Dear Mr Gibson,

Consultation Response – Inquiry into the devolution of further fiscal powers

1. The Institute and Faculty of Actuaries (IFoA) is an independent chartered professional body for actuaries, with an international membership of more than 26,000 - 43% of whom work globally outside of the UK in 101 different countries.

2. As an independent, not-for-profit, professional body with a Royal Charter, the IFoA has a public interest duty to uphold. As such, we welcome the opportunity to respond to the Finance Committee’s inquiry into the devolution of further fiscal powers to the Scottish Parliament within the UK. We recognise that the prospect of further devolution of political powers to the Scottish Parliament presents opportunities and challenges to key areas of public policy.

3. The IFoA does not side with any political group on this (or any other) political or constitutional question. It is thus not our place to make recommendations to the Scottish Parliament about the scope of further devolution in Scotland, which is essentially a political choice. Accordingly, we have restricted our comments in this letter to the Committee's call for views on the implications of the devolution of further fiscal powers to the Scottish Parliament. However, we do believe that the actuarial profession can contribute to the debate and offer assistance through sharing factual information to inform decision-making.

4. In this regard, the IFoA is well-placed to highlight and comment on issues where actuarial expertise can offer a unique, evidence-based perspective to inform both the political debate and any policy-making processes. Indeed, the IFoA engaged constructively and extensively with all stakeholders in the recent Scottish independence referendum debate. We sought to contribute actuarial expertise in developing official publications, whether as part of the UK Government's Scotland Analysis Programme or the Scottish Government's Pensions Paper and White Paper.

5. In relation to your current request for responses, we believe careful consideration is required around the devolution of further powers regarding taxation as we do for any proposals that may come forward involving devolution of powers concerning the welfare system and both private and public pension provisions. There are two broad areas where the IFoA believes clarity will be required:

   - **Taxation** – if further tax powers are to be devolved to the Scottish Parliament what impact could this have on the pensions, insurance and investment markets, and the financial services industry currently operating across the UK?

   - **Public sector pensions, state pensions and other social security benefits** – if powers over the welfare system and pensions are to be devolved, what will these changes look like and how will benefits be financed going forward?

6. In addition to the above areas, the IFoA is ready to comment on any proposals which emerge following the Finance Committee’s inquiry that could have a significant impact on the financial services industry (which in this context most importantly include pensions, savings and insurance), the regulation of the industry and its future growth.

7. Regulation of the financial services industry remains reserved. Any proposals to devolve aspects of financial services regulation could significantly impact the UK single market for financial services, and it is not clear how this would impact either consumers of these services or the competitiveness of the financial services industry and its ability to generate growth and support employment.
8. Currently, the UK retains a single but complex pensions system to help people save for retirement. The recently announced changes to defined benefit pensions and the taxation of those pension benefits have raised vital questions about the future use of pension savings, for example to fund long term care. Many of our members, in their professional capacity, advise pension schemes and interact with Government to support this.

9. Any decisions to allow changes to a single common tax policy, resulting from devolution, should consider the implications or knock-on effects associated with unintended consequences of tax changes to private pensions and savings behaviours that may come from different taxation rates, bands and allowances within the UK. However, we recognise that such changes may also present opportunities for encouraging better pension provision.

10. As experts in analysing longevity and costing long term pension promises, actuaries are at the forefront of the changing pensions landscape, playing a key role in the design of pension and other benefit structures.

11. We would encourage those considering further devolution of powers on welfare and social security policy to remain mindful of the challenges of an ageing society. The cost of supporting state pensions and other social security benefits needs to be met from taxes or National Insurance contributions, the majority of which is paid by those of working age. However, in Scotland and across the United Kingdom the ratio gap between the pensioner population and those of working-age is projected to widen. This means it is likely that state pensions for the growing pensioner population will require a greater proportion of government expenditure in the decades to come. Any changes to the fiscal and tax-policy landscape, resulting from further devolution of powers to the Scottish Parliament should account for this fact.

12. Work from both the UK and Scottish Governments during the recent Scottish independence referendum debate offered helpful new data and analysis demonstrating the amount and value of pensions and other social security benefits provided to people in Scotland and across the UK. This information should also be helpful in supporting an informed discussion on the devolution of powers in the UK.

13. We look forward to continuing to work with all key stakeholders in this debate, regardless of their stance on the question of devolution.

14. We would welcome the opportunity to further discuss any of the points raised in this response as the devolution debate evolves over the coming weeks. To arrange a meeting please contact our Public Affairs Executive Elisa Elschner (elisa.elschner@actuaries.org.uk/020 7632 1466), in the first instance.

Yours faithfully

Martin Potter
Leader of the IFoA Scottish Board

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