The Actuarial Profession
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Consultation response
Department for Work and Pensions

Regulatory differences between occupational and workplace personal pensions – a call for evidence

April 2011

About the Actuarial Profession

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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Dear Mr Yianni

Thank you for giving the Actuarial Profession the opportunity to consider the call for evidence on 'Regulatory differences between occupational and workplace personal pensions'. Whilst there are few actuarial issues, and therefore we do not propose to address all of the questions posed, we would like to offer some more general comments relating to the benefits available to short service members. This is in the context of the consultation's overall aim of exploring options for handling the short service refunds issue in a manner consistent with the Government's aim of significantly increasing the number of people saving for retirement.

In paragraph 43, you note that a refund of contributions from an occupational scheme relates to employee contributions only and results in a cost saving for the employer. We wonder whether you have considered whether or not short service members are able to realise in full the advantages of the alternative 'cash transfer sum', which of course represents the value of employee *and* employer contributions. Inevitably, cash transfer sums are often small with the result that the charges in the receiving defined contribution scheme or personal pension arrangement can be very high relative to the size of the fund.

Moreover even if the member is willing to arrange a transfer, it may be difficult to find an arrangement that will accept small amounts. And individuals may find it difficult to choose an appropriate vehicle – or to find a financial adviser willing to help with the choice in respect of such a sum.

Similarly, if the amount is retained in the original occupational scheme, the charges could be very high relative to the size of the fund, resulting in the individual receiving little benefit from the arrangement. This may have been one of the considerations taken into account previously when reviewing whether short service contribution refunds should be permitted to continue.

We therefore suggest that, independent of whether you decide to ban short service refunds or not, requiring NEST to accept cash transfer sums would be helpful. Short service members would then find it easier to take advantage of the cash transfer sum and they could also expect to receive improved retirement benefits as a result of the NEST charges to the extent that these are lower (due to economies of scale across what will be a large organisation) than would be available elsewhere. In particular, those with a series of small pots from short periods of employment would be able to consolidate these amounts. Occupational schemes would benefit from reducing the administration burden associated with substantial numbers of small benefits.

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If you decide not to ban short service refunds, there would also be some logic to requiring NEST to accept a refund of contributions (to which the member is entitled if he or she fails to request a cash transfer sum within a reasonable period), although if adequate communications and a streamlined process can be established, most members should, in theory at least, qualify for a transfer to NEST of their (usually higher) cash transfer sum.

We would be happy to discuss this matter further if that would be helpful. Please contact us via Margaret Watchorn, the Pensions Practice Manager, on 020 7632 2185 or Margaret.watchorn@actuaries.org.uk.

Yours sincerely

Martin Lowes

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