



NEWS RELEASE

The ACA says the failure to act by Government shows lack of boldness in supporting the pension needs of private sector employers and employees...

ACA REGRETS GOVERNMENT'S TIMIDITY IN NOT ALLOWING NEW QUALITY PENSION DESIGNS FOR PRIVATE SECTOR

11 December 2008: Following the announcement today that the Government is not proposing early new legislation in its risk sharing pension consultation paper, the Association of Consulting Actuaries (ACA) regrets the timidity of this approach that will mean an increasing number of private sector employees will receive pensions far inferior to those offered by the public sector.

The ACA notes that Rt. Hon. James Purnell, the Secretary of State for Work and Pensions, wrote recently:

"Gordon Brown has proven that we truly are at our best when at our boldest. Once today's turbulent times have become yesterday's news, we need to show that we can be just as bold about the future as we have been in a crisis." (*The Independent*, 2 December 2008).

But no boldness, it seems, when it comes to promoting quality private sector pensions.

Under current legislation, UK private sector employers, unlike anywhere else in the world, must index defined benefit pensions for both pensioners and revalue deferred members' benefits each year, subject to a cap. The cost of meeting this guarantee can be extremely expensive and must be done even if a scheme is in deficit. As a result, the ACA has called on the Government to amend defined benefit pension legislation to allow employers the design freedom to offer risk sharing schemes, which are difficult to introduce under current legislation. These designs would not only help employers to attract and retain employees, but also help cap employers' costs into the future, in a way that is not presently possible. This culminated in the ACA proposing an amendment to the then 2007 Pensions Bill designed to allow this kind of design. In opposing the ACA amendment, the then Minister, Mike O'Brien MP, announced a risk sharing consultation in the summer of 2008 and added:

"If we need to make primary legislative changes – we probably will – we will have to find a timetable to do so, perhaps in a fourth-Session Bill...I want to put on record my commitment to the process, because I see clearly the potential of risk sharing." (*Hansard* report of 2007 Pensions Bill debate in the Commons Committee, 21 February 2008, Col. 571).

Unfortunately, the delayed timing of the consultation made sure any new pension design freedoms could not be included in what is now the *2008 Pensions Act*. The outcome of the consultation, published today, offers few meaningful advances to encourage quality pension provision in the near-term. A further consultation in the Spring 2009 on 'introducing flexibility in the way pensions accrue for future service to reflect changing

longevity', further research on collective DC schemes, the review of indexation of cash balance schemes and employer debt rules are welcome.

Keith Barton, ACA Chairman, commented:

"The Government is long on words, but short on deeds in supporting quality workplace pensions. Without a new 'middle way' option that better allows employers to cap defined benefit costs for the future, the vast majority of private sector employees will be moved into defined contribution schemes, with the volatility in outcomes associated with this design.

"The absence of choice under current legislation leaves few other realistic options – but the absence of choice certainly won't halt defined benefit scheme closures. Today, we have just 2.7 million private sector employees in defined benefit schemes compared to 7 million in 1967, with now only around 1 million employees in schemes open to new entrants. The speed of closures, given current economic conditions, is likely to accelerate in 2009.

"Whilst the Government says that risk sharing is possible under current legislation and is looking to work with the Pensions Regulator in alerting employers to current practice, it is absolutely clear from what has happened over recent years that employers – and their advisers – do not feel current legislation is 'fit for purpose' to achieve viable risk sharing solutions. Very few employers have opted for schemes that have to be contrived to operate under current complex legislation.

"Survey results also show that most employees don't want a pension where members take on 100% of all investment and longevity risks and which is subject to the ups and downs of stock markets¹. We feel many private sector employers share that view, but because they are prevented by current legislation from opting for a middle-way, risk sharing solution, they cannot show enthusiasm for schemes they are not allowed to offer to their employees under current laws."

The ACA says it does not expect all private sector employers closing existing defined benefit schemes will opt for risk sharing schemes.

"However, if the option were made available of new types of schemes that truly enable employers to cap their costs, whilst providing good quality, more predictable pensions, we believe a substantial number of employers would be interested enough in their employees' future welfare that they would respond positively. And, over time, we think that interest would grow. A future pension scene dominated by basic personal accounts would be bleak indeed," says Keith Barton.

"We believe that risk sharing principles can also be applied as a middle-way solution to the growing clamour for reform of public sector schemes, offering the ability to cap taxpayers' costs whilst continuing a good level of benefits for members," added Keith Barton.

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¹ *Attitudes to Pensions: The 2006 survey, published by DWP, pages 5-7*

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.

Government response to risk sharing consultation

The DWP response to the risk sharing consultation is available at:

<http://www.dwp.gov.uk/consultations/2008/govt-response-risk-sharing-consultation.pdf>