Stewart Hastie

No longer business as usual

As the pensions industry faces mounting regulatory, demographic and economic pressures, Association of Consulting Actuaries (ACA) chair, Stewart Hastie, sits down with Paige Perrin to discuss the role of the relaunched Pensions Commission, the responsible use of DB surpluses and why actuarial innovation must move faster to meet emerging risks

During the Association of Consulting Actuaries' (ACA) recent annual dinner, you spoke about the relaunched Pensions Commission and encouraged it to look at 'sacred cows'. Which specific areas or policies do you think most urgently need to be challenged, and why?

The retirement adequacy challenges facing the UK population are multifaceted and to help set a path to address these over the long term, the commission must have the freedom to look at the whole UK pensions system.

More can be done to improve outcomes for savers, and the government is already working with industry to bring about value-for-money reforms and guided retirement requirements that support this.

But ultimately, as a society, we still need to save more, and we still need to work productively for longer, which will include some hard choices, even though these may not be politically easy.

The 'sacred cows' that I hope the commission will explore include:

- sustainability of the 'triple lock' and target level of the state pension;

- a minimum level of compulsory private savings in pensions and/or savings sidecars;

- the impact and role of tax relief and incentives and how these can best be targeted in a way that provides stability and certainty for long-term retirement saving rather than the continual cycle of speculation surrounding Budget announcements.

For example, the ACA recently sponsored and released the *Retirement Reimagined* report, where the authors explored more radical thinking in relation to the future of the UK state pension and its interaction, with workplace pensions with particular focus on the ever-growing group of individuals unable to purchase their own home and the longer-term security this often offers in later years.

How does the ACA see the role of actuarial innovation in addressing emerging pension risks, such as longevity risk, climate-related financial risk, or the evolving retirement landscape?

Actuaries have a long track record of innovation in all these areas, pioneering new modelling and data techniques to bring insight. We help design approaches and products to better assess and manage long-term risks and to support better retirement outcomes for savers.

Some exciting examples that we expect to see more of include assessing 'healthy life expectancy' – one of the topics of our second Bloomfield Bowtie Lecture last November. We know we are living longer, but we are not necessarily living longer healthier lives, and this is relevant to policy decisions and product designs. We are also excited about the very significant improvement in retirement outcomes that collective DC (CDC) arrangements can provide. Actuaries have a huge role to play in the design, set up and management of such schemes, and we are pleased to see enabling legislation to facilitate CDC schemes – both whole-of-life multi-employer arrangements as well as the recent consultation on regulations for retirement CDC arrangements.

The ACA has been vocal on the opportunities and challenges surrounding DB scheme surpluses. How does the ACA believe trustees and employers can responsibly deploy these surpluses while protecting member interests?

The funding of UK DB schemes has always required prudence, and with a tightening regulatory environment over the past 20 years, it was inevitable that schemes would end up in surplus. I think it is important to make clear that current funding surpluses are not the same as those in the 1980s and early 1990s. Schemes now are on average well-funded, on very prudent measures, and adopt significantly de-risked and hedged asset strategies.

As a result, we do support the introduction of greater flexibility for DB schemes to release surplus to sponsors and members. Trustee agreement to any surplus release is an important safeguard for members. We expect that new guidance from The Pensions Regulator, combined with expert professional advice, will be key in helping trustees and sponsors determine when and what is safe to release. Having funded deficits in the past, many employers will feel the surplus should largely be released to them and may be more focused on improving the pensions savings of current and future workers. In reality, the terms of any agreement will likely be specific to the circumstances of each scheme and its sponsor covenant.

Whilst full risk transfer to the insurance market has never been more affordable, we are already seeing many schemes (particularly medium and large schemes) pause their journey to insurance and consider running on for longer. As well as the potential to release future surplus, schemes can also continue to provide members with the benefits of operating in a trust-based environment.

You've previously commented on the *Virgin Media* ruling. From an actuarial perspective, what key lessons does this case offer for effective risk management in corporate pension schemes?

We are particularly pleased that the government has intervened to provide a pathway to resolve the issues arising from the *Virgin Media* ruling. This case, and the additional cases spawned by it, highlight the risk of unintended consequences arising from the layers of UK pensions legislation for DB schemes. From a scheme management perspective, it highlights the importance of clear record-keeping and the residual risks that exist within scheme documentation. It does, however, also show how industry can work collaboratively and effectively with the Department for Work and Pensions (DWP) and government to address such issues.

In your view, what are the biggest regulatory or market pressures currently shaping the pensions landscape, and how should actuaries proactively respond to them?

It's probably an understatement to say there's a lot going on in pensions at the moment. Much of this is driven by significant regulatory initiatives aimed at driving consolidation and improving saver outcomes. Consolidation can bring many benefits to savers, employers and the wider UK economy as scale brings efficiency and can help to support much needed UK growth.

Whilst we remain largely supportive of most of the government's current pensions initiatives, the ACA continues to play a key role in highlighting the risks and unintended consequences that can arise when turning initiatives into actual practice based on our decades of experience and analytical skills.

As we have now started a new year, what are the ACA's key strategic priorities for supporting actuaries and the pensions industry this year and over the next five years?

2026 is the ACA's 75th anniversary year, and we are planning a series of events over the year to celebrate. But we also want to take the time to reflect on how the pensions industry continues to evolve and the role that consulting actuaries take to help deliver better outcomes for savers, for employers and society more broadly. As well as continuing to support our members with opportunities for learning and collective discussion, our key strategic priorities for next year include contributing to the adequacy discussion through our recently formed working group, which will start to report in the next few months.

We will continue working with industry colleagues and regulators to help shape a DB surplus regime that appropriately balances surplus release with safeguards to members' benefits.

We will also bring our insights and experience to the other key measures in the Pensions Scheme Bill and the recent DWP consultation on trustees and governance for trust-based schemes, and I want to highlight the hard work of all of our technical committees and groups in digesting and responding to numerous consultations – all on a voluntary basis.

Longer term, we are looking to the next generation of actuaries and the type of skills and work experience they will be developing to help take the industry and profession forward into the future. Building on the success of our annual Bloomfield Lectures, we are launching a prize fund this year for actuarial students to submit their ideas and thinking on the future of pensions.

Written by Paige Perrin