The Actuarial Profession
making financial sense of the future

Consultation Response
The Money Advise Service
Draft Business Plan 2013/14

11 February 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

Money Advice Service
Holborn Centre
London
EC1N 2DT

11 February 2013

Dear Sir/Madam

Money Advice Service 2013/14 Draft Business Plan

The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to comment on this consultation. Our objectives are to promote independent thought leadership and to work in the public interest by providing analysis and insight in areas of uncertainty of future financial outcomes. Our members operate in the areas of Insurance - Life, General and Health and Care - as well as in Pensions and Investment.

Improving the public's financial understanding is one of our areas of primary concern. Indeed, this is a field we have undertaken extensive work in of late as evidenced by positive reference to the work of our Consumer Information Working Party in the recent FSA Consultation Paper, 12/29: Personal Pensions.

We strongly support the proposals outlined in the Draft Business Plan and agree that the five key outcomes you have outlined are critical indicators to measure personal financial stability against. It is understandable that you have elected to focus your resources on certain sectors of society as these are the most at-risk groups and are also where your resources can have the most impact. We are supportive of this intent and of the majority of the groups identified. However, there are some decisions regarding the targeting of specific groups that at first glance, could appear slightly inconsistent and we have detailed these below.

We recognise that you have already conducted a detailed investigation into segregating the market, which we do not have access to, but we hope you find our comments helpful in terms of encouraging further thoughts around the justification and messaging of the segments selected.

1. Group 7: 'Young people studying or in first graduate jobs', have been excluded from your targeting of resources. However, we would highlight that these young people are, owing to their education, expected to be relatively affluent later in life. We would suggest that resources in terms of financial education spent now on this group could benefit society later on when they should have the capacity to fully provide for their dependants and make sufficient retirement provision.

   It is also likely that this group will be servicing debts from university study throughout the early years of their careers yet due to these initial financial constraints, may potentially opt-out of retirement provision in favour of more disposable income earlier in their careers. Our experience suggests that the later people begin saving for their retirement, the more difficult it is to create a fund large enough for a replacement income in line with the living standards people may have come to expect. To avoid this, early education on future needs and expectations by the MAS would be beneficial for this group.

The Actuarial Profession is the brand name of the Institute and Faculty of Actuaries

Maclaurin House
18 Dublin Street
Edinburgh · EH1 3PP
T +44 (0)131 240 1300
F +44 (0)131 240 1313

Staple Inn Hall
High Holborn
London · WC1V 7QJ
T +44 (0)20 7632 2100
F +44 (0)20 7632 2111

Napier House
4 Worcester Street
Oxford · OX1 2AW
T +44 (0)1865 268 200
F +44 (0)1865 268 211

www.actuaries.org.uk

2. We would suggest then that Group 24: ‘Middle income families, supporting older children, less capacity to save’, does not necessarily need to be a focus of the MAS’s resources as the older children being supported could be targeted through advice given to Group 7 or alternatively, these people will fall into groups already identified as key targets of the MAS (Groups 4 and 8, for example). The parents of Group 24 may then fall out of the MAS’s intended targeted areas of influence due to their level of relative affluence.

3. It appears somewhat inconsistent with your five key outcomes that you intend to target Group 25: ‘Older families who used salaries sensibly to pay down mortgage’ in your target market, yet you have chosen to not target Group 36: ‘Older families, may have to work longer to achieve financial security’, as the relative affluence levels of these groups seems similar. We would suggest that with the recent changes to State Pension Age and the shift in the occupational pension landscape from defined benefit to defined contribution provision, these groups are in very similar positions in terms of the dilemmas they face regarding retirement and monetary constraints. Including Group 36 would allow you to promote greater awareness of retirement needs and sensible money-management amongst both older groups, simultaneously.

4. Similarly, you have targeted Group 31: ‘Families, limited incomes striving to manage, financial commitments often outweigh resources’, but not included Group 32: ‘Families juggling budgets to make ends meet’. There appears to be a significant level of crossover between these two segments in terms of resource availability, the need to balance competing financial demands, and the need for these families to meet the core priorities for financial stability.

5. Our final observation is that your target market tends not to focus on older groups. We infer that ‘older’ applies to individuals aged 55 and above in your business plan, and would suggest that with the introduction of auto-enrolment and the increasing of State Pension Age, some level of support and education for these groups should constitute a priority now or in future plans beyond the current initiatives of the DWP.

We hope our comments will be helpful in developing your thinking around the groups most in need of the services the MAS can provide to ensure that financial capability is enhanced for the future good of the individual and the wider society. We wish you luck in your endeavours and offer our willingness to engage with you on these and other topics regarding the public’s understanding of financial matters.

Yours faithfully,

Jane Curtis

Jane Curtis
Immediate Past President
The Institute and Faculty of Actuaries.