
More chatter about 'defined ambition' plans in the UK

By Editor Test Thu, Mar 7, 2013

Britain is talking about creating a government-sponsored Pension Protection Fund that would "smooth" participant outcomes and bear the risks that private providers can't afford to shoulder.

The UK's pension minister, who has proposed a "defined ambition" approach to retirement funding that would spread longevity and investment risk among plan providers and plan participants, says the private sector might need public help in underwriting the guarantees that such plans would entail.

Speaking at a joint OECD/Pension Institute conference on defined contribution, Steve Webb said that a government-backed DC protection fund could be the best way to allow for cheap guarantees due to the "challenges" posed by the solvency requirements for private sector approaches.

"If we are going to have financial guarantees, they have got to be backed," Webb told a joint OECD/Pensions Institute conference on DC, guarantees and risk sharing yesterday. "Backing through solvency is very, very expensive."

He said individual banks had discussed with his department how best to achieve guarantees and that the Department for Work & Pensions (DWP) had been examining both the possibility of private and quasi-government solutions - the latter of which, he said, were potentially more able to provide security "cheaply."

Speaking at the same event, the chairman of the National Employment Savings Trust (NEST) Lawrence Churchill praised the proposed DC Pension Protection Fund (PPF), which Webb has described as a "smoothing fund" for participant outcomes.

He appeared to view greater risk sharing as a possible route, telling attendees: "We do need a better solution than merely transferring all of that risk onto those who don't understand it."

But Tim Jones, chief executive of NEST, noted that NEST had considered introducing a level of guarantee, but decided against it. He appeared to favor higher contributions by members rather than guarantees. He said it was important for "people to put more money in and to put that extra money to harder work."