
Britons transition to DC, step by painful step

By Editorial Staff Thu, Jul 24, 2014

Imagine if participants in doomed defined benefit plans could move their accrued benefits to a defined contribution plan. That seems to be what's happening in the UK as the country shifts to an all-DC, auto-enrolled pension culture.

The U.K. government has decided to continue to allow participants in certain defined benefit plans to transfer assets to defined contribution plans, after establishing that the volume of transfers would probably be too small to impact DB plan funding or the bond market, IPE.com reported.

The government said it could change its mind if the transfers become “burdensome.” Retirees who are receiving DB pensions won’t be able to transfer assets to a DC plan.

The asset transfers became an issue a few months ago after Chancellor of the Exchequer George Osborne announced that no DC participant would ever have to buy an annuity with their tax-deferred assets after they retire.

Suddenly there was an incentive for DB participants to transfer money to DC plans, and fears immediately arose that DB plans would have to liquidate large amounts of bonds to finance the transfers. The government reacted by barring transfers from unfunded public sector DB schemes, and launched a study to decide whether to bar transfers from funded public sector plans and private sector plans.

After discussions with industry groups and actuaries, those fears were determined to be unjustified. It was decided that funds could handle the cash flows. Transfers were expected to be would be uncommon and the growing demand for group or “bulk” annuities was expected to maintain demand for bonds.

In line with industry suggestions, the government will make independent financial advice for DB to DC transfers mandatory, with the cost borne by the participant in cases where the participant requests the transfer.

Transfers will be allowed in corporate DB plans and funded local government pension plans. In a statement, Osborne said the flexibility for DB schemes would, “at the margins,” require greater liquidity in plans.

The chancellor also said, despite the unlikelihood that transfers will destabilize schemes, trustees would be given more guidance on how to maintain sustainability within schemes, such as delaying transfers and reducing transfer values in ratio to underfunding.

A new consultation will now begin on giving DB members the right to transfer directly out of their plans, without having to go via a DC platform, something not currently possible.

The chancellor also confirmed the government’s commitment to at-retirement flexibility reforms for DC savers, and said consultation respondents were overwhelmingly in favor of the legislation and for it be in

place by April 2015.

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