



*The ACA has responded to the Public Service Pensions Commission's initial report...*

## **ACA WELCOMES HUTTON REPORT'S CONCLUSION THAT 'SAFETY VALVES' ARE NEEDED TO KEEP SUSTAINABLE PUBLIC SECTOR PENSIONS**

**7 October 2010 – Responding to the interim report of the Independent Public Service Pensions Commission, published today, the Association of Consulting Actuaries (ACA) has welcomed its conclusion that safety valves are needed in public sector pensions to control costs and benefits via a 'fair sharing of risk' between the employer and employee<sup>1</sup>. This accords with the ACA's evidence to the Commission, as does its conclusion that simply levelling-down public sector pensions would be a short-sighted approach both in the short and longer-term.**

Commenting on the interim report, ACA Chairman, Stuart Southall said:

"This is a balanced and thoughtful report, although it is careful in 'passing the buck' to the Government in deciding upon any short-term policy changes and, more disappointingly, it seems on the future of the Fair Deal which covers pensions in outsourcing arrangements. That said, the framework for longer-term structural reform looks sensible in its recognition of the need for risk sharing approaches<sup>2</sup> to be considered and is very much along the lines of the recommendations we made to the Commission and also to the Senior Salaries Review Body in respect of the reform of MPs' pensions, which reported in July.

"It is noteworthy that the Commission also welcomed the new Government's decision (to quote) to 'encourage companies to offer high-quality pensions to all employees'<sup>3</sup> in the private sector – an issue we are taking up with the Pensions Minister in the next fortnight. This policy intent needs to be backed up by more concrete action if current trends, where the provision of high-quality pensions is close to being 'in free fall' at present, are to be abated and ideally reversed. To avoid mass levelling-down ahead of auto-enrolment, legislation is needed to allow new 'sustainable' pension options."

The ACA notes that defined contribution pensions for public sector workers seem to have been rejected at this interim stage. The Commission report notes, 'if lower paid employees were fully exposed to investment risk, this would increase uncertainty of income in retirement, which is difficult in particular for the low paid to manage. This is not desirable or necessary.'<sup>4</sup> This is the very point that the ACA has been making to Government for several years as to why legislative reforms in the private sector should be made to allow and encourage employers to offer risk sharing, without the full panoply of defined benefit law applying, so as to protect as many employees as possible from being forced to take on 100% of investment and longevity risks, which they are ill-equipped to bear.

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<sup>1</sup> 'Sustainable pension schemes in the public sector need to have mechanisms to manage such uncertainties (longevity improvements) in future costs', IPSPC Report, 7 October 2010, pg 55

<sup>2</sup> 'An alternative scheme model that provides a fair sharing of risk between employer and employee and adequate pensions for members is needed', IPSPC Report, pg 125

<sup>3</sup> IPSPC Report, page 93

<sup>4</sup> IPSC Report, page 126

*The ACA's evidence to the Public Sector Pensions Commission is available at the ACA's website at [www.aca.org.uk](http://www.aca.org.uk) (see: publications, 31 July 2010).*

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### **About the Association of Consulting Actuaries (ACA)**

The **Association of Consulting Actuaries (ACA)** is the representative body for consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body. The ACA has 1750 members working in around 75 firms. ACA Members are all qualified actuaries and all actuarial advice given by members is subject to the Actuaries' Code. The ACA forms the largest national grouping of consulting actuaries in the world.