



*The ACA responds to the Green Paper 'Simplicity, security and choice: Working and saving for retirement'...*

## **ACA IS CRITICAL OF 'LACK OF AMBITION' IN GREEN PAPER REFORMS. MORE RADICAL MEASURES ARE NEEDED TO ENCOURAGE OCCUPATIONAL PROVISION**

**28 March 2003 – The Association of Consulting Actuaries (ACA), whose members advise the majority of larger occupational schemes and thousands of smaller schemes, has welcomed the intent behind the Pensions Green Paper, but says it is 'very concerned that the proposals are simply not radical enough'. Prior to the consultation paper, the ACA advocated amendments to the State Pension System replacing the current complex structure with a single flat-rate State pension, with a link to earnings paid for by an increase in the State pension age and greater flexibility over retirement age.**

The ACA says 'it is very disappointed that the Green Paper did not address the complexities of the State scheme and the immense difficulties for both individuals and employers in planning and building private provision on top of this inadequate structure. "The absence of radical reforms to address these issues and in other areas drives us to the conclusion that, without greater ambition, the reforms proposed in the Green Paper are highly unlikely to stem the drift away from occupational provision seen over the last decade, never mind encourage greater provision," said ACA Chairman, Gordon Pollock.

The ACA notes that it recently commissioned a survey of employers to ascertain their views on the Pensions Green Paper (and the Tax Simplification Paper), which also showed a sharp rise in the number reviewing their pension arrangements and closing off final salary schemes to new entrants. Two other notable findings were:

- **93 per cent of employers felt the proposals in the Green Paper will be ineffective in encouraging greater occupational pension provision.**
- **95 per cent felt the Government should not exclude simplifying the State Pension scheme from its reform proposals at the next stage.**

The ACA response adds that, 'change is expensive and time consuming for occupational pension scheme sponsors and so it is desirable and efficient for all changes to be carried out simultaneously. Therefore we encourage the Government to implement more radical proposals to enable the simplification to be achieved in one hit'.

Responding to the specific questions raised in the consultation paper, the ACA highlighted the following:

- **The priority order on wind up should be changed and consideration should be given to the following order:**
  1. pensions in payment
  2. deferred pensions accrued to date of wind up with no further revaluation
  3. future revaluation of deferred pensions
  4. increases to pensions in payment and future pensions in payment

The reduction of priority to the revaluation would recognise the position of older deferred pensioners as the revaluation has a lower relative value for these members than for younger deferred pensioners.

- **Measures should be taken to ensure that the scheme specific funding standard is set at a reasonable level in order to avoid this leading to a material reduction in member security.** The Government, having taken advice, must make it clear to all parties just how secure they want final salary schemes to be and must then ensure that this message is properly communicated to scheme members.
- **The principles of the basis of calculation of debt on wind up should be set by the Government and subject to regular review.** For example it could be based on the estimated cost of providing the accrued benefits for the pensioners and deferred pensioners without increases or revaluation (ie categories 1. and 2. above) within the scheme assuming that the scheme invests in secure investments.
- **We believe that the introduction of a more equitable priority order and appropriate funding standard will remove many of the inequalities observed in wind ups.** We agree that an insurance type scheme is attractive in theory if a workable equitable proposal is forthcoming which addresses, in particular, the moral hazard.
- **We advocate removing the requirements of Section 67 of the 1995 Pensions Act so that significant rationalisation of schemes' benefits can be achieved but with the protection afforded by trust law.**

Copies of the *ACA response to the Pensions Green Paper* are available at [www.aca.org.uk](http://www.aca.org.uk)

