



## NEWS RELEASE

*Ahead of the General Election, the political parties need to focus on how they can consolidate and improve upon the coalition government's radical reforms, concentrating on measures that will build stable and sustainable incomes in retirement for the wider public...*

### **ACA LAUNCHES RETIREMENT INCOME MANIFESTO SAYING MUCH REMAINS TO BE DONE TO BUILD ADEQUATE RETIREMENT SAVINGS**

**12 March 2015** – The Association of Consulting Actuaries (ACA) has launched a seven-point *Retirement Income Manifesto* today, with a view to encourage the political parties ahead of the General Election to consider measures that will boost private sector retirement savings. The ACA says that the reforms enacted in the current Parliament need to be built upon by way of a coherent strategy adopted by the incoming Government. The incoming Government should look to construct a long-term consensus by setting up and taking regular advice from a new standing Independent Retirement Income Commission.

The ACA says that the overall philosophy of the UK should be to continue to boost saving for retirement focusing on the promotion of a wide range of flexible retirement arrangements as part of a broader approach to encourage lifetime savings. Financial incentives should be greater for savings locked away for the long term over short-term savings, with legislative and regulatory prescription minimised and simplified, whilst maintaining the protection of members' benefits. The Government should seek to continue to take measures that reduce the cost of long-term savings products, but not to the point where this may damage ongoing provision or the infrastructure that supports the generation of returns.

Commenting on the manifesto, **ACA Chairman, David Fairs** said:

"We are seeking the commitment of all the political parties to a comprehensive strategy designed to build upon the early success of auto-enrolment and the 'freedom and choice' agenda, which has been widely welcomed, but is being introduced at break-neck speed. During the next Parliament, those saving for retirement or later life will gain a clearer picture of what level of State pension they are building their private savings upon and there will be new flexibilities available that suit both individuals and employers in either drawing or growing retirement incomes.

"However, the 'key' need to increase long-term savings by way of much higher levels of contributions into products has not yet been achieved and we believe Government will need to do more to incentivise both employers and individuals to save more. The early success of auto-enrolment has been built on extremely low contributions from both employers and employees and it must not be taken for granted that pension coverage will be grown or maintained without further incentives."

The ACA's seven-point manifesto advocates that in the new Parliament, the Government should legislate to:

**1. Establish a standing Independent Retirement Income Commission** charged with promoting the active extension and betterment of private retirement income provision and making recommendations on the future of State and public sector retirement provision (suggested remit - *see Note for editors*).

The proposed Commission would make recommendations to Government and others – sponsors, providers and regulators – within 12 months of its establishment and periodically thereafter. The priority would be to encourage improving pension provision for all including higher levels of pension savings. The Commission could, for example, make recommendations on how auto-escalation in pension contributions might be encouraged or how a ‘pensions dashboard’ (a combined State and private pension statement) system might be implemented.

The Commission could be charged with facilitating the fundamental review of pension taxation (see 2, below). It might also review and make recommendations on tax incentives for long-term care products.

Amongst other responsibilities, the Commission would ensure the cost of public sector pensions is transparent, making recommendations to Government to ensure provision is sustainable and fair.

Additionally, the Commission should be charged with periodically reviewing the supervisory framework of the pensions sector with a remit to make recommendations to rationalise and simplify the structure over time.

**2. Government to announce a fundamental review of pension taxation** in recognition of the complexities and anomalies that tinkering with the framework time after time has caused. The ACA seeks a proper review of the pension taxation framework in conjunction with employers and the pensions industry rather than ‘knee jerk’ changes immediately after the General Election that are likely to make the framework even more unworkable and anomalous than at present (for further details, see the ACA paper, *Creating a sustainable Pensions Tax Framework*, published 4 March 2015<sup>1</sup>). The ACA paper says that if at all possible the Government should seek cross-party support for a new framework that can be readily understood and can properly incentivise retirement savings.

**3. Government to review progress of auto-enrolment during its first 100 days** to review what policy adjustments may be needed to consolidate its success. Whilst auto-enrolment has been a success in enrolling upwards of 5 million new employees into workplace pensions, the majority are saving well under 2% of earnings combined from employers and members. In 2017 and 2018 contributions climb appreciably but the ACA has also previously suggested that the lower band on earnings eligible for AE should be abolished to increase overall contributions and which would also permit the lowering of the AE earnings threshold to extend provision to more women and low earners. However, there are some concerns particularly amongst small and micro-employers, the majority of which do not hit their staging dates until 2016/17, that increasing contributions might have an impact on ‘opt-outs’. The Government may need to consider providing some support to employers from 2017 onwards – factoring this into spending plans – by way of reducing employees’ NI rates and perhaps increasing the Employment Allowance to reduce employers’ costs.

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<sup>1</sup> [www.aca.org.uk](http://www.aca.org.uk) (see ‘recent publications’)

**4. Employers to be given tax breaks to incentivise the provision of savings and retirement advice.** Building on the new *Pension Wise* guidance, we believe there is also a role for formal regulated financial advice to be provided via the workplace. We would urge the Government, funded through tax concessions granted to the employer, to consider encouraging formal regulated advice to be made available from age 50, and that a sum of about £500 should be made available. A second session, valued at around £800, should be provided at the point of retirement, with this funding coming through adjustments to the employer's tax liability. **The present allowance of £150 is completely inadequate.**

**5. Provide greater incentives for retirement income savings by allowing early access after 10 years of pension savings to a proportion of their fund currently available only from age 55** to help fund house deposits and/or to meet life's crises. This to be implemented at such time that the *Pension Wise* service can be extended to provide guidance on such withdrawals.

As the age when individuals can draw their retirement benefit becomes later, it is likely that younger people increasingly will find it difficult to prioritise and fund long-term savings. This is why the incentives for long-term savings should be meaningful and why a more holistic approach to savings – allowing individuals early access, on a restricted basis, to a proportion of their fund – should be considered.

**6. Provide a statutory override – shared by the trustees and scheme sponsor – to allow defined benefit schemes whose rules 'embed' RPI to be able to switch to CPI.** It seems to be generally accepted that RPI is a flawed measure. A shared power would provide safeguards and from a member perspective offer the opportunity for trustees to seek an increase in member security when such a switch is sought.

**7. Allow defined benefit schemes to be able to offer similar freedoms to those in DC arrangements,** but with a requirement for financial advice for individuals reaching retirement with those options (rather than individuals having to transfer to a DC scheme and then being able to exercise the options).

**For further details:**

|                 |                                 |
|-----------------|---------------------------------|
| David Fairs     | 020 7311 3103                   |
| Gareth Boyd     | 01737 241144                    |
| David Robertson | 020 3102 6761 (M: 0791 9911380) |

### **About the Association of Consulting Actuaries (ACA)**

The **Association of Consulting Actuaries (ACA)** is the representative body for consulting actuaries, whilst the Institute and Faculty of Actuaries (IFoA) is the professional body. The ACA has over 1750 members working in around 80 firms. ACA Members are all qualified actuaries and are subject to the code of professional conduct of the IFoA. Advice given to clients is independent and impartial. The ACA forms the largest national grouping of consulting actuaries in the World and is a full member of the International Actuarial Association.

***Note for Editors:***

**Proposed remit of the Independent Retirement Income Commission**

The Commission would review public policy in respect of its success in achieving improvements in levels of retirement incomes from State and/or private retirement income plans (and the sustainability thereof), whilst also making policy recommendations to Government after 12 months from establishment and every three years thereafter. A suggested remit would be as follows:

- reviewing the structure of State pensions and the Government's timetable for raising the State Retirement Age to reflect both improvements in life-spans and overall financial costs to the taxpayer (given the current commitment to the 'triple lock' indexation of the BSP)
- advising every three years on the need or not for a general increase in retirement age to reflect increases in longevity so as to keep pension funding costs broadly stable over the long-term where scheme specific information is unavailable
- recommending policies designed to encourage more employers and employees to invest in retirement income plans, including auto-escalation and other measures to maximise design flexibilities and choices, advising on financial and tax incentives to encourage wider coverage, whilst taking account of the UK economic, demographic and financial backcloth and life-style changes
- review and make recommendations on tax incentives for long-term care products
- promoting legislative and regulatory simplification to encourage quality provision, accepting that legislation must continue to protect members' retirement incomes from the impact of employer or provider insolvency or default
- at the request of Government, reviewing on a periodic basis the structure and rules of the NEST scheme to ensure employees are offered an appropriate fall-back retirement income plan where no better scheme is offered by a sponsoring employer
- ensuring that over the long-term, the cost of public sector pensions, and those that are largely funded by the taxpayer, are transparent in cost to the taxpayer, are sustainable and are fair set against the scale of private provision available to the majority of taxpayers
- reporting (within 6 months) on matters referred by Government to the Commission on an ad hoc basis and also on European directives that could have an impact on any of the above.