ASSOCIATION OF CONSULTING ACTUARIES

PRESS RELEASE:
OPTIONS FOR DB SCHEMES

ACA supports more flexible surplus rules and schemes being encouraged to invest in productive assets, provided there is an upside for both scheme members and sponsors.

5 September 2023: Responding to the DWP evidence call on *Options for DB schemes*, the Association of Consulting Actuaries (ACA), has expressed support for schemes being given more encouragement to invest more in productive assets, provided there is an upside for both scheme members and scheme sponsors, as well as supporting UK growth prospects and wider society. The development of CDC schemes also aligns well with the proposed objective, and we believe is a natural starting point for reforms.

ACA Chair, Steven Taylor, commented that:

"Viewed as a whole, the Mansion House package could help improve outcomes for the next generation of pension savers. We believe the biggest prize is for government to focus on developing CDC, which is naturally growth focused.

"We are supportive of more flexibility on the use of DB surplus. It may be possible to design a statutory over-ride allowing refunds of surplus to take place where scheme funding is above a given threshold, perhaps in combination with discretionary benefits to members or with more flexibility for schemes which remain open to future service. We also support a reduction in the tax rate on refunds of surplus and more flexibility for employers to use DB surplus to meet contributions for current employees' pensions, be those DB, DC or CDC. This additional flexibility could encourage more investment in productive assets."

ACA agrees that greater PPF guarantees – in particular an option to provide 100% protection of benefits – could result in greater investment freedom and could also encourage schemes to invest in productive assets. There are however some key challenges that would need to be addressed. The fact that the PPF does not currently provide full benefits is an important protection against moral hazard, particularly as trustees have unilateral power to set investment strategy.

ACA remains supportive of the development of commercial superfunds and scheme liabilities transferring to them where this is in the members' interests. We would expect Superfunds to be well placed to invest in productive assets. We are also supportive of DB Master Trusts and other forms of operational consolidation that can enable greater investment in productive assets.

Steven Taylor, added:

"A public consolidator would need to be restricted to prevent market distortion and concentration of risk. ACA agrees that any public sector consolidator should be focused on schemes 'which are not attractive to commercial consolidators', provided this assessment assumes the scheme assets would be sufficient to meet the commercial premium. This is likely to mean that a public consolidator would focus on smaller schemes for which buy-out is not a realistic prospect."

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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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