ASSOCIATION OF CONSULTING ACTUARIES

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1 December 2017

PPF and NEST Partnership
Private Pensions Policy and Analysis
1st Floor, Caxton House
Tothill Street
London SW1H 9NA

Dear Sir / Madam

Draft regulations to allow the Pension Protection Fund to take account of bridging pensions: revised approach

I am writing on behalf of the Association of Consulting Actuaries in response to the above consultation. Our comments on the specific questions raised in the consultation are set out in the Appendix.

We would like to thank you for listening to the concerns raised by us and others on the smoothing proposal put forward in August. The revised approach on which you are now consulting is much better aligned to the needs of those who will be impacted, especially those on low incomes.

We note that you promise to respond to the other issues raised in the August consultation when the response to this latest consultation is published.

We hope that you find the contents of this letter of assistance. We would be happy to discuss them further if that is helpful, in which case please contact me on 020 7432 6635 (david.everett@lcp.uk.com), or my colleague Kenneth Donaldson on 07462 916 483 (kenneth.donaldson@quattropensions.com).

Yours sincerely

David Everett
Chairman, Pension Schemes Committee
On behalf of the Association of Consulting Actuaries Limited

Sent by e-mail to: bridging.pensionsconsultation2@dwp.gsi.gov.uk

APPENDIX

Draft regulations to allow the Pension Protection Fund to take account of bridging pensions: revised approach

1. Do the draft regulations achieve the policy intent as outlined in this consultation document?

From our layman's reading they appear to do so, but we have only read them in isolation and not in conjunction with Schedule 7 of the Pensions Act 2004.

We support much of the proposed design of the bridging element of PPF compensation – in particular:

- Treating this bridging element as a separate tranche of PPF compensation;
- Fixing the PPF decrease date at the beginning of the PPF assessment period, ordinarily using the scheme's decrease date;
- Obtaining the throughout life actuarial equivalent of the bridging element when applying the PPF compensation cap – we appreciate that this could mean that the individual initially receives compensation that is above the cap; and
- Allowing members to commute, on retirement, up to 25% of their total PPF compensation, in respect of the lifetime and bridging elements – although not mentioned, we assume that the PPF will use different commutation factors for the bridging element than those currently used for the throughout life element and that it will distinguish between the bridging element that has accrued pre and post April 1997.

We comment on two further aspects of the proposed design as follows:

- On balance we feel the addition of a contingent 50% spouse's benefit may be unnecessarily generous. Generally speaking, the design rationale for offering a bridge was integration with the State Scheme, to tide a member over until State benefits were payable. This logic did not generally apply to contingent benefits, where there was no comparable waiting period. We would therefore expect most bridges to be single life in nature. We do note that generally the philosophy of the PPF is to provide a 50% spouse's benefit across the board, regardless of the scheme's underlying structure. The new bridging provisions seem an obvious place to make an exclusion from that general rule. In actuarial terms, we would not expect the inclusion of a 50% contingent spouse's bridge to be expensive, as the probability of death at the relevant age range is low. Nonetheless there is a cost to the levy payer, and we see no clear case to include this feature.
- In relation to the as yet unspecified factors that the PPF will need to develop and use in order to operate the new bridging benefit, there will be a need to ensure there is consistency between all the factors that will now be in use across the PPF. Specifically there will be a need for consistency between:
    - the existing "whole life" factors for cash, early and late retirement; and
    - the new "bridging" factors, reflecting the new PPF decrease date.

We also note that the treatment on late retirement as outlined in the consultation document seems to have a large cliff edge. If a member late retires before the PPF decrease date their bridging pension is converted into an actuarial equivalent bridging pension from the later start date – which could presumably be a very large pension payable for a short period. If they retire on or just after the PPF decrease date the bridging pension is just ignored (i.e. the member loses the value of it completely).

If this was in a normal scheme this could cause difficulties under the tax legislation (with a large step down) or preservation (if an element of the benefit is ignored in the cost neutral considerations).

We suspect that it would be difficult to come up with a solution that is sufficiently administratively straightforward for the PPF. Ideally the whole PPF compensation (ie the basic element and the bridging element) would be actuarially equivalent to the compensation that would have been payable from normal pension age, including a sensible level of bridging pension if late retirement is before the PPF decrease date (similar to the level of the bridging pension payable from normal pension age, between the late retirement date and the PPF decrease date). If you proceed with the current proposals, we suggest that, as a minimum, affected members should be alerted to the fact that if they delay retirement beyond the PPF decrease date they could lose out financially.

2. Are you aware of any unintended consequences resulting from the draft regulations?

We are not aware of any unintended consequences.

We have one point of presentational detail. Regulation 28(1)(b) defines "the bridging pension" as a pension which decreases on the "scheme decrease date" – but when schemes use the term bridging pension they are normally referring to that element of pension that ceases at a future date (ie what the Regulations call "the bridging element"). In order to avoid confusion we suggest that you don't use the term "the bridging pension" in the regulations. Perhaps "the variable rate pension" would be better?

About the Association of Consulting Actuaries (ACA)

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and all actuarial advice given is subject to the Actuaries' Code. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of private sector defined benefit pension schemes.

The ACA is the representative body for UK consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body.

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