



NEWS RELEASE

WORKPLACE PENSIONS: A NEW HOPE?

14 January 2010: It's a stark fact, but for those working in the private sector, a good pension is becoming a scarce commodity. But, what do we mean by a 'good pension'? In truth, good pensions can take many forms and, legislation permitting, designs can be shaped to suit employer and employee aspirations alike. They can achieve the dual aims of controlling employers' costs and reducing the volatility in pension outcomes, so feared by those approaching retirement. There's just one problem in the UK, pension legislation has become overly restrictive in the pursuit of 'safety first', frustrating innovation and, thereby, damaging the pension future for millions of employees. The latest issue of *Placard*, the discussion paper of the Association of Consulting Actuaries (ACA), examines ways in which today's pension crisis can be addressed, to provide new hope.

The articles in *Placard*, all written by leading consulting actuaries, approach our pension crisis from a number of viewpoints. The articles by **Jeremy Dell**, **Raj Mody** and **Ian Farr** look to a range of changes in pension legislation to be implemented in quick time after the forthcoming General Election and well ahead of the introduction of Nests (formerly called Personal Accounts) from 2012, when there is otherwise a real danger of levelling-down¹.

As **Jeremy Dell** comments in his article:

"We need to allow companies to apply their creativity to deliver a form of pension provision that is best for employer and employee, and in that way encourage companies to contribute more to their workers' personal savings...What we really need from Government is vision; micro managing pensions and limiting the form of benefit provision cannot hope to improve the current position."

Raj Mody echoes this call and asks what is needed to resurrect employers' motivations to provide quality workplace pensions? He calls for pensions to be de-politicised with the establishment of an independent 'retirement savings panel' to become responsible for the pensions framework. In the near-term he calls for a reduced annual allowance instead of the new proposed

restrictions on tax relief for higher earners from April 2011 and a removal of the cap of £3,600 a year on contributions into Nests and the removal of the transfer ban from other arrangements.

Ian Farr argues that amending existing legislation to allow larger employers to offer conditional indexation schemes should be an early first-step in freeing up pension scheme designs. These career average defined benefit schemes are funded to meet indexation, but have the flexibility to withhold indexation of benefits temporarily when schemes are in deficit (with indexation made good when the funding returns to surplus). Such schemes operate well in The Netherlands and the legislative reforms are ready to apply in the UK.

Another article in this issue by **Bart Huby** considers how the inevitable reductions in public spending over the years ahead might impact on public sector pensions, where quiet changes in some areas of provision are already underway and where greater transparency in identifying the true cost of forward liabilities is likely to hasten reform, as is the pressure to out-source services to the private sector.

Placard also looks at defined contribution schemes, where legislative reforms are less of a priority, but where immense challenges remain to engage employees meaningfully and in managing more reliable pension outcomes.

Mark Duke explores the current DC scene and the challenges presented by the 'messy world of the individual'. He notes, "many of the building blocks already exist in the tools (and by this I mean all forms of communication) that are being used to support commercial savings products/portals, occupational DC plans and flexible benefits arrangements. Putting it all together (and working out who pays for the tools and services) is the next step."

Copies of Placard are available from the ACA (call 020 3207 9380) or can be viewed at the ACA website at www.aca.org.uk (Issue 26: January 2010) see 'Recent Publications'.

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Note to Editors:

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 1750 members working in around 75 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 the World.

¹ See results of *2009 ACA Pension trends survey* reported in ACA press release dated 4 January 2010. See www.aca.org.uk 'Latest News'. The survey of 309 organisations found that 15 per cent of businesses (41% of businesses with up to 249 employees) were likely to consider closing their pension scheme in favour of Nests (formerly, Personal Accounts).