



Institute
and Faculty
of Actuaries

Rule Changes Consultation

IFoA response to NEST

24 March 2016

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.



Julie Peuple
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24 March 2016

Dear Julie

IFoA response to NEST Rule Changes Consultation

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to this consultation. The Defined Contribution sub-committee of the IFoA's Pensions Board has contributed to this response.

General comments

2. The IFoA supports the proposed rule changes. In particular, the alteration of the rules to allow the payment of Uncrystallised Pension Lump Sums is welcome in offering members the flexibility to access pension freedoms within the scheme.
3. However, the proposed approach to accepting bulk transfers without consent raises some potential challenges for employers and trustees. We have set out in the following paragraphs our understanding of how the proposed changes could affect potential transfers.

Bulk transfers without consent

4. We note that accepting bulk transfers will offer employers the opportunity to consolidate pension arrangements. This will benefit employers and potentially members also. We are uncertain that NEST would have to apply any specific restrictions around the acceptance of such transfers. However, including the power for the NEST Trustee to apply requirements or restrictions to any such transfer is an appropriate protection for the Trustee.
5. The challenge in proceeding with bulk transfers without consent may lie with the transferring scheme and trustees rather than with NEST. Consequently, there may be less opportunity for such transfers to take place than would otherwise have been expected. We note that the continuing prohibition on bulk transfers without consent from NEST ensures that the Trustee would not face similar challenges. Therefore, we would support that continuing prohibition in order that NEST avoids the issues arising from the following paragraphs.
6. NEST provides for a charging structure that may be different to the charging structure of alternative schemes. The range of investment options may be less than those offered by other schemes. As a result, there may be groups of members within a scheme for whom the transfer would not be in their best interests. This may prevent trustees obtaining the appropriate certification from an actuary enabling the transfer to proceed.

7. In a similar manner, the inability to transfer protected pension commencement lump sums or protected pension ages may prevent bulk transfers without consent taking place. While we note the administrative complexity that NEST would face in such circumstances and potentially greater costs incurred, such a rule may lead to fewer transfers taking place than would otherwise have been the case.
8. The IFoA recognises the benefits to the public from NEST amending the rules in the way proposed. However, there may be circumstances where employers and trustees may not be able to consolidate pension arrangements in the manner they may wish.

Should you wish to discuss any of the points raised in further detail please contact Philip Doggart, Technical Policy Manager (Philip.doggart@actuaries.org.uk / 0131 240 1319) in the first instance.

Yours sincerely



Nick Salter

Immediate Past President, Institute and Faculty of Actuaries