



Government's 2007/08 pension reforms must go beyond personal accounts...

ACA CHAIRMAN SEES EXCITING OPPORTUNITY FOR NEW RISK SHARING PENSION SCHEMES

22 November 2006 – In a major speech to many leading figures from the pensions industry and business, the Chairman of the Association of Consulting Actuaries (ACA), Ian Farr, has outlined how the Government can encourage good new workplace pension provision in its legislative programme for 2007/08. By supporting the development of a new simple regulatory regime for risk sharing pension schemes, the Government can kick-start growth of good workplace schemes, as well as setting minimum standards through the development of personal accounts.

“At present, we are seeing the widespread transfer of 100% investment and longevity risk from the employer to the employee, as money purchase schemes replace final salary schemes. Whilst for the well paid this change may be manageable, for the less well off there are big dangers.

“For many, money purchase arrangements will mean either high volatility in returns or low returns, depending on the risk individuals are prepared to take. For very many a ‘default’ investment decision will be made, with the individual having little appreciation of the risks involved or how that decision might affect returns. The volatility of money purchase pensions for those on lower incomes can be very worrying,” noted Ian Farr.

“So, is there a better way and one where employers are prepared to continue to provide pensions at levels better than for personal accounts? I am sure the answer is ‘yes’. True, the days are passing where many employers are prepared to meet the risk inherent in balance of cost final salary schemes. Longevity improvements and excessive regulation have driven costs and forward liabilities to the point that few companies are prepared to sponsor such arrangements for all employees long into the future.

“But, of key importance, the Government – through the deregulatory review – can breathe new life into workplace pensions through a genuine, straightforward, unambiguous easing of the supervisory regime for new risk sharing schemes. Risk sharing schemes are those that fall between money purchase and balance of cost final salary schemes – some may look like

career average plans, but they will incorporate features that will allow risks to be shared between employers and employees.

“I envisage that new risk sharing schemes will in most cases provide a modest benefit platform, at a materially lower level than current final salary schemes, on top of which employees can build from their own resources on a money purchase basis, making their own personal choice between consumption and saving.

“I believe there is serious interest in a new regime for risk sharing schemes, not just from within the pensions industry and from bodies like the CBI, but also from the House of Commons Work & Pensions Select Committee and from Government itself.

“I think it possible that we can devise a new risk sharing regime which could be politically non-controversial. This would enable those mid-sized to larger employers who can afford it to offer their employees a collective mechanism, devoid of cross subsidies, for the delivery of a more certain retirement income. Such a regime could also help to ease the growing polarisation between private and public sector pensions.

“There is a window of opportunity to achieve the legislative changes necessary in next year’s Pensions Bill that will introduce the detail of the personal accounts regime (expected in the next Queen’s Speech in November 2007). In the period ahead, the ACA will be promoting vigorously the virtues of this new risk sharing regime and we will be looking to support from industry, the workforce, other pension bodies and Government to build this new framework – a legacy that promises to offer an important benefit for future generations,” concluded Ian Farr.

A copy of Ian Farr’s speech is available at www.aca.org.uk (Policy statements page from 23 November 2006).

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Notes for Editors

The **Association of Consulting Actuaries (ACA)** is the representative body for consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies. The ACA has over 1500 members working in around 80 firms. Members of the ACA provide advice to thousands of pension schemes, including most of the country’s largest schemes. ACA members include the scheme actuaries to schemes covering the majority of members of defined benefit pension schemes.

ACA Members are all qualified actuaries and are subject to the code of professional conduct of the Faculty and the Institute of Actuaries. Advice given to clients is independent and impartial. The ACA forms the largest national grouping of consulting actuaries in Europe.