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

PRESS RELEASE

ACA CHAIR SAYS PENSIONS AND SAVING CHALLENGES PERSIST, BUT PUBLIC POLICY REFORMS ARE MAKING IMPACT

27 September 2019: Speaking at the Annual Dinner of the Association of Consulting Actuaries (ACA), Jenny Condron, Chair of the Association, outlined her views on outstanding pensions and savings issues in public policy and the progress being made.

"First, having just returned from my summer holiday and seen frail and elderly men and women begging for a few $ a day at key tourist spots, it was a sharp reminder of just how great our pension system is in many respects. As well as many other aspects of our day to day life here, it's so easy for us to forget how fortunate we are.

"Auto-enrolment has been a great success story. A massive 73% of UK employees are actively now saving into a workplace pension. So, what's the problem? Perhaps there are two key points here.

"First, coverage remains patchy. You are not enrolled in AE if you earn less that £10,000. This excludes many part-timers – mostly women – from coverage and access to low, but cumulatively valuable, employer contributions to their pension. There are about 10m employees covered by auto-enrolment and 11m employees are covered by another employer pension arrangement. But that still means that there are 9.5m who are not making any pension provision at all. This includes around 5m self-employed, many in the gig economy or on zero hours contracts, for whom more creative savings solutions are needed. The ACA has shared ideas on this, and called for the AE earnings threshold, as well as the age criteria, to be removed – you're never too young to start saving for your future!

"Second, despite the collective efforts across the industry, savings levels are too often, simply too low to provide any meaningful pension at retirement. It's an uphill battle as many prioritise day to day needs over their pension saving despite our and the media's efforts.

"From April this year, minimum contribution levels increased from 5 to 8% of qualifying, not total, earnings. The ACA's upcoming 2019 Pension trends survey results reflect this, with median contribution levels to DC arrangements nudging up to between 8 and 11%. Happily, 80% of employers surveyed also reported no increase in opt out rates.

“Indeed, some saw a slight increase in participation. But the rule of thumb of saving at least half your age as a pension contribution – around since I started, and surely now a guide that only works with retirement at later ages – suggests these contribution rates are still far too low. The ACA has recommended that the Government sets out a plan to gradually increase minimum contributions to perhaps 16% of earnings.

“For many employees, I suspect there is still a strong belief that if they save what their employer, or the Government, says, that must surely be enough for them to retire on. We know that the balance of responsibility for retirement saving has shifted to employees, but if they find they can’t afford to retire, it is employers who will start to face new challenges in managing their older workforce.

“The ACA supports the Pension Dashboard initiative as a great advance in helping individuals to ultimately see their total pension savings in one place. There will be challenges to address – explaining that a £2,000 pension from age 65 is worth significantly more than a £5,000 DC pot will be tough - and time needs to be taken to ensure the messaging is clear. But critically, for the first time, everyone will have line of sight of their total pension savings. But there’s potential for a big shock. Many may realise too late that they are simply not going to be able to retire at the age they had planned, or on the income they expect.

“And savings is a bigger issue to address than just pensions. I applaud our Younger Members’ Group, led by Tom Dalton, who have seized the nettle here. The ACA’s response to the FCA consultation on inter-generational fairness flagged that we need more flexible savings products which cover the breadth of savings more tax efficiently. In a country where c15% of the population do not have any rainy-day savings, we need to do all that we can to help increase savings levels, whether that is in a pension or some other pot.

“The ACA’s call for simplification – both of the pension tax system, but also in terms of benefit provision, continues. Many of us are facing the challenge of GMP equalisation but are stymied by uncertainty on the resulting tax implications. Only when this is resolved can we tackle the joys of converting GMP into a potentially simpler pension that is clearer for members to understand and which costs materially less to administer, invest against and ultimately to insure. We will continue to press for action in this area and pursue our simplification agenda.

“And what about trustees? With the Regulator’s consultation, there is a lot of discussion just now about diversity on trustee boards, the role of professional trustees, training needs and so on – but group dynamics are an important factor too. I read an article recently outlining that in a group of 4, two people do 62% of the talking; and in a group of 6, three people talk for 70% of the time. Such dominance can squash diversity of thought and the collective intelligence of the group. Often those driving the conversation simply don’t realise that they are doing it and that the meeting outcomes are the poorer for it. So, something we can all consider. Listen more and create space for everyone in the room to contribute. Together we can find solutions to the challenges our already strong pension system faces.”

Contacts for further information:

Jenny Condron, ACA Chair at jenny.condron@mercer.com - 01483 777053
Chintan Gandhi, ACA PR Committee Chair at chintan.gandhi@aon.com - 01372 733322
David Robertson, ACA Secretariat at david.robertson@aca.org.uk – 020 3102 6761

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.