



NEWS RELEASE

EMBARGO ON PUBLICATION UNTIL 16 NOVEMBER 2007

An ACA survey of consulting firms has shown the number of private sector employees in membership of open defined benefit schemes has halved since 2004...

ACA CHAIRMAN CALLS ON GOVERNMENT TO REMOVE BAN ON EMPLOYERS OFFERING CONDITIONALLY INDEXED PENSIONS...

15 November 2007: The forthcoming *Pensions Bill* must remove the ban on employers being able to offer conditionally indexed pensions said, Ian Farr, Chairman of the Association of Consulting Actuaries (ACA) speaking at the Association's Annual Dinner, where Mike O'Brien MP, the Pensions Reform Minister, was guest-of-honour.

Ian Farr, ACA Chairman, said:

"In 1995, there were 5 million employees of private sector firms in open defined benefit schemes. By 2004, the number was down to 2 million. Our latest figures – collected this month – show this figure is down to around 900,000. We are sure that the Government's proposed deregulatory reforms to date will not reverse this move – the cost and forward liabilities placed on private sector employers remain simply too high. The impact of this decline is very significant. It means millions more private sector employees in mid-career, those who change jobs and virtually all new employees now have to grapple with a greater uncertainty over the level of their pension in retirement."

"However, many employers still want to do more than place 100% of the investment and longevity risks on their employees, which is what the prevalent form of replacement

pension scheme, defined contribution, does. The volatility involved with defined contribution can be particularly problematic for employees on lower incomes, but at present, there really isn't an acceptable – certainly to employers – 'middle way' type of scheme available between existing defined benefit and defined contribution schemes”.

“The Government can set this right in the forthcoming *Pensions Bill*. The ACA has provided a blue-print to Ministers on how the existing defined benefit legislation can be amended to remove the ban on employers from offering **conditionally indexed pension schemes**. This is the prevalent type of scheme in The Netherlands and much preferred to defined contribution arrangements in that country.”

“Under **conditionally indexed pension schemes** the level of pension is generally geared to average career earnings, with revaluation pre-retirement and pensions in payment indexed annually, but conditional on the health of a scheme's finances.”

“These schemes – because they would fall under the existing defined benefit regime – would be required to follow the tough new scheme funding requirements. Future pension increases would be backed by prudent funding reserves. Crucially, they offer the prospect of higher investment returns over the long term, and thereby lower costs, due to less constraints on their investment strategy. They would be regulated by the Pensions Regulator and they would offer protections to members in terms of access to the Pension Protection Fund if an employer failed.”

“And there is a demand out there. Our *ACA 2007 Pension trends* survey earlier this year of employers covering schemes with 2.1 million total scheme members, found 72% wanted the Government to facilitate the establishment of risk sharing schemes.”

“Why in the year 2007 would a Government want to ban employers from providing this type of pension when it has the legislative opportunity to encourage this new flexibility?”

“Certainly, if the Government does not act, it can expect employees in the private sector to question the growing pension gap with public sector employees – a gap that these proposals can help close if conditionally indexed pensions are given the go-ahead,” concluded Ian Farr.

A brief on the need for the forthcoming Pensions Bill to allow employers to set up conditionally indexed pensions is available on the ACA website at www.aca.org.uk (see 'Publications')

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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.