



THE PENSIONS REGULATOR GUIDANCE ON TRANSFER INCENTIVES

An IoD response to the Pensions Regulator Consultation

About the IoD

The IoD was founded in 1903 and obtained a Royal Charter in 1906. It is an independent, non-party political organisation of approximately 45,000 individual members. Its aim is to serve, support, represent and set standards for directors to enable them to fulfil their leadership responsibilities in creating wealth for the benefit of business and society as a whole. The membership is drawn from right across the business spectrum. 80% of FTSE 100 companies and 60% of FTSE 350 companies have IoD members on their boards, but the majority of members, some 72%, comprise directors of small and medium-sized enterprises (SMEs), ranging from long-established businesses to start-up companies.

Response to the Consultation

The Institute of Directors is pleased to have the opportunity to respond to this Consultation. Whilst we would not propose to respond in detail to all the consultation questions, we would wish to make the following observations.

- **PRINCIPLES-BASED APPROACH** We are supportive of this approach to regulation in general and welcome the Regulator's move to adopt this approach to Enhanced Transfer Values (ETVs) in Defined Benefit schemes. We think the five principles adopted in the Consultation capture the areas that should be of focus for members, Trustees and Employers.
- **RISKS TO SCHEMES** On page 10, you refer to the objective of making an ETV offer as "The purpose of making this offer will be to reduce risk and liability upon the employer." We think there are instances where an ETV can actually reduce risk for the scheme itself and remaining scheme members. Such an instance might be, for example, where a scheme has a handful of very high value deferred members amongst many more lower-value members. The early death of one of the former might pose a risk to scheme funding overall and it may be in the interests of the lower-value members that this risk is mitigated by an ETV exercise. We do, however, support the view that remaining members' interests must fully be protected in any such exercise.
- **RISKS TO DEPARTING MEMBERS** The Consultation rightly considers the need for members who are considering an ETV offer to be fully informed. On page 14, it is stated that "In many instances it will not be in a member's retirement interests to accept enhanced transfer offers, but only the member can truly determine whether it is the right option for them." We believe that there are many factors to be taken into account here, and these are to some extent recognised later on the same page. The decision to transfer to, perhaps, a personal pension is not purely a logical decision based upon the outcome of a transfer value analysis, but has emotional aspects, too. Many people do not want "their" money left in the control of an employer they may no longer work for. The urge to "control" their own pension fund is a powerful one, supported by consumer research. Where a member is fully informed and has taken truly impartial advice, we need to respect their decision to proceed should they still wish to do so, even where we as experts might think it against their best interests. And, as we have seen repeatedly over recent years, the notion that a Defined Benefit pension is "safe" can be seriously misplaced. We think that some consideration of this in the Guidance might be helpful.

We would be happy to discuss this further and would welcome the opportunity to do so if this would help.

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