Placard

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IN BRIEF: ACA RESPONDS TO GOVERNMENT PENSION REFORMS

The end of 2018 and start of 2019 were a busy time, with the Government consulting on a number of issues which could have a significant impact on how the pensions industry develops over the coming years; superfund consolidators; collective defined contribution (CDC) and the pensions dashboard.

The choices being made by trustees, employers and pension scheme members are becoming (or have become!) more complex, and it is important that new developments genuinely add value, whether this is through offering new options to trustees and employers or by making it easier for members to engage with their savings.

Tom Hargreaves, Editor

This edition of *Placard* summarises the ACA's responses to these key consultations, to which we await the Government's reply with interest.

We also include some of the main results from our *2018 Pension trends survey* report, which was published at the start of this year and sought employers' views on many of the areas that were later covered by the consultation papers reviewed in this issue. *Tom Hargreaves, Editor.*

DB Scheme Consolidation: simplification would help initiative

The ACA response to the Department for Work & Pensions (DWP) "superfund" consultation welcomed the Government's support in developing the DB consolidation sector as an alternative to individual company pension schemes and traditional buy-out options.

We have some concerns around regulation in practice, and in particular the need to ensure that the gateway entry requirements are not set at such a level which might unnecessarily exclude schemes who could benefit from the consolidation structure. We also suggest that the funding requirements should be flexible enough to allow different approaches for different consolidators, while recognising that protecting members' benefits is of course key. For example, we do not agree that each fund should have to reach a common funding target by a specific date.

Consolidation may also offer a way forward for further simplification of DB pension schemes and benefits, as will GMP conversion following on from the clarity provided by the GMP equalisation ruling in October 2018. This should help drive down costs and lead to improved member outcomes.

Consolidators, insurance companies and ongoing defined benefit schemes should remain very distinct entities with different roles, and regulation should reflect that, with rules made for consolidators not carrying over to the ongoing defined benefit schemes, for example.

If the regulatory regime for consolidators becomes too close to that of insurance companies, the opportunity of offering a genuinely new alternative to the existing world of buyout or running on schemes could be lost. We do agree with the Government that the individuals running consolidators should be subject to detailed fit and proper persons requirements to protect members' interests. ***To read the full ACA response click here***.

Collective Defined Contribution Schemes: support, but with caveats

In January, the ACA responded to the DWP consultation on delivering CDC pension schemes appropriate for the UK pension environment. We support the concept of CDC as being a potential middle ground between DB and DC and we therefore welcome the Government's desire to facilitate this new type of scheme for the Royal Mail. However, we note that the potential market for CDC may be more limited now as more employers have already made the change to DC and may have little appetite to consider revisiting their decision. On the other hand, we also believe there could be potential for a future decumulation vehicle for members with DC pots at retirement who could benefit from some pooling of risk (but who do not wish to buy an annuity).

We believe that it is more appropriate for CDC schemes to have their own, separate, classification in legislation. This will help provide clarity and reduce the risk of regulatory cross-contamination. Robust governance and regulation will also be needed to ensure that CDC schemes are well run.

In addition, communication and transparency will be key. The message that the benefit is not guaranteed to be at the target level should be repeated prominently in all communications, to ensure that this remains clearly understood by members.

Finally, adequate pension provision relies on sufficient contributions being made into schemes with sound investment strategies, and CDC is no exception to this. ***To read the full ACA response click here***. Following our response the DWP has issued its CDC consultation ***outcome***.

Getting ready for the Dashboards: security, data and 'in a rush' concerns

A concern that there remains much to do, including on the policy front, lay behind the ACA's response to the DWP's consultation on its much-delayed feasibility review of the pensions dashboard.

Whilst supportive of the project, we have concerns around the lack of detail on the data that schemes of all types will be required to supply, the security of the dashboard's eco-system, and the potential for unfairness in how the bill for supporting the dashboard is divided up. There is also a worry that a project that has been much talked about by Government since its announcement in 2016, might be rushed out to meet a now arbitrary 2019 deadline, almost certainly risking a poor reception if it proves to have limited capabilities in its initial form.

Compulsion on the supply of data was accepted, but we ask that it be delivered sensitively, having regard to data cleansing and electronic uploading prerequisites, with exemptions for certain schemes, at least at the initial stage. Depending on what the dashboard delivers, there could also be an opportunity to scale back existing disclosure legislation.

We support the dashboard environment enabling DB members to see their cash equivalent transfer values, so long as such information is appropriately caveated. The final version of the dashboard should also display information in such a way as to enable individuals to assess both their DB and DC rights on a consistent basis. ***To read the full ACA response click [here](#)***. See the DWP outcome response ***[here](#)***.

ACA Pensions trends research: 10 'key' findings

The now annual *ACA Pension trends survey* report is packed with findings gleaned from a survey completed by 349 employers sponsoring over 550 schemes. The final 2018 survey report, including a statistical annex, is available ***[here](#)***, but below are 10 'key' findings that were published in the report at the turn of the year.

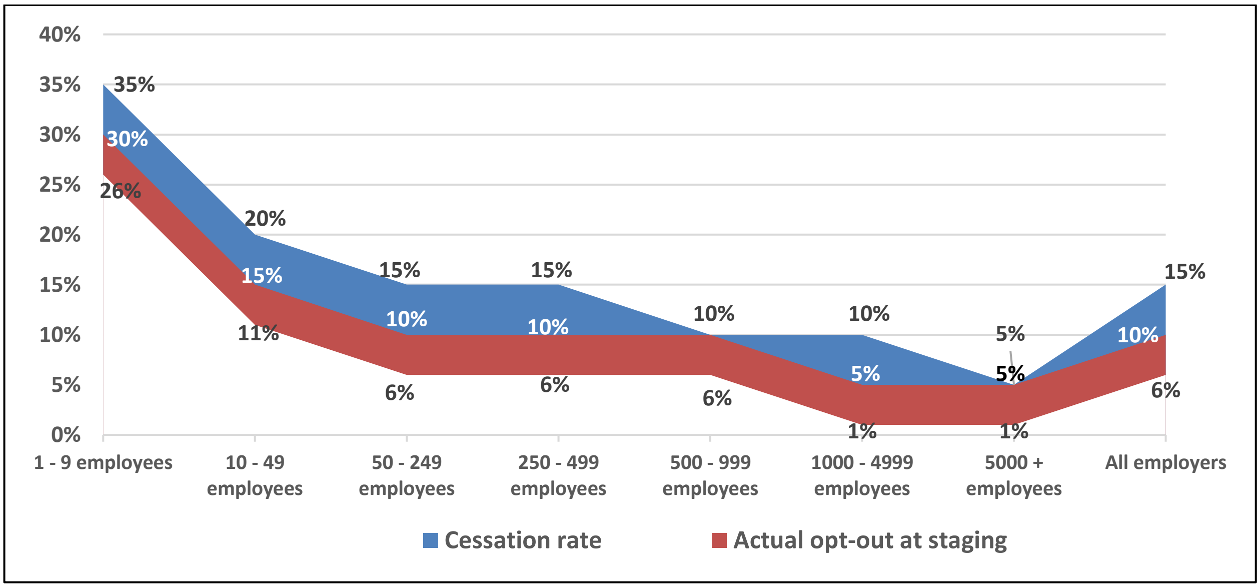
Pension contributions

1. Median employer contributions into 'traditional' defined contribution (DC) pension schemes were **6%** of earnings – up 1% on a year ago – with employee contributions ranging between **3-4%** of earnings.
2. Median contributions into DC Master Trust and other multi-employer arrangements are reported at a much lower level, with many employers and employees contributing at or just above the minimum automatic enrolment (AE) levels of **2%** of earnings from both employer and employee.
3. Median combined employer and employee contributions into defined benefit (DB) arrangements were between **27-31%** of earnings (excluding deficit repair contributions).

Automatic enrolment

4. The median opt-out rate of employees at automatic enrolment staging was **6-10%** across the sample as a whole, with this falling to **1-5%** of eligible employees across employers with upwards of 1,000 employees, rising to between **6-10%** across employers with between 50-999 employees, between **11-15%** for those employing 10-49 employees and between **26-30%** at employers with fewer than 10 employees.
5. The current median cessation rate of those enrolled in AE schemes (including initial opt-outs) is **11-15%** of eligible employees across all employers.

Median employee opt-out rates on auto-enrolment (AE) and current 'cessation rate' (total percentage of eligible employees now withdrawn from auto-enrolment)



(Source: ACA 2018 Pension trends survey, Table 5, page 28)

6. An overwhelming **88%** of employers say the April 2018 increase in minimum AE contributions did not impact adversely on scheme participation. Post-April 2019, when the next increase in minimum AE contributions takes place, **75%** of employers expect there will be no increase in current cessation rates from their pension arrangements, although **65%** of employers with fewer than 10 employees do expect either modest or substantial decreases in scheme participation.

Defined Benefit schemes

7. A significant proportion, **44%**, of employers say the costs associated with their DB schemes are having an impact on pension contributions into other schemes, with upwards of **48%** saying their cost was also having a negative impact on intergenerational equity.
8. Similarly, **66%** say a tougher approach to DB funding will increase conflict with the Pensions Regulator's 'sustainable growth' objective, with **62%** also saying more specific guidance would undermine scheme specific funding.
9. Looking at the longer-term, **40%** of employers feel consolidation of DB schemes is 'generally a good thing'. However, many respondents remain uncertain on the pros and cons of consolidation.
10. In addition, **59%** felt any consolidation decision would be more likely if schemes were able to make legal changes allowing benefits to be simplified on the way into the consolidation vehicle.

Forthcoming activity

Over the next few months, the ACA expects to be providing input to and consultation responses on the following topics:

- The Pensions Regulator's DB funding code of practice
- GMP equalisation and conversion, including working with the PPF on how they might allow for these aspects, and with HMRC on the potential tax implications
- Wider pension benefit simplification
- The 2019 ACA Pension trends survey

ASSOCIATION OF CONSULTING ACTUARIES

Placard is the periodic briefing and discussion paper of the Association of Consulting Actuaries.
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