



*Response to Pensions Commission report stresses need for higher consolidated State pension, later retirement and end to contracting out as base on which second-tier private pensions can be successfully built...*

## **ACA RESPONSE SAYS VOLUNTARY PENSION PROVISION CAN PROSPER IF STATE PROVIDES BETTER BASIC PENSION AND ALLOWS GREATER FLEXIBILITY FOR PRIVATE SCHEMES**

**28 January 2005 - In its response to the Pensions Commission report, the Association of Consulting Actuaries (ACA) has called for a radical reform of State pensions as the first building brick needed to revitalize UK private pension provision. In calling for a higher Basic State Pension paid at a later age than at present, with private provision built above this base, the ACA says voluntary provision can be more successful than the universally low contributions likely through a compulsory regime.**

Responding to the four policy options identified by the Pensions Commission to solve the 'pensions crisis', the ACA submission favours a policy mix of higher savings and a higher retirement age and accepts that higher taxes and or NI contributions might also be necessary.

"The other option - allowing pensioners to become relatively less well off compared to the working population - is unacceptable, although this will happen if the government is indecisive in addressing the hard choices raised by the Commission's report," commented ACA Chairman, Adrian Waddingham.

Answering the Pensions Commission's question on what the State's role in pensions should be, the ACA says that it favours a system where the government's role is limited to poverty prevention.

The ACA submission says that in a free society, individuals should be able to choose what level of income broadly they wish to have in retirement. Some might choose higher levels of consumption during their lifetime as against higher incomes in retirement through extra savings. Provided that by opting for higher consumption levels those exercising the choice do not expect others – both present taxpayers and future generations of taxpayers – to find substantial amounts to raise their incomes in retirement to basic levels, then society should have no objection.

The ACA says that it is clear that for individuals to make the 'informed choices' necessary to determine this trade-off between current consumption and adequate savings, considerably more investment is required by society in financial education. The ACA supports initiatives to make basic financial education part of the national curriculum, so that those leaving school from age 16 have the opportunity to better understand and act in matters of personal financial planning.

The ACA accepts that the means-tested pensions credit system implemented by the present government has helped to address low incomes for existing pensioners, many of whom did not have the opportunity in their working lives (and many women) to save at levels sufficient to provide a decent pension.

However, the ACA says it should be stated public policy to phase out this means-testing over a period of years and not, as is the case at present, to embed the regime by offering higher indexation of the benefit, increasing it at a faster rate than the Basic State Pension. Unless this policy changes, as the Commission comments, the numbers in receipt of means-tested pension credits will grow, as will the level of average benefits paid. The disincentive to save will continue to grow, particularly amongst those on lower incomes and, increasingly, will affect those on middle incomes.

The ACA paper (for further details of the full response see [www.aca.org.uk](http://www.aca.org.uk) - Policy Statements) accepts the vast majority of the conclusions contained in the Pensions Commission report and the reasons given for the widespread decline in pension provision. The ACA paper spells out how this position can be changed.

**Key ACA policy recommendations** are:

- **The Basic State Pension and S2P should be consolidated into a higher-level Basic State Pension.** This would be set at a level sufficient to cover essential basic living costs, to be reviewed on an annual basis to reflect earnings growth.
- **The State Pension Age should be increased** to help finance such a change over a transitional period rising, in steps, to age 70.
- **Contracting-out should be abolished.** The ACA says that the public would find a pension regime whereby private pensions are built on top of a consolidated state pension much easier to comprehend.
- It is accepted that all contracted out schemes would lose contracted-out rebates (which cost the taxpayer £10.5bn per year) from a certain date and thereafter employers and employees would pay contracted-in NICs. **The new NIC rates should be set at roughly the present contracted-out rate plus an across the board supplement to meet the anticipated long-term extra cost of paying the higher consolidated Basic State Pension.**

- The ACA **says the State should continue to provide an incentive (probably by way of a reduction in employer NIC rates) to encourage the development of good second-tier private pensions**, particularly where employers continue to or decide to sponsor schemes that meet a certain standard.
- **The State's encouragement of private pension provision above the higher consolidated Basic State Pension should continue by way of tax relief**, with longer-term saving attracting a higher rate of relief than shorter-term savings products.
- The huge additional cost arising from legislation that has been enacted over the last 20 years and much longer life expectancy was not anticipated by employers when they established defined benefit schemes. Rather than have firms close schemes to new members and future accruals, **the government should seriously consider genuine pension simplification, including the right for employers to change scheme rules retrospectively to avoid increases in cost due to longer life expectancy**, for example by raising normal retirement age.

The ACA says that it opposes the introduction of compulsory private pension contributions - a solution that many believe the next Pensions Commission report may be tempted to recommend. If the ACA proposals were implemented, compulsory minimum private pension contributions would be unnecessary. The ACA also believes compulsory contributions would have a 'leveling-down' effect on private pension contributions, particularly from employers. The Commission report notes how this has already occurred as employers have moved from defined benefit to defined contribution.

The ACA says that in a labour market where high skills and dependable service are in demand, more employers can be persuaded of the value of providing good pensions to meet the aspirations of their employees. This is always provided that running a scheme does not add an unreasonable administrative and regulatory burden (which many employers think they presently do) or unreasonably add risks to the running of their business (again, which many employers think they presently do).

For further details:	Adrian Waddingham	01494 788100 or 020 7776 2200
	Andrew Vaughan (PR Committee Chairman)	020 7977 8427
	David Robertson	020 7382 4594

***Note to Editors:***

The **Association of Consulting Actuaries (ACA)** has over 1500 members working in over 75 firms. Members 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.