



The ACA has responded to the public service pensions commission's initial consultation...

ACA SAYS PUBLIC SECTOR PENSION REFORMS MUST INTRODUCE 'SAFETY VALVES' SO CHANGE IS SUSTAINABLE

5 August 2010 – Responding to the call for evidence by the Public Service Pensions Commission under Lord Hutton, the Association of Consulting Actuaries (ACA) has said that the Commission's objective should be a system which looks to 'fairer' pensions across the public and private sectors, identifying an affordable replacement income in retirement to target over a career. It should be one which has a number of safety valves to control costs and benefits via 'middle way' solutions that can be applied in similar ways in both the public and private sectors. Simply levelling-down of public sector pensions would be a short-sighted approach both in the short and longer-term. The ACA adds that 'fairness' can only be delivered if Government policies pursued by the Department for Work & Pensions to reinvigorate private sector pensions reflect a similar objective.

The ACA submission highlights the contrast between pension provision in the public and private sectors. In the public sector, 'open' defined benefit schemes offering pensions linked to final salaries cover over 5 million employees, whereas in the private sector 87 per cent of such schemes are closed to new entrants with around a fifth also closed to existing members. Where private sector employees are in workplace pensions, they are increasingly in defined contribution schemes, where members take on 100% of the longevity and investment risks, in total contrast to the situation in the public sector, where these risks are predominantly met by the Government (i.e. the taxpayer).

The ACA response to a 'call for evidence' ahead of an interim report by Lord Hutton, due in late September, proposes **three key objectives** for any 'new' pensions structure for the public sector.

The ACA says a new public sector pension structure should:

- **aspire to be regarded as a 'fair' system by all taxpayers – both those working in the public and the private sectors, and one where there is not an unreasonable transfer of an increasing unfunded cost falling on future generations of taxpayers; but it should**
- **ensure that the public sector pensions offered are sufficiently attractive to help recruitment and retention of good quality employees into the public sector i.e. pensions that will continue, in combination with the State pension, to provide a decent standard of living in retirement; however**
- **there needs to be some better safety valves and flexibility in the new structure to cope with the stresses that any system will come under over time.**

The ACA says that it would be happy to expand further as part of the second stage of the Hutton review process, but designs where retirement ages could be adjusted as longevity improves, with lower accrual rates, with greater flexibility over increases to accrued pensions and where cost increases could be shared by way of higher employee contributions, are all both feasible and capable of adaption to suit different groups of employees. Other designs, where certain risks are allocated rather than shared are also possible.

The ACA evidence notes that ‘we would advocate risk sharing on a progressive level, where only those who are more financially able to manage the consequences of uncertain outcomes actually share in the risk. The lower paid are less well-equipped to accept such risks, whereas those on higher incomes are more likely to be able to take on some risk sharing. Therefore a design which has perhaps a core defined benefit on the first tranche of earnings together with a middle way solution on a second tranche may provide an improved balance.’

ACA Chairman, Stuart Southall, commented:

“Introducing ‘middle way’ designs into the public sector now would, we believe, help stimulate the wider recovery in voluntary ‘quality’ pension provision that is required across-the-board.”

The recent report of the Senior Salaries Review Body on Parliamentary Pensions, which recommended a career average revalued scheme (to replace final salary), a lower accrual rate and a retirement age of 68 from 2015, reflected many of the recommendations made to that inquiry by the ACA late last year in both oral and written evidence. That SSRB report has now been passed to Lord Hutton to consider in his overall review of public sector pensions.

Members of the ACA provide advice to thousands of pension schemes, including most of the funded public service schemes – most notably the 100 funds that make up the Local Government Pension Scheme or LGPS. Members however are also involved in advising some of the unfunded public service schemes such as the Police and Fire Schemes and the Civil Service Schemes.

The ACA's evidence to the Public Sector Pensions Commission is available at the ACA's website at www.aca.org.uk (see: recent publications).

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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 1750 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.