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*The ACA's latest Pension Trends Survey 2005 finds 68% of firms say Government policy on occupational pensions is not working...and 62% say 2004 Pensions Act will reduce occupational provision...*

## **ACTUARIES' CHAIRMAN OUTLINES PENSIONS MANIFESTO AS SURVEY FINDINGS POINT TO FAILINGS OF PENSIONS POLICY AND NEW PENSIONS ACT**

**15 April 2005:** Adrian Waddingham, Chairman of the Association of Consulting Actuaries (ACA), the body representing UK based consulting actuaries, has outlined a *Pensions Manifesto* for the incoming government, following the General Election, to consider if it is to achieve an increase (rather than a reduction) in coverage of employees by 'good' pension arrangements. The manifesto has been published to coincide with the first results of the ACA's latest *Pension Trends 2005* survey, which has found considerable disquiet with the overall path of pensions policy towards occupational pensions and the latest *2004 Pensions Act*.

The ACA survey, completed by 392 firms with scheme assets exceeding £131 billion and with over 2.8 million members, found **68 per cent of firms say current policies to promote occupational pensions are not moving in the right direction**. Worryingly, **62 per cent of firms also say the new Pensions Act actually will have the effect of reducing occupational provision**. 82 per cent say it will add to costs, not reduce them as claimed by regulatory assessments supporting the Act's measures.

Speaking at a dinner attended by many leaders of the pensions industry, Adrian Waddingham, said:

"Something must be amiss when, having just passed a major Pensions Act after long and involved consultations, the Government – within weeks – is hinting a Pensions Bill will be a high priority in the next Parliament.

"Our latest pension trends survey, conducted earlier this year, the first results of which are being published this week, underscores our concerns, with firms

expressing grave disquiet with public policy towards occupational pensions,” commented Adrian Waddingham.

“In the end, the 2004 Act followed in the tradition of public pensions policy over the last couple of decades, that somehow the extension of occupational pensions can best be encouraged by adding protective measures despite the adverse regulatory costs associated with such a strategy. Whilst we accept actions were needed to better secure the position of members through the Pension Protection Fund, the much-needed accompanying simplification agenda for occupational pensions was largely lost.

"As we have highlighted in previous *Pension Trends* surveys and supported by the government's own Family Resources Survey, the number of employees covered by any form of occupational scheme is in quite rapid decline. The policy-mix must be wrong for this to be happening."

“Our survey also examined firms’ views on the initial Pensions Commission report. Firms say the priorities in addressing the pension crisis outlined therein are policies that encourage higher pension savings and later retirement ages. In responding to the Pensions Commission’s question as to whether the ‘large shift of risk to individuals that is currently occurring is acceptable, and, if not, is it avoidable’, 69 per cent of firms said they support public policy that attempts to achieve a better balance of risk between individuals, employers, the financial services industry and government. 63 per cent, for instance, support the active encouragement of lower-cost defined benefit schemes that target lower benefit levels,” added Adrian Waddingham.

"The survey also found that 90 per cent of firms say that, in order for the private voluntary system to work, there needs to be radical changes in the State pension system. 89 per cent support the consolidation of the Basic State Pension and S2P, and a majority favour the abolition of contracting-out.

Reflecting the ACA submission to the Pensions Commission and the inadequacies of the 2004 Act, Adrian Waddingham outlined the **ACA’s Pension Manifesto**, which it will be seeking to advance with the new Government, whatever its political hue:

- **Means-tested benefits should be reduced in scope with the Basic State Pension and S2P consolidated into a higher-level Basic State Pension.** This should be set at a level sufficient to cover basic living costs, to be reviewed on an annual basis reflecting earnings growth.
- **A higher State Retirement Age would help finance such a change.** However, it is clear that because to date public policy has opposed such a move, there is much that needs to be done to persuade many

legislators and the public that this is part of the correct and needed response to longer life-spans.

- **Contracting-out should be abolished.** The public would find a pension regime whereby private pensions are built on top of a higher consolidated State pension much easier to understand.
- Rather than have firms close pension schemes (or not offer 'good' schemes), **the Government must enact genuine pension simplification, including the right for employers to change scheme rules retrospectively to avoid increases in cost due to longer life expectancy**, for example by raising normal retirement age.
- **The State should provide a better incentive to encourage the development of good second-tier pensions**, particularly where employers continue to or decide to sponsor schemes that better a certain standard.
- **The State's encouragement of private pension provision above the higher consolidated Basic State Pension should continue by way of tax relief**, with longer-term saving attracting a higher rate of relief than shorter-term saving products.

The ACA says that should the next Government be unwilling or unable to address the above pensions manifesto, then calls for greater compulsion will grow as the failure of present policies in the occupational sector unfold. If this happens, says the ACA, it is important that public policy, in responding to calls for greater compulsion, is supportive (in regulatory and incentive terms) of employers who offer superior arrangements to any minimum standards proposed in a compulsory regime. Whilst compulsion has attractions in terms of ensuring certain minimum standards, the big danger – where at present many millions of pension scheme members benefit from employer contributions well above any likely compulsory minimum – is that contribution levels in a contributory regime, over time, may reduce towards the minimum standards.

The first report of the ACA's ***Pension Trends Survey 2005*** is available at [www.aca.org.uk](http://www.aca.org.uk) on the 'Policy Statements' page. The ACA's response to the Pensions Commission Report, which includes greater details of the ACA pensions strategy (pages 5 to 9) is also available on the same web page, see 'Response to Pensions Commission - January 2005'.

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***Note to Editors:***

The **Association of Consulting Actuaries (ACA)** has over 1500 members working in around 80 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.