Setting the agenda

Tom Dunstan talks with the ACA's new chair, Steven Taylor, about his plans for the role and the challenges actuaries should meet

What goals do you have for your time as the Association of Consulting Actuaries (ACA) chair?
At the ACA, we've certainly identified several really big challenges, not just for the profession but for society, that we think actuaries are well equipped to help build solutions to over the next few years. In particular, the ACA's overarching goal is to help deliver an intergenerationally coherent and fair savings environment.

That's going to have to balance the need to look after the accumulated pensions from the past and the need to make sure the next generation can build up enough pensions savings for themselves, particularly in the current environment of high inflation.

With wider challenges emerging from the pandemic and elsewhere, this is a really difficult time for people to save and so we think finding ways to help people save for themselves in order to have a sufficient amount in their own retirement is perhaps, as an industry, the most difficult and important challenge we have right now.

What are your views with auto-enrolment to help achieve these aims? How would you change it to benefit savers today and in the future?
In terms of coverage, auto-enrolment has undoubtedly been a great success. In terms of the number of people in DC schemes the number is significantly higher than it used to be. However, the median contribution to DC schemes is really stuck at that level of around 10 per cent of salaries. That means that there are huge numbers, perhaps several million, who are likely contributing at auto-enrolment minimum levels, and that's just not going to be enough to generate the kind of retirement incomes that I think people are genuinely expecting.

We think there's a real risk that the next generation are effectively sleepwalking into a retirement that will be less well off than the previous generation and less well off than they're expecting to be, as the combination of minimum auto-enrolment and state pension is likely to be insufficient for many people. We have suggested an incremental step up in auto-enrolment rates and have agreed with various suggestions elsewhere around stepping up to 10 per cent but, whilst those suggestions are favourable, the economic position around us has just become harder.

We are extremely mindful that expecting people to increase their savings levels at this time is quite a difficult thing for them to do. Especially for younger people, who already have huge numbers of competing objectives and have suggested that if we're expecting people to pay more in, then that needs to be accompanied by additional flexibilities such as early access.

Another major challenge pension funds are increasingly involved in is tackling climate change. How can actuaries help with these aims?
In terms of the largest DB schemes, those over £5 billion, over the past year or so they have really started to grapple with the impact of climate change. They are getting the governance structures in place to understand the risks around climate in relation to their schemes and investments, as well as putting in place structures to help meet their climate goals and regulatory requirements.

Over the next year that then moves down to the next rung of schemes, the £1 billion and over schemes. As an industry, that is going to require an increasing number of resources and an increasing amount of expertise. We think actuaries are well placed to feed into these important discussions.

Are there any other areas of industry change and innovation that the ACA is particularly interested in?
There are several areas where actuaries are at the forefront of innovation. A first one is around CDC schemes. In terms of the benefits offered by CDCs, they are a halfway house between DB and DC, in that they offer members the prospect of an income in retirement but without the risks to sponsors that come with DB schemes, where they can't create deficits.

CDC could go further, with the idea of decumulation-only schemes. People who have built up benefits in DC, when they come to retire, might have options around decumulation in

for a lot of people, simply delay retirement and force people to work for far longer than they are potentially expecting.

That might actually be a general trend that we are already seeing as there are a lot of people who, as they approach retirement, see retirement as less of an event and more of a process and, for example, potentially work part time for several years in the run-up to retirement. However, we also think there's a real risk that the next generation is not going to experience retirement in the same way as previous generations have and that will be because they haven't been building up enough savings.

CDC schemes. These, we think, from an intergenerational perspective, have the potential to be beneficial to the next generation and so we're really supporting CDCs development.

A second area is going to be around dashboards. Increasingly people have pensions in more than one place. It is not uncommon for people to have five or six different pensions from different periods of employment. Dashboards, when they are available, are potentially going to provide people with a valuable source of information to make sure they can understand what their accumulated pots are and also to help them make good decisions. Over the next year or so, schemes are going to be required to finalise their data to get them ready to go onto dashboards and actuaries are going to have to work closely with the wider industry to make sure that schemes are ready.

You've commented on the importance of engaging younger savers with their pension. How do you think that could be done?

At present we've observed that people, as they approach retirement, will regularly take an interest in their pensions but for younger people, there is lower degree of engagement.

However, we have also observed that larger employers in particular are currently far more open to engage with employees around wider financial and wellbeing concerns. For example, we see large numbers of actuaries working closely with employers to provide financial workshops and services that employees are clearly demanding, and we want to move that forward because employees, who are engaged with their pension, are more likely to make good decisions with their retirement savings.

Why is improving intergenerational fairness with pension saving so important to you?

I have seen evidence for the challenges of other savings needs crowding out pensions savings for many people. Whether it be house deposits, student loans, wider day-to-day costs or resilience needs, I think there is a risk that the next generation over the next 10-15 years will have a sleepwalking into retirement moment where they realise they have not saved enough. That will,

Do you have any other priorities for your time as chair?

If there's an overriding theme it's that for these huge challenges we have as a society, actuaries are well placed to find solutions. This might involve stepping out from more traditional roles. Yet even in traditional areas such as pensions, there are some hugely novel questions about, for example, what is the real impact of the pandemic on life expectancy that are incredibly complicated. This latter area is a really core actuarial question and in general I think actuaries need to be getting out there and really trying to solve some of these issues.

We know that the demand is there from pension scheme members to understand their pensions and we know that the demand is there for employers to find ways to offer benefits that their employees will want and will value. This challenge is to find ways to help all the pension stakeholders in these difficult times and that will be crucial for actuaries in the next couple of years.

Written by Tom Dunstan