“Canadian experience of risk sharing pension plans offers valuable insights for the UK in developing collective benefit schemes” says Pensions Policy Institute

The PPI is today publishing Briefing Note 69, ***Risk Sharing Pension Plans: The Canadian Experience.*** The briefing note draws on the experience of running “defined ambition” style pension plans in Canada, and highlights the potential lessons for the UK, to help inform the debate around the Government’s proposals in the Pension Schemes Bill 2014. As the individual provinces in Canada are responsible for setting their own pensions legislation, and as there are a number of existing pension plans already in operation that could fit within the new legislative framework that the Department for Work and Pensions is establishing through the Bill, Canada provides an informative case study of how these plans could operate in practice.

Mel Duffield, Deputy Director of the Pensions Policy Institute said, “The new PPI briefing note on the Canadian experiences of running risk sharing plans highlights valuable insights for the UK, in terms of the design, risk management and governance of these plans, their scheme rules, investment strategies, and how the target benefits and risks are communicated to members.”

Mel added, “The Canadian risk sharing plans have generally been introduced to address funding risks for employers with existing Defined Benefit (DB) pension plans, and are most commonly found where there are unionised workforces with mandatory pension participation. This differs from the context within the UK, where many employers have already moved away from DB plans to Defined Contribution (DC) arrangements and where pension participation is optional under automatic enrolment. However certain features of these plans, including the sophisticated approaches to risk management used, how their target benefits are being structured and communicated to members, and the potential for multi-employer arrangements to be set up under common regulatory frameworks, are likely to still be of interest to the UK pensions industry and to employers who may be reviewing their own pension arrangements.”

Risk Sharing Pension Plans: The Canadian Experience is the first in a series of two PPI Briefing Notes. A second Briefing Note will be published in the coming weeks, exploring the experience of risk sharing pension plans in the Netherlands.

ENDS

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Notes for editors

1. The Pensions Policy Institute (PPI) is an educational research charity, which provides non-political, independent comment and analysis on policy on pensions and retirement income provision in the UK. Its aim is to improve the information and understanding about pensions policy and retirement income provision through research and analysis, discussion and publication. Further information on the PPI is available on our website www.pensionspolicyinstitute.org.uk.

2. The Department for Work and Pensions (DWP) Pension Schemes Bill 2014 was introduced to Parliament on 26 June 2014. For further information about the Bill, including explanatory notes, and to track the progress of the Bill please view the Parliament website http://services.parliament.uk/bills/2014-15/pensionschemes.html

3. PPI Briefing Note 69, Risk Sharing Pension Plans is available on the website www.pensionspolicyinstitute.org.uk. The note explores the risk sharing pension plans operating across Canadian provinces and concludes that there are a number of specific considerations and challenges for the UK. These include:
   - the potential for shared-risk or collective benefit arrangements to extend to relatively small employers and pension plans if the governance overheads can be shared;
   - the challenges in persuading employers to set up shared risk or collective benefit arrangements where they are currently unable to convert existing DB rights over to these new pension plans unless they meet certain stringent requirements set out in UK legislation;
   - the increased need to establish trust, transparency and inter-generational fairness between different groups of workers in a landscape where workplace pension participation is not compulsory (unlike in Canada and the Netherlands);
   - the desire for “freedom and choice” from both employers and employees—with private sector employers likely to be attracted to offering different levels of contributions and benefits for their workers, and with employees likely to want to retain the option announced at Budget 2014 to have flexible access to their pension savings from age 55 onwards;
   - the appropriate tax and accounting treatment for these plans—with the proposed tax treatment of target or collective benefits that can potentially be changed in future (subject to the funding position of the plan) yet to be confirmed.