



## NEWS RELEASE

***Risk-sharing blue-print offers Government opportunity to promote good private sector pensions...***

### **RISK SHARING IS WAY TO HELP BRIDGE GAP BETWEEN PRIVATE AND PUBLIC SECTOR PENSION SCHEMES**

**25 September 2007: The growing gulf between pension schemes in the private sector and those in the public sector can be addressed if the Government backs a blue-print which would 'set free' employers to introduce new risk sharing pension schemes. With the National Health Service recently announcing the retention of its final salary scheme, whilst upwards of 8 out of 10 private sector schemes<sup>1</sup> are now closed to new entrants, the need for measures that will bring a radical rejuvenation of good private sector schemes is vital, says the Association of Consulting Actuaries (ACA).**

This is the message from **Ian Farr, Chairman of the Association of Consulting Actuaries (ACA)**, who is meeting with the Pensions Minister ahead of the Government's response to the Deregulatory Review of Private Pensions, which is expected in early October.

"We do not believe risk sharing schemes will prosper if employers have to manufacture them by devising hybrid defined benefit and defined contribution schemes – that is why they are not happening at present. Instead, we have submitted to the Government detailed proposals on how some minor changes to existing legislation can set employers free to offer risk sharing schemes that fall between current defined benefit schemes – the majority of which are now closed and which will not re-open – and defined contribution schemes, which place 100% of investment and longevity risk onto scheme members.

"The key to the success of risk sharing schemes is that the annual indexation of benefits would be conditional on a scheme's funding position, but supported by a funding reserve based on prudent actuarial assumptions under the new scheme specific funding regime. As each year passes, the

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<sup>1</sup> 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.

year's revaluation and pension increase would then automatically become a defined benefit subject to the funding position of the scheme not showing a past service funding shortfall at that time.

“Importantly, risk sharing schemes offer a ‘middle way’ when private sector employers are re-designing their pensions to reduce potential forward liabilities, which private sector employers must do to protect their on-going business. At present, there’s very little option but to switch to defined contribution. Many would find a genuine risk sharing alternative a real plus<sup>2</sup> and one that would be more attractive to many employees.

“Such schemes would help close the gap with public sector final salary schemes. Increasingly, I sense more and more organisations<sup>3</sup> see these new risk sharing schemes as the way forward – the success of such schemes in The Netherlands shows they are not some un-tested proposal.”

The ACA says that it is vital such schemes are encouraged by legislative reforms in the 2007/08 session of Parliament, in advance of the introduction of personal accounts, which many are fearful could level-down existing private provision still further if no meaningful reforms are extended to encourage workplace schemes that are better than the minimum.

**A paper on *Shared Risk* schemes and a *Questions & Answers* briefing are available on the ACA website at [www.aca.org.uk](http://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.

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<sup>2</sup> The ACA's 2007 *Pension trends survey* found 72% of employers favoured the promotion of new risk sharing pension schemes

<sup>3</sup> Most recently, fund managers Fidelity published similar proposals calling for legislative changes to promote risk sharing schemes