ASSOCIATION OF CONSULTING ACTUARIES

NEWS RELEASE

Ahead of the General Election, the political parties need to address the developing retirement income crisis with reforms that will reinvigorate UK private sector savings...with the right message and action, decent pensions are affordable...

ACA LAUNCHES RETIREMENT INCOME MANIFESTO, WITH MESSAGE - IT'S TIME TO GET POSITIVE ABOUT RETIREMENT SAVINGS

16 March 2010 – The Association of Consulting Actuaries (ACA) has launched a six-point *Retirement Income Manifesto* today, with a view to persuading the political parties ahead of the General Election to 'buy into' measures that will reinvigorate private sector retirement savings. The ACA says that the alarming decline in private pension savings can be reversed if a coherent strategy is adopted by the incoming Government, which should take regular advice from a new standing Independent Retirement Income Commission.

The ACA says that the overall philosophy of the UK should be that future retirement income policy should focus on the promotion of a wide range of flexible retirement income arrangements as part of a holistic approach to encouraging lifetime savings. Financial incentives should be greater for longer-term savings over short-term savings, with legislative and regulatory prescription minimised, whilst maintaining the protection of members' benefits in all types of schemes from the impact of employer or provider insolvency or default.

Commenting on the manifesto, **ACA Chairman, Keith Barton** said:

"We are seeking the commitment of all the political parties to a comprehensive strategy designed to address the worrying deterioration in the position of future private sector retirees. Without early action, the prospect of increased poverty in retirement may come sooner than many expect. Delay and negativity aren't an option – it really is time to get positive about policies that will re-invigorate pensions."

It is recognised that the UK's current financial malaise limits near-term policy options – in particular, financial incentives to stimulate provision. The ACA's six-point manifesto advocates that in the new Parliament, the Government should legislate to:

1. Establish a standing Independent Retirement Income Commission charged with promoting the active extension of private retirement income provision and making recommendations on the future of State and public sector retirement provision (suggested remit - *see Note for editors*).

The proposed Commission would make recommendations to Government and others – sponsors, providers and regulators – within 12 months of its establishment and periodically thereafter. The priority would be to encourage wider and better pension provision for all, not simply to protect the benefits of those in legacy arrangements, the vast majority of which (87%) are now closed to new employees and increasingly to existing employees.

Amongst other responsibilities, the Commission would ensure the cost of public sector pensions is transparent, making recommendations to Government to ensure they are sustainable and fair in their overall cost to the taxpayer.

2. Encourage employers to offer high quality workplace retirement income schemes by making legislative changes to allow greater design freedom for 'middle way' schemes, where employers' costs and liabilities can be more easily capped whilst providing reduced volatility in retirement income outcomes for members compared to pure defined contribution schemes.

ONS figures show only 35% of private sector employees are now in workplace pension arrangements, down from 45% just a decade ago. Of these, two-thirds are now in defined contribution schemes, where contributions can often be insufficient to provide for a decent income in retirement. Whilst NEST, being slowly introduced from 2012, may widen pension provision, there is a real danger that the proposed contribution levels into the scheme will deliver inadequate incomes in retirement, certainly in the near-term.

Reforms allowing greater freedom in scheme design would re-invigorate private sector pensions, so employers feel confident to offer a better pension package.

It should be remembered that for most people, starting pension saving at age 30, private pension contributions of 15% of earnings (say, 10% from the employer and 5% from the individual) through to age 65 can reasonably be expected to deliver a replacement income in retirement of 60% or more, including their State pensions. Greater freedom of design would allow sponsors to consider new options that would reduce the volatility in pension outcomes - the problem with 'pure' defined contribution arrangements, which are the emerging dominant model because of current UK regulatory restrictions.

3. Allow all private and public sector retirement income schemes to automatically link the age at which retirement benefits are paid (without reduction) to improvements in longevity as recommended by the Independent Retirement Income Commission, but with those individuals within 10 years of a scheme's present normal retirement date protected; this to be reviewed triennially.

Whilst safeguarding accrued benefits, all schemes – not just the State scheme as at present – need to be able to adjust the date from which retirement benefits are paid so the cost of retirement schemes to sponsors and individuals can be kept reasonably stable. At present, longevity is generally improving by around 1 year every 10 years – this adds hugely to the cost of retirement income schemes if no timely adjustment can be made.

4. Provide greater incentives for retirement income savings by allowing early access to (e.g.) the tax-free lump sum currently available only on retirement to help fund house deposits and/or to meet life's crises.

As the age when individuals can draw their retirement benefit becomes later, it is likely that younger people increasingly will find it difficult to justify long-term savings as against shorter-term savings. This is why there should be greater incentives for long-term savings (unlikely in the near-term due to the national deficit) and why a more holistic approach to savings – allowing individuals early access, on a restricted basis, to their tax-free lump sum – should be considered.

5. Reform annuity rules by allowing greater flexibility so annuities can be purchased with variable levels of benefits through term, including allowing full commutation (subject to tax) of pensions in excess of a level clearly sufficient to ensure an individual will not be eligible for means-tested benefits throughout their retirement.

Present annuity rules are too restrictive in not allowing individuals sufficient flexibility to choose different levels of income to support changing needs at different stages of retirement.

The Retirement Income Commission would periodically recommend to Government what level of 'pension pot' is the minimum that must be converted to an annuity at age 75 (or later). This would be set at a level so individuals would not need to draw on means-tested State benefits throughout their retirement.

6. Allow all retirement income schemes to have the ability to require either (a) defined contribution deferred members to transfer benefits on leaving an employer to one of a number of centralised schemes (possibly including NEST) to hold and ultimately pay such benefits, or (b) that defined benefit members' benefits be bought out in a non-profit deferred annuity in each member's name.

Many mature existing pension schemes are incurring high administrative costs looking after the pension savings of deferred members – employees who have left the company, often many years ago. For some schemes, these deferred members now represent by far the majority of scheme members.

This proposal would allow those schemes that wish to, to have the right to transfer benefits to one of a number of centralised schemes or to an annuity provider, hugely simplifying the on-going administration of the sponsor and – in many cases – ensuring deferred benefits are more cost-effectively administered, in the interests of all concerned.

For further details: Keith Barton 01727 888642 (M: 07961 021205)
Steve Leake 01483 540300 (M: 07796 308117)
David Robertson 020 3207 9380 (M: 0791 9911380)

Note for Editors:

Proposed remit of the Retirement Income Commission:

The Commission would review public policy in respect of its success in achieving improvements in levels of retirement incomes from State and/or private retirement income plans (and the sustainability thereof), whilst also making policy recommendations to Government after 12 months from establishment and every three years thereafter. A suggested remit would be as follows:

- reviewing the structure of State pensions and the Government's timetable for raising the State Retirement Age to reflect both improvements in life-spans and overall financial costs to the taxpayer (given the current commitment to index the BSP in line with earnings in the future)

- advising every three years on the need or not for a general increase in retirement age to reflect increases in longevity so as to keep pension funding costs broadly stable over the long-term where scheme specific information is unavailable

- recommending policies designed to encourage more employers and employees to invest in retirement income plans, including measures to maximise design flexibilities and choices, advising on financial and tax incentives to encourage wider coverage, whilst taking account of the UK economic, demographic and financial backcloth and life-style changes

- promoting legislative and regulatory simplification to encourage quality provision, accepting that legislation must continue to protect members' retirement incomes from the impact of employer or provider insolvency or default

- at the request of Government, reviewing on a periodic basis the structure and rules of the NEST scheme to ensure employees are offered an appropriate fall-back retirement income plan where no better scheme is offered by a sponsoring employer

- ensuring that over the long-term, the cost of public sector unfunded pensions, and those that are largely funded by the taxpayer, are transparent in cost to the taxpayer and are sustainable

- reporting (within 6 months) on matters referred by Government to the Commission on an ad hoc basis and also on European directives that could have an impact on any of the above.

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 over 1750 members working in around 75 firms. ACA Members are all qualified actuaries and are subject to the code of professional conduct of the Faculty and the Institute of Actuaries. Advice given to clients is independent and impartial. The ACA forms the largest national grouping of consulting actuaries in the World.