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WORKPLACE PENSION REINVIGORATION: ACA CHAIRMAN SAYS 'CAN DO' APPROACH IS KEY TO REFORMS MAKING HEADWAY

22 November 2012 – ACA Chairman, Andrew Vaughan, has welcomed the DWP's workplace pension reinvigoration paper published today and pledged the ACA's support for key initiatives including the development of Defined Ambition pension designs and moves to encourage higher pension contributions.

Andrew Vaughan chairs the Defined Ambition Industry Working Group set up over the summer by the DWP with sub-groups including pension providers, actuaries, lawyers, regulators and investment firms.

ACA Chairman, Andrew Vaughan comments:

"We need a 'can do' approach to designing tomorrow's pensions. All too often, when we have proposed new pension designs, we have heard the comment from one quarter or another that 'you can't do that!' With 'good' provision in steep decline as evidenced by the recent ONS report, we need to have the Roosevelt response – 'don't tell me what we can't do, tell me what we can do'.

"We welcome the inclusive approach being operated by DWP in respect of pension policy developments and the ACA looks forward to its continued active involvement in the process.

"The most important attributes of Defined Ambition (DA) pension designs are that they should include greater certainty for members than a pure DC scheme and less volatility for employers than current DB schemes. Importantly, sufficient flexibility needs to be built into the designs, so costs can be controlled long into the future to cope with changes in economic circumstances and demography. Our working group envisages that there will be a range of DA designs – no single approach – so employers can select schemes that suit their business and their employees' best.

“There will be those who say the move by employers to pure DC pensions, where 100% of the investment, longevity and inflation risks fall on members, will continue unabated, but our research¹ over a number of years has shown many employers are concerned about the impact of this trend on members. However – at present – there are no risk sharing designs that can readily sit in the space between the DB and DC legislative regimes, unless they are hybrid schemes which in regulatory terms fall under both regimes, an understandably unpopular administrative outcome.

“Because legislators have in the past placed increased costs on schemes, undermining their ability to control pension costs, DA designs need to encompass ‘no extra cost’ exits for employers so regulatory creep is discouraged.

“On pension contributions, savings of 8% of band earnings – even with a higher Basic State Pension – is a relatively modest amount that needs to move up quite sharply, certainly after 2018. Hopefully, by then our economic performance will have been reinvigorated too.

“But Government should be under no illusion that there remains a pressing need to ensure people understand the importance of retirement saving and it will need to provide incentives (e.g. tax reliefs) to help employers and employees alike to find the extra cash for the levels of savings needed to finance adequate provision.”

For further details:	Andrew Vaughan	020 7776 2200
	Steve Leake	01483 540 300
	David Robertson	020 3207 9380
		(M: 07919 911380)

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.

¹ The ACA's 2011 *Workplace pensions: challenging times* survey found in a survey of 468 employers of all sizes that at least half of employers felt they should share or take on a majority of investment, longevity and inflation risks. The ACA's 2012 *Smaller Firms Pensions Survey* found amongst 541 firms with 250 or fewer employees, over a third said employers should share or take on the majority of these risks (see www.aca.org.uk – research page).