ASSOCIATION OF
aca
CONSULTING ACTUARIES

Early access is less important than pension reforms designed to better share risks, but...

ACA LENDS SUPPORT TO 'EARLY ACCESS' TO PART OF PENSION SAVINGS

1 March 2011 – In its response to HM Treasury's consultation, the Association of Consulting Actuaries (ACA) says that it is in favour of introducing the legal flexibility to permit early access to tax-free cash as it could provide some meaningful help with limited effort or cost. However, the ACA says that it remains of the view that this is less important than other areas of flexibility in pension legislation, such as an ability to offer risk-sharing pension schemes where financial risk is shared between employer and members.

The ACA submission proposes restricting lifetime withdrawals to 'something equivalent' to the overall tax-free cash limits of 25% of funds, suitably adjusted for timing differences. The qualifying reasons for early access should be confined to a relatively short list. The paper says house purchase would be an obvious qualifying event, as might dealing with a mortgage (or rent) arrears. Other "life events" might qualify too - for example, payment of a child's university fees. The ACA adds that in the event that this sort of approach is deemed to be too difficult to legislate for and/or monitor then a simpler compromise might be to permit access to the accrued but undrawn lump sum on, say, a 5-year basis.

Commenting on the ACA response, **ACA Chairman, Stuart Southall** said:

"In our view it makes little sense to dismiss the idea of early access on the basis of it either being available already, for example, through ISAs or because it is not possible to definitively prove that early access will increase pension saving. Few things are properly understood about pension saving, but the evidence suggests that even those in their early 20s understand – and most are frankly entirely switched off by the thought – that pension saving means locking funds away for 30 years or more.

"If you cannot see beyond the end of your student loan repayments, or other expected cost obligations, are you seriously going to commit your limited funds to such a vehicle?"

The ACA submission notes that an objection sometimes raised is that early access is likely to mean reduced savings to fall back on in retirement. In an over-simplistic model where the saver is committed to a definite amount of saving and only the timing of the access is varied this will normally be the case, because of real returns foregone on the early withdrawals. But this ignores the fact that those early withdrawals might reduce other lifetime costs by virtue of their being met earlier. It is not, therefore, obvious that one can conclude that in the aggregate a saver with the ability to early withdraw will be worse off in total when he, or she, retires.

At present retirees can take retirement tax-free cash without any constraints as to how it is used or misused. Under a sensible early access model the use to which sums taken early could be put would be more "controlled" and, in that sense, it is possible that imprudent spending of tax-free cash (e.g. blowing the lot on that must-have world cruise) would be reduced rather than increased.

The ACA says that the framework for early access should be permissive, rather than compulsory. Pension providers and employers should be free to decide whether or not the pension arrangements that they offer include an early access provision.

Whilst early access is much less likely to improve take-up of a defined benefit scheme, where the value of benefits is more widely recognised, the ACA sees no objection to permitting defined benefit schemes to offer an early access feature if sponsoring employers and trustees choose to do so.

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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 is the professional body. The ACA has 1,750 members working in around 75 firms. ACA Members are all qualified actuaries and all actuarial advice given by members is subject to the Actuaries' Code. The ACA forms the largest national grouping of consulting actuaries in the world.