The Actuarial Profession
making financial sense of the future

Consultation Response

Department for Work and Pensisons

The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013

15 April 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.

The Actuarial Profession
making financial sense of the future

Paul Needham
Department for Work and Pensions
Room 3W60
Quarry House
Leeds
LS2 7UA

15 April 2013

Dear Mr Needham

The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013

The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to this consultation. As the chartered professional body for actuaries with over 24,000 members in the UK and abroad, this response has been prepared from the comments of members working in the Life Insurance and Pensions industries who have volunteered their expertise to consider the issues addressed by this consultation.

We have restricted our response to the specific questions on which we feel we are best placed to comment. Our comments on these questions are listed below:

Question 6: Do you think any of the changes mentioned in this Chapter will have any unintended consequences?

We note that the draft regulations remove the requirement to include information on Additional Voluntary Contributions (AVCs) as part of the basic scheme information, since occupational schemes are no longer required to offer AVCs. However, for those schemes that continue to offer such a facility, we think that it is important that members continue to be provided with details as part of the basic scheme information. Accordingly you may wish to consider only removing the requirement for schemes that do not provide AVCs.

Question 8. Do you agree that this requirement would be beneficial to members and that the wording of this requirement would cover all forms of lifestyling, including target date funds?

We are broadly in agreement with this proposal. However, you may wish to consider limiting the advance notice of lifestyling information under the transitional requirement in regulation 18(3) to no more than two years before lifestyling begins, to align with the ongoing requirement in regulation 18(2).

Question 9: Do you agree that the changes will allow schemes to provide more personalised statements?

If TM1 is altered as suggested then we agree that this could result in more personalised statements for members and that these could reflect more accurately the benefits that will, in practice, be taken by many members. Our assumption is that these changes will allow schemes\providers to make a choice of what to show for their members\policyholders, rather than give members the right to ask for an individual basis. If the intention is for the latter option, then this may result in an administrative burden on trustees and providers.

In addition, if the inclusion of a level annuity is to be allowed, it should be accompanied by warnings regarding making comparisons with other types of pension arrangement and also highlighting the effect of inflation on the purchasing power of the level pension illustrated. For instance, if there were no requirement to illustrate an increasing pension, it would be essential for members to receive a clear explanation of the effects of future inflation on their pension.

We are concerned that individuals may place undue emphasis on the most recent inflation experience when making choices about which annuities to buy, even though this is a decision that has ramifications for many years into the future. This concern is based on the assumption that, whilst inflation is low, there may be little appetite for purchasing an increasing pension as well as a lack of awareness of the effects of inflation.

Should low inflation not persist, and if the potential effect of this has not been explained, there may be a potential for individuals to feel that, in retrospect, they have made the wrong choice based on an unclear explanation of the risks involved. This may also lead to members under-providing for their retirement due to not understanding the effect of inflation or the cost of providing future increases.

Further, we suggest that there should be a requirement to explain any step change between 2013 SMPIs and 2014 SMPIs (or subsequent SMPIs) that arises due to any change in the allowance for pension increases.

At a more detailed level:

- Should regulation 17(6)(b) refer to paragraph 4 of Schedule 6, rather than Schedule 2?

- In regulation 17(6)(e), it may be more appropriate to refer to ‘benefits payable’, rather than ‘pension payable’, as the intention appears to be to allow trustees/providers to be able to quote lump sums.

If you have any comments or questions about the points raised in this response, please contact Helena Dumycz, Policy Manager at the IFoA (helena.dumycz@actuaries.org.uk; or +44 (0)207 632 2118).

Yours sincerely

Jane Curtis

Jane Curtis
Immediate Past President
Institute and Faculty of Actuaries