



*Response to latest Pensions White Paper ...*

## **ACA SAYS PERSONAL ACCOUNTS MUST COMPLEMENT BETTER WORKPLACE PENSIONS**

**12 December 2006 – In their response to today’s Pensions White Paper, the Association of Consulting Actuaries (ACA) has welcomed its intent to extend private pensions to those not presently covered. The important next step is that the Government takes really positive steps to strengthen and encourage existing and new workplace pensions that are better than the minimum provided by personal accounts. Measures to do this need to be included in its legislative programme for 2007/08, otherwise there is a very real danger that many employers will level-down to personal accounts.**

“We remain fearful of the impact of volatility in investment returns of personal accounts for those on low incomes. Personal accounts will place 100% of that investment risk squarely with employees. We are not confident that the investment and indeed the longevity risks involved will be fully communicated in the hype that will accompany the launch of a scheme relying on low-cost ‘simple’ generic advice,” commented ACA Chairman, Ian Farr.

“As things stand, older employees on lower incomes also may be very susceptible to the mis-sale of personal accounts in terms of the loss of means-tested benefits they would otherwise have received in retirement.

“The personal accounts package needs to be seen as no more than a partial solution to the problem of too few people with inadequate pensions. The essential accompanying step is to *encourage* more employers to offer better schemes than personal accounts. It is encouraging that the Government seems to recognise this in the White Paper.”

“History shows that UK employers will support good pensions, but they need to be confident that they can control the long-term costs involved. At present, much pension legislation effectively discourages employers from backing good workplace pensions. That has to change and quickly. Legislation that supports good workplace pensions, including a new risk sharing regime (see *Note for Editors*), needs to progress at the same pace as personal accounts, so reforms complement each other, rather than work against each other,” concluded, Ian Farr.

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### **Notes for Editors**

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 1500 members working in around 80 firms. Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. ACA members include the scheme actuaries to schemes covering the majority of members of defined benefit pension schemes.

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.

Over the last year or so, the ACA has been calling on the Government to support a new simple pension regime that will lead to more schemes being developed that share risks between employers and employees. Such a regime would be particularly attractive to mid-sized and larger employers who, looking to the long-term, are not prepared to take on the financial risks associated with balance of cost final salary schemes.

A new risk sharing scheme will enable employers to offer a collective mechanism, devoid of cross subsidies, for the delivery of a more certain retirement income than that offered by simple money purchase schemes that place 100% of the investment risk with employees. Importantly, the flexibility in design of these new schemes would allow costs to be controlled over the longer-term.