



NEWS RELEASE

Government must wake up to the severity of the decline in good company private pensions and take up ACA blueprint for reform...

GOVERNMENT MUST OFFER NEW FREEDOM TO EMPLOYERS AND NOT UNDERESTIMATE DECLINE OF EXISTING GOOD PENSION PROVISION

8 October 2007: The Chairman of the Association of Consulting Actuaries (ACA), Ian Farr, has warned today that the Government must not miss the opportunity in legislation to be tabled in 2007/08 of giving new freedoms to employers to respond to the rapid decline in final salary pension schemes. A Pension Policy Institute (PPI) report out today refers to around 60% of final salary schemes being closed, but this is based on data up to the end of 2005. The ACA's findings, from data collected in early 2007, are that there have been many closures in 2006/07, and that around 80% of schemes are now closed to new entrants¹, including many larger schemes. The number of schemes closing to future accruals is also rising steadily,

“As consultants to the vast majority of private sector schemes, we are aware that further closures have been decided privately or are being contemplated, despite the improving funding position of many schemes. The picture for the future of good company schemes is therefore much more worrying than some reports suggest – consistently, the ACA has warned Ministers over the last decade that actions to support good company schemes have been too half-hearted or positively destructive to provision. The Government has no time left to make further mistakes. And, let us be absolutely clear, personal accounts are not enough – they pass all of the risks to the individual.

“The closure of final salary schemes has led to their replacement generally by lower-cost money purchase schemes, where members take 100% of the investment and longevity risk. This has happened because employers under present legislation have had no real ability to move to a ‘middle way’, where risks are shared.

¹ Figures from the ACA's 2007 *Pension trends survey*, which found 81% of defined benefit schemes are closed to new entrants and 14% to future accrual.

“There is a positive message for Government. They have before them a blueprint from the ACA, submitted over a year ago to the DWP, for legislative changes that would allow employers to offer ‘conditionally indexed’ average salary schemes. These schemes provide indexation of pensions, backed by prudent reserves, but with that indexation conditional on the financial health of the scheme. In years where there are very adverse financial conditions, the employer would have the ability to postpone indexation until conditions improved. This type of benefit design works successfully in The Netherlands, where it is the prevalent form of company scheme and far more widespread than final salary or money purchase.

“Why should UK employers in this day and age not be able to offer a ‘conditionally indexed’ scheme, when there is clear employer support for such schemes (72%)² and given the reduced risk, compared to money purchase schemes, that they place upon members? The eagerly awaited response by the Pensions Minister, Michael O’Brien, to the Deregulatory Review of Private Pensions, due imminently, offers the Government the ideal opportunity to map out the legislative changes necessary to allow employers the freedom to offer such schemes. Let us hope the opportunity is not missed,” concluded Ian Farr.

An ACA paper on Shared Risk schemes and a Questions & Answers briefing are available on the ACA website at www.aca.org.uk (see ‘Policy Statements’)

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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 over 1600 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.

² Figures from the ACA’s 2007 *Pension trends survey*, which found 72% of employers support the promotion of risk sharing schemes.