



ASSOCIATION OF CONSULTING ACTUARIES

PRESS RELEASE

ACA OPPOSES MORE POWERS FOR THE PENSIONS REGULATOR, BUT CALLS FOR NEW FLEXIBILITIES FOR DEFINED BENEFIT SCHEMES.

12 May 2017: The Association of Consulting Actuaries (ACA) has published today its response to the DWP Green Paper on *Security and Sustainability in Defined Benefit Pension Schemes*. The response addresses the wide range of questions posed in the consultation paper, opposing a general need for more regulatory powers, but calling for three new flexibilities that it feels would help in the sustainability of defined benefit schemes.

On member protection and new powers for the Pensions Regulator, the ACA response says ‘we do not believe that there is any significant evidence that members need additional protection or that substantial new powers are needed for the Pensions Regulator. Whilst several recent high-profile cases have raised the question of whether members have adequate protection, the outcome of these cases has seen members generally receiving (or expecting to receive) benefits above PPF minimum levels, which should be regarded as a qualified success for the current regulatory regime.’

‘We also do not believe that recent events have demonstrated any significant failings on the part of the Pensions Regulator. In fact, it is arguable that the failures seen in recent cases such as BHS have been failures of corporate governance rather than of pension regulation. It might be helpful for the Government to consider how all regulators can use their existing powers to influence good corporate governance in relation to decisions and advice affecting workplace pension provision, and to encourage closer working practices between different regulators.’

Commenting on the response, **ACA Chairman, Bob Scott** said “We note that the Pensions Regulator already has significant powers, some of which it has used only sparingly and others of which it has never used at all. It might be worth considering whether the process that the Pensions Regulator has to go through before deciding whether or not to use its powers is overly laborious and whether it could be made easier for it to embark on regulatory intervention using its existing powers.”

The ACA paper says that sustainability of schemes could be enhanced by changes in three key areas:

1. A new facility to enable schemes that can no longer provide the promised benefits to be able to compromise them to a degree (and certainly no less than PPF compensation), subject to key safeguards and where so doing is in the members’ best interests. This facility needs to be more flexible than the regulatory apportionment arrangement route and cheaper to implement;
2. The introduction of an employer option, exercised with trustee consent, to allow schemes to move from the Retail Prices Index to the Consumer Prices Index when determining pension increases and also (where necessary) revaluation; and
3. Subject to certification, DB schemes should be able to simplify legacy benefit structures so they can reduce scheme administration costs and facilitate hedging and buy-out options. This would also facilitate the introduction of the pension dashboards and help members to better understand the total value of their benefits. We also believe that this is an essential first-step if voluntary consolidation of schemes on any scale is to be successful.

Bob Scott added:

“We are supportive of a voluntary regime where schemes are able to consider consolidation, with the advantages that may follow in terms of cost savings and simpler administration, but we simply cannot see this happening unless schemes are given powers to simplify legacy benefit structures in the way we have suggested.

“Many schemes have also been locked into trust wordings written many years ago that prevent them from sensibly adjusting indexation rules to those applying elsewhere – again, we believe the flexibility we are proposing would be valuable in sustaining employer support for ongoing defined benefit schemes.”

A copy of the ACA response is available on the ACA website at www.aca.org.uk ('Consultation responses' page).

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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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