

The Actuarial Profession
making financial sense of the future

Current Issues in Pensions
Alan Smith



Member Options Getting it right?

16 April 2013

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Agenda



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Working Party 2006



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Member Options Working Party 2006

- Early retirement
- Late retirement
- Cash commutation

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Member Options Working Party 2006

Pensions Board had concerns over cash commutation factors

- Factors looked low
- Have actuaries advised their clients?
- Could the Actuarial Profession take the blame if there was a scandal?



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Brief history of cash factors

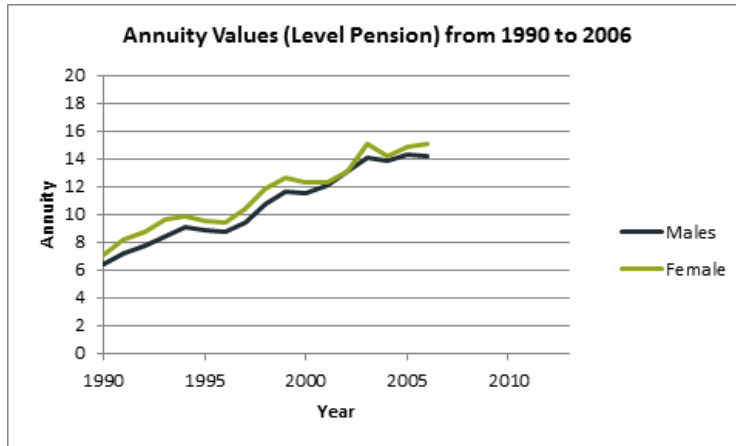
Age	Men	Women
55	-	12.2
60	10.2	11.0
65	9.0	9.8
70	7.8	-

Source: IR12 – Cash factors produced by ABI and endorsed by ACA

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Annuity Values (Level Pension): 1990 to 2006



Source: Aviva

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State of the Nation in 2006

	Cash factors at age 65 (males)			
	Lower	Typical	High	Typical annuity value
Level	9	9 to 12	12	14
RPI (max 5%)	9	10 to 14	13 to 16	17.5

Source: Survey carried out by Working Party across the Profession

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Working Party conclusions

Letter to All Home Members

- May be appropriate to advise if terms are out-of-date
- Set a policy for reviewing factors

Open letter to DWP and Regulator

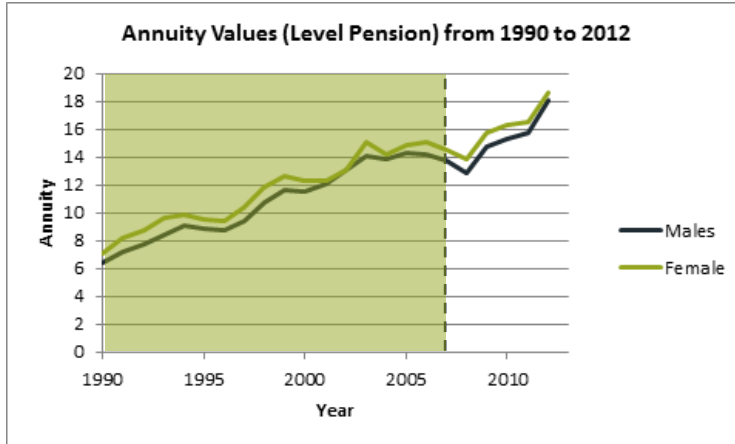
- Risk warning to be included urging members to take financial advice
- or
- Disclose of costs of replacing pension given up



2006 to present day



Annuity Values (Level Pension): 2006 to 2012



Source: Aviva

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PPF Cash factors

Cash factors at age 65 (males and females)		
Applicable From	Pre 97 (level)	Post 97 (2.5% or price inflation if less)
6 April 2005	13.97	20
11 Sep 2006	13.64	17.78
1 Jan 2009	13.23	17.20
6 April 2010	13.78	18.07
1 August 2011	14.13	18.66

Source: Pension Protection Fund

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State of the Nation in 2012

Cash factors at age 65 (males)				
	Bottom third	Middle third	Top third	Typical annuity value
Level	< 13	13 to 16	Over 16	18

Source: Anonymous, based on survey of 250-300 schemes

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Have things improved since 2006?

- In 2006, ratio of “typical” cash factor to “typical” annuity factor was around 75% (10.5 versus 14)
- In 2012, it was closer to 80% (14.5 versus 18)
- So, better ... but still short of equivalence to market values
- Set a policy for reviewing factors

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TPIE...FRO...



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The next big thing...or the next pensions scandal?

- ETVs and PIE (in retirement) no longer *flavour-of-the-month*
- Flexible (early) retirement options the next big thing...
 - (Enhanced) early retirement
 - PIE at retirement and/or re-shape spouses benefits
 - (Enhanced) transfer values and impaired life annuities
- 2 questions: (i) Should we promote? (ii) How should we react?

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Flexible Retirement – (i) Should we promote?

- Duty to members to highlight option to retire at 55?
- Duty to inform members of “Open Market Option” and chance to re-shape benefits. The Regulator is pressing this point on DC Schemes; is this any different?
- Could speed up ultimate aim of buying out and securing remaining benefits

Flexible Retirement – (ii) How should we react?

- Review early retirement factors to make sure they are not too generous, especially at younger ages?
- Make an allowance for *selection* against the scheme, e.g. longevity, proportion married, etc.?
- Review investment strategy to reflect change in liability profile?
- Review communication material?

PIE at retirement – (i) Should we promote?

- Not covered by voluntary code
- Trustees may soon be asking their actuary for advice on what terms to offer
- Improve funding position; in theory, similar to cash commutation at retirement

PIE at retirement – (ii) How should we react?

- What terms?
 - Technical provisions basis?
 - Best-estimate (CETV) basis?
- What about *selection* and impact on PPF levy?
- Why should a member get less than full value for increases given up?
 - e.g. Getting 75c for every *euro* is causing outrage in Cyprus, so why should we sanction something similar?
- ...Suggests cost neutral factors, perhaps with a small adjustment to allow for risk of *selection* and (marginally) higher PPF levy

Summary

- Cash factors have improved since 2006, but still arguably do not offer full value for money
- Early/late retirement factors not seen as problem area
- Flexible (early) retirement – make sure factors are right
- PIE at retirement – should we make a stand now and offer full value?

Questions



Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

