



## **ACA GIVES MIXED WELCOME TO GOVERNMENT'S REFORM AGENDA**

**11 June 2003: The Association of Consulting Actuaries (ACA) has welcomed the intent behind the Government's policy to support and encourage occupational pension schemes and their members, but – on first assessments - is concerned that the net impact may be to increase the rapid move away from defined benefit arrangements.**

"We are concerned at the proposed increased burden to employers on wind up and fear that this could result in some employers deciding to close their schemes to future accrual," said ACA Chairman, Gordon Pollock.

"We welcome the change to the priority order as this should result in a more equitable distribution on wind up," said Gordon Pollock.

"We note the proposal for an insurance scheme, which – when implemented - should reassure scheme members over the security of their future pension. There have been several alarming cases of late that could not have been ignored, and we would hope the Government will consider setting aside some 'start-up' funds when launching the scheme to address the worst of these cases, particularly where members are nearing retirement," added Pollock.

"The ongoing concern we have about an insurance scheme is not only the extra cost burden – particularly as the Government will not stand behind it - but that it may result in

the better funded occupational schemes subsidising the weaker funded schemes which wind up with an insolvent employer. We remain concerned at the ‘moral hazard’ issue involved whereby, for example, the possibility remains that companies may be able to restructure their business to leave an under-funded scheme with an insolvent company,” noted Pollock.

“We welcome the flexibility to rearrange past service benefits subject to a no loss in value test. However, we regard the proposal to reduce the indexation cap from 5% to 2.5% for future service benefits as disappointing as we pressed for the removal of the indexation requirement”.

“The decision to run the new pension tax regime from April 2005 rather than April 2004 comes as no surprise given the administrative tasks ahead. It is perhaps surprising that the next consultation paper on the details will not be published before the autumn of this year.”

The ACA has advocated a radical package of proposals to encourage occupational provision (see ‘ACA Pensions Strategy’ in *Note for Editors*) to address the rapid decline in occupational provision (see ‘2003 Pension Trends Survey’ in *Note for Editors*).

The ACA added that it will be issuing a more detailed response when it has considered the proposals in greater detail.

**For further details:**

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***Note to Editors:***

Members of the **Association of Consulting Actuaries (ACA)** 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.

## **ACA Pensions Strategy**

Published in November 2002, its **key recommendations** were:

- A single flat-rate State pension, with a link to earnings paid for by...
- ... an increase in the State pension age and greater flexibility over retirement age.
- Abolition of contracting-out (unless genuine incentives are offered).
- Improved tax or financial incentives to encourage employers to sponsor occupational schemes.
- Support for defined benefit pension arrangements as defined contribution schemes are often inappropriate, particularly for the lower paid and those who do not have the financial sophistication to assess and manage the significant risks inherent in such schemes.
- Early action to reduce the inequity of treatment between pensioners and other scheme members on winding-up.

For further details go to [www.aca.org.uk](http://www.aca.org.uk)

## **2003 Pension Trends Survey**

Published in March 2003, the survey report ***Pensions Reform: too little, too late?*** includes the results of a survey conducted by the ACA early in 2003 that has found **29 per cent of employers have reviewed their pension arrangements in the last 6 months alone**. During this time, **a further 17 per cent of employers have decided to close their final salary schemes to new entrants – 72 per cent of final salary schemes are now closed to new entrants or future accruals**. The survey also includes employer comments on the Pensions Green Paper and Tax Simplification Paper.

For further details go to [www.aca.org.uk](http://www.aca.org.uk)