

## [Actuarial truths](#) [1]

Written by [Jan Boucek](#) [2] | Monday 9 January 2012



An actuary isn't where dead actors are buried; it's someone who tells you about a problem you never thought you had and in a way you can't understand. Actuaries are the butt of jokes that they're dull folk, accountants without the charisma. Their function is to assess the financial impact of risk and uncertainty, thinking through everybody's worst nightmares – accidents, catastrophes, injury and death. In short, they talk about things we'd rather not.

Last Tuesday, the Association of Consulting Actuaries (ACA) released its [2011 Pensions Trends Survey](#) [3], detailed numbers on the demise of the defined benefit pension scheme. Ninety percent of such schemes in the UK are closed to new entrants while 40% are closed to future accrual. Right on cue, Shell UK announced a couple of days later that it's closing its defined benefit scheme to new hires and this by one of the best-run schemes around.

Both underscore the reality of the modern world – we have collectively failed to adequately save for retirement and to recognize huge changes in employment practices. Defined benefit schemes are a nostalgic relic of a bygone era when employment was for life and that life was relatively short. This led to the assumption that pension provision is the responsibility of employers, reflected in the joke that General Motors was a huge pension fund with attached car-making facilities.

As the ACA survey shows, market forces are tearing this notion apart with employers switching to defined contribution schemes – bunging a chunk of cash into a pension pot from which the employee arranges a pension when the time comes. This is a brutal but inevitable response to the real world.

The regulatory regime is now scrambling to keep up but little forward-thinking has gone into the issue beyond affordability: the employer as pension provider is still the working assumption. These days, life-time employment with one company is rare. Indeed, more and more people don't even work all their lives in one country. Many now have a plethora of small pension schemes, perhaps even in different countries. This is costly to the worker from an economies-of-scale perspective or from scheme consolidation costs. Meanwhile, employers are still burdened with the costs of running a pension scheme.

In a small way, the government is moving in this direction with the introduction of NEST, a mandatory pension scheme for small employers who now don't offer one. But this is a piecemeal approach with all the pitfalls of any other government scheme.

Why not go the whole hog and privatise National Insurance into a dozen or so independent pension schemes? Initially, at least through the transition, mandatory minimum employee contributions would be

required, say 10% of income for younger folk and rising by some formula with age. Companies could redirect their current pension contributions to wages, allowing employees to top up the mandatory minimum to maintain their overall pension savings rate of NI plus company scheme.

In the meantime, the government could start negotiating with other countries for mutual recognition of similar official pension schemes so mobile workers can maintain a consistent savings regime for their retirement wherever they happen to be employed.

And actuaries will continue to be with us, expecting everyone to be dead on time.

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