Institute and Faculty of Actuaries

Triennial Review of Pensions Bodies

Department for Work and Pensions

Consultation Response

9 August 2013

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.

Institute and Faculty of Actuaries

Nicola Lloyd
Pensions Protection and Stewardship Division
Department for Work and Pensions
Caxton House
6 – 12 Tothill Street
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9 August 2013

Dear Ms Lloyd

Triennial Review of the Pensions Regulator, the Pensions Ombudsman, the Pension Protection Fund Ombudsman and the Pensions Advisory Service: Call for Evidence

The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the DWP's call for evidence. As the Pensions Regulator (tPR) has a greater direct impact on the work of actuaries and the advice actuaries provide to clients, we have only considered a review of tPR in this response. Given the nature of that advice, most of our comments will be in relation to defined benefit (DB) pension schemes. Any contact our members have with the other organisations listed in the consultation is less frequent.

Q1. Do the functions of each of the Pensions Regulator, the Pensions Ombudsman, the Pension Protection Fund Ombudsman and the Pensions Advisory Service remain necessary?

IFoA believes that the functions of tPR remain necessary. There are a number of stakeholders who are interested in the operation of UK pension schemes. From time to time, the interests of those stakeholders may be in conflict. The statutory objectives of tPR act as an important reference point in keeping those interests in balance.

Q2. To the extent that the functions are necessary, are there alternative means of delivering them which would be more efficient and effective? Some alternative delivery options to be considered are outlined at annex 2, but you do not need to restrict your suggestions to the options listed.

Although there is no theoretical restriction on how tPR's functions could be delivered, it does not appear to be appropriate for tPR to become more closely aligned to the DWP given the nature of the balancing of potentially conflicting priorities. Furthermore, it is for this reason that there is need for independence - both in setting principles and in action – and this is likely to be best delivered by a Non Departmental Public Body (NDPB). The long term nature of pensions means that it benefits from decision-making that is also long term. Retaining this decision-making in a non-political environment enhances the independent exercise of expertise and judgment.

Q3. Is continuing NDPB status the most appropriate and cost-effective delivery model for each of the organisations? Which one or more of the three tests (set out at the end of annex 2) of the appropriateness of NDBP status does each organisation meet?

Our view is that there are advantages to tPR continuing to function in its current format, rather than by means of one of the alternatives in Annex 2. There has been much recent debate regarding pensions, which has led to some change. The stability provided from the *status quo* is not insignificant in light of the changes.

The role that tPR plays is a technical function, particularly in relation to DB schemes. Having the appropriate degree of expertise is crucial to continuing the role that tPR plays. Many of the skills required to carry out tPR's functions are specific to DB schemes.

If the functions were more closely aligned to the workings of a government department, there is a risk that decisions taken could become more politicised. Depending on the predominant political priorities, the focus on security of members' benefits could be reduced if the sponsoring employer were to position discussions as a trade-off for other investment decisions.

The addition of a new objective for tPR to minimise adverse effects on the sustainable growth of an employer may mean that arms-length independence could become of even greater importance in the future and would indicate that tPR's functions should remain within an NDPB.

As we indicated in our response to question 2, there is no reason why certain functions could not be carried out by some other means. The nature of the information regarding pension schemes does not necessarily require an independent body to provide it, although integrity is more valid if the provider of information is observed to be independent.

Q4. Is there sufficient clarity about the role of each body in relation to the others? Are there gaps or overlaps between their roles which should be addressed?

The IFoA has no comment to make in response to this question.

Q5. Is there sufficient clarity about the roles of these bodies in relation to other regulatory, advisory or dispute resolution bodies?

There is no particular lack of clarity regarding DB schemes, however there may be issues related to DC schemes. Different regulations enforced by different regulators apply to outwardly similar pensions depending on whether they are written under trust law (regulated by tPR) or as insurance contracts (regulated by the FCA). As a consequence, there are opportunities for regulatory arbitrage to take place between the two regimes. Whilst there is clarity to market participants as to which schemes fall within which regulatory regime, we question whether many members appreciate these differences.

If automatic enrolment is successful in increasing the participation in workplace pensions over the next few years, we can expect more members to be enrolled into various forms of DC pension schemes. One consequence of the proposals on "pot follows member" is that responsibility for regulating a pensions pot may move between regulators following a change in the member's employer.

It is important that the operation of the regulatory environment should not lead to significantly different outcomes for different groups of members, particularly if those groups should expect similar outcomes. Additionally, sponsors of schemes should expect to comply with similar regulatory environments no matter the choice of pension provision.

Q6. Are there any other issues or evidence the review team should take into account?

The IFoA has no comment to make in response to this question.

If you require any further information from IFoA in reference to this response please contact Philip Doggart, Policy Manager (philip.doggart@actuaries.org.uk or +44 131 2401319) in the first instance.

Yours sincerely,

Nick Salter
President-elect
Institute and Faculty of Actuaries