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BRIEF AHEAD OF THE HOUSE OF COMMONS DEBATE ON PENSIONS REFORM ON TUESDAY 27 JUNE 2006

PROMOTING GOOD WORKPLACE PENSIONS: THE CASE FOR RISK-SHARING SCHEMES

We hope Members find this short brief on risk-sharing schemes useful as a background to the debate on pension reform scheduled for Tuesday 27 June 2006.

The White Paper includes further consultations on a new national pension savings scheme. We have concerns about such a scheme - particularly its potentially adverse impact on good existing workplace arrangements and remaining concerns about its possible mis-sale to those on low incomes - but we fully understand the desire to extend private pension coverage to a much wider group.

However, the proposed new national pension savings scheme is not enough.

The new national pension savings scheme will be a defined contribution arrangement placing 100% investment and longevity risk with employees. We are concerned that for the lower-paid this type of arrangement is particularly unsuitable due to the volatility of investment markets and annuity rates. The pension delivered for the same savings will be quite different from year to year, depending on markets at the date of retirement.

Whilst we accept many smaller firms will be unable to go beyond this type of scheme, we do believe many mid-sized to larger employers want to do more.

Due to cost and in order to cap forward liabilities, they may be about to or already have closed a final salary scheme in favour of a much more modest defined contribution scheme. However, we believe many have real concerns about the resulting pension risks being placed on employees, particularly the lower-paid, and with the right climate, would be open to consider a change to a modest risk-sharing scheme.

What are risk-sharing pension schemes?

Risk-sharing schemes vary in their design, but essentially they share investment and/or longevity risk between employers and employees.

As such, they can better protect employees from market volatility ahead of retirement. Depending on their design they may also overcome the inadequacies of the annuity market.

Risk-sharing schemes will not generally offer benefits at the same level as traditional final-salary scheme, where employers take on 100% of the investment and longevity risk. However, risk-sharing schemes can provide a more reliable benefit platform for employees than a defined contribution arrangement. Employees could build on this benefit platform by making additional contributions depending on their personal choice between consuming today or saving for tomorrow.

Importantly, for employers, provided the legislative and regulatory climate is improved, these risk-sharing schemes should be affordable into the future, whilst also offering advantages in terms of recruitment and retention of staff.

The de-regulatory review announced in Chapter 2 of the White Paper offers a real opportunity to re-shape the pensions legislative climate to promote risk-sharing schemes. The ACA will be making the case for the easements necessary to bring this about, which will help bridge the gap that is emerging between pensions provision in the public and private sectors.

We hope Members will support the risk-sharing revolution.

Kind regards.

Yours sincerely,

Ian Farr

Chairman

Association of Consulting Actuaries

About the ACA

The **Association of Consulting Actuaries (ACA)**, which forms the largest national grouping of consulting actuaries in Europe, has over 1500 members working in around 80 consulting firms. Members are advisers to UK pension schemes with assets in excess of £700 billion, including the vast majority of larger schemes and thousands of smaller arrangements, and to insurance companies.

26 June 2006