



NEWS RELEASE

ACA CHAIRMAN CALLS FOR MORE SUPPORT FOR 'MIDDLE WAY' PRIVATE SECTOR PENSION SCHEMES

7 May 2009: The Chairman of the Association of Consulting Actuaries (ACA) has called on all sides of industry to help promote quality private sector workplace pensions by backing new middle-way solutions that fall between final salary and defined contribution schemes. In a speech to a pension industry dinner, he noted that the loss of quality schemes far exceeds the number of pension schemes that have been re-designed, under present restrictive legislation, into 'middle-way' schemes.

Keith Barton, Chairman of the ACA, commented:

“Our challenge, as leaders in pensions, is to design pension arrangements which are attractive enough for employers to see the value in offering them and for individuals to want to join. For employees, these arrangements need to offer reasonably predictable levels of retirement income and not be subject to excessive volatility.

“And for employers there must be some greater flexibility than at present so they feel confident that sponsoring such arrangements is sustainable over the longer-term so that offering a scheme won't become a millstone that threatens the ongoing business, its employees and shareholders.

“The ACA has been arguing for some time now that legislation needs to change to allow far more middle way pension designs than is presently possible, provided these include a satisfactory level of member protection in the event of employer failure. We were delighted to see that a recent independent OECD¹ paper gave a resounding 'thumbs up' to the type of middle way pension between final salary and defined contribution schemes we have argued for.”

“Some changes to existing pension schemes that reduce ongoing costs allowing those schemes to continue have occurred, but the changes possible under current legislation are restrictive and often lead to complex 'ways around' the rules rather than offering a range of flexible, straight-forward middle-way designs. Because of these restrictions, the number of scheme closures far exceeds the number of revisions under current rules,” commented Keith Barton.

¹ See OECD Working Papers on Insurance and Private Pensions No.34, *Evaluating the Design of Private Pension Plans: Costs and Benefits of Risk-Sharing*
www.oecd.org/dataoecd/23/31/42469395.pdf

“Without the ability to implement new designs, the vast majority of private sector scheme members will be exposed to 100% of investment and longevity risk through membership of defined contribution schemes. Studies suggest this isn't what individuals want².”

The ACA believes that more employers would be prepared to offer middle way pension schemes with employer contributions of 10 per cent or more if they were satisfied that these costs could be sustained over the longer-term because of the flexibilities available in their design; flexibilities that are at present not possible under current pension legislation.

“It also needs to be remembered that the pooling of assets in middle way pension schemes, rather than individual investment accounts, means greater operational efficiency and generally much lower costs – often of the order of 40 per cent or more. All this makes for the likelihood of a much better pension,” added Keith Barton.

“We are sure the Government would be more responsive to these sensible middle way reforms if all those involved in pensions were more vocal in calling for new designs that would better safeguard the pensions of millions of private sector employees into the longer term,” concluded Keith Barton.

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Note to Editors:

About the Association of Consulting Actuaries (ACA)

The **Association of Consulting Actuaries (ACA)** is the representative body for consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies. The ACA has over 1650 members working in around 75 firms. ACA Members are all qualified actuaries and are subject to the code of professional conduct of the Faculty and the Institute of Actuaries. Advice given to clients is independent and impartial. The ACA forms the largest national grouping of consulting actuaries in the World.

² Two-thirds of individuals feel that a private pension linked to the Stock Market is 'too much risk', see *Attitudes to Pensions: The 2006 survey*, published by DWP, pages 5-7.