



ASSOCIATION OF CONSULTING ACTUARIES

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PRESS RELEASE

Simplifying schemes can build on GMP conversion benefits says ACA Chair

22 November 2018: Speaking at the Association's Annual Dinner attended by many leading pension industry figures, Jenny Condron, Chair of the Association of Consulting Actuaries (ACA) said her three key priorities for her term of office were to see pension scheme members better understand their benefits, to raise awareness of what levels of savings were needed to provide for an adequate retirement income and to convince Government of the need to simplify pension taxation – the current tax regime is simply not fit for purpose.

Jenny Condron then made further points on the issue of simplifying defined benefit pension scheme benefits, benefits still relied upon by millions of employees and even more of the retired.

“As pension specialists, we have an individual responsibility to help those we come into contact with – be they friends, family or scheme members – to take small steps forward in building their individual confidence and understanding of our complex pension world.

“That is why we have been working with Sir Steve Webb and with the assistance of the Association of Pension Lawyers, to develop our thinking on the actuarial issue of benefit conversion and, on Monday of this week, we published a joint ACA and Royal London paper ‘*Benefit Simplification – is it time for the Pension Pound?*’.

“I will share briefly with you some of our high-level thinking on this. I hope that, if achieved, it will take us a long way forward in helping millions of DB members to understand their pension benefits better than they do today.

“All of us recognise the difficult job that most pension scheme administrators face. Yes, technology has helped with the automation of many day to day activities but only for those schemes that have been able to invest. But for most, the sheer complexity of pensions legislation with layer upon layer of change, mean that an individual's pension might include 12 or more different forms of indexation before and after retirement. And that assumes the sponsor has not changed the benefit promise along the way. There surely must be a better way.

“We believe that, with industry support for one, common reference scheme, all of our upcoming work on GMP equalisation could be broadened out such that GMP conversion extends to the whole of a member's benefits. As a result, all of the complex tranches of benefits are swept away to be replaced with at most two elements.

“Whilst it is inevitable that such changes would require clear and sustained communication to build member trust that this is intended as a positive step, we believe that achievement of this ambitious goal would mean...

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- “First, members will understand their pension and so can better plan for their retirement.
- “Second, with only two benefit tranches, the administration of pension schemes will become scalable, meaning automation is accessible to far more schemes than at present as costs are shared. This alone will materially reduce ongoing administration costs, perhaps by 20 – 50%.
- “Third, and I am sensitive to the potential of doing us all out of a job, member calculations, actuarial valuations and legal support will all become significantly easier, allowing finite sponsor resources to be spent instead on securing benefits and communicating more effectively with members.

“Our recent survey indicates that employers acknowledge that the cost of DB pension provision, driven in part through its inherent complexity, is limiting many employers’ ability to spend more on DC provision for typically younger employees. So, simplification gives the added potential of improving DC provision for typically younger members too.

“There is significantly more detail in our paper and you can read it [here](#).”

Addressing the dinner guests, **Jenny Condron** concluded:

“I would also ask that, in replying to the upcoming DWP consultation on DB consolidation, you reflect on benefit simplification in your response. It is a difficult nettle to grasp, but we owe it to the members, whose benefits we all have a shared responsibility in providing, that they actually understand what is likely to be one of their most valuable assets.”

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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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