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Joanne Meusz
Government Actuary's Department
Finlaison House
15-17 Furnival Street
London
EC4A 1AB

Catherine.cunningham@napf.co.uk
Direct: +44 (0) 20 7601 1723

Dear Ms. Meusz

GAD's review of contracted out rebates for 2012 to 2017

The NAPF is the voice of workplace pensions and represents 1,200 schemes with some 15 million members and assets of £800 billion. The NAPF welcomes the opportunity to respond to GAD's review of contracted out rebates for 2012 to 2017. Many of our members operate contracted out schemes and, in doing so, take on considerable costs and risk by providing benefits in place of the State Second Pension. The assumptions used to set the value of contracted out rebates have a direct impact on whether it make sense for schemes to take on these liabilities.

It is crucial that the assumptions used to underpin the calculation of the rebate are proportionate and appropriate that they reflect any intention to incentivise employers to remain contracted out and are a fair reflection of the long term liabilities take on by the pension scheme. GAD should give careful consideration to the fact that, although schemes have the option to contract back in to the State Second Pension at any time, they would still be required to meet legacy contracted-out benefits.

Our members have expressed concern about each of the three methods suggested in the consultation document. We have therefore set out three recommendations for GAD to consider, and which we would ask you to reflect in your advice to the Secretary of State:

1. The values of the proposed rebates vary between 4.7% and 10.1%. The current value of the rebate is 5.3%. Any reduction in the value of the rebate from the current level of 5.3% would increase operating costs for DB schemes and may trigger their further closure.
2. The rebate must reflect the fact that employers are currently able to choose whether to contract out on a DB or DC basis. This option is set to end in April 2012 with the abolition of contracting out for DC schemes. Employers with DB schemes which contract out on a DC basis will already be forced to move to a less advantageous contracted out rebate in 2012.

3. GAD should recognise that contracting out transfers a significant portion of risk (investment risk, mortality risk, etc.) from the Government to the private sector. In our view, the "best estimates" option does not sufficiently reward private sector schemes for taking on this risk. It would be more appropriate for the rebate to be set within the "typical funding" basis to "gilts" basis range.

If you have any questions about this response please do not hesitate to contact me.

With best wishes



Catherine Cunningham

Policy Adviser: Pensions

0207 601 1723

CC: Chris Evans
Private Pensions Policy and Regulation Division
Department for Work and Pensions
Caxton House
London SW1P 9DA