



Response to Pensions White Paper...

ACA CONCERNED ABOUT DANGERS TO EXISTING BETTER PRIVATE PENSIONS FROM PROPOSED REFORMS

20 September 2006 - The ACA is supportive of proposals that are designed to extend pension provision to a wider number of people provided the reforms do not undermine good existing provision. However, the proposed State Pension reforms fall short of the Government's own simplicity test with too many pensioners remaining on means-tested benefits in 2050. As a result, there are real dangers of mis-selling the proposed new personal accounts, particularly to those on lower incomes, or there could be high levels of opt-outs. These are some of the key points made by the Association of Consulting Actuaries (ACA), the representative body for consulting actuaries, in its response to the Pensions White Paper, *Security in Retirement: towards a new pensions system*.

Commenting on the response, Ian Farr, Chairman of the ACA said:

"So much remains to be decided as to how the proposed new personal accounts will work, it is difficult to assess just how successful they will be in extending pension coverage. Great care will be needed, however, to ensure they do not damage much better schemes that employers already run, particularly if the administration and costs of running existing arrangements are not eased quickly and boldly.

"Our response includes a number of proposals to strengthen existing provision and we have also stressed to Government the importance of a simpler pensions regime, through the rolling deregulatory review, that encourages new workplace schemes that are better than the minimum."

The ACA response to the White Paper focuses on four main areas, see full response [attached](#):

- Whilst the ACA is supportive of the intent behind the launching of new **personal accounts** for those who presently do not have private pension savings, it is important the operation of such accounts does not undermine better existing occupational provision. If employers close better arrangements in order to simplify their pension offering or because the regulatory burden on existing provision has not been adequately eased, there may be an overall 'loss' in pension savings for millions of employees, not a gain. The ACA also remains very concerned about the likely

volatility of returns inherent with personal accounts and that this is properly explained to those saving in such accounts.

- The ACA strongly supports the Government's intent **to strengthen existing provision** through the rolling deregulatory review and other positive proposals designed to bolster employer support for occupational schemes. It is vitally important that this aspect of the reforms is pursued with firm purpose and the ACA welcomes its involvement in the process of consultations.
- The ACA is particularly hopeful that through the **rolling deregulatory review** it will be possible to ease the way, through revised legislation, for the wider encouragement of **risk-sharing schemes** for those employers who choose not to pass all of the investment and longevity risk inherent in pension provision to their employees, particularly in respect of employees on modest pay levels. It is hoped this might extend to encouraging employers to convert current defined contribution schemes into risk sharing schemes.
- However, for the private reforms to work, the **State pension reform** package needs to be reviewed with some urgency with a view to simplifying and consolidating the State pension at an early date. In particular, there is a need to considerably reduce the high level of means testing remaining by 2050 (anticipated by the White Paper to be one-third of pensioners). Without such a review, the ACA strongly believes the whole edifice of reforms could crumble due to the potential mis-sale of, or high level of opt-outs from, the proposed new personal accounts.

The ACA's response is available at www.aca.org.uk (Policy statements page).

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Notes for Editors

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 1500 members working in around 80 firms. Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. ACA members include the scheme actuaries to schemes covering the majority of members of defined benefit pension schemes.

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 Europe.