Institute
and Faculty
of Actuaries

The Occupational Pension Schemes (Preservation of Benefits and Charges and Governance) (Amendment) Regulations 2018

IFoA response to the Department of Work and Pensions

30 November 2017

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

Liz Roebuck
Private Pensions
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30 November 2017

Dear Liz

IFoA response to DWP Consultation: The Occupational Pension Schemes (Preservation of Benefits and Charges and Governance) (Amendment) Regulations 2018

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to this consultation, and to have attended the DWP roundtable on 14 November. The IFoA's Pensions Board has provided the detailed content for this response. Please note the IFoA does not have any data in respect of business impacts; therefore, we have not provided a response to question seven.

Q1: We propose to remove the actuarial certificate for 'pure' DC-DC transfers, and instead rely on trustees' fiduciary duties to their members. In addition when the transfer is to a scheme which is not authorised under the master trust regime, the trustees must seek the advice of a suitable independent, unconflicted person. Do you agree with the policy proposal?

2. As we noted in our response to the initial consultation on this issue, we support the proposal to remove the DC-DC certification requirement. We also welcome the intent to publish guidance; however, the proposal places a significant weight on the content of the guidance. While we support the general intention for the independence of any adviser commenting on the suitability of the transfer, there are practical issues with determining independence.

3. Advice will be provided by firms rather than by an individual. Given the relatively small number of firms within the advisory market, there will be challenges for most advising firms to show complete independence from the receiving scheme. We would welcome the opportunity to continue working with DWP on this matter to develop the idea further, as we recognise the importance of dealing with conflicts of interest. It is also important that any advice provided covers all matters affecting the scheme, rather than limiting it to investment matters.

4. We welcome the DWP's continuing requirement for a certificate if the transferring scheme offers some element of guarantee. It is important that schemes that are not a straightforward DC arrangement undertake due consideration of what change of benefits would occur upon such a transfer.

5. We agree that if the transfer is to an authorised master trust, there is no need to take advice about the quality of the scheme. However, it would still be appropriate for trustees to obtain

advice about the quantity aspects of the transfer, as the authorised nature of such a scheme makes no difference to the financial aspects of the transfer.

Q2: Do you believe that the regulations achieve the policy proposal?

6. The regulations do appear to set out the policy proposal, but the challenge of paragraph 3 above will be problematic for most firms, as well as individuals, to demonstrate independence. This may mean that Regulation 8 (c) is practically unworkable.

7. The wording of paragraph 14b in the consultation document retains the current problems around transfers. It would be helpful if the wording in respect of future benefits could be altered to “could be considered to be of a similar or better standard”, rather than the more definite “will be”.

Q3: We propose to remove the scheme relationship condition for all ‘pure’ DC-DC transfers. Do you agree with the policy proposal?

8. We support the policy proposal.

Q4: Do you believe that the regulations removing the scheme relationship condition achieve the policy proposal?

9. Yes

Q5. We propose that members who are transferred without consent from a scheme, or within a scheme, where they were protected by the charge cap, all funds in the arrangements into which they are transferred without making an active choice are protected by the charge cap. Do you agree with the policy proposal?

10. We support the policy proposal. However, it is important that individuals who have selected other funds, unaffected by the charge cap, are not disadvantaged by this proposal.

Q6: Do you believe that the regulations achieve the policy proposal?

11. Yes

Should you wish to discuss any of the points raised in further detail please contact Rebecca Deegan, Head of Policy (Rebecca.Deegan@actuaries.org.uk / 0207 632 2125) in the first instance.

Yours sincerely

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President, Institute and Faculty of Actuaries