



Importance of encouraging employers and employees to contribute to pensions must figure more positively in Government's final policy proposals....

GOVERNMENT PENSIONS STRATEGY MUST CHANGE RADICALLY TO RECOGNISE IMPORTANCE OF ENCOURAGING HIGHER PENSION CONTRIBUTIONS

4 September 2003 – The key importance of encouraging higher pension contributions from both employers and employees in building up ‘decent’ pensions forms far too low a priority in the Government’s pensions strategy announced in June, says Gordon Pollock, Chairman of the Association of Consulting Actuaries (ACA). The final legislative measures to be announced in the autumn must change radically from those currently on offer, otherwise they will form yet another failure in a growing list of ‘lost opportunities’.

“The most recent reform proposals, published on 11 June 2003, have very little in them that will encourage employers to continue with defined benefit provision. Particularly for newer firms that have not yet established occupational schemes, there is almost nothing to encourage them to ‘take the plunge’. Indeed, the main measures are defensive, and – whilst they may deliver greater protection for a limited number of existing pension scheme members – they are likely to turn an increasing number of employers away from their present occupational arrangements. By adding new forward ‘liabilities’ in terms of full buy-out and Pension Protection Fund costs, they provide a further incentive, if any was

needed, to review arrangements and to take actions to restrict future pension costs”.

“I have five predictions as to where present pensions policy is taking us,” says Gordon Pollock.

“First, that for many employees, the announced policies will lead to lower levels of pension contributions from their employers at the very time when the Government should be encouraging much higher levels of pension savings, and when it should be doing its utmost to encourage employer support for that strategy.

“Second, far more employees will be financially disadvantaged as a result of the June measures than will be helped as employers react to the new forward ‘liabilities’ being placed upon them in continuing to offer defined benefit pensions.

“Third, the proposals will mean fewer new employers will offer any pension arrangements at all, aside from stakeholder schemes that are largely reliant on employee contributions. Government statistics already show a steep decline in the numbers of employees offered access to an occupational scheme. Rising personal debt levels hardly suggest employee-only pension contributions are going to amount to enough for most people’s retirement needs.

“Fourth, the Government will probably take no notice at all about what I and many other pension professionals and sponsoring employers say about the failings in its latest policy measures. Instead of shaping new incentives that inevitably involve a long-term investment in pension saving for the future, the Government has opted for palliatives that are well intended and easy on the eye but are soft on the Chancellor’s pocket. Future pensioners and taxpayers will rue this ‘short-term’ approach to pensions. Financial incentives that encourage long-term investment in our private retirement system, to ensure more of our people

live at above subsistence levels, need to be seen as at least of equal importance to our current commitment to raise health and education spending in real terms.

“Fifth, the Pensions Commission under Adair Turner will have a key role in determining what part a voluntary approach will play in the future of UK pension saving beyond 2005. It is to be hoped that one of the Commission’s early considerations will be ‘what practical steps could be taken that might extend voluntary pension provision’, rather than just measure the current health of a sector that has been so badly damaged by costly over-regulation over so many years.

Gordon Pollock’s speech was given on the occasion of the ACA’s Annual Dinner, where Adair Turner, Chairman of the new Pensions Commission, was the guest-of-honour.

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Note to Editors:

Members of the **Association of Consulting Actuaries (ACA)** 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.