



*Response to Pickering consultation paper says Government must show strong and unambiguous signal that they are prepared to act ...*

## **ACA RESPONSE TO PICKERING DETAILS REGULATORY CUTS NEEDED TO SAFEGUARD PRIVATE PENSION PROVISION**

**22 February 2002 – In their response to the Pickering pension simplification consultation paper, the Association of Consulting Actuaries (ACA), whose members advise the vast majority of larger occupational schemes and thousands of smaller arrangements, say there can be no half measures in the Government’s response to the need for radical pension simplification.**

Launching the ACA’s response, ACA Chairman Mike Arnold said: “recent announcements by a raft of large employers and widespread evidence from our members that many more firms are reviewing their occupational pension arrangements is worrying news for employees, many of whom will not now get the chance to join a good scheme.”

“These announcements underscore our recent survey of pension trends, which reported levels of occupational scheme coverage have fallen back to those last seen in the late 1950s, and – undoubtedly – matters are now worsening and at an accelerating rate,” (see **Note to Editors** for further information on the survey).

“An unfortunate combination of events has been the catalyst for this situation. Increased longevity – which increases the cost of the provision of pensions, negative investment returns over the last 2 years, the implementation of a new

and quite different accounting standard for corporate pensions (FRS17) are elements of this. But beyond any question, however well meaning, the huge increase in complex regulation and additional costs placed on schemes and their sponsors over the past 20 years by Government is now taking its toll. Efforts to safeguard scheme members are ending up undermining their interests. Fewer people are being offered access to occupational schemes, with more having to take on the 'investment risk', and with lower pension contributions often the case."

The ACA's recommendations to the Pickering consultation include (in summary form):

- The removal of s67 of the *Pensions Act*, replacing it with a more flexible regime that will allow greater scheme simplification and equalisation whilst still protecting key member entitlements.
- Genuine simplification, says the ACA, will require the successful conclusion of the separate study cutting a swathe through Inland Revenue regulations, and these will need to be agreed between the Treasury and the DWP.
- Confining Pension Ombudsman pronouncements to interpreting legislation rather than 'extending legislation'.
- Review of OPRA to lead to a regulator that exercises common sense and judgement rather than a 'tick-box regulator that checks compliance against legislation in detail via whistle-blowing reports'.
- Limited Price Indexation (LPI) is an inefficient benefit for final salary schemes to provide, expensive to purchase from insurers and with very limited opportunities for schemes to match liabilities. The LPI requirement on final salary schemes should be removed.
- Radically simplify the State contracting-out regime so rebates are standard across schemes, with scheme tests and transfer rules eased.

- Basis of cash equivalent transfers to be determined by trustees and could be based on their scheme's funding basis, investment and administrative arrangements and not by prescriptive legislation.
- Full disclosure of pension scheme information, but radically simplified regulatory requirements.
- Requirement on schemes to offer AVCs to be removed. Rules no longer needed given the alternatives now available.
- Pensions on divorce legislation to be brought back to basic principles simplifying the obligations placed on trustees.
- Remove detail of Internal Dispute Resolution procedures and Member-Nominated Trustees regulations, replacing these with simple general requirements on schemes, for instance, requiring one-third member-nominated trustees for trustees' decisions to be valid in law.
- Additional prescriptive legislation based on the Myners' recommendations to be shelved indefinitely.

The ACA says the Government would be very unwise to think pensions and employer bodies are 'crying wolf' over the state of private occupational provision. "Government is going to have to set a new course of de-regulation and accept simplification will mean some losers, but for the greater good of the majority. The acid test is whether they have the vision to take the necessary decisions," says Mike Arnold.

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**Note for Editors**

1. Copies of the **ACA's full response to the Pickering consultation** paper are available from the ACA, call 020 7248 3163 or at 'policy statements' on the ACA's website at [www.aca.org.uk](http://www.aca.org.uk)

2. The **ACA survey published in November 2001 *Occupational Pensions: The End of an Era?*** found that combined employer and employee contributions into money purchase pension schemes average under 9% of earnings, some 5 – 7% below those into final salary schemes.

Key findings included in the survey:

- The most recent Government Actuary's Report shows only 46% of employees are covered by occupational schemes, down from 53% in 1967. In simple terms, close to 2 million fewer people are now in occupational schemes compared to the earlier year. Over the most recent four-year period recorded, occupational pension scheme coverage fell by some 400,000 members.
- Over the same period, the number of contracted-out final salary schemes in the private sector declined by around 15% in both middle sized firms (+100 members) and larger firms (+1000 members). Scheme membership also declined at an even faster rate.
- More people now work for firms that offer no pension scheme at all – 28% of full-time men and 26% of full-time women now work for firms where there is no occupational pension scheme, compared to 19% and 21% (respectively) in 1989. It has yet to be seen whether Stakeholder pensions will change this situation. The results of the survey are not hopeful.
- Over the last 5 years, 63% of firms with final salary schemes say their pension scheme costs – administration and contributions – have grown at a faster rate than other business overheads. As a result, 18% of firms have placed one or more schemes into winding-up.
- Some 13% of firms with occupational schemes say they will gradually wind down existing arrangements for some or all staff, replacing these with a Stakeholder scheme. A further 20% will restrict entry to their occupational schemes, excluding either new employees or extra categories of employees.
- It would not matter if the public was replacing occupational pensions with pensions or savings plans where they are contributing upwards of 10% of earnings (much higher, of course, if they start in their 30s or 40s), but this is not the reality.

**Copies of the survey report *Occupational Pensions: The End of an Era? Are available from the ACA. Call 020 7248 3163. Price £40. Press copies free of charge. For a copy of the press release on the survey findings see 'press releases' at [www.aca.org.uk](http://www.aca.org.uk)***

3. Members of the ACA are all qualified actuaries who act in a consulting role in respect of occupational schemes and also in other areas such as life insurance, health and general insurance. The ACA's 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.