Institute and Faculty of Actuaries

Pension Protection Fund: draft regulations to take account of bridging pensions

IFoA response to Department for Work and Pensions

29 September 2017

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

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Nick O'Neill
PPF and NEST Partnership
Private Pensions Policy and Analysis
1st floor Department for Work and Pensions
Caxton House
Tothill Street
London SW1H 9NA

29 September 2017

Dear Mr O'Neill

IFoA response to DWP Consultation: Draft regulations to allow the Pension Protection Fund to take account of bridging pensions

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to this consultation. The IFoA's Pensions Board has provided the detail in this response. The IFoA has not collected evidence on bridging pensions for individual schemes; consequently, we have not answered the questions that call for evidence. In summary, we are supportive of the proposal to address the current anomalies between the benefits provided by schemes and the PPF in respect of bridging pensions.

Q2: Do you agree that the smoothing approach is an appropriate way to deal with an individual's bridging pension under the PPF?

2. We agree with the consultation paper's suggestion to remove the anomaly in the current payment of bridging pensions. We agree that adopting a smoothing approach, which removes this anomaly, would be consistent with the PPF's standardised approach to providing benefits and from an actuarial perspective provides the member with a benefit of reasonably equal value. It is also the simpler actuarial and administrative method.

3. The consequence of using the smoothing approach is that it does change the shape of the benefits. The intention behind the original design of such benefits was to produce a level overall pension taking into account state pension benefits. The proposed smoothing approach results instead in a member's total pension being lower before State Pension Age and higher after State Pension Age. However, taking into account that, for most members, the pension provided may well not be their only source of income prior to state pension age and that, even within schemes, such levelling of overall pension is unlikely to have worked precisely, a pragmatic smoothing approach is reasonable if this is significantly easier administratively for the PPF.

Q3: Are you aware of any potential unintended consequences, for individuals or scheme administrators of smoothing PPF member's compensation amounts in future?

4. As already noted, the change in shape of pension in this circumstance may cause financial hardship for some members who need to fund the gap in income between retirement age and State Pension Age.

Q6: **The regulations as currently drafted do not cover active members as the PPF already has the discretion to calculate compensation for this group. We believe that this is sufficient to deal with bridging pensions for active members, but would welcome respondent views on this matter, and any evidence that they can provide on how active members' accrual rates are defined in scheme rules where there is an automatic right to a bridging pension.**

5. In our view, where a scheme provides for separate accrual of bridging pensions (for example, as a fixed percentage of the Basic State Pension or Lower Earnings Limit for each year of service), it would be appropriate to treat this in the same way as bridging pensions for deferred pensioners and pensioners. If a smoothed approach is adopted for pensioners, it would therefore be consistent for this approach to also be adopted for active members.

Q7: **If the Government were to proceed with the smoothing approach, do you agree that the regulations as currently drafted meet the policy intent? And if not we would welcome evidence or comments on the changes required.**

6. We would welcome clarity in the regulations around the definition of "bridging pension". In regulation 28(1)(b), bridging pension appears to be the initial total pension. However, in regulation 32(A)(2)(b), the bridging pension refers to the temporary extra amount payable. We would support the definition in 32(A)(2)(b) as the one most industry participants understand as the bridging pension.

Q10. **Do think that PPF compensation should take account of increases in the member's scheme pension which would have taken place at GMP age (60/65) in respect of the GMP requirements in future? If so, we would welcome evidence for your views.**

7. We believe it would have been helpful if all changes in respect of bridging and step-up pensions could be made at the same time. The proposed change to bridging pensions is beneficial to the PPF by correcting an anomaly for some members. There is no reason why a change that would be beneficial to members could not be introduced at the same time. The principles involved are similar and making all changes at the same time would be more efficient.

Should you wish to discuss any of the points raised in further detail please contact Philip Doggart, Technical Policy Manager (Philip.doggart@actuaries.org.uk / 0131 240 1319) in the first instance.

Yours sincerely

Marjorie Ngwenya
President, Institute and Faculty of Actuaries