



The ACA has made a number of key recommendations to change the draft new Debt on Employer regulations published by the Government on 11 June 2003...

ACA SAYS TRUSTEES SHOULD HAVE RESTRICTED ABILITY TO PLACE PENSION SCHEMES IN WIND UP

23 July 2003: In response to the consultation exercise, the Association of Consulting Actuaries (ACA) has called on the Department of Work and Pensions to revise the draft *Occupational Pension Schemes (Winding Up and Deficiency on Winding Up etc.) (Amendment) Regulations 2003* removing the ability of scheme trustees to instigate a scheme wind up forcing full buy out costs on a solvent employer. The ACA says that if the regulations go ahead without amendment they could jeopardise the finances of some companies and lead on to their insolvency.

The ACA says that the initial Government announcement requiring full buy out of scheme benefits appeared to cover only the situation where a solvent employer chose to wind up a scheme. The draft regulations, however, would also force full buy out costs on an employer if, for whatever reason, the trustees instigated the wind up. The ACA is concerned, for example, that the trustees of a solvent company, where the defined benefit scheme is closed to future accrual, could choose to wind up the scheme to assure members' benefits. If the regulations are not changed, the ACA says that any employer top-up payments in these circumstances should exclude increases to pensions in payment.

Additionally, the ACA says 'we believe the regulations should limit the statutory power of trustees to put a scheme into wind up to circumstances where the employer's ongoing contribution would be expected to lead to a deterioration in the level of benefit security. This would limit the circumstances in which the power could be used, prevent it from being used improperly as a bargaining lever, and take away trustees' responsibility of having to actively consider whether to use such an extreme power'.

The ACA comment also notes that there is insufficient capacity in the insurance market to enable the benefits of larger schemes to be bought out.

The ACA is critical that the regulations as drafted alter the sponsor / trustee balance in most schemes and will add to employers' liabilities to the tune of £300 billion. This far exceeds the financial and administrative gains offered as part of the 11 June so called 'self-financing' package and, alongside the considerable likely cost of the Pension Protection Fund, draws into serious question the Government's real commitment to extending (and maintaining) occupational pension provision.

The ACA has advocated a radical package of proposals to encourage occupational provision (see 'ACA Pensions Strategy' in *Note for Editors*) to address the rapid decline in occupational provision (see '2003 Pension Trends Survey' in *Note for Editors*).

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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.

ACA Pensions Strategy

Published in November 2002, its **key recommendations** were:

- A single flat-rate State pension, with a link to earnings paid for by....
- ... an increase in the State pension age and greater flexibility over retirement age.

- Abolition of contracting-out (unless genuine incentives are offered).
- Improved tax or financial incentives to encourage employers to sponsor occupational schemes.
- Support for defined benefit pension arrangements as defined contribution schemes are often inappropriate, particularly for the lower paid and those who do not have the financial sophistication to assess and manage the significant risks inherent in such schemes.
- Early action to reduce the inequity of treatment between pensioners and other scheme members on winding-up.

For further details go to www.aca.org.uk

2003 Pension Trends Survey

Published in March 2003, the survey report *Pensions Reform: too little, too late?* includes the results of a survey conducted by the ACA early in 2003 that has found **29 per cent of employers have reviewed their pension arrangements in the last 6 months alone**. During this time, **a further 17 per cent of employers have decided to close their final salary schemes to new entrants – 72 per cent of final salary schemes are now closed to new entrants or future accruals**. The survey also includes employer comments on the Pensions Green Paper and Tax Simplification Paper.

For further details go to www.aca.org.uk