



ACA WELCOMES TIMING OF PENSION RISK SHARING CONSULTATION

5 June 2008 - The Association of Consulting Actuaries (ACA) has welcomed today's publication by the DWP of a *Risk Sharing Consultation* paper (responses by 28 August) which seeks views on the ways in which risks could be shared in occupational pension schemes, set against a backcloth of continuing decline in existing defined benefit pension provision.

"The response date to the consultation should allow Government to consult and wave through certain well-developed risk sharing ideas and include these in this year's *Pensions Bill*, which is not now expected to complete all of its stages until October," said Keith Barton, ACA Chairman.

"It is important that measures get into this year's Bill to 'free up' design at an early date, otherwise we fear closures of quality schemes will continue apace as, at present, there is no risk sharing design that sponsors see as widely acceptable under current legislation. There is no guarantee of legislative time next year for the outcome of this consultation, so early action is needed by the autumn, otherwise reforms could be far too late."

"The amendment to the current *Pensions Bill* allowing employers to offer conditional indexation schemes – a type of risk-sharing scheme – is being re-introduced in the Lords and we see no reason why employers should not be able to offer this type of scheme within the next year," said Keith Barton.

"The conditional indexation proposal has been developed over a two-year period and has been tested in The Netherlands, where the outcome has been very successful in terms of ensuring the continuation of good quality pension provision. The timing of this consultation now allows the Government the opportunity to back the proposal before this year's Bill becomes an Act in October".

For further comment:

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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 Faculty and Institute of Actuaries are the professional bodies. The ACA has 1700 members working in around 80 firms. 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.

Conditionally indexed pensions

The ACA says new conditionally indexed schemes offer to those many mid-sized and larger employers prepared to share risks with employees¹ a pension arrangement that not only will attract and retain employees, but that also caps employers' costs into the future (a full description of how conditional indexation schemes work is contained in the ACA's *Written Evidence* to the Bill Committee²).

Conditionally indexed schemes offer to employees a far less volatile pension benefit than DC. Pensions are based on career average earnings linked to service. Save on occasions when scheme funding falls into deficit (the 'condition'), pension benefits would be indexed in line with a scheme specific index, typically inflation up to a 2.5% cap per annum. Restoring indexation would be the first priority when a scheme returns to surplus.

Funding would be based, as with existing DB schemes, on the new prudent funding standards set by the Pensions Regulator, who would regulate such schemes, with PPF levies securing further protection for members (but with lower levies based on the lower risk profile of such schemes).

Importantly, under the ACA's amendment to the *Pensions Bill*:

- Conditional indexation would not apply to the benefits offered by existing types of defined benefit schemes – for simplicity, the amendment only applies to new conditionally indexed arrangements set up after the Bill becomes an Act.
- The amendment in no way stands in the way of existing types of risk sharing arrangements (although the reality is that very few have been taken up by employers due to the complexity and limitations of current legislation and the communication issues involved).
- The amendment does not stand in the way of other possible types of risk sharing arrangements that might be identified in the future, but which are not ready for this Bill.

The detail of how conditional indexation schemes would work is far more advanced than the detail of some aspects of personal accounts, where, for example, the administration of collecting contributions and the charging basis are still very uncertain.

An ACA briefing to the Pensions Bill Committee concluded that 'conditionally indexed schemes are the first important step in re-invigorating quality UK pensions – the only new form of risk sharing pension design that is ready to implement **now**. Country-wide, consulting actuaries, who advise the vast majority of employers who would take up such schemes, are ready to promote the new design opportunity as employers plan the shape of their pension arrangements in the run up to 2012'.

DWP consultation paper on risk sharing

The paper was published on 5 June 2008 and is available at:

<http://www.dwp.gov.uk/pensionsreform/pdfs/pensionrisksharing-consultation-june2008.pdf>

¹ ACA surveys in 2006 and 2007 have found over 70% of employers support risk sharing being promoted by legislation.

² www.aca.org.uk (see 'Recent Publication, 2 January 2008')