ASSOCIATION OF CONSULTING ACTUARIES

NEWS RELEASE

Government needs to do much more to support quality pension provision in the private sector...

ACA CALLS FOR URGENT ACTION TO BACK EMPLOYERS PREPARED TO OFFER QUALITY PENSIONS

2 October 2009: Keith Barton, Chairman of the Association of Consulting Actuaries' (ACA), speaking at a major pension industry dinner, has said that the Government must do much more to back employers who are prepared to offer quality pensions schemes in the private sector. He noted that the recent ACA survey on pension trends[1] found that just 6 per cent of employers were happy with the Government's record in this important policy area, down from 38 per cent two years ago.

He noted the recent ACA survey also found that 15 per cent of employers of all sizes will consider closing their existing pension scheme in favour of offering just Personal Accounts to all employees and 24 per cent are likely to revise pension benefits to mitigate the costs if, instead, they auto-enrol all employees into an existing scheme. Amongst smaller employers, the position is far worse.

"Simply put, this doesn't suggest, given current and likely economic conditions over the next few years, that personal accounts are simply going to 'fill the gap' for the previously un-pensioned, leaving better existing schemes untouched. Pensions policy must be reviewed in the light of these and similar findings from others," commented Keith Barton.

On State pensions, whilst all political parties seem committed to linking the Basic State Pension to earnings growth within the next 5-years or so, it already seems likely that the increases in State Pension Age due over the next 50-years will prove insufficient to meet rising longevity, says the ACA.

"The incoming Government, whoever that might be next year, should take a second look at the timescale for increasing State Pension Age, and face the need for accelerating the changes. Inevitably, this will drive adjustments to both private and public sector pension schemes," said Keith Barton.

"An incoming Government should also consider some of the interesting ideas now circulating. One of these suggested a much higher State pension but payable from a later age of 75 or maybe even 80 at some future stage. Personal Accounts could then be re-targeted at filling the gap between retiring from work and drawing the State pension. Such an approach could help control the increasing cost of State pensions. And it could also help overcome the problem for many on lower incomes, as to whether Personal Accounts in their current form will offer good value against other State benefits foregone" commented Keith Barton.

[1] See www.aca.org.uk *ACA Pension trends Report No.2 – Pension Reform: a pig in a poke?*

"On private pensions, for the last 5-years or so we, and others, have called for legislative changes that would allow employers the option to offer a wider choice of 'middle way' quality pensions. These options would include the ability to deal with increasing longevity, as well as providing funding respite in difficult financial markets. They would still protect members against the consequences of employer failure, and would provide greater certainty of benefits for members, compared with defined contribution, and greater certainty of costs for employers, than current defined benefit schemes. And, importantly, they would recognise the efficiencies in collective schemes that can add a huge amount - possibly as much as 40 percent - to pension outcomes as compared to individual defined contribution contracts".

"Whilst probably little can be expected over the next few months, we hope an incoming Government next year, of whatever colour, will recognise the need to act well ahead of 2012.

"If not , we cannot see how the 2012 reforms can go ahead on time – even allowing for the recently announced partial postponements – employers must have wider, more flexible, quality pension options available first. This is a top priority for pension policy, but the Government seems unable at present to grasp the importance of acting before matters get worse.

Turning to pension taxation, Keith Barton commented:

"The 2009 Budget measures were bad enough in terms of undermining pension simplification and senior executive support for company schemes. The complexities of administration involved are becoming clear and risk being unworkable. The measures are likely to add considerable compliance costs to both employers and particularly employees close to the threshold.

"The reforms are just not well thought out.

"That said, I think the risk of higher rate tax relief being abolished entirely is greater than it has been for some time, as politicians thrash around for the next big ticket saving. The truth remains that tax relief incentives have been hugely effective over the years, in furthering pension savings, and it would seem Government efforts would be better directed at looking at how reliefs can be widened to encourage private pension savings, not the opposite".

"Over-spending in other areas should be dealt with where they arise, and should not be addressed by removing incentives to do the right thing" concluded Keith Barton.

The ACA's ***2009 Pension trends survey Reports 1*** and ***2*** are available at www.aca.org.uk on the **'Latest publications'** and **'Research**' pages. Printed copies of the reports are available from the ACA, St Clement's House, 27-28 Clement's Lane, London EC4N 7AE or call 020 3207 9380.

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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 1750 members working in around 75 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.