



ASSOCIATION OF CONSULTING ACTUARIES

PRESS RELEASE: IMMEDIATE

ACA Chair says savers need new pension solutions to ‘thrive’ with buy-outs of private sector DB schemes likely to accelerate

12 May 2023: Speaking at a pension industry dinner attended by a wide range of guests from the sector, ACA Chair, Steven Taylor said that despite generally improving funding positions it was very unlikely that DB pension scheme coverage of private sector employees would recover. New pension solutions must take the strain and offer savers the opportunity to aspire to a comfortable retirement income.

Steven Taylor, ACA Chair, said:

“Since the end of last year, when LDI, the Gilt market crisis and issues of systematic risk due to defined pension schemes were very much in the spotlight, things have calmed down somewhat. It’s been good to see the emergence of proportionate regulatory announcements by TPR, the Bank of England and others and ACA fully supports these measures.

“Partly due to the effect on the gilt crisis on scheme funding measures, much of the more recent debate since then (including the latest Work & Pensions Committee Inquiry on DB Pension schemes that our [Association](#) and others recently responded to) has been how to use the significant surpluses that have re-emerged, now that upwards of a quarter of schemes are fully funded to buy-out levels.

“We believe there will always be a place for open DB schemes. However, we think that if they are to thrive, new scheme funding regulations need to be put in place very carefully. Having to take an unnecessarily cautious funding approach must not be required, and we have responded to TPR and DWP’s recent consultations with suggestions in this area.

“Given the historical experiences many sponsors have had with DB schemes, we believe that the majority of schemes that have already closed are very unlikely to be reopened, so the DB landscape is unlikely to thrive like it once did. This means that new solutions are required for the current generation of savers who predominantly are in DC.

“CDC schemes could be well placed to drive the next generation of collective workplace schemes. These schemes offer the prospect of improved outcomes for members without thorny risks to sponsors from unexpected deficits.

“There is still a lot to do, however, and at least one more round of CDC regulations still needs to emerge. I think that the period up to the next election will be vital for laying the groundwork for these schemes and building on the current cross-party consensus in this area.

“In the nearer term, we can expect an acceleration of DB schemes approaching insurance markets. Given recent trends in funding levels, we are optimistic that insurance markets will have the financial and operational capacity to meet the requirements of the market without introducing new systematic risks.

“For other schemes, buy-out may not be the preferred outcome and there has been lots of debate recently about scenarios where schemes should instead run on for an extended period to take advantage of emerging surpluses, which may be used to pay for DC contributions for current employees.

“We can see a rationale for this in some cases – after all several sponsors already do. However, these cases are currently rare and, given the balance of risks, we expect that in practice most sponsors will prefer to simply proceed to insurance buy-out as soon as this can be done effectively. ACA also does not believe it would be appropriate to introduce legislation overriding the existing provisions in scheme rules around use of surplus.

“On the DC side, we have long called for the Government to plan for a gradual increase in AE minimum contributions over an extended period, whilst realising the current economic circumstances make this very difficult. The widening of AE coverage will help a little, but what is really needed is a plan over a number of years to gradually increase minimum AE contributions to at least 10% and ideally 12% of earnings. This does not necessarily all need to be compulsory, and flexibility could be a useful tool in challenging economic times.”

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