PPF.

Q45 **Chair:** But they are not going into the superfund, are they?

Ashok Gupta: No. It is the schemes in the middle and it is those schemes—

Q46 **Chair:** You say "in the middle". We heard from Alan that the schemes coming in will have to be 100% funded at the point of transfer.

Ashok Gupta: Yes. I would agree with Alan, but I think it highly unlikely that a consolidator would assume responsibility for the liabilities without the monetisation of any deficit. That is a win for the scheme, but it is also a win for the employer, because the incentive for the employer to monetise a covenant is that they get released from their responsibilities. They manage to transfer their responsibilities to a financial sponsor, so we are creating a potential win-win scenario. If you look back—

Q47 **Chair:** I think we have grasped that. As a Committee, the real problem we face is not the funds that are 100% funded but those—like in Carillion—that are far from 100% funded and in which, when the trustees push for better funding, the employer says, "If you push me we will all go bankrupt." That, to me, is where the crunch comes—these company pension schemes. In a sense, the superfunds are moving the deckchairs around on the Titanic. You might get bigger chairs out of them for various participants, but we are not dealing with what I see as the biggest challenge facing this sector.

Ashok Gupta: The dilemma for the employer is that 10 years ago, the belief was that we put the funding regime into place and over a decade deficits would be eliminated. The reality is that, over that decade, £120 billion has been put in by employers as special deficit reduction contributions, and £400 billion has been put into pension schemes as a whole, and yet deficits keep going up. Deficits are higher today.

Q48 **Chair:** But you are not taking those schemes on, are you?

Q49 ***Ashok Gupta:*** If an employer goes to its investors—its shareholders—and says, "We need more money to put into the pension fund," the investors today are likely to say, "But how do we know this is not the first slug of many?" If it goes to the investors and says, "We need more money to put into the pension scheme," and then it is done, they are far more likely to get that capital.

Q50 **Chris Stephens:** What I am asking, Mr Gupta—forgive me if you have answered the question—is: do you believe that trustees should be given additional support from the Pensions Regulator? In the example the Chair gave, where the trustees are asking for more money to be paid into the scheme and the employer is ignoring it, do you believe trustees should be given more support from the Pensions Regulator?

Ashok Gupta: More help is helpful, but I do not think it addresses the structural systemic issues of the sector, which are fundamentally down to fragmentation and the fact that so many schemes do not have scale.

Q51 **Chair:** But isn't the proposal that you take schemes in with 100% funding, and because of the pooled assets and the choices of investment you can make, you will obviously be in a better position to prevent the bigger scheme from going into any deficit that individual employers may not be able to prevent? Is that a summary?

Ashok Gupta: It is part of it.

Q52 **Chair:** What is the other half?

Ashok Gupta: Getting the money into the schemes earlier is fundamental. That is a challenge that the industry faces today.

Q53 **Chair:** But you are not dealing with that.

Ashok Gupta: We are creating the incentive for employers to put the money into the schemes.

Q54 **Chair:** So that they can transfer to the superfund.

Ashok Gupta: Providing you get enough superfunds—this is what we have seen in the life industry—and providing you get enough consolidators set up, you get competition on price. That makes it cheaper for schemes to transfer the liabilities.

Q55 **Chair:** In that case, we have seen one of the big consolidators gobble up all these schemes and then flog the company, at the end of the day, to people not in this country.

Ashok Gupta: Part of our proposal is that we think you need an appropriate regulatory regime for superfunds. You need processes around the transfer of a pension fund into a superfund. You need an authorisation and supervision regime for superfunds to make sure they are adequately capitalised, that they are run by fit and proper people and that members' interests are protected and they don't make excessive profits. No system is going to be risk-free, so you need to put in place the right risk mitigation to ensure that superfunds are run in the right way.

Q56 **Alex Burghart:** What evidence is there that the superfund concept has gained traction with sponsors, trustees and the pension industry?

Ashok Gupta: It is very early days, the concept is relatively new and the regulatory structure has not yet been defined, and that is crucial. In spite of that, we have already seen one superfund launch and we understand that other people are investigating setting up superfunds, so that does indicate a degree of pent-up demand. We carried out some research for our recommendations. We spoke to a lot of schemes, sponsors and companies and we found that 39% of the employers we surveyed would consider transferring the scheme to a superfund.

Q57 **Alex Burghart:** Would you be able to share that research with us?

Ashok Gupta: Of course. It is also worth remembering that changes of this type take time to get accepted. There are cultural barriers. There is behavioural inertia and there are vested interests. The myriad advisers who benefit from the fragmented system will argue against it. If you look at the life industry, it took five years for consolidators to become accepted and 10 years for them to make a fundamental impact to change the shape of the industry. When the PPF was set up, people did not think it would work, but it is now part of the infrastructure.

Q58 **Alex Burghart:** To focus on one criticism that has been made, last year John Ralfe, a pensions consultant, told the BBC that the superfund plan was "outrageous". He said that there was "no crisis in defined benefit pensions, so there is no need for crisis measures" and he said, "The PSLA is trying to undermine all the safeguards put in place…since the 2004 Pensions Act." What is your response to that?

Ashok Gupta: We all believe there is a crisis. The sector is moving, as Alan described, towards an endgame. The solutions that are in place today are not fit for purpose to address the structural issues that we identified—the fragmentation. There is absolutely no intention to undermine the safeguards that there are today. In fact, we don't believe the safeguards that there are today adequately deal with the risks that schemes face, and we think the superfund regime is better placed to do that.

Q59 **Ruth George:** Jon, from the title of your report it appears that you are quite optimistic about this, but we have not seen a lot of consolidation of the existing systems. Why do you think that is?

Jon Hatchett: We are optimistic about the future. There are two reasons why we have not seen more, historically. One is awareness and one is appetite. Ashok talked about fragmentation, and we have talked about ideas that have been around for maybe 10 years and have not taken off. I think with the work of this Committee, the DWP, the Taskforce and the PLSA consolidation has risen up the agenda. Therefore, the lack of awareness that has been a barrier is starting to change, and that is part of the reason for optimism.

The second is around appetite. You know as well as anyone the degree of financial challenges that some schemes put on their sponsors. Because of that financial challenge to the sponsor, sponsors are unwilling to take steps that reduce the amount of control they have over the management of the scheme. A lot of historically available consolidation options effectively gave you a less bespoke structure, so some degree of lessening of control in return for lower costs through aggregation and economies of scale. Most people in the industry who have been aware have decided they are not willing to pay a bit less in costs and give up that control. They would rather have more control and pay a bit more.

Q60 **Ruth George:** How will the new schemes deliver accountability from a sponsor through to the members?

Jon Hatchett: If I may, I will talk about the structure of the industry for a moment. If we think about the schemes at the top that are in the best position—that have the strongest sponsors and that are best funded—and those at the bottom that are most challenged, I think there is a layer that are going to consolidate through buy-out at some point in the next 10 to 20 years.

Insurance is the gold standard. Their members have the highest level of security, and they will enter buy-out. I think there is a layer underneath them where superfunds generally could be a helpful solution. The reason

I think sponsors will be attracted to this is that they no longer need control if someone else is taking responsibility for the liabilities.

The benefits for members include improved security, because the sponsors are motivated to pay in a final cheque to be relieved of liabilities, and you get investors putting in capital. So on day one you get more money into the system. If superfunds work well in this layer, security for members is enhanced, fundamentally, because you get more capital into the system. There are economies of scale through consolidation, but I think they are second-order.

Coming to your comment, Frank, there is a range of schemes underneath that where they are sufficiently poorly funded and the sponsor is sufficiently weak that there is just not enough money to have a high chance of securing those benefits with anyone. If there is one thing missing from the White Paper, it is a stimulus to have a grown-up conversation about the best way forward for those challenged schemes. We can debate what proportion are in which group and what the risks are, but I think everyone would say there are material risks to hundreds of thousands, or millions, of members. It is not a few schemes and tens of thousands of members.

Q61 **Chair:** Jon, do you have data on the number of schemes that are not fully funded and the proportion of pensioners who are dependent on those schemes?

Jon Hatchett: We don't have our own research. We rely on systemic research, which I am sure you have seen, published by the Pensions Regulator and PPF; and we base our analysis on that fundamental data.

Q62 **Ruth George:** How would you see an employer selling consolidation to the members of a scheme, where often some of them will be existing employees and they need to be able to absolutely trust that their pension scheme is going to be safe even with a lack of control over it?

Jon Hatchett: Echoing the point that Alan made earlier, I think superfunds are for schemes that are close to accrual. It is not about the future build-up of benefits. For members, I think the fundamental point in this is the security of the promise. The trustees have an important role in this. In my view, they need clear advice that member security post transfer to a superfund has to be materially better than sticking with the existing sponsor.

The schemes where this is most relevant are schemes that are reasonably well funded—quite a long way from buy-out but reasonably well funded—but have weak sponsors. There are schemes that I advise where the sponsors are typically highly levered. You can see them being around for five or 10 years, all being well, but the thought of them being around for 80 years is quite low. The chance of a scheme making its own way to buy-out is quite low, so if they get a sizeable cheque from the sponsor and a sizeable cheque from investors, and you trust the legal structure—this money is ring-fenced for members—that could be quite attractive.

You have heard about one consolidator structure, the pension superfund. We are aware of another. Their mechanism for locking in capital is that investors only get a return when members are bought out. They are not trying to run the pension scheme forever. They are trying to warehouse it for five, 10 or 15 years, and investors only get any money out of the system when the members are bought out with an insurer. They are trying to get something to the insurance gold standard, rather than running it forever.

There are different ways you can build in protections, but—coming back to my first point—the trustees are absolutely crucial in ensuring that security post transaction is markedly improved, compared with the security that they have with the status quo.

Q63 **Ruth George:** In spite of the economies of scale and larger amounts of capital involved, do you think that the move to consolidation will represent a move towards more de-risking within pension fund investment?

Jon Hatchett: For schemes that transfer, it should be lower risk than where they are today, through lower investment risk but also just through starting off on day one with much more funding. I don't think it is as low risk as an insurance product. We have a regime that, compared to almost any pension scheme insurance, will offer a lower risk way of managing these pension promises over 70, 80 or 90 years, but it is for the schemes that cannot afford that.

It is all very well saying that is the lowest risk, but if the sponsor really cannot pay and no one else is going to pay, it is by the by.

Q64 **Nigel Mills:** It starts to sound a bit like magic at times, doesn't it? I think what you are suggesting, Mr Hatchett, is that the way this works is you get a cheque from the investor, but we have just heard that the investor wants a mid-teens return. Presumably, somehow, the pension assets that you take on and invest better or more cheaply have to trigger repaying that investment, and getting it a mid-teen return in the process, while meeting all the liabilities of the pension scheme. Does this not sound a bit too good to be true?

Jon Hatchett: It might sound too good to be true; I can see where you are coming from. There are various financial dynamics at play. One is the capitalisation regime for insurance companies, which in particular means that non-pensioners tend to be more expensive to insure today, materially, than pensioners. If you just warehouse a scheme securely for 10 or 15 years and so people in their late 40s and 50s retire, even if you don't generate any other returns from any other source that can make a scheme materially cheaper to buy out. To some extent, just warehousing it in a safe place with aggregation makes it cheaper to buy out.

Q65 **Nigel Mills:** Because some people have died, or something?

Jon Hatchett: Laura is probably better capable of describing exactly the reasons for the dynamics of this. It isn't people dying; it is just people retiring and having more certainty about the cash flows. With a non-pensioner, you are not sure when they will retire. They might transfer out, they might take cash—there are all these uncertainties.

Q66 **Chair:** Before we go back to Nigel, might you come in on that point, Laura?

Laura Mason: I have three observations to make on the discussions so far. We have talked a lot about financial strength and certainty. I think some of this has been implied, but it is worth pointing out that we hold significant financial strength to ensure that our pension holders are paid over the potentially very long life of their pensions, even in quite poor economic conditions. We are regulated to ensure this financial strength is maintained over time and we regularly publish publicly our financial strength statistics, which does give both trustees and members confidence in what we do.

The second point that has not been brought up today is around conduct and customers. Customers, in this case, for us are our pension holders, and they are at the heart of everything we do. We have specialist teams based in the UK, Cardiff and Hove, who interact directly with our pension holders on a regular basis. Indeed, I think, last year on average we spoke directly to each of our active pension holders, some of whom could be classed as vulnerable customers either through demographics or personal circumstances. Hand in hand with this customer service is the administration that goes alongside these defined benefits and liabilities, each of which comes from schemes that probably almost have unique benefits, to some extent. That was one other point in the context of superfunds that ought to be considered.

Q67 **Chair:** Laura, when you say "we", just for the sake of people who are watching this, can you tell us who "we" are?

Laura Mason: I am representing the business that I run at Legal and General, which is an insurance regulated entity in the UK.

Q68 **Nigel Mills:** Are you slightly concerned, Laura, that your buy-out prices for pension schemes are presumably a lot higher than these superfunds that allegedly do the same work?

Laura Mason: Over the last few years, we have worked very closely with trustees in the industry to build up a degree of trust and understanding of exactly what the product is that we are offering. I think people have a very good understanding of both those two benefits: both the financial security and the customer interaction. For trustees, that is a very key point of any transaction—going from being maintained by the trustees to any sort of transfer out from the company. For me it is a concern, I suppose, that people do understand what these superfunds might be offering, which is not—to use Jon's phrase—the gold standard of giving the security and peace of mind that pension holders should expect over the life of their retirement.

Q69 **Nigel Mills:** I feel a little bit nervous that what we have is an employer with a responsibility to this pension scheme. Until now the market has been: if you want to lose your responsibilities, the buy-out price is up here. Because you have to sell in a fully regulated, fully capital-backed situation the risk has almost gone. Now—hey presto!—a much cheaper solution has appeared in the market. You can still lose your own risks on this scheme and, conveniently, it is not regulated in the same way. It just looks like we are setting ourselves up for a big fall in a few years' time, when we realise that we have lost whatever employer sponsor value there was but we have the same money and it cannot pay the same benefits, and then we are perhaps worse off. Is that something you fear might happen?

Laura Mason: I would agree. There is a concern that you might have a husband and wife who live in the same town but work for different employers, and their defined benefit schemes might end up in different regulated entities, one of which is more strongly regulated both from a financial perspective and from a conduct perspective, and the other of which is not. That seems a slightly strange place to end up.

Ashok Gupta: I see no reason why the conduct regulation should not apply equally between both entities. From the protection perspective, we believe superfunds should provide a very strong level of protection but an affordable one. A buy-out gives protection in excess of 99.5%. We believe that superfunds should operate at 90% to 95% protection, which is the same level provided by the PPF, and then superfunds should still be underpinned by the PPF.

Our studies have indicated that a lot of members run a significant risk of not getting their benefits paid in full. At times it is as high as 50%. If you could reduce that risk from 50% to 5%, that is a huge win for the member. Reducing it from 50% to under 0.5% is just unaffordable. Alan mentioned a figure of £1 trillion as the buy-out deficit of the industry—I think it is close to three quarters—and the industry cannot afford that. That would represent a massive transfer of wealth to pensioners from their children and grandchildren.

The other factor here is that the buy-out market is just too small to meet the needs of the DB sector. If you take the last decade, the growth in DB liabilities alone has been five times the buy-outs that have taken place.

Q70 **Chair:** Could I interrupt and bring in Laura?

Laura Mason: The buy-out market is becoming very competitive; we are seeing an increased number of competitors in the market. Pricing is the most competitive it has been—probably ever, but certainly in the last 10 years. That is due to increased competition but also the scale that is starting to be seen, and also perhaps some move—like our US counterparts, which I think is a very good thing—to invest in different but safe assets, particularly in infrastructure and other things in the UK that almost give a secondary benefit to pension holders, especially when those investments are made in areas in which they live.

Those investments tend to be slightly high yielding and tend to have slightly higher people management costs, but they have been the driver in the competition in the bulk buy-in and buy-out market in the UK.

Q71 **Chair:** The PPF deals would show that, wouldn't they? Jon, do you want to come in on that?

Jon Hatchett: I want to come back to Nigel's point, to some extent, which is that I think we should move carefully with superfunds but not so slowly that we don't do anything for several years. The FCA has a concept of a regulatory sandbox. Ahead of legislation and full authorisation coming in, which is three years away, TPR are finding a safe way to adopt this so that we can learn in practice. Ashok has talked about the fact that, for various reasons, these things can take years to come into effect. I think we should start with TPR looking at the safest sort of governance structures that offer the best security for members in superfunds, and we should learn, rather than waiting three years before we experiment at all.

I fully agree that if schemes can afford buy-outs, they are safer for members. This is a solution for schemes that cannot afford buy-out. The question is: is it better than the status quo?

Q72 **Nigel Mills:** I like numbers. Mr Gupta, you said that what we can do here is to go from a 50% chance of being paid out in full to a 90% or 95% chance. Can you talk me through the steps? How much of that gap is closed because the sponsor puts more money in to facilitate the transfer, and how much is closed because a consolidated fund is just cheaper and generates better investment returns? How much is some kind of system magic that I do not quite understand?

Ashok Gupta: It comes down to the management of risk—investment risk and covenant risk. There has been a drive within the industry to de-risk investment strategies. What that tends to do is to crystallise the deficit and lock it in. It then has to be met by sponsor contributions, so you assume greater levels of covenant risk.

In my view, the industry does not focus enough on covenant risk and on looking at the two combined. We believe that de-risking the investment strategy and increasing the sponsor risk, net/net for the majority of schemes that leads to an overall increased risk to members.

Q73 **Chair:** These superfunds are less risk to the employer, aren't they, and greater risk to members?

Ashok Gupta: They are not less risk to the employer because to go into a superfund, the employer has to inject cash. The employer has to fulfil its obligations.

Q74 **Chair:** 100% funding?

Ashok Gupta: To the point where the superfund is prepared to take on the liabilities—to assume the liabilities. You move then from a commercial sponsor to a financial sponsor. A financial sponsor is only focused on managing liabilities.

Q75 **Chair:** If I turn up as an employer with a 100% funded scheme, superfunds may well say, "We are checking you out, and we don't want your scheme"?

Ashok Gupta: No; the superfund would be very happy to take you on. But because the scheme is already 100% funded and on the way to a buy-out, the trustees in that situation could say, "How is this good for our members?"

Q76 **Nigel Mills:** Mr Gupta, I think you are saying that the way to close the gap is for the superfund to have an investment return assumption that is a bit more risky than that which the individual fund can have. That could allow you to close the gap. You do not have to 100% fund it. You can 90% fund it and, by actuarial gymnastics, we can sort this out by having a better investment strategy.

Ashok Gupta: It is not by actuarial gymnastics. Assuming you get the right competition and, say, the superfund provider is prepared to take on a 90% funded scheme, they would have to make good the 10% gap through the investment. For example, we have seen with Canadian pension funds that, by having scale and a longer-term investment approach, they have been able to invest in infrastructure and other illiquid assets so as to exploit the illiquidity of the liabilities and get better investment returns.

Q77 **Chair:** Alan said that the one scheme that is in a position for take-off is not taking firms in which the scheme is 90% funded. They will only be considering firms with 100%. We are not getting the Canadian scheme at all, which has taken on and, by its investment policy, made good schemes that are currently in deficit.

Ashok Gupta: On day one, when there is only one superfund out there, it will be able to have greater choice and be more selective. If you get more superfunds, there will be more competition.

Q78 **Jack Brereton:** We have touched quite a bit on trustees and cases in which they have made poor and uninformed decisions about some of these issues. The Green Paper particularly identified concerns with that. In terms of trying to improve that and ensure that there is regular checking and accountability, do you think that there should be a requirement for annual reporting through a chair's statement?

Ashok Gupta: The chair's statement was one of our key recommendations. We believe it is dangerous to underestimate the amount of cultural and behavioural inertia and the vested interests out there. We believe that a chair's statement can be an important nudge to considering value for money, to improving governance, to improving transparency and to considering scheme strategy and whether or not the liabilities would be better in a different structure, such as with a consolidator.

Q79 **Jack Brereton:** In terms of regular intervention and taking action, do you think the Regulator should have more powers to take action where a chair's statement suggests that there are issues? Do you think that the Regulator should have more ability to go in and say, for example, that there should be a consolidation of those schemes?

Ashok Gupta: I agree that it is key for the Regulator to be able to move to a more supervisory approach and to take more pre-emptive actions, and to question the trustees as to what they are doing. The ability to do that with 6,000 schemes is always going to be limited.

Q80 **Jack Brereton:** Particularly over the power of consolidation, which I mentioned, do you think they should have the ability to go in and say to a scheme, "You must consolidate"?

Ashok Gupta: Whether they should have the power to force consolidation is a difficult one. I am not sure I would be prepared to go quite that far, but there may be situations in which it is appropriate.

Q81 **Heidi Allen:** Laura, I am struggling a little bit; I can see why the consolidation idea does seem like a bit of a silver bullet. I have two questions. Do you think—not wishing to get you into any kind of fight here—that the setting up of the superfund has been a bit previous? Do we need better or more established legislation and governance to make sure that, as you described, Mr and Mrs don't end up in very different environments, at the end of the day? I keep having Billy Bob in my head and the idea of a subprime sell off. I can just see this lovely book of business suddenly being quite attractive without the governance in place to make sure that does not happen. Maybe I am being paranoid.

Chair: It has happened in the insurance market, hasn't it, where this wonderful consolidation has taken place and then they have sold to influences abroad?

Laura Mason: There have also been a couple of weaker examples—both private equity backed in the UK—of insurance regulated consolidators, where the Regulator has stepped in and effectively they have been sold on to stronger insurance companies. I know we are not necessarily solving some of the problems that have been discussed today, but I believe we should not underestimate the complexity of both the assets side and the liability side, and the thought that has gone in—we don't always agree—with our Regulator to make sure that once these liabilities and these pension holders are on our books, first and foremost, they will get paid out. As I said, there are two key risks, really. One is longevity; people are living longer. The second is the assets risk; their investments can go wrong. It is on those two things that some sort of consistent regulation would make sense.

Q82 **Heidi Allen:** Coming on to the White Paper, is that an area that you would encourage Government to look at?

Laura Mason: Yes.

Q83 **Heidi Allen:** My second question is probably far too enormous to ask as a last question—sorry. We have talked an awful lot today about this middle chunk of business, and we have said, "This stuff up here is fine. For this bit here, maybe the solution exists in consolidation." What are going to do with all the other stuff? We haven't talked about that at all, really. The Government's White Paper should not just seek to fix the bit in the middle. It is with all of this stuff down here that, as Frank said, we have the real issues. Can you give us a flavour of what you would expect, or where we should be pushing Government for more to try to help with that? That is the ticking time bomb.

Chair: The size of this is three quarters of members in schemes, isn't it?

Laura Mason: Jon touched on it. That is almost the bit that has not been properly addressed. From my experience, as everyone has alluded to, it is at the middle to the top end. The other solutions probably don't go quite as far as the superfund idea, but Legal and General manage investments on behalf of some of these schemes, as do a lot of our competitors. I think the concept of making sure that we are offering value for money by pooling investments, so that people get access to a wider range of investments, is definitely one thing that should be thought about. That would be through vehicles of investment—set-ups that already exist.

Q84 **Heidi Allen:** It is spreading the risk a little bit and giving pensioners options.

Laura Mason: Yes, and working more closely with them. We do that as part of a longer term de-risking journey. That does not immediately involve Ashok's point about locking down your investment so that you are at a static point in terms of your deficit.

Chair: Very good. Thank you very much, all three of you. Thank you for coming in.