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Dear Sirs

Subject: Securing a Retirement Income - Response to Consultation

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes and thousands of smaller schemes. Members of the Association 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 includes the Scheme Actuaries to schemes covering the majority of members of defined benefit pension schemes. The ACA is the representative body for consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies.

In general, we are in agreement with the broad thrust of the proposals in this document. One point which we would like to stress is that it is very important for the 'rules' for personal accounts to be, wherever possible, the same as for other 'occupational schemes'. We infer from the document that this is PADA/the Government's intention, in particular in relation to the HMRC tax regime rules (including those for trivial commutation), and endorse this intention. The one possible exception to this relates to member data, where (bearing in mind the unique target market for PAs) consideration might be given to the PA scheme having statutory access to information held by some government agencies to cover gaps in data (e.g. dates of birth, current addresses, etc).

While not offering responses to each and every one of the specific questions raised, we set out below some thoughts/answers on a chapter-by-chapter basis.

Chapter 1

We agree that, based on current available products, lifetime annuities are the best way to provide a 'guaranteed lifetime income' for the vast majority of prospective PA members. However, PADA should remain open to the possibility that future market developments and innovation may mean that this will not invariably remain the case.

Chapter 2

It needs to be acknowledged that a substantial proportion of prospective PA members will find the decisions concerning how and when to ‘decumulate’ difficult. There is likely to be a natural inclination to prefer ‘immediate income’, with a consequential preference for cash commutation, non-increasing and/or single life annuities and early rather than late vesting. Such an inclination might, if not appropriately checked, undermine one of the main aims of the PA scheme (to help take people out of relative poverty and State dependence throughout their ‘retirement’ years). However, moves to ‘persuade’ members towards options that might seem less attractive need to be balanced against any possibility that this could encourage individuals to opt out of pension provision entirely.

Regarding the role of employers, the principles 1) that employers should not in any way be cast in the role (perceived or actual) as advisers and 2) that any involvement they may have in ‘assisting’ employees or former employees in the decumulation process is voluntary are sacrosanct. Nevertheless, in designing the process around choosing an annuity PADA should allow space for employer involvement (such as making advice or information readily available) where the employer so wishes, including allowing the option of ‘branded communication’ where desired.

Chapter 3

While we agree that it is important for the process to be as ‘low-cost’ as possible, the process must still be ‘fit for purpose’, otherwise poor choices will undermine the purposes of PAs and the ‘low cost’ will turn out to be a false economy. The ideas in the document about different forms of communication seem reasonable but it must be remembered that the world is rapidly changing in this area and the position might be significantly different by 2012, not to mention by the (much later) time at which those members who start contributing to PAs reach ‘retirement’ age. So flexibility and an open mind are key here.

The communication wording will need to be as jargon free as possible, and as a sign of good intent, we suggest two examples of jargon that should be abandoned as soon as possible. ‘Decumulation’ is not a term in common usage and should be replaced by something like ‘pay out’. And the phrase ‘trivial commutation’ fails on two counts in that ‘trivial’ gives the wrong message to potential PA participants, and ‘commutation’ is not a term in common usage.

Although design of a ‘coming up to retirement’ system around a particular age (such as the individual’s state pensionable age) is a sensible default approach, the wider aim of a move away from the idea of fixed retirement ages means that it needs to be made clear that the individual has a choice and also that timely information (i.e. sufficiently in advance of any final decision) needs to be readily accessible at a wide range of ages.

We agree that some kind of default is needed for members who reach age 75 but have made no decision on what to do with their PA fund. However, we might be more inclined to default to a lower initial annuity (e.g. including an allowance for increases and/or an 'any spouse' benefit), in part because this might encourage the member concerned to make his own choice instead. We would question the comment in 3.36 that these annuities would be being bought "late in the life of the member", given that it would not be a great surprise if the member survived another 20-30 years.

Chapter 4

We agree that a 'panel' of providers is an appropriate way to deal with the issue of members who do not wish to exercise an OMO themselves. We agree that a panel would be preferable to a single provider, believe that selection for the panel should be by tender rather than invitation and would suggest that the trustees carry out a full review of these providers at least triennially with interim reviews annually. The 'terms of engagement' with the panel providers will have to be negotiated so that the annuity purchase process is workable – for example, 'real time' annuity quotes and consistent guarantee periods for the quotes.

Chapter 5

We agree that 'small pots' is a tricky and important issue for PAs – as it already is for many current schemes. It is therefore important that new facilities on scheme-specific trivial commutation are introduced by HMRC in April 2009 as planned and not delayed further while this consultation paper (or anything else) is under consideration. We agree with 5.2, regarding consistency of treatment between PAs and other schemes.

We cannot comment on how likely it is that annuity providers aspiring to be on the panel will be willing to cut their minimum purchase price to £2,000 (with an expense charge that will not seem disproportionate to the purchase price). While not wishing to devalue the need to think about the 'stranded pots' issue now, we think that in practice (whatever might be decided in the run-up to the introduction of PAs) there will need to be flexibility shown by PADA and the Government (both DWP and the Treasury) as to the operation of legislation or other 'rules' on matters like transfers and trivial commutation, to ensure that PA members with small pots are not seen to 'lose out' because of such issues.

Yours sincerely

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ACA Pension Schemes Committee