ASSOCIATION OF CONSULTING ACTUARIES

PRESS RELEASE

GENERAL ELECTION 2017: ACA MANIFESTO CALLS ON PARTIES TO OUTLINE CLEAR POLICY PATHS ON THE FUTURE OF PRIVATE AND STATE PENSIONS.

4 May 2017: The Association of Consulting Actuaries (ACA) has published today its manifesto for initiatives that it feels should be addressed in the parties' manifestos, due out over the next few weeks. The ACA is calling for 'joined up' policies that boost savings and incomes in later life, whilst acknowledging these must keep within realistic spending targets for employers, employees and the State.

Commenting on the areas where the ACA would like to see the parties make meaningful commitments, **Bob Scott, ACA Chairman** said:

"On private pensions, we want the parties to be much clearer on what they intend to do over the next 5 years to extend auto-enrolment pensions to what will be, by 2018, over 8 million employees presently excluded from the scheme. We also feel the public need better to understand why minimum AE pension contributions need to increase and what the parties are proposing in this area.

"On defined benefit pensions we doubt the TPR needs to be given major new powers to protect members' interests – many of its existing powers have rarely been exercised. Indeed, a 'knee jerk' reaction to a handful of hard cases could be counter-productive in undermining what remains of DB provision.

"More important, we detail – summarised in the **attached manifesto** – the flexibilities needed to help employers offer sustainable and secure DB arrangements into the future, including the pre-requisite reforms to allow schemes the opportunity to voluntarily consolidate with other arrangements in a cost-effective way.

"On savings generally, we strongly favour a simplification of the range of ISA vehicles presently on offer, which we feel only serves to confuse the public. We also see early access to a proportion of savers' pensions as a possibly useful assistance to house purchase, where the Lifetime ISA build-up of funds will be modest for many years ahead.

"On State pensions, we see no reason for the parties not to honour the 2015 pledge for the 'triple lock' to run until 2020, but thereafter – on grounds of equity – we feel the commitment should ease so State pensions grow in line with either earnings or take into consideration a number of factors, including changes in earnings and prices, and pensioners' income and consumption needs in general.

The State Pension Age should also increase to age 68 between 2037-39 as recommended by the recent independent inquiry.

"We urge the parties to be more specific as to how the developing social care crisis will be addressed. It is clear without a major range of policy initiatives, perhaps involving social care vouchers and the launch of social insurance schemes, the strain on NHS resources and on local authority budgets will escalate as the numbers needing help grows. Politicians have 'fudged' the issue for too long and we are hopeful that the public is prepared to accept the implications of policies that begin to turn the problem around for the longer-term."

The ACA Retirement Income and Savings manifesto is attached, with copies available at www.aca.org.uk (see 'Publications'). During the campaign the ACA will issue its General Election *Placard* paper, commenting on and summarising the main parties' manifesto policies on pensions and savings. For the 2015 General Election *Placard* see http://www.aca.org.uk/files/Placard_-_parties_pension_manifestos_-_UPDATED_8_MAY_2015_-8_May_2015-20150508155203.pdf

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About the Association of Consulting Actuaries (ACA)

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and all actuarial advice given is subject to the Actuaries' Code. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of private sector defined benefit pension schemes. The ACA is the representative body for UK consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body.

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Manifesto Appendix:

ACA Retirement Income and Savings Manifesto

Overall pensions and savings approach

The overall philosophy of the UK Government should be to continue to boost saving for later life focusing on the promotion of a wide range of flexible retirement arrangements as part of a broader approach to encourage lifetime savings. Financial incentives should be greatest for savings locked away for the long term, with legislative and regulatory prescription minimised and simplified. Further legislation/regulation should only be considered to maintain the protection of members' benefits, and provided it does not trigger wider reductions in existing provision.

The ACA's 9-point manifesto advocates to the political parties seeking to form a Government that:

Auto-enrolment (AE) pensions

1. **The party manifestos should set out their plans to build on minimum AE contribution rates after October 2019**. With the next Parliament likely to sit until June 2022, the parties should spell out in their manifestos what plans they have to boost minimum contribution rates into AE pensions after October 2019, when minimum contributions reach 8% of qualifying earnings. It is widely recognised across all the political parties that the 8% minimum rate is inadequate over the longer-term to build and provide for a comfortable income in later life. At present, the 2017 review of AE, due later this year, does not fully encompass a review of contribution rates.

2. **Too many employees, encompassing most of those earning less than £10,000pa (including many women), the self-employed and those engaged in the 'gig economy, are presently excluded from joining an AE scheme.** Millions more workers need to be saving for income in later life and contributing at AE minimum levels or above. Even if those savings are modest, they will provide employees with choices which are particularly important as healthy life expectancy is becoming more varied across different segments of the population and as State Retirement Age increases. The party manifestos should outline the path ahead.

Defined benefit pensions

3. To help with the sustainability and following on from the DWP *DB Security and Sustainability consultation* we urge the parties and incoming Government to commit to:

    a. **Legislation to allow a new flexibility to enable employers who are no longer in a position to provide the promised benefits to be able to compromise to a level between PPF compensation and full benefits – subject to key safeguards and where this is demonstrably in the members' interests.** This facility needs to be more flexible than the Regulatory Apportionment Arrangement route and cheaper to implement so that it is available to smaller employers as well

    b. **Provide a statutory override – shared by the trustees and scheme sponsor – to allow defined benefit schemes whose rules 'embed' RPI to be able to switch to an alternative index.** A shared power would provide safeguards and from a member perspective, offer the opportunity for trustees to seek an increase in member security when such a switch is sought.

    c. Subject to certification, **defined benefit schemes should be able to simplify legacy benefit structures** so they can reduce scheme administration costs and facilitate hedging and buy-out options. This simplification would also facilitate the introduction of the pension dashboards and help members to better understand the total value of their benefits. It is also felt that this is an essential first-step if voluntary consolidation of schemes on any scale is to successful.

Taxation of pensions

4. **The party manifestos should specify what further pension tax reforms, if any, are to be pursued in the next Parliament, given the resulting personal financial implications. We strongly urge that any measures are 'one-off' for the Parliament and prioritise the need to simplify the tax regime, which is now not fit for purpose.** For example, in our view, the Lifetime Allowance and tapered Annual Allowance should be abolished as they discourage pension saving and are resulting in the early retirement of key elements of the workforce, many of whom are not on high incomes, to avoid penal tax charges. Once simplified, there needs to be a commitment to long term stability of tax and savings policy so that people can plan for the long term.

Inter-generational fairness and ISA savings

5. **To provide greater incentives for higher levels of pension savings by younger employees, the party manifestos should include an extension in pension freedoms allowing early access after 10 years of savings to a proportion of individuals' pension funds currently available only from age 55** to help fund house deposits and/or to meet a short and specific list of other eventualities. This initiative would supplement the modest build-up of funds for house purchase possible via the Lifetime ISA.

6. The party manifesto should commit to **simplify the ISA product range** so there is just one product for adults (as opposed to four products at present) which they can save into for any purpose. Competing products are unhelpful and are confusing for those who are unsure where to place modest savings.

State Pensions

7. **We believe the 'triple-lock' should be retained until 2020 reflecting the commitment made by the current Government given ahead of the 2015 General Election.** From 2020, we recommend that the State Pension should be increased either in line with earnings or be set annually as part of the welfare state components of the Budget, taking into consideration a number of factors (including changes in earnings and prices, and pensioners' income and consumption needs in general). Increases to the State Pension should balance affordability with adequately rewarding those who have contributed, whilst also preventing wide-scale pensioner poverty.

8. The party manifestos and incoming Government should confirm that the **State Pension Age increase to age 68 over the period 2037-2039** as recommended by the *Independent Review of State Pension Age* final report.

Social care

9. The parties have 'fudged' decisions to meet the cost of supporting social care and as a result this is seriously impacting on NHS resources/performance and is also stretching local authority budgets. **We believe that a longer-term solution requires a range of solutions to suit different age groups and we welcome the parties outlining a comprehensive approach that encompasses ideas such as tax-free social care vouchers for those supporting older relatives in care and consideration of a social insurance scheme that might be suitable for younger people.** Such an approach needs to be part of the integrated savings policy for later life.

4 May 2017