

Additional comments on the Interim Assessment:

In paragraph 1.28 et seq, there is comparatively little comment on one of the most dramatic changes in the funding of all savings products during the late 1990s, particularly with regard to pension funding - the removal of ACT credits on dividends. To state that 'The actions of government may have further exacerbated the problem' is to understate the situation dramatically. The funds for which I had some responsibility at the time had an immediate loss of net income of about GBP 250 million a year. Government advisers have defended the removal by pointing out that corporate taxes were reduced by more than that amount at the same time. However, it appears that no actuarial advice was taken on this change, and there appeared to be little understanding that, as stand-alone trusts, the pension funds did not benefit directly from the lower corporate tax rates in terms of cash-flow.

As so many pension funds were mature, the immediate loss of income sent many of them into a negative cash-flow for the first time. It is simply not possible to change the investment portfolio of multi-billion pound funds without substantial cost. The problem was masked for a few years by the continuing bull market in equities, but the underlying problem was clear, and predicted.

In para 1.32 I take issue with the statement that 'equity investment is significantly more risky than bonds'. That depends on the time horizon and the definition of risk. If risk is simply defined as short-term variability, then I cannot argue; however, for a real liability, it is possible to argue that real assets are a lower risk investment than monetary assets.

Individual equities are clearly more risky than bonds, but portfolios of equities, over many years, have produced more reliable real returns in varying economic climates.

The important correction that I would ask you to make is that I am an HONORARY Fellow of the Institute of Actuaries, as I made clear in my initial submission. Please ensure that this is corrected, since my colleagues would be very upset to think I was claiming to have passed their exams.

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