ASSOCIATION OF CONSULTING ACTUARIES

PRESS RELEASE:

ACA welcomes new policy innovations but cautions on hasty development of reforms that could have unintended consequences for the UK's finely balanced pensions regime.

10 July 2023: Responding to the Chancellor's Mansion House speech this evening, the Association of Consulting Actuaries (ACA), whose members advise thousands of workplace pension schemes, has welcomed innovations that encourage reforms to the pensions regime and structure that genuinely enhance pension outcomes for savers. But ACA cautioned the Chancellor and DWP to 'take the industry with them' and not risk undermining the proven value of existing arrangements with over-hasty, if well-intentioned, reforms.

The ACA response notes that:

- Today's announcements span a range of areas in which ACA has called for reform for some time. We support innovative ways to improve retirement outcomes and savings adequacy and the Government is right to consider ways to improve the efficiency of investment allocations.

- However, we caution that unlocking the 12% additional lifetime returns for DC savers quoted by the Chancellor relies not just on an evolution in pension scheme investment approaches, but also on a step change in the domestic investment opportunities that are available. Otherwise, pension scheme members will simply be being asked to take on additional risk.

- We are strong supporters of new CDC schemes, which we expect to be natural buyers and long-term holders of growth assets. We also expect the improvement to member outcomes through implementing CDC could significantly exceed the 12% suggested by the Chancellor due to reform to DC investments alone. This means the quickest win for the Chancellor could be to rapidly apply the accelerator pedal to widen the scope of CDC schemes.

- We welcome news of a fully-fledged regime for Superfunds which, as we pointed out in our recent written Work and Pensions Select Committee evidence, have to date been hampered by a lack of political consensus and lack of commercial clarity in TPR's interim guidance. We hope private sector Superfunds can now emerge organically.

- We will review with interest the consultation on how the role of the PPF could evolve as part of the Government's proposals. We do not believe PPF's role should be expanded to situations where sponsors have not already entered insolvency. This would be fraught with practical, moral hazard and systemic risk considerations. However we do see mileage in innovations that could see PPF levies rebalanced to help support wider economic considerations, such as more significant growth investments. We are aware of a range of suggestions in this area and we look forward to engaging in these discussions as details emerge.

- ACA does not support proposals which would compulsorily require schemes (DB or DC) to hold particular asset classes, or which would require schemes to consolidate involuntarily.

- ACA supports a thoughtful review of pension governance, however we oppose hasty or forced changes that could upend well-established governance structures. This would be a sledgehammer to crack a nut. Trustees, sponsors and other stakeholders have stewarded their schemes through a series of recent economic storms. It is right given the scale of UK pensions that Government should focus on understanding systemic risks and behaviours. However, aggerate funding levels for defined benefit schemes are now at their strongest in recent memory and reforms must not undermine this success story.

Steven Taylor, ACA Chair, added:

"It's right to focus on ensuring the best possible outcomes for pensions savers. We have long supported organic ways to evolve UK pensions policy that align with this goal and that can harness existing governance structures that are a cornerstone of savers' hard-won trust in their pension schemes. We are also strong supporters of approaches that will help the next generation of savers, such as the introduction of Collective Defined Contribution ("CDC") schemes, which will naturally invest in growth-focussed ways.

"Pension scheme trustees, their sponsors and the wider industry will look forward to working with government to help develop and debate emerging policy ideas over coming weeks."

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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.