



ACA response to Pensions Commission Report ...

IN WELCOMING THE REPORT, THE ACA SAYS GREATER SIMPLICITY NEEDED IN STATE REFORMS AND CLEAR THINKING NEEDED SO *NATIONAL PENSION SAVINGS SCHEME (BRITSAVER)* DOES NOT UNDERMINE EXISTING OCCUPATIONAL PROVISION

30 November 2005: The Association of Consulting Actuaries (ACA), whose members advise most of the country's largest workplace pension schemes and thousands of smaller schemes, has today expressed some disappointment that the State Pension reforms recommended by the Pensions Commission are not simpler. The ACA also feels that better incentives to encourage employers to offer good low-cost occupational schemes should have been offered alongside the *National Pension Savings Scheme (NPSS)* proposals outlined in the report. Unless well thought through, the NPSS could undermine existing (and better) occupational arrangements.

"The ACA has long supported a higher Basic State Pension (BSP), consolidated with S2P over a period of years, indexed to reflect earnings growth. Implicit in this reform is a reduction in means-testing. We share Turner's objectives, but are a bit disappointed that the Commission's proposals look complex. We are not sure the public will be clear what State Pension they are building their private pension on top of. Without clarity, new saving commitments might be difficult to encourage", commented ACA Chairman, Adrian Waddingham.

"We agree with moves towards a higher Basic State Pension financed by a State Pension Age gradually rising as longevity improves. But having split pension ages - one for the Basic State Pension and another for S2P - is too complicated."

"We want to chew over the *National Pension Savings Scheme* proposal. We see great merit in bringing more employees into pension provision, but some caution is needed. Low-cost DC arrangements of this type, even with lower charges, often do not work well for the lower-paid due to the considerable investment-risk involved, which falls entirely on the individual. Restricted investment choice is inevitable, with the risks inherent in this of poor performance.

We have campaigned for a new employer incentive (indeed have suggested a 1% contribution incentive for good schemes) and it is vital that this new NPSS incentive is available to employers willing to do more for their employees through a better workplace scheme. If an employer is willing to take on some of the retirement risk (rather than relying on pure defined contribution) they should be positively encouraged.

"At present, millions of employees benefit from employer contributions ranging from 6% to above 15% of earnings¹. Will these generous contributions persist into the future? Faced with running a company scheme alongside a *National Pension Savings Scheme* arrangement, how many employers will feel it's logical to close the current higher cost company scheme on financial and administrative grounds? This would be a disturbing out-turn."

"For *National Pension Savings Scheme* and good company pensions happily to co-exist, the government will need to seriously consider better incentives for employers who contribute more and, importantly, who are prepared to share the risk with employees. Present incentives are inadequate and have been overwhelmed by the extra regulatory requirements and costs imposed by government over the last decade or so. Retaining present contracting-out provisions for defined benefit arrangements is an insufficient incentive," said Adrian Waddingham.

"Contracting out had reached its sell-by date. We understand that Turner thinks it should stay for say 25 years for DB schemes lest its removal accelerates defined benefit closures. We would have preferred the more simple approach of complete abolition of contracting out but with a new incentive to defined benefit scheme sponsors. We are glad to see Turner advising that spending the contracting out rebate on an immediate State pension improvement would be folly."

"The ACA also welcomes the new ideas to encourage employers to keep employees beyond 65."

"We also agree that pensions are too important to be left to politicians: there should be a permanent independent Pensions Commission," concluded Adrian Waddingham.

Further comment on the **Pensions Commission Report** can be obtained by calling:

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Note to Editors:

¹ The ACA's *2005 Pensions Trends Survey* found average employer contributions into defined contribution schemes are 6% of earnings and 16.5% into defined benefit schemes.

The **Association of Consulting Actuaries (ACA)** has over 1500 members working in some 80 firms. Members are advisers to UK pension schemes with assets in excess of £700 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.