



ACA Chairman calls on Government to scale-back Pension Protection Fund benefits, so package is affordable, in what looks like an increasingly tough regulatory environment...

NEW PENSION REGIME IS LOOKING INCREASINGLY HOSTILE TOWARDS WIDER PROVISION

30 April 2004 – The emerging new pension regime is looking increasingly hostile towards encouraging wider pension provision. In a speech at the Chairman’s Dinner, attended by pension and financial services leaders, regulators and civil servants, Gordon Pollock, Chairman of the Association of Consulting Actuaries (ACA), expressed alarm at the direction of policy and its likely impact.

Gordon Pollock warned that: “While the Government clearly feels the extra protection it is putting in place will somehow encourage occupational pension saving, they seem reluctant to accept that the balance of incentive and regulation is again tilting too much in favour of the latter, as it did with the *1995 Pensions Act*. In a survey we will be publishing next month, over half the employers we surveyed following the publication of the Bill expect its measures will reduce not extend provision. The vast majority also think it will add to their costs, not save them a penny. This is not the way to build provision. The Government started this whole process with a view to a lighter touch regime so more and newer firms would offer pension schemes”.

“Whilst we see the value of the Pension Protection Fund (PPF), the Government is rightly fearful of setting up a Fund that falls quickly into a big deficit. So – learning the lessons from the US – they are gradually erecting a regulatory regime that will move ‘heaven and earth’ to keep schemes out of the PPF. This is only possible, if the new

regime – as we can glean from the announcements earlier this week – is hell bent on making sure schemes are fully funded, as quickly as possible, and that there is close supervision of schemes. My suspicions are that as we see the details of the ‘scheme specific funding requirement’ unfold (after the legislation has been passed) it may well turn out to be more onerous than the minimum funding requirement and offer less flexibility, particularly to companies with a ‘weaker’ balance sheet. Moreover the wider pro-active powers of the new regulator look worrying, albeit I have no doubt soothing words will be spoken to tell us these powers will only be used in extreme circumstances,” added Pollock.

“If what I fear is not to happen, the Government must consult early on in the development of the raft of regulations ahead and it must take the blinkers off and coldly re-assess areas of forward cost. It strikes me that the benefits for existing pensioners of a scheme entering the PPF, possibly hundreds of thousands of pounds uncapped for some retired executives, need to be capped on grounds of simple equity and cost. What that cap is can be debated, but I cannot see why a retired 65 year old executive should get an unrestricted pension (perhaps £500,000 pa or more), but his 64 year old counterpart be restricted to only £25,000pa. This does not sit easily and is not mirrored by other compensation schemes in the sector”.

Outlining the wider role of the ACA, Gordon Pollock noted that: “Members of the ACA play an increasingly important part in the life insurance industry. Our Members advise and review in some shape or form virtually every insurance company in UK through being advisers to the board or by reviewing the work of the Appointed Actuary. In addition, Members are the Appointed Actuary or Appropriate Actuary to a large proportion of the smaller insurance companies and friendly societies,” he noted.

“In consequence, ACA Members are looking forward to playing an even greater role in the governance of life insurers whatever the FSA ultimately decides in respect of the role of auditors and the reviewing actuary, as well as the peer review arrangements being introduced by the profession. Additionally, the outsourcing of the work of the With

Profit Actuary and internal audit work will increase the importance of the external actuarial consultant,” added Pollock.

“Following the outcome of the Penrose Report, the ACA is looking to play a pro-active role in developing the findings and recommendations included in the report. We welcome the Morris review in that it will cause us to look at how we can do better. It would be foolish and arrogant for us to answer all criticisms with simply a ‘straight bat’ of no change. In particular, we need to reflect on how best our clients should be serviced into the future to reflect their changing needs. We must then make sure cogent arguments are put to Morris Review so we do not end up with recommendations that are unworkable or uneconomic all-round”.

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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.