

## The Actuary

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# Care for a prune?

The National Association of Pension Funds will write its own piece of legislation which will condense all the current occupational pensions laws into 50 pages. – Professional Pensions, October 2005

**T**HE NAPF IS GOING VERY MUCH against the modern grain in this quest for brevity. What usually happens when someone writes about pensions is that their eyes glaze over, they enter an altered state of consciousness, and emerge years later with some masterpiece of complexity. This was what happened to Lord Turner with the first report of the Pensions Commission, now commonly used by apprentice circus strongmen as a step up to the telephone directory. His second report has not been published at the time of writing, but there are rumours that Fidel Castro has been hired to narrate the audio version.

Modern pensions literature is, as it were, writ large. So large that much of it must go unread. (Have you read the PPF 'condocs' from cover to cover?) This is not to say that vastness is always a barrier to readability; people will shun a document that is whale-like, but will embrace one that is Rubenesque. Nobody baulks when in *The Pickwick Papers*, for example, we are told in one hundred words how to catch a hat:

*A vast deal of coolness, and a peculiar degree of judgment, are requisite in catching a hat. A man must not be precipitate, or he runs over it; he must not rush into the opposite extreme, or he loses it altogether. The best way is to keep gently up with the object of pursuit, to be wary and cautious, to watch your opportunity well, get gradually before it, then make a rapid dive, seize it by the crown, and stick it firmly on your head; smiling pleasantly all the time, as if you thought it as good a joke as anybody else.*

Substitute for 'catching a hat' the words 'securing final salary pension liabilities' and the above is a neat summary of the Pensions Regulator's most recent consultation document on funding pension schemes. (Up to a point – the Regulator does not advise trustees to smile pleasantly.)

But we have to ask how the NAPF proposes to shorten the legislation from 8,000 pages to just 50. And the answer is, apparently, by crossing out large sections of it; by taking a blue pencil to the PPF, the Pensions Regulator, and the pensions ombudsman. This is not so much simplification as annihilation and makes for a very interesting debate, but we should perhaps hear what the Pensions Commission has to say first.

In fact, condensing the laws is the simple part of the challenge. Having written its own system, the NAPF will need to get the government to enact it, and that will not be easy because politicians like to write the legislation themselves. This can lead to oddly worded laws, looking at it from an actuarial perspective, such as this:

*During the schedule period there must be made at intervals of not more than one year additional contributions of equal or decreasing amounts totalling in aggregate such amount as in the opinion of the actuary is necessary for the purpose*



*of securing that the minimum funding requirement will be met by the end of that period.*

In the maelstrom of words, the author of this sentence seems to have forgotten to include the concept of present value. Perhaps if it had been written in a language that does not allow for ambiguity...

*During the schedule period the contributions*  
 $\{C_{t_n}, n = 1, 2, 3, \dots; t \in \mathbb{R}\}$

*must satisfy the following conditions:*

$$1 \quad 0 < t_{n+1} - t_n \leq 1$$

$$2 \quad 0 < C_{t_{n+1}} \leq C_{t_n}$$

$$3 \quad \sum_n PV(C_{t_n}) > \dots \text{ left as an exercise for the reader}$$

Sadly for universal algebraists, and for some actuaries, mathematics will never supersede English as the language of financial legislation because politicians are not trained in its usage. And nor are lawyers. Show a lawyer a differential equation and he shies like a startled horse.

We digress. The question at issue is to whom should the government outsource the writing of its abbreviated legislation? The NAPF is a good candidate and its former chairman has already written an excellent report on simplification (the Pickering Report, a modest 82 pages). Or perhaps the government should ask the Pensions Board of the Actuarial Profession to write its legislation? Or perhaps not, given what it has done to GN11. Other candidates for the role include the Association of Consulting Actuaries, Sir Derek Morris, Norma Cohen of the *Financial Times*, and David 'Two Jobs' Willetts MP of Punter Southall.

The debate on the UK's pensions problem is about to rise in volume, and continue rising until the next Pensions Act, predicted to be in 2008. There will be quibbles about the content of the act, but hopefully everyone will agree on one thing: that the current set of laws is a sprawling, overgrown, constipated mass, and is badly in need of a prune.

TIMOTHY BRAMHAM