Placard

THE DISCUSSION PAPER OF THE ASSOCIATION OF CONSULTING ACTUARIES LIMITED SPRING 2020 / ISSUE 41

# IN BRIEF: SIMPLICITY IS THE KEY

**Pensions is a world of assumptions, but one certainty is that if you were designing a pensions system from scratch, it wouldn't look like the one that we have today.**

The tax system has long been acknowledged as being overly complex (something that is supported by the results of the ACA's 2019 pensions trends survey), despite Government having already had one bite at tax simplification in the not too distant past. Whilst the taper was clearly having unforeseen impacts on public services (see *Placard* issue 39), it is disappointing that the Government has sought to plaster over this issue in the March Budget rather than try and fix it for good.

More generally, it is becoming increasingly difficult for pension scheme members to understand the benefits that they will receive, whether these are DB or DC. In the DC space this is partly an issue of choice; if you don't know how members want to access their funds then how do you best show them what their current pot means? The proposed standardisation of benefit statements should help address this. For DB schemes, GMP equalisation is likely to be a difficult subject to communicate to members, but GMP conversion (with the potential for wider benefit simplification) offers an opportunity to cut through potential complexity in benefit structures, allowing members to see the simple side of the pension promise.


*Tom Hargreaves, Editor*

Finally, we hope that you and your families are all safe and well and are dealing with these unusual times as best as possible!

## Simplifying member benefit statements

Our response to DWP's consultation on 'Simpler Benefit Statements' calls for the re-design of statutory annual benefit statements as part of a wider industry drive to encourage members to think about their retirement, and the outcome they want, at an earlier stage in their working lives.

With Pension Freedoms, we believe that this is an opportunity to consider the relevance of the information that is presented to members through the annual benefit statements, as this is also a driver to better engagement. As such, consideration should be given to how different members are likely to use their savings at retirement and illustrations developed accordingly, focusing on what members really need to know and providing them with the tools to enable them to take action to improve their retirement outcomes.

The combination of a standardised simple benefit statement with a dashboard that shows multiple pension policies in one place will help millions of people view their pensions savings in a clear light for the first time.

***To read the full ACA response click [here](#).***

## Pension trends survey

Our final report on the 2019 pension trends survey calls on the Government to set out a timetable for when it will implement its planned automatic enrolment (AE) reforms over this Parliament, including a timetable for increases in AE contribution levels. The Government needs to 'maintain the momentum' on AE (as it said it would in its 2017 AE Review) by implementing the recommendations made and building upon them in this Parliament. Our survey showed that employers are supportive of an increase in contributions to 10% of total earnings, with 5% payable by the employee, with over 80% supporting contributions being payable from the first £1 of earnings.

The report also calls on the Government to begin a 'thoughtful and collaborative review' of the pension tax regime – not just a knee-jerk reform for a few – with 75% of respondents saying that the current tax structure is too complicated. We are therefore disappointed that this was not addressed as part of the Budget earlier this month.

***To read the full pensions trends survey report click [here](#).***

## Advice on pension transfers

We responded briefly to the FCA's consultation on pension transfer advice to encourage them to look at the big picture; there is a balance to be struck between requiring robust advice and creating a regime that is so strict that transfers that are likely to be in the best interests of individuals are effectively stymied by regulation. In particular, we noted that implementing a 'scheme pays' arrangement for DB schemes could be unnecessarily complicated, and that the three-month guarantee period could in certain circumstances limit members' ability to take appropriate advice.

***To read the full ACA response click [here](#).***

## Increases in the General Levy

In our response to the DWP's consultation on the General Levy from April 2020, we noted that, ideally, a full review would have been carried out before any material change in the levy was implemented. However, as that was not an option being considered, we called for a further, more detailed consultation to be carried out in advance of April 2021.

In their response to the consultation, the Government have committed to carrying out a structural review of the levy by the summer of 2020. We believe there are a number of issues that need addressing, including in particular whether DB and DC schemes are paying their fair share, and we look forward to seeing the updated proposals in due course.

***To read the full ACA response click [here](#).***

## Changes to PPF insolvency risk scores

Responding to its consultation on the introduction of insolvency risk scores with Dun & Bradstreet (D&B), we called on the PPF to continue to encourage schemes to check and update their data. Whilst we agree with most of the PPF's proposals and justifications for changes in the way scores are calculated, given the potential for significant impact on schemes/employers we believe it may be appropriate to extend the 30 April 2020 deadline if there is low engagement with the new system.

***To read the full ACA response click [here](here).***

## HMRC GMP guidance

Following HMRC's recent guidance on whether GMP equalisation might have inappropriate pension tax outcomes for members, we expressed our disappointment that this did not cover GMP conversion. Whilst it provides some sensible reassurances for those schemes planning to operate 'dual record' solutions (for example 'C2'), it also confirms that if a scheme uses 'conversion', then, as the law stands, there are some real pitfalls (e.g. losing fixed protection or the annual allowance 'deferred member carve out').

Our view continues to be that inappropriate tax pitfalls in an already horrendously complex regime should not be a block to GMP conversion, which offers the opportunity for schemes to simplify DB benefits more widely, and increase member understanding of their entitlement.

## Forthcoming activity

The next few months are likely to be dominated by dealing with the impact on both schemes and sponsors of the COVID-19 outbreak. We have been involved in numerous discussions with industry bodies over the past few weeks and will continue to support members as best we can in what continues to be a fast-moving situation.

In addition, we intend to respond to the following key consultations

- TPR's consultation on its new defined benefit code of practice.
- The Government's consultation on changes to the calculation of RPI.

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.**




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