I am writing to the Committee to offer the CBI’s view as part of your enquiry into the defined benefit pensions landscape. As the UK’s leading business organisation, representing 190,000 businesses across the UK, the CBI has a unique viewpoint on the work and role of the Pensions Protection Fund (PPF) and the Pensions Regulator (tPR) in regulating occupational defined benefit (DB) pension schemes.

The CBI believes that government action to support businesses’ growth is vital, as the ability to meet pension obligations and business prosperity are inextricably linked. Only a strong and growing employer can deliver security for members of their DB scheme. Alongside the protection for a DB scheme member a profitable sponsor offers, business needs a stable regulatory system. The CBI does not believe further changes to the institutional framework for defined benefit regulation would be in the best interests of sponsors, schemes or scheme members. On the legislative side, any changes should be based around evidence-based evolution, not revolution – this is a system which, in large part, is now working.

Stability in the DB regulatory system has largely been delivered by 2004 Pensions Act, through the creation of tPR and the PPF as a last resort for insolvent sponsors. Initial difficulties in how the Pensions Regulator approached schemes have now been resolved, in particular through the economic objective brought forward in the last parliament. This was designed to help an employer balance its growth prospects and pension obligations. Although still in its early stages, the new objective has been helpful for businesses. Many employers are finding themselves in a better position to support their obligations over the long term through this balance, though consistency amongst caseworkers remains an occasional issue for our members.

When it comes to the PPF, the Regulator rightly takes its role in protecting the fund very seriously. Businesses support a strong line on this, as the bulk of the cost of claims on the PPF is met by businesses that pay the levy. The CBI has always been firm in the view that this institution should only be the last resort for pension scheme members whose employer has gone insolvent, and that the Regulator should use its powers in a proportionate way to avoid claims on the PPF where schemes could be funded by other means. Through this approach, the PPF can ensure the long term sustainability of the fund.

The scale and cost of the PPF levy, and changes in its calculation that can lead to significant changes in the bill faced by individual companies remain an issue of concern for business. Overall, however, the PPF has been well managed and the total levy raised from business has been stable at levels lower than that feared by many firms when the PPF was first suggested, though higher than initial government estimates. Through its triennial levy review process, the PPF has also increased the notice firms have of upcoming changes to their own bills. It remains right, in our view, for the levy to be risk-based, as schemes should pay according to the risk which they pose to the fund. This is another route to ensuring that scheme sponsors are protected from unscrupulous firms taking a one-way bet on the PPF. PPF rules about benefit changes are also important to this question – the 2004 Act reached a reasonable settlement on the question of moral hazard which should not be unpicked lightly.

The DB landscape is a major challenge for employers to navigate and as our surveys show, does affect key business decisions, but our members are firm in wanting to deliver on their promises. Our members are broadly positive of the PPF’s role in the regulatory framework and extremely supportive of its purpose as is currently defined.
I would be happy to discuss these points further at a time convenient to you. I enclose a copy of our latest member survey on pensions for your information.

Neil Carberry
CBI Director, Employment, Skills and Public Services

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