



ACA response to the Workplace Retirement Income Commission...

ACA SAYS BOLDER PENSION REFORMS ARE NEEDED TO REINVIGORATE OCCUPATIONAL PENSIONS

3 May 2011 - The Association of Consulting Actuaries (ACA) in its response to the Workplace Retirement Income Commission, chaired by Lord McFall, has said it is supportive of the Commission's objectives but feel that a huge amount of work needs to be done to embed a culture of financial education necessary to underpin a culture of saving.

The ACA submission says that it recognises that the government has and is taking a number of important steps to improve overall pension provision (e.g. through auto-enrolment and the recently announced review of the State pension) but these are only two essential building blocks and, on their own, they will simply not produce an adequate retirement income to support the needs and aspirations of many future retirees. This inadequacy is likely to be exacerbated further by the decline of private sector occupational provision (see below), the scaling back of public sector provision, improving life expectancies and the rising costs of long term care, themselves driven by irreversible demographic factors.

Stuart Southall, Chairman of the ACA, said:

"We applaud the moves made to date but would like to see bolder policies.

"In particular, we believe it to be essential to increase financial education, beginning in schools and ultimately spreading throughout the entire population. Linked in with this is the need to change the culture of society from one of 'living for today' and spending everything earned to a more balanced one in which saving and long term financial planning have greater prominence. With many commentators highlighting severe and widening inter-generational inequalities, we would suggest that government could usefully consider how inter-generational transfers might be facilitated, not as a means of IHT mitigation, but so as to broaden the genuine reach and appeal of long term saving.

"Furthermore, we feel that the government should do more to encourage employers in providing pension provision in a number of the following areas:

- Specifically, we feel that there should be some form of tax incentive given to employers that provide schemes (either defined benefit or defined contribution) that meet a certain quality standard, which would be set at a much higher level than the total 8% contribution which will apply when NEST reaches full maturity.
- Whilst we have been making this point for some time now, we believe that legislation should be changed to allow scheme sponsors more flexibility in terms of benefit design – essentially in the space between pure defined contribution (DC) provision and the withering defined benefit (DB) régime which is now over-regulated and over-protected. Risk-sharing

schemes could be made a much easier and more attractive option for many employers now unwilling to take on the full risk attached to traditional defined benefit schemes.

Conditional indexation, for which the ACA has campaigned hard in the past, is simply one example, but there are many others. In our view it is at best a moot point as to whether the lack of take-up is due to legislative restrictions (the ACA's view and the view of an increasing constituency) or due to sponsors now being fundamentally opposed to any risk; but this is perhaps a sterile debate given the evidence of rapid DB decline in the private sector."

The ACA submission to the Commission notes that research undertaken by the ACA over a number of years, echoed by other surveys, has shown that among larger employers there is the appetite for offering risk-sharing arrangements, but legislative inaction in this area is preventing those employers from being able to offer the option (see below). Whilst the DWP has consistently resisted reform proposals, arguing there are sufficient risk-sharing options available under current legislation, the absence of any significant take-up of schemes indicates that this view is patently not supported by employers.

The ACA's 2009 Pension Trends Survey, covering 309 employers, found as follows:

- 77% of employers said existing legislation did not allow for simple 'middle way' pension designs so schemes can share risks
- 76% of employers said public policy should be more supportive of 'middle way' pension designs
- 51% of employers said they would consider a 'middle way' design if legislation was changed to make this easier.

The ACA also says employers should be encouraged to provide education to their employees on financial matters and indeed might be incentivised to provide them with access to independent financial advice by abolishing the £150 tax free limit on independent financial advice paid for by the employer.

The submission also says employers should be encouraged to promote the benefits of savings through the range of vehicles which might be available (e.g. ISAs, SAYE schemes, share option plans and pension savings vehicles) and creating better opportunities for movement between the vehicles as savers' priorities change during their lifetimes. Consideration might be given to bridging the gap between ISAs and pensions to strike the right balance between accessibility (which can be crucial for younger savers) and locked-away saving (more essential as retirement approaches). This may require a new type of product or changes to the tax treatment and inter-transferability between the two vehicles, although more work need to be done to fully develop these ideas.

Stuart Southall added:

"What is evidentially irrefutable is that in the private sector space voluntary DB provision is now in terminal and rapidly accelerating decline. Alternative DC provision is often very inadequate and even if this is added to an improved State pension the ACA believes that many private sector workers could face a relatively impoverished retirement. If this issue is left un-addressed, (which the ACA considers would be at odds with the Coalition Agreement undertaking to "...simplify the rules and regulations to help reinvigorate occupational pensions...."), then the public/private sector pensions divide will become unsustainable, even after the potential scaling back in the former.

“As Lord Hutton observed in his interim report on public service pensions, a ‘race to the bottom’ has to be avoided and reinvigoration of adequate occupational pension provision in the private sector should, in the ACA’s view, be considered a political necessity, not just a vague commitment.”

A copy of the ACA’s full submission is available on ACA website at www.aca.org.uk (see ‘Latest publications’)

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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 1,750 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.