ASSOCIATION OF CONSULTING ACTUARIES

Association of Consulting Actuaries Limited · First Floor (129) · 40 Gracechurch Street · London · EC3V 0BT
Tel: +44 (0)20 3102 6761 · Email: acahelp@aca.org.uk · Web: www.aca.org.uk

16 December 2020

strategy.discussionresponses@tpr.gov.uk

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

Dear Sirs

Pensions of the future – a discussion on our strategy

I am writing on behalf of the Association of Consulting Actuaries in response to the above-named consultation issued by The Pensions Regulator.

We broadly agree with the strategic priorities set out in the document.

Whilst we agree that TPR should continue to increase its oversight of DC pension savings, we envisage that DB pensions will continue to require significant regulatory oversight for much (if not all) of the 15-year period under consideration. The focus on security should not prevent appropriate flexibility for funding DB schemes, particularly in light of the economic consequences of COVID-19, which may be felt for some time.

TPR and FCA will need to work together to cover the regulatory needs of savers as the savings landscape changes. We would also expect TPR to have a role in educating savers, as information on pensions becomes more immediately accessible.

Our comments on specific questions raised in the consultation are set out in the Appendix.

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 that event, please contact me on 01372 733763 or at peter.williams@aon.com or Tessa Page on 07557 031198 or at tessa.page@mercer.com.

Yours faithfully

Peter Williams
Chairman, Pension Schemes Committee
On behalf of the Association of Consulting Actuaries Limited

APPENDIX

Pensions of the future – a discussion on our strategy

1. Do you think our approach to thinking about savers has identified the most significant current and future challenges for each cohort?

Generally, yes – the analysis has identified the most significant known challenges. Clearly new and unexpected challenges might emerge over the 15-year period and we support the strategy being a "living document", as outlined in Section 1.

The analysis highlights that individual will rely on a range of savings, of which pensions are one element. This emphasises the need for TPR and FCA to work together to cover the regulatory needs of savers as the savings landscape changes.

Even the concept of retirement is likely to continue to evolve to become a gradual/phased event rather than a single step change. TPR should no doubt have a role in educating savers on the changing role of pensions, particularly as information on pensions becomes more immediately accessible.

We do also note the potentially higher expectations millennials might have around pensions being managed and invested responsibly (and "voting with their feet" if not – as evidenced through the recent "Make My Money Matter" campaign).

We would also suggest that TPR consider differences in pensions savings beyond the segmentation of age and income (as discussed in our response to question 2).

Although it does not impact your conclusions, we were unsure why your analysis suggested only those on low or very low incomes would rely on state pension – we expect state pensions to be an important element of retirement income for the majority of the population. It would be helpful for the important role of the state pension to be recognised formally in the document, across all earnings bands.

2. To what extent should we differentiate our approach to regulation for these different saver groups? At what pace would you expect to see this happen?

We agree that it is helpful to consider the population by age group because different issues will be relevant for different cohorts, particularly as the pensions landscape is shifting from DB to DC over time. Differentiating between income levels is also a helpful approach to identifying potential issues.

Having identified the significant issues in this way, the prioritisation should depend on TPR's statutory objectives. However, the number of individuals likely to be impacted by each of the issues will clearly be a relevant factor in setting priorities. The key areas of focus set out on pages 7 and 11 of the document, seem appropriate. We also note that many DC savers, now and in the future, will be in contract-based schemes such as Group

Personal Pensions, and hence fall outside the direct scope of TPR's remit. This further emphasises the need for TPR and FCA to work together.

We consider the vast majority of DC savers need access to straightforward guidance. Much of this could be delivered digitally and on an automated basis, so it is tailored and affordable. Some DC members will also need access to high quality regulated financial advice, to make choices in more complex situations. It would be helpful for TPR to consider more flexible regulation as this area develops. In particular, the boundary between advice and guidance needs to be clear and needs to be drawn at a level where appropriate help is available affordably.

In terms of the pace at which Regulator priorities might change its priorities, the most obvious move is from DB to DC over time. However, whilst we agree that TPR should continue to increase its oversight of DC pension savings, we envisage that DB pensions will continue to require significant regulatory oversight for much (if not all) of the 15-year period under consideration.

We would also add that there are significant differences in pensions savings gaps across the UK population beyond the segmentation of age and income. For example, those with caring responsibilities, ethnic minority groups, women, disabled individuals and the digitally excluded. In our view, the pensions industry has a role in helping to address some of these gaps and therefore as priorities change over time, we would encourage TPR to look more closely at other areas of segmentation and the development to policies aimed at helping to reduce savings gaps.

3. Do you think the key trends we have identified adequately capture the most likely system-level changes pensions will experience over the next 15 years? Are there other system-level changes you believe we need to consider?

Generally, yes.

One area not mentioned explicitly is the oversight of Collective Money Purchase schemes, as set out in the Pension Schemes Bill. In our view, these schemes represent an important new method of pension provision and a new way of risk sharing in both the pension accumulation and decumulation phases, which requires quite separate regulatory consideration. The success of the new regime will depend on TPR allocating adequate resources.

Under "the nature of work and retirement is changing" TPR should also consider the impact of changes in life expectancy and improving health in retirement. This would underline the need for intelligent decumulation – see our comments on "embracing innovation" in response to question 4.

We would encourage TPR to consider the total financial impact of the pensions landscape, particularly the fairness between the age groups TPR has identified. We would question the merit of prioritising enhancing the security of DB benefits for baby boomers at the cost of eroding business budgets available for DC saving for Gen X and Millennial workers. More measured solutions exist, which recognise costs over time and balance how businesses allocate their capital fairly between current and previous workers.

A more immediate manifestation of this issue is the possibility for the new DB funding code to make DB accrual unaffordably expensive for private sector current workers. Regulating DB out of existence in the workplace seems somewhat a Pyrrhic victory.

The consultation document correctly identifies the strategic theme of technological change. However, we think that this area warrants greater weight than it has been given. Technology is the newest topic on your strategic landscape and the Pensions Dashboard will create a fundamental shift in the heart of your 15-year strategy window. TPR should prioritise thinking through the many aspects that are currently dependent on technology's long-term impact (on pensions and on society).

4. Do our strategic priorities provide coverage, focus and flexibility we need to achieve our ambitions for savers over the next 15 years?

Generally, the proposed strategic priorities cover the right areas.

In addition to the 15 year time horizon, we would also encourage TPR to consider strategy over a more immediate 3 or 5 year period, given how quickly the world of pensions moves. This could include short-term actionable/focus areas, including setting out what success looks like over the relevant period to help both TPR and the industry focus on key priorities.

The focus on security should not prevent appropriate flexibility for funding DB schemes, consistent with your objective of minimising any adverse impact on the sustainable growth of an employer, and in light of the economic consequences of COVID-19, which may be felt for some time. We commented in more detail on this in our response to your consultation on a revised Code of Practice on scheme funding.

We note the statement that "we will encourage the simplification of DB schemes" in your strategic priorities. Although providing benefits which are simple to understand is a creditable aim, changing benefits is a potentially contentious area and it is not discussed elsewhere in the document. By definition, simplifying benefits implies changes to benefits, which will involve winners and losers. In addition, it is not immediately obvious how this links back to the Regulator's statutory objectives.

Within the "Embracing Innovation" objective, we consider that decumulation (including collective decumulation) products, guidance, advice and regulation should be an area of focus.

With regards to the "Value for money" objective, we consider it helpful for this definition to be made clearer, which is essential in ensuring employees re able to select an appropriate DC plan for their employees. In particular, a tighter definition may help to overcome the current perception that greater value for money simply means lower costs and charges. For example, extending to areas which don't have monetary value such as flexibility, integration with other savings, quality of service and digital services (potentially including guidance).

A challenge to simplicity is the dreadful complexity of our pensions taxation system. Whilst pensions tax is not within TPR's gift to change, TPR seems to be taking responsibility for helping savers make good choices, which implicitly includes understanding how they will be taxed. We applaud this aim and would like to see this point made more explicit.

Disclaimer

Produced by the Association of Consulting Actuaries Limited December 2020