ASSOCIATION OF ACA CONSULTING ACTUARIES

ACA STRESSES IMPORTANCE OF PENSION REFORM MEASURES THAT ENCOURAGE EMPLOYERS' ACTIVE INVOLVEMENT AND SUPPORT... 2011 PENSIONS TAX CHANGES NEED TO BE CAREFULLY CONSIDERED...

15 June 2010 - The Association of Consulting Actuaries today commented on the Centre for Policy Studies publication *"Simplification is the key: stimulating and unlocking long-term saving".*

ACA Chairman, **Stuart Southall,** said:

"The paper is a valuable addition to a long overdue debate on how to revive the UK's flagging long-term savings market – simplification is indeed a key element. The paper's author, Michael Johnson, has combined a thorough 'big-picture' analysis with the proposal of a large number of innovative ideas worthy of further detailed discussion and analysis.

"The ACA would be worried if pursuit of the paper's ideas meant a devaluation of the willing employer's role in facilitating and contributing to sustainable collective pension and saving programmes. Generous employer contributions remain the key to 'good' pensions for millions of our citizens and are in danger of being lost by reform proposals that under-value their importance. A number of the problem areas the author identifies – such as widespread financial illiteracy, cost and investment inefficiencies at the individual level and the tendency to select over-cautious investment strategies – can all be catered for through occupational pension offerings as has been done successfully to date. Whilst agreeing that the continuing decline of final salary defined benefit schemes may now be irreversible – at least in their current format with over-burdensome regulation and guarantees – the ACA does not consider that this must mean a move to a pensions and savings world (with or without pensions and ISAs combined) in which the individual has to bear all of the substantive risks".

Stuart Southall added, "the ACA would like to see legislative change to empower willing employers to offer a far wider range of risk-sharing pension schemes. These could include conditional indexation, collective defined contribution or more flexible cash balance arrangements and in all cases it would be possible to integrate these offerings into the wider savings model espoused by the author (perhaps even with some implicit incentive for employers to retain some of the risks). It is apparent that calls for reform along these lines have been growing from employers in both the private and public sectors, with signs that the trades unions are now growing interested in such schemes.

"In our view it is wrong to under-estimate how important it will continue to be for employers to proactively facilitate proper provision for retirement; without this the abolition of a mandatory retirement age could lead to severe manpower planning issues with a log jam of older workers.

Commenting on the pension tax relief ideas raised in the paper, **Stuart Southall** added:

“The author proposes a range of possible tax regimes but all are costed in comparison to Treasury estimates of the post-April 2011 position. The ACA would welcome greater simplicity, but remains concerned about the continuing erosion of pension tax benefits.

“Many industry bodies have protested at the proposed tax changes for 2011 and have asked that the desired tax revenue is instead met through an "annual allowance", allowing tax-relieved pension savings of up to say £50,000 a year for all, beyond which a penal tax charge would apply (an annual allowance was introduced in 2006 but not in a way that would be readily used for the present purpose for defined benefit schemes).

“ACA agree that the last Government's proposed measures are already having a huge adverse impact on pension saving and on the continuation of many defined benefit schemes. The measures are horrendously complex, with much wider impact than their intended targets. And with only 9 months left before it goes live, many important components are still undecided.

“The principles of an annual allowance are fairer, easier to understand and - potentially - easier to apply than the existing post-2011 regime. But any changes to pension tax relief need to be very carefully considered. The level set for an annual allowance would be key, as are the details of how it would be applied, monitoring and reporting, and what happens when it is exceeded - delivery is all. There is a risk that some of the complexities in the existing post-2011 measures would still apply and need to be addressed. Imposing a lower annual allowance is not a panacea.

“If employers are to continue to make their significant contribution to providing pensions then they need time to adapt to any changes and reassurance that the government is committed to providing a framework of stable legislation to support occupational pension provision. It is to be hoped this message will be grasped by the new Chancellor and that we will not see an unconsidered 'tax grab' on 22 June that would further undermine what confidence remains in voluntary private pension saving.”

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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 Faculty and Institute of Actuaries are the professional bodies. 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.