



ASSOCIATION OF CONSULTING ACTUARIES

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PRESS RELEASE

New Research Makes the Case for ‘Radical Simplification’ of Defined Benefit Pension Rights

19 November 2018: A new paper published today by the Association of Consulting Actuaries and Royal London argues that consumers and employers could reap substantial benefits if the complex patchwork of defined benefit pension rights could be radically simplified. The paper argues that this would cut costs for schemes, make it easier for people to transfer pensions from one arrangement to another, would help people to understand their pensions better and could remove barriers to major consolidation in the DB sector.

The paper: *‘Simplifying pension benefits – is it time for the Pensions Pound?’* starts by describing the complex way in which people’s pension rights in defined benefit pension schemes have built up over the years. One total pension figure can be made up of a dozen different ‘slices’, each of which can have different rules about the way it has to be revalued up to retirement, indexed through retirement and how far it is covered by the Pension Protection Fund. Rules can vary according to when the pension was earned, how it interacts with the state pension system and how it reflects rules on gender equality.

The paper suggests the creation of a ‘pension pound’ into which all the complexity of any individual’s current pension rights could be converted. These pension pounds would then be converted back into a set of standardised DB pension rights which could be common across all schemes. If millions of scheme members had pension rights structured in this common way, advantages could include:

- ✓ The amount paid would be easier to understand. For example, annual increases would be much simpler rather than different components being potentially uprated by different amounts;
- ✓ The cost of running the pension scheme could be substantially reduced – by up to 50% in some cases; this would free up money to improve the security of member benefits or to reduce costs to employers;
- ✓ Combining DB schemes into a ‘consolidator’ would be much simpler, as all members would have standardised benefits and the consolidator could run a scalable single structure scheme rather than replicate dozens of separate benefit categories for each original scheme;
- ✓ The process of transferring out of a DB scheme would be simpler as the rights built up would be much easier for schemes to value and advisers to provide advice;
- ✓ Ranking pension rights by their value in pension pounds would help people compare their rights under DB, DC and state pension systems; this could be useful in presenting information via a ‘pension dashboard’ and will help members understand potential savings gaps;
- ✓ In the most radical version of this proposal, members could reshape all of their non-state pension rights to a different mix of DB and DC rights if they wished;

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The paper notes that current legislation does allow for some reshaping of pension benefits, and this is already likely to be necessary as issues around Guaranteed Minimum Pensions are gradually resolved. But legislation would be needed to make sure that members were treated fairly if their pension benefits were re-shaped by their scheme and would also need to take account of potential knock-on effects of restructuring on pension tax relief. (Technical legal input has been provided by the Association of Pension Lawyers.)

Commenting, Jenny Condron, Chair of the ACA said:

'Defined Benefit pension rights have built up in a piecemeal way over a period of decades. This makes them expensive to administer and complex for members to understand. Converting DB rights to a standard structure could yield huge savings and be to the benefit of schemes, employers and members alike.'

Steve Webb, Director of Policy at Royal London said:

'There has been talk of pension simplification for years, but defined benefit pension rights remain one of the most complex areas of the pensions landscape. There is a huge prize to be had if the complexity of individual pension rights could be turned into a set of standardised rights of equivalent value. This would mean less money was spent running schemes and explaining complexity and could pave the way for greater understanding and better value for money. This should be part of the government's forward agenda.'

Faith Dickson, APL Main Committee commented:

'It's so important for schemes to be able to focus on member security rather than complex administration, and pension simplification would be a huge step towards achieving this. Preserving historic complexities of pensions as we are doing now is doing members no favours, when simplification would provide the same value benefits and let schemes focus time and money on the best way of securing those benefits for them.'

Note to editors: The full paper: *'Simplifying pension benefits – is it time for the Pension Pound'* can be downloaded at www.royallondon.com/policy-papers or can be obtained on request from Royal London or the ACA [here](#).

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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.

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