Placard

THE DISCUSSION PAPER OF THE ASSOCIATION OF CONSULTING ACTUARIES LIMITED AUTUMN 2019 / ISSUE 39

IN BRIEF: MORE FLEXIBILITY PLEASE!

Flexibility in pensions has improved notably over recent years, particularly for retirees following the Pension Freedom and Choice reforms in 2015. But a lack of flexibility continues to cause problems for those in the process of saving for retirement.

Intergenerational differences have been a key discussion point in the pensions industry in recent years (the ACA has devoted a number of sessional meetings to this issue), and our response to a consultation on this topic suggests that as an industry we need to find a way to allow young savers to balance their priorities between saving for now and saving for the future. Separately, whilst the private sector is increasingly offering employees alternative benefits to avoid charges under our complex pensions tax system, most in the public sector do not have this option. This not only potentially disadvantages the individuals but can also put pressure on our public services. Changes are being consulted on; though we have noted that any changes made should apply equally to the private sector.

Looking forward, we have been analysing the results of our *2019 Pension trends survey* and look forward to publishing the key results over the next few months. Whilst we welcome the latest guidance from PASA's GMP Equalisation Working Group, we continue to wait for further details clarifying the uncertainty around the tax implications of GMP conversion which, as noted by our Chair, Jenny Condron, in her speech at the ACA's Annual Dinner, is a barrier to this being taken forward for most schemes. We believe in the benefits of pension simplification in improving member outcomes and will continue to press for action in this area. *Tom Hargreaves, Editor.*

Intergenerational fairness: flexible product needed to avoid savings 'competition'

At the end of July the ACA responded to the Financial Conduct Authority's (FCA) discussion paper on 'Intergenerational Differences', highlighting the risk that competing savings needs for younger people, such as for retirement and house purchases, risks insufficient savings being directed to any one objective.

The FCA suggests that a typical millennial might purchase a house in their early thirties and then begin saving for a pension once they have managed to get on the housing ladder. However, we believe this is unrealistic, particularly given that under Automatic Enrolment the majority of young people save for a pension from an early age, and many will devote significant additional resources in order to benefit from matching employer contributions.

House deposits remain a significant initial savings focus for young people, and whilst Lifetime ISAs were a step in the right direction, they fall down because they cannot be used for automatic enrolment purposes (amongst other things). Therefore, we believe that meeting these competing objectives requires the development of a truly flexible savings product that could facilitate both pension saving (with the ability to benefit from tax relief and employer contributions) and an ability to use a proportion of savings towards a house deposit without incurring any penalty. Such a product, with appropriate safeguards, would bring the younger generation in line with those over the age of 55, who have the ability to access their pension flexibly through Freedom and Choice if they wish.

However, this kind of product will require new legislation. In our view, a flexible approach that allows financial services firms to design their own products satisfying general principles that Parliament feels are important (such as preventing frivolous use of savings that have received tax advantages) would allow much greater innovation.

To read the full ACA response click here.

Future of Trusteeship and Governance: more guidance needed on schemes with guarantees

Our response to The Pensions Regulator's (TPR) consultation on the future of Trusteeship and Governance calls for the Regulator to provide guidance on winding up schemes with guarantees, and to work with the Department for Work and Pensions (DWP) to ensure the process of assignment of policies with such guarantees to individual members can be carried out as smoothly as possible. Trustees may well be reluctant to assign or transfer the benefits of members with guarantees, and therefore any reassurance that TPR could provide on what good practice looks like would be very welcome.

To read the full ACA response click here.

Trustee oversight of investment consultants and fiduciary managers: scheme actuary role should be clarified

We responded to the DWP to note that we do not agree with the removal of the explicit exemption for high level commentary by the scheme actuary from the definition of "Investment Consultancy Services" in their consultation on the draft Occupational Pension Schemes (Governance and Registration) (Amendment) Regulations 2019. It would clearly be unhelpful if this became a grey area, and we note that draft guidance from TPR suggests that comments from the scheme actuary could fall under investment consultancy services. Therefore, we strongly believe that explicit exemption in the CMA order should be retained in the regulations.

To read the full ACA response click here.

Forthcoming activity

Over the next few months the ACA will start to publish the results of our *2019 Pension trends survey.* In addition, we expect to be providing input to and consultation responses on the following topics:

- HM Treasury's consultation on 'Financial services future regulatory framework review'
- FCA's consultation on 'Pension transfer advice: contingent charging and other proposed changes'
- PPF consultation on 2020/21 Levy

ASSOCIATION OF CONSULTING ACTUARIES

Placard **is the periodic briefing and discussion paper of the Association of Consulting Actuaries.**
Please note that the views expressed in this publication are, on this occasion, the views of the Association and do not necessarily reflect those of individual authors.

Editor: Tom Hargreaves

Association of Consulting Actuaries
First Floor, 40 Gracechurch Street, London EC3V 0BT
Tel: +44 (0)20 3102 6761
Email: acahelp@aca.org.uk Web: www.aca.org.uk
Privacy Statement