



NEWS RELEASE

Responding to the DWP's consultation paper on risk sharing, the ACA says Government must stop micro-managing workplace pension designs provided they meet minimum regulatory standards, including compensation in the event of employer or provider failure...

PENSION RISK SHARING CONSULTATION: ACA CALLS FOR DESIGN FREEDOM FOR EMPLOYERS

28 August 2008: In a response to the Department for Work and Pensions' consultation paper on risk sharing, the Association of Consulting Actuaries (ACA) has called for new forms of risk sharing and new scheme designs to be encouraged by legislation, provided these can be clearly and simply explained to scheme members and meet appropriate minimum regulatory standards, including appropriate compensation for individuals in the event of employer or provider failure.

The ACA's response points to the acceleration in closures of existing defined benefit schemes reported by a number of surveys over the last 3 months¹ and the impact this is having on the pension expectations of private sector employees. This worsening trend means there is an urgent need to allow employers the maximum remit to offer risk sharing schemes when reviewing their existing pension arrangements, which many are doing or will be doing in the run up to auto-enrolment and personal accounts in 2012.

The ACA says that if risk sharing is not encouraged by legislative changes, most private sector employers will have little option but to continue with the present trend, exposing more and more employees to the volatility of pension outcomes associated with defined contribution schemes.

Commenting on the response, ACA Chairman, **Keith Barton**, said:

"Given the scale of closures of quality private sector schemes, Government cannot possibly say 'there is no need to change the law' to encourage new risk sharing schemes. That worst-case outcome, following on from the inadequate deregulatory reforms in this year's Pension Bill, would be, quite frankly, a disaster for future generations of pensioners who would be denied the opportunity to plan for a secure and predictable retirement income.

¹ See *Does the exodus signify genesis* published by PwC, June 2008, *Pension plan design survey*, published by Watson Wyatt, July 2008 and *2008 Employer survey*, published by Aon, August 2008.

“We are still pressing the case for a ‘first step’ risk sharing measure in the final stages of the Pensions Bill in October – the ACA conditional indexation model² is the most well advanced of the new model designs in the consultation paper and is ready to run. It is a risk sharing option we have worked on for over two years and has a proven track record in The Netherlands.

“Otherwise, legislation will need to be announced in this year’s Queen’s Speech (3 December) to implement the outcome of this consultation next year. Any later timetable would simply be too late. This Bill would need to properly address the deregulation and encouragement of all forms of quality pension provision, before this is mostly lost from the private sector. If nothing significant is done, we doubt whether public sector pensions will be sustainable in their current form in the longer-term.”

“As the Director-General of the CBI recently said, employers need to have much greater freedom in pension design³. Risk sharing schemes, with appropriate light-touch regulation, offer a win-win opportunity for employers and employees. But, the dead hand of micro-management of pensions by Government has to go if there is to be any kind of interest in such schemes from employers.”

The ACA’s response to the DWP ***Risk Sharing Consultation*** is available at www.aca.org.uk on the ‘**Latest publications**’ page. Printed copies of the response are available from the ACA, Warnford Court, 29 Throgmorton Street, London EC2N 2AT or call 020 7382 4594.

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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 80 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.

Risk Sharing Consultation

The DWP issued their *Risk Sharing Consultation* paper on 5 June 2008, with responses due in by 28 August 2008. A copy of the consultation paper is available at www.dwp.gov.uk/consultations/2008

The announcement of the consultation was made by Pensions Minister, Mike O’Brien MP, during the Committee stage of the *2008 Pensions Bill*, in a speech on a proposed

² See Note for Editors

³ *Defined benefit pension costs*, a speech by CBI Director-General, Richard Lambert, 30 July 2008.

amendment to the Bill, drafted by the ACA, that would allow employers to offer conditional indexation schemes – one of the risk sharing models included in the consultation.

Conditionally indexed pensions

Conditionally indexed schemes offer to those many mid-sized and larger employers prepared to share risks with employees a pension arrangement that not only will attract and retain employees, but that also caps employers' costs into the future (a full description of how conditional indexation schemes work is contained in the ACA's *Written Evidence* to the Bill Committee⁴).

Conditionally indexed schemes offer to employees a far less volatile pension benefit than DC. Pensions are based on career average earnings linked to service. Employer contributions would include a full funding allowance for pension increases. Save on occasions when scheme funding falls into deficit (the 'condition'), pension benefits would be indexed in line with a scheme specific index, typically price inflation up to a 2.5% cap per annum. Restoring indexation would be the first priority when a scheme returns to surplus.

Funding would be based, as with existing DB schemes, on the new prudent funding standards set by the Pensions Regulator, who would regulate such schemes, with PPF levies securing further protection for members (but with lower levies based on the lower risk profile of such schemes).

⁴ See www.aca.org.uk see 'Publications', 2 January 2008