Dear Mr Field,

Thank you for your invitation to appear before the Work and Pensions Select Committee to comment on issues related to the White Paper on Pensions recently published by the Department for Work and Pensions.

As background, Legal & General, established in 1836, is one of the UK’s leading financial services groups. Around fifteen million people worldwide rely on us to help them save for the future, to provide their pensions in retirement and to protect their families and their homes.

We provide pension income and security to more than one million people. Over 300,000 of these customers are already receiving income from previously company-sponsored Defined Benefit ("DB") schemes (pensions in payment). We also have 140,000 DB customers from schemes whose pensions fall due later (deferred pension customers). In addition, we manage the pension savings for 2.7 million auto-enrolment pension holders.

At a time of high and somewhat volatile deficits, managing pension risk in DB schemes is crucially important for companies and even more so for scheme members. We are leaders in de-risking through Liability Driven Investment ("LDI"), and have a leading market share in 'Pension Risk Transfer' ("PRT"), which includes buy-ins, buy-outs and longevity insurance provision. We are proud to have built a specialist organisation to manage risk and improve benefit security for members – we have now been doing this for over thirty years and have never reduced pensioner benefits in schemes that have transferred to us.

We regard success in this sector as requiring three characteristics:

1) In-depth knowledge of investment management and longevity, plus the technical ability to transact in often complex circumstances.
2) Long-term commitment to the financial, investment and administrative success of the scheme and its members.
3) Capital strength including regulatory capital buffers and a credit rating which minimises risk to scheme members.
Taking these three issues in turn:

1) Our track record illustrates a capacity to execute PRT transactions ranging in size from below £10m up to multiple billions of pounds. Each transaction is bespoke: longevity profiles and benefits differ widely from scheme to scheme. Even for small schemes, there is no “one size fits all” when it comes to assuming risk and maintaining complex benefits which have been promised to members. The optimum outcome for schemes may also differ. For example, buy-in versus buy-out, each of which can apply to all or part of the scheme: pensions in payment, deferred pensions or particular cohorts.

Investment expertise is crucial. Pension schemes are uniquely able to invest for the very long term. We have made a commitment to investing in UK infrastructure, including urban regeneration, housing (including the private rental sector), clean energy and later living facilities in all the regions of the UK on behalf of our pension holders.

In the last three years L&G has directly invested nearly £15 billion into the UK economy; creating a ‘virtuous circle’, of pensions investment that sees all generations benefiting. The investments we make on our customers’ behalf have so far included the £400m Cardiff City Centre regeneration, the £350m Newcastle Science Central development and the £250m London Gateway Port, as well as purpose-built housing for students and older people.

2) Administering, steering and safeguarding a pension scheme needs a team who are highly skilled, trained to the highest standard and experienced; we have all three. At Legal & General we regard it as a privilege to administer pensions for over one million people. In 2017, the L&G Retirement pensions team responded to 140,000 calls, digital interactions and written enquiries from our customer base of over one million people. In Cardiff, Hove and London we have experienced and dedicated teams of pensions experts whose roles are to ensure that our pension holders receive the income they are expecting on time, that the amount they receive is correct and that their funds are looked after to the highest standards.

We also have teams providing the support people need in managing their pension income. Having worked with pensions customers for many decades, we particularly understand that some of them can, for a time, be vulnerable. Our teams in Cardiff, Hove and London are proud that, in 2015, we introduced a ‘Vulnerable Customer Policy’ and since then we have seen the beneficial impact this way of working can have for our members. For example, we have worked alongside the Elderly Accommodation Counsel, Age UK, the Samaritans and Step Change so that our employees understand (often at first hand) how to engage with and support vulnerable pension holders. We have a dedicated bereavement team, who have received specialist training. We have also involved third sector specialists in our product development to ensure that the appropriateness of our products is designed-in.

3) Delivering a high-quality service for members is one responsibility of managing a pension scheme. At the systemic level the incomes of our pension holders are safeguarded by the £7bn+ of surplus capital we hold, our £2bn+ of credit reserves and by the regulatory system we operate in. As the pensions system moves forward we regard it as crucially important that all members of DB schemes are afforded the same level of protections; it is difficult to see the equity in a system where there would be one safeguard for some pension holders and a lesser safeguard for others on the basis of whether it was retained by the firm, an insurance company or a form of new ‘superfund’ for example.

Turning to the ‘Superfunds’ idea contained in the White Paper, Legal & General welcomes any suggestions to create a better outcome for the UK’s pensioners – providing that all providers are subject to the same advanced level of conduct and prudential risk regulation. In a matter so important for the future of millions of people we think there are some important questions to ask about the nature, purpose and operations of the proposed Superfunds:

- Will Superfunds be regulated by the Prudential Regulation Authority so that pension holders can be confident that all schemes are regulated appropriately?
- Will the Superfunds hold capital to the same extent that insurers do under Solvency II? If not, how will the Government ensure that these funds can manage (to the same extent that insurers can) during a period of stress?
• What will be put in place to prevent solvent employers from placing their schemes into a Superfund to extract themselves from the obligations they agreed with the members?
• How will the Superfunds address the complex administrative needs of members? What assurances will be put in place to ensure that members can access the help and information they need about their pensions?
• How would the Government ensure that the conduct arrangements for Superfunds were the same as those for other operators of Defined Benefit Schemes?
• How would the Government ensure that Superfunds were equipped to support vulnerable customers?

The last decade has seen the pensions landscape in Britain change for the better. A big part of this improvement has been because of the changes to the regulatory system. For the remaining members of DB Schemes, it must be right that the systemic improvements continue and that all schemes should be regulated by the same body.

Legal & General has always worked hard to be economically and socially useful and we recognise our ageing society as a great opportunity to fulfil our purpose. We will always welcome reforms that improve the security of our customers and I look forward to discussing these issues in the forthcoming session.

Yours sincerely,

[Signature]

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