



## **ACA CHAIRMAN IN CALL FOR 'AFFORDABLE' LOWER COST DEFINED BENEFIT PENSION SCHEMES**

**29 September 2004 – Adrian Waddingham, Chairman of the Association of Consulting Actuaries (ACA), has called upon government and employers to jointly support the concept of 'affordable' lower-cost defined benefit pension arrangements as a key part of the solution to the mounting crisis in UK pension provision.**

"The Pensions Bill has lost its way. The original intention, when the government started its consultation process, was to simplify occupational pensions, so that more employers and employees would be keen to offer and join such schemes. These good intentions have been almost entirely lost in legislation that concentrates on adding protection," said Adrian Waddingham, speaking at the Association's Annual Dinner in London.

"Alan Pickering, in his path-finding report, warned government what was wrong. The government should have stuck to the big pension picture. Instead, as the months have passed and the 'pension crises' headlines have appeared, they have panicked. The result is a growing mess of over-regulation and almost daily announcements, to serve the latest political need, with little evidence of a well-worked plan of action. The Pension Protection Fund (PPF) was sprung on us, with high levels of benefits mentioned without any real costings or consultations. We have argued for less ambitious benefits, improving these as we all gain experience of the pattern of claims. No, says the government, we have powers to cut benefits if the PPF gets into trouble. Good policy making?"

“Next, comes the Financial Assistance Scheme – again announced with even less idea as to how a modest £400 million would be shared out. Next, more Member Nominated Trustees...Next, the speed of announcements getting ever quicker, employers paying ‘decent’ pension contributions may be required to automatically join up employees to their pension scheme. Good idea though this is, I am not sure what employers paying ‘indecent’ contributions have to do – apparently not a lot!

“So what would the ACA have the government do? We certainly oppose further compulsion. Occupational pension schemes work best when employers want to set them up. A pension scheme that an employer has been forced to set up or which he is ‘required’ to join members to is likely to be modest, at best.

“We are appealing as loudly as anyone – indeed alongside almost everyone aside from the Chancellor – for reform of state pensions. The Pensions Bill here tinkers when radical measures were needed. We believe that society should commit to a better state pension by raising state pension age. A higher pension age is a worthwhile trade for a better state pension. Making pensions – public and private – affordable is the only way we will get them back. It is tragic that the new Secretary of State ruled this out even before he had got his feet under his desk. In my view, he will come to regret that decision,” said Adrian Waddingham.

“The state increased the pension age for women to 65, albeit with plenty of warning. That was a good move. But why cannot a company pension scheme do the same to bring costs under control? It is not the employer’s fault that we are all living longer – increasing retirement age by say 2 or 3 years but with at least 15 years’ prior notice would be as sensible in the private sector as it was for government and should be allowable.

“Higher means tested benefits for pensioners may have helped address a short-term problem, but it has and will destroy the savings ethic. Pensioners should share in the growing wealth of society and not be beneficiaries of the state’s charity.

“We need to save more and work longer. Before the legislators introduced Limited Price Indexation, revaluation of deferred pensions, spouse’s pensions and before better social conditions helped improve life-spans, willing employers across the nation doubled-up on employee pension contributions – the employee paid 5% of earnings and the employer 10%. To achieve the same pension result now means employers must pay around 20% or 25% to match the employee’s 5% and, not surprisingly, that has become unacceptable in a highly competitive world where overall costs have to be kept down. It is no good wishing this were not the case and designing all sorts of regulations to protect the status-quo – times have changed and pension arrangements must keep pace with the changes in society and economics,” said Adrian Waddingham.

Adrian Waddingham noted that it was not beyond the wit of actuaries to design good schemes on the two to one model. “The key is the pensionable age. If we can start planning now for schemes that will deliver benefits at, say, 70 we can once again afford good workplace-based schemes. We do not need a retirement age of 70 tomorrow. Even going for 68 in twenty years’ time would help enormously.

“I believe defined benefits served Britain well and can do so in the future. Employees and their employers continue to value the greater certainty in benefits that the vast majority of these schemes still provide. Employers should be positively encouraged to provide affordable defined benefit schemes. Could a 5% employee and 10% employer scheme provide worthwhile benefits? My answer to this is - yes. For example, this could fund a 1% of career-average salary per year of service payable at 68 (moving to 70 over time) with partners’ benefits of 60% and discretionary pension increases. And add in our old friend the tax-free lump sum, but designed for a purpose this time. Let the lump sum be say 5% for each year of service and payable at 65 not 68. The purpose then is to give retirees some financial support from 65 to 68 if they are in fact no longer at work.

“And add in a new government incentive. Modest, but proving government’s commitment to good schemes. A 1% reduction in employer NI for those employers offering such a model scheme (and those continuing to operate similar schemes). Over the longer-term, I suspect that this will cost a lot less than an ever-increasing number of pensioners dependant on means-tested benefits and all the indignities and bureaucracies associated with such a policy.

“Such new “two to one” schemes would probably best sit on top of improved state benefits. Contracting-out currently holds few attractions to those setting up new schemes – the rebate terms are just not good enough. And how pleased would both we and government be if once again a significant proportion of the workforce retired on the higher state pension, and a work pension of say 30% of earnings. Then the Treasury and DWP could say, hand on heart, “Crisis? What crisis?” concluded Adrian Waddingham.

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***Note to Editors:***

The **Association of Consulting Actuaries (ACA)** has over 1500 members working in over 75 firms. Members are advisers to UK pension schemes with assets in excess of £650 billion, including the vast majority of larger schemes and thousands of smaller arrangements. The ACA forms the largest national grouping of consulting actuaries in Europe.