An Update on Clara-Pensions and Defined Benefit Consolidation

I am grateful for the opportunity to update the Committee on Clara-Pensions and the development of consolidation for defined benefit pension schemes. I previously wrote to the Chairman, at his request, on 16 July 2018 to provide an overview of how Clara brings pension schemes together, our wider model and what ‘Member-First’ means in practice.

Clara has developed significantly since last summer. The next stage of our journey is to bring our first transactions to The Pensions Regulator (“TPR”) and to work through the clearance process with them. We believe that consolidation, and Clara, continue to offer a significantly improved likelihood of pension scheme members receiving their promised benefits in full.

Safer Pensions

The consultation launched by the Department for Work and Pensions in December on “The Consolidation of Defined Benefit Pension Schemes” rightly triggered a debate on the appropriate authorisation and regulatory regime for defined benefit (“DB”) consolidators. Clara is strongly in favour of robust authorisation criteria and a strong pensions regulatory framework. Clara’s full Consultation response is available on our website and we have included a copy with this letter for your reference.

Consolidation will bring benefits to members, but new policy should be subject to scrutiny and careful consideration. The Government is currently considering the Consultation; and their own response will be an important element in realizing the full promise of DB consolidation. DB consolidation is Government policy. It has, however, been unfortunate that the Government’s support for consolidation has faced criticism from outside of pensions. We recognise the need for debate of genuine issues but are also concerned it has caused disproportionate delay to a pressing matter.

I would like to summarise the key principles underlying consolidation.
1. **Safer Pensions** – Consolidation is about delivering better pension outcomes for members than they could hope to be achieved by their current sponsor. If consolidation does not offer a safer pension today and better outcomes going forward, it follows from their existing duties of care and governance structures that transferring trustees would not, and should not, be able to give their consent.

2. **Consolidation is Good Policy** – It is common ground that bringing multiple DB schemes together should result in the better use of resources and stronger governance. It is clear across UK pensions that the Government’s policy is to encourage both pooling and professionalisation. Consolidation will create economic value, but there is a valid policy question as to both when and how that value is shared between stakeholders.

3. **Consolidators are Pension Schemes** – The legal position is clear. Consolidators are pension schemes and consolidation is deliverable today under the current legislative and regulatory framework governing occupational pensions. The Pensions Regulator is already responsible for the pension schemes that will transfer into consolidators. It is logical that they should continue to regulate going forward.

4. **Consolidators should be subject to Authorisation and Regulation** – There needs to be a strong and clear authorisation and pension-based regulatory regime for consolidators. This is Clara’s firm position. If consolidation is about delivering safer pensions for members first, strong regulation is in the best interests of all.

**The Clara Model**

Clara formally launched in September 2018 with a unique answer to the challenges of consolidation and based on the clear principle of putting members first.

**Member-First**

Clara’s solution gives corporate sponsors a compelling reason to fund their pension schemes today. By exchanging the existing, unfunded sponsor covenant for Clara’s fixed, funded and transparent financial covenant members get a safer pension today. In exchange for fulfilling their pension promises, sponsors get certainty and the freedom to focus on the future of their businesses with confidence.

Clara’s solution has three features which set it apart from competing models and distinguishes Clara as the member-first consolidator for defined benefit pension schemes:

1. **Bridge to Buy-out** - Insured pension provision is the “gold standard” outcome for members. Clara lowers the risk of the journey from the trust-based to the insurance-based environment. Rather than holding members back in a run-off vehicle, Clara is a bridge to insured buy-out.

2. **Shareholder returns subordinate to Members’ Interests** - Clara’s permanent and funded capital travels the full journey to buy-out with the members of each section. Clara is the member-first consolidator; therefore, capital and profit can only be returned after members have had their full benefits secured. In the unlikely event a section of Clara faces difficulties, capital faces losses before there is a risk to members.

3. **Sectionalisation** - The assets and liabilities of each pension scheme that are consolidated into Clara will become their own section supported by its own ring-fenced
and funded capital. Sectionalisation provides certainty that the capital and assets available to secure members’ benefits within Clara are not exposed to contagion risk from past or future transactions. Expressed differently, although Clara’s covenant is fixed, it is always clear.

Member-first also means aspiring to deliver an engaging and accessible member experience and Clara is committed to delivering a member service that meets this standard as we scale. Clara is strongly supportive of the Pensions Dashboard initiative. Clara believes that digital-first is member-first.

People
At its heart, Clara is a well-run, well-funded pension scheme, overseen by independent trustees with a clear duty to members. Meaningful governance is essential to unlock the full promise of consolidation; and Clara’s board of trustees is comprised of three professional, independent trustees from three separate trustee firms. On 12 September 2018 we were honoured to announce¹ Alan Pickering CBE as our inaugural chair of trustees together with Michael Chatterton and Frank Oldham.

Governance is not just a pension matter. Clara’s management team is well supported at the corporate level by our chairman, Lawrence Churchill CBE², and our experienced non-executive directors: Steve Groves³ and Gill Tait.

Capital
DB consolidation holds out the promise of safer pensions for members and a clearer future for their current corporate sponsors. Although DB pension liabilities have been a barrier to investment in UK plc, consolidation can attract capital to invest in the UK - and in UK pensions in particular.

In my previous letter to the Chairman of the Committee, I was not able to fully answer the Chairman’s questions in relation to Clara’s source of capital.

On 19 December 2018 Clara announced⁴ that TPG Sixth Street Partners (TSSP), the global credit investment firm, became Clara’s provider of long-term capital. This announcement was not just a vote of confidence in the Clara team, but more importantly in Clara’s solution. Capital is available to support the right consolidation model.

Interest from Trustees, Sponsors and Advisers
A significant development over the past year for both Clara and DB consolidation is the rising level of acceptance within the pension sector. While consolidation is not a panacea, it can certainly be a real solution for a large number of schemes and their members.

Both Lincoln Pensions\(^5\) and Hymans Robertson\(^6\) have published surveys to illustrate this point, but Clara experiences this directly in our interactions with potential clients.

Since the beginning of 2018 Clara has had discussions with trustees and/or sponsors of 80 schemes (69 remain ongoing) and which together represent £17.5 billion of liabilities. These schemes represent a wide range of sizes (£5 million to £1 billion) and a wide spread of buy-out funding levels (41% to 95%).

Clearly not all opportunities will progress to transactions, but these figures are much higher than our most optimistic estimates of 12 months ago. The meaningful conclusion is that schemes and sponsors want and need new solutions that deliver safer pensions to members where an insured outcome is not possible in the foreseeable future.

If the Committee, the Chairman or any individual member requires further detail, please do not hesitate to contact me.

Your sincerely

Adam Saron
Chief Executive Officer

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