ASSOCIATION OF CONSULTING ACTUARIES

PRESS RELEASE: IMMEDIATE

ACA Chair agrees it is right to renew focus on systemic risks as LDI evolves

2 December 2022: Speaking at an industry dinner held this week, with guests from the industry, regulators, civil servants and members of Parliament, ACA Chair, Steven Taylor addressed key topical and priority areas in pensions.

Steven Taylor noted:

"I was fortunate enough last week to go before the Work and Pensions Select Committee to discuss LDI. For my part I think we can now begin to draw some conclusions on how things might evolve.

"There seems little doubt that as a risk management tool, LDI has been very effective over the past decade and that, without it, the stresses on DB funding levels, scheme sponsors, and potentially on member outcomes during that period could have been severe.

"But, for the industry, recent events have also been a timely reminder that risk management steps must be continually assessed to make sure they stay fit for purpose. In that light, I was pleased to see this week's statement by TPR and other regulators. This aligns well with our calls for increased collateral levels and, importantly, with measures that have already evolved naturally over recent weeks.

"But for government and regulators, we hope the period will also renew focus on wider systemic risks. DB schemes are among the government's largest creditor and so it is no surprise that their combined behaviours can have system-wide effects – especially if prompted by unexpectedly bold policy changes.

"As schemes continue to mature, these challenges will need to be managed, but in doing so it will be vital to avoid knee-jerk reactions that could introduce new risks to the system."

Steven Taylor continued by saying that as an association, ACA looks forward to contributing to the next phase of this work, in particular as further information emerges on the new DB funding code.

One of the ACA's other key policy priority is to support steps to improve savings adequacy for the next generation – the majority of whom are currently in DC schemes. Steven Taylor added:

"Given the current cost of living crisis, I suspect when we look back on this period we'll recognise that this is the key pensions challenge of our time, with millions of people potentially sleepwalking into retirement poverty.

"We believe that whilst autoenrollment has to date worked well, we do need a credible plan to increase contributions over time. Given current pressures on savers, ACA believes increased flexibility to use DC savings in times of need will be important if we are to encourage people to lock away more of their earnings and that this is increasingly supported by behavioural research.

"We also strongly support the emergence of CDC schemes, which could offer a step change in retirement outcomes for future savers."

Another ACA priority area is tackling ESG and climate risk. Steven Taylor continued:

"The past few years have seen a step change in the approach of the pensions and investment industry to addressing these challenges, but more needs to be done. We believe the trillions of pounds in pension savings can be a hugely positive force, and a key challenge will be retaining focus in this area, whilst continuing to manage other emerging financial risks and we want to play our part in helping this happen."

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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.