

# A comparison of US and UK pension security systems

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# Outline

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- Theoretical considerations of pension regulations.
- Consumer policy outlook.
- Regulatory stance - UK
- Protecting pension consumers - UK
- Regulatory stance - USA
- Protecting pension consumers - USA
- Common and future roles of the US/UK actuarial profession.
- Conclusions and future directions



# Underlying Industry Realisation that...

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**“People these days are more concerned about living too long than dying too soon”**

*Mr. Steve Orluck, Vice President,  
Individual Sales, Metlife, 1996*





# The Theoretical Considerations Underlying Pension Regulation

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- Necessary to maintain public confidence.
- Ensure financial stability of individual plans and industry as a whole.
- Prudential and conduct regulation encompass most pension regulations.
- Common self interest - 'internal' and 'external' regulators.
- Excessive degree of regulation can create dispute with industry.
- Proactive vs Reactive
- Prescriptive approach to regulation is inclined to rules escalation.
- Highly prescriptive regulation may prove a barrier to innovation.





# Consumer Policy Outlook

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- Consumers are becoming:
  - More demanding;
  - More willing to complain; and
  - Less loyal to existing and well established brands.
- Litigation is growing rapidly.
  - 'Slip, Trip and Blame Culture'
  - Impact on the actuarial profession - assumptions.
- Consumer regulators and regulations are being strengthened in response to greater individual retirement choice options.
- Market and systemic failures in the US and UK has bolstered regulatory levels linked with pension arrangements.





# Regulatory Stance - UK

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- Financial Services Act 1986 - pronounced impact on the way pensions were regulated.
  - Self Regulatory Organisations (SROs)
  - Regulating the 'rowing club'
  - Individual pension products
- Occupational Pensions Board (OPB) - Occupational Pensions
- Maxwell Case.
  - Pensions Act 1995. Levy on industry for consumer security.
    - The Occupational Pensions Regulatory Authority (OPRA) - 1997
- Pensions mis-selling crisis.
  - Rethink on regulatory approach
    - Financial Services Authority - consolidation of roles
  - Financial Services Markets 2000





# Protecting Pension Consumers - UK

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- Highly prescriptive approach to regulations.
- Reactive regulation - blending of internal and external regulators.
  - Trustees (OPRA).
  - Actuaries and Accounting professions.
- Pensions Act 1995
  - 'Whistleblower' requirements - Actuarial profession.
  - Increased compliance costs - mandated best practice approach.
  - OPRA - reactive regulator working closely with trustees and consumers.
  - Largely occupational pension plan supervision.
- Financial Services Authority
  - Largely regulating individual pension plans on a largely reactive level.
  - Anomalies of stakeholder pensions.





# Protecting Pension Consumers - UK

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- Effective disputes resolution mechanisms.
  - Pensions Ombudsman
  - Occupational Pensions Advisory Service (OPAS)
- Office of Fair Trading
  - Director General's Report into Pensions (1997)
    - Explore consumer detriment linked with pensions including the 'actuarial discretion' linked with transfer values.
- Increased levels of litigation and political intervention.



# Regulatory Stance - US

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- Both state and federal government involvement in the regulation of pension funds.
- Pension and Welfare Benefits Administration (PWBA) - Department of Labour is the primary regulator of pensions.
- Fundamental legislative 'footprint' linked with pensions is largely through the Employee Retirement Income Security Act of 1974 (ERISA).
  - Goal: protect the interests of participants and their beneficiaries in employee benefit plans.
  - Covers pension plans and welfare benefit plans
  - Contains standards that must be met by employee pension benefit plans.
- ERISA's origins date back to the JFK Administration - Studebaker Collapse prompted a strong Congressional response.
- ERISA - Title IV covers the insurance of DB plans by the Pension Benefit Guaranty Corporation (PBGC)





# Protecting Pension Consumers - USA

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- PBGC was established to ensure that participants in DB plans receive their benefits even if plans terminate.
  - Funded through an insurance levy placed on employees in pension plans.
  - Actively manage plans if distress is encountered by trustees.
- Weakness with PBGC - only covers DB plans.
- Retirement Protection Act (1994)
  - Increases the funding of underfunded pension plans
  - Strengthens the pension insurance program.
  - Underfunded plans - increase from 60% to 85% over 15 years.
- The Retirement Protection Act (1994) also enhanced the PBGC's authority to enforce compliance with pension obligations.
- Civil legal actions are seen by some as effective legal remedies.
- No effective disputes resolution mechanisms as seen in the UK.





# Common and Future Roles of the Actuarial Profession

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- Valuation and Data Collection functions for plan beneficiaries.
- Highlighting the risk profile of the pension plan and alerting trustees, regulators and ultimately plan beneficiaries of these issues.
- UK actuarial profession providing an increasingly pseudo- regulatory function through 'whistleblower requirements.'
- US actuaries working more in 'partnership' and also are responding to the direction of regulators and the judiciary.
- Greater role in interpreting the policy impacts of an increasingly ageing workforce.





# Conclusions and Future Directions

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- Both the US/UK are having to deal increasingly with consumer policy issues linked with pensions.
- Regulatory approaches in both countries have distinct differences and similarities - reactive vs proactive.
- Legal outcomes are driving the actuarial profession to look more closely at the validity of assumptions.
- Increasing public policy debates on the retreat of public welfare in favour of more definitive pension plans.
- US/UK governments are likely to work more closely together - pension design and consumer policy issues.
- Actuarial profession will continue to be integral in ensuring that pension security is maintained for the plan participants.





Thank you for Attention.

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