Notice: Implications of budget pension changes for pensions and life actuaries

For:

- Actuaries in executive management or statutory roles in UK life insurers, fund managers or other entities offering either retirement income products or savings and investment vehicles which may receive money transferred out of pension schemes.
- Actuaries involved in designing such products, whether or not they are specifically designed for this purpose.
- Scheme Actuaries advising trustees to defined benefit pension schemes.
- Actuaries advising the sponsoring employer, whether in-house or externally, to defined benefit pension schemes.
- Actuaries advising individuals.

Issue:

The pension reforms announced in the 2014 Budget will take effect from April 2015. These will mean that members of Defined Contribution (DC) pension schemes will have increased flexibility to take some, or all, of their pension fund as a cash lump sum, and to use it as they see fit. Defined Benefit (DB) pension schemes may, as a result, experience an increased number of member requests to transfer into DC arrangements, in order to take advantage of this new DC flexibility. Actuaries should be alert to the risk that individuals requesting such transfers, and taking decisions in relation to their retirement income, may not be acting with sufficient information, guidance or advice.

All actuaries are reminded of their obligation to speak up to their clients or to their employers, or both, if they believe, or have reasonable cause to believe, that a course of action is unlawful, unethical or improper (Principle 4 of the Actuaries' Code).

Actuaries who have specific professional questions or concerns should contact the Professional Support Service.

Specific concerns:

While many actuaries will have been heavily engaged in discussing many aspects of the new flexibility in pensions from April, these discussions will have highlighted that there are likely to be important professional implications. In particular:

Actuaries in life insurers or other entities receiving money transferred out of pension schemes

- Actuaries responsible for, or involved in the marketing, design or management of products which may receive money transferred out of pension schemes, should be aware of the critical importance that individuals are, and are seen to be, appropriately informed in relation to what are often irreversible decisions about their retirement income provision.
- All actuaries must take steps as are sufficient and available to them to ensure any communication with which they are associated is accurate and not misleading, and contains sufficient information to enable its subject matter to be put in proper context (Principle 5 of the Actuaries' Code).
- Actuaries are reminded of their professional obligations under the Actuaries' Code and, in particular, that technical compliance with the current Conduct of Business rules will not necessarily

be sufficient to fulfil those obligations. The appropriateness of a particular course of action will require the exercise of context-specific individual judgment.

Actuaries involved with advising pension scheme employers or trustees

- Scheme Actuaries who advise trustees on setting transfer value calculation bases should ensure that they encourage their client to review those bases regularly - see below. Transfer bases have a direct impact not only on the benefits received by the individual member, but also on the security of benefits remaining in DB schemes. If an increase in the number (and, potentially, value) of transfers materialises, the impact on DB schemes could be significant. Scheme Actuaries are encouraged to advise trustees to undertake a review of calculation bases, ideally in advance of the reforms taking effect but, where this is not practical given the imminence of April 2015, shortly afterwards. Where trustees do not undertake a review or act upon the outcome of a review, Scheme Actuaries should consider the need to advise the trustees of the consequences of not changing the basis.

- When advising trustees on cash equivalent transfer values, actuaries are reminded of their obligations under paragraphs D.4.6 to D.4.8 of the Pensions Technical Actuarial Standard concerning transfer values.

- Scheme Actuaries should also be aware of the potential increase in requests for non-statutory transfer values. Scheme Actuaries should discuss with trustees their approach to these requests and the basis for any calculations.

- Scheme Actuaries should encourage trustees to consider a review of other factors that affect member options. In particular, Scheme Actuaries should discuss with trustees the commutation factors, where that power is available to them, or to the Scheme Actuary.

- Scheme Actuaries should also discuss the clarity and appropriateness of any communication that trustees issue to members regarding retirement options.

- Some sponsoring employers may consider using the pension reforms as an opportunity to offer enhancements or incentives to transfer values in an attempt to encourage member withdrawal from the scheme. All pensions actuaries, whether advising employers or trustees, must ensure that they are aware of the professional issues regarding such enhancements/incentives, and the importance of ensuring that they are appropriately informed and objective in the formal advice they provide to their clients. Actuaries should for this purpose remind themselves of:

  - The IFoA's briefing for pensions actuaries, issued in November 2011; and

  - The Industry Code of Good Practice, published in June 2012.

Desmond Hudson, Chair of Regulation Board
10 March 2015