

2017 ACA PENSION TRENDS SURVEY

Interim Report No.1



ASSOCIATION OF CONSULTING ACTUARIES

PRESS RELEASE

DEFINED BENEFIT SCHEMES: 53% OF SPONSORS SAY SCHEME COSTS ARE HAVING NEGATIVE IMPACT ON PAY AND 80% ADVERSELY IMPACTING ON INTER-GENERATIONAL EQUITY...

15 September 2017: Speaking at the annual lunch of the All-Party Parliamentary Group on Pensions, attended by MPs, Peers and leading figures from the pensions, financial services and regulatory worlds, Bob Scott, Chairman of the Association of Consulting Actuaries (ACA) said the findings in the first interim report of this year's *ACA Pension Trends Survey* pointed to the need for a blend of both caution and bravery in further proposed White Paper reforms of the defined benefit pensions regime. The findings also reiterated that there was still no appetite amongst employers for a radical restructuring of the pension tax regime, if this was being considered separately by the Chancellor in his autumn Budget statement, but there was support for spreading more of the total relief available to those on lower incomes.

Key findings in interim report

The ACA survey, which was conducted over the summer and received responses from 466 employers, found:

Amongst those with defined benefit schemes (39% of sample)

- **53%** say the costs associated with their defined benefit schemes are having a negative impact on pay increases, with **80%** saying their cost was also having a negative impact on inter-generational equity.
- **42%** say DB costs are also having a negative impact on contributions into newer schemes.
- **32%** of employers feel consolidation of DB schemes is 'generally a good thing' and that cost savings would be real. However, many respondents remain uncertain on the pros and cons of consolidation.
- **84%** of employers say the law should be changed so that defined benefit schemes can reduce pension increases if continuing to provide increases at the level of scheme rules will severely and adversely affect the employer, with the largest number favouring this being subject to an agreement with trustees.
- Whilst **55%** of employers say further legal restrictions will hasten the closure of more schemes to future accrual, **79%** support increased punishments for those caught mismanaging schemes and **68%** support new criminal offences for directors who 'deliberately and recklessly' put at risk the ability of a scheme to meet its obligations.

Pension taxation

- **77%** of employers favour retaining the current pension tax relief structure, but with more help targeted on lower incomes.
- Just **13%** support moving to pensions being paid tax-free, with pension tax relief abolished.
- **52%** of employers say restrictions on pension tax relief have caused those on higher incomes to leave their firm's scheme.
- **36%** of employers say the restrictions in tax relief have led to pressures to revise pay and benefits packages and **22%** to reconsider their pension arrangements.

ACA Chairman, Bob Scott, noted:

“Our survey findings this year paint a picture of defined benefit schemes where complexities introduced over the years – largely by dint of public policy – have taken their toll. Legislative and regulatory changes seem unremitting and are continuing to present challenges to sponsors and trustees. Whilst a majority of employers fear more legal restrictions will accelerate scheme closures still further, they seem sanguine about further legal restrictions being placed on sponsors and trustees in the upcoming Government White Paper. That said, the vast majority also expect support in the White Paper for some greater flexibility in law to adjust future pension increases if they are in financial difficulty.

“On pension taxation, it is clear the restrictions in reliefs in recent years have had a major impact on pay and benefits strategies at firms, with many senior staff ‘opting out’ of pension arrangements as a result. Beyond doubt this has had an adverse impact on support for schemes within firms, often with those on lower incomes losing out as a result. As the last Chancellor found, there seems to be little support for radical tax reform, although employers seem accepting of those on lower incomes getting a larger share of the relief available.”

Further Interim Reports on the survey's findings are due to be published next month and a final report in November.

Bob Scott	020 7432 6605
Gareth Boyd	01737 241144
David Robertson	020 3102 6761 (M: 07919 911380)

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.

Disclaimer

This document is intended to provide general information and guidance only. It does not constitute legal or business advice and should not be relied upon as such. Responding to or acting upon information or guidance in this document does not constitute or imply any client /advisor relationship between the Association of Consulting Actuaries and/or the Association of Consulting Actuaries Limited and any party, nor does the Association accept any liability to any person or organisation relating to the use of such information or guidance.

Association of Consulting Actuaries Limited · First Floor · Regis House · 45 King William Street · London · EC4R 9AN

Tel: +44 (0)20 3102 6761 · Email: acahelp@aca.org.uk · Web: www.aca.org.uk