

# Pensions Bulletin

## Fact Sheet 3

Summer 2008 Issue 2

### Personal Accounts

#### 1 Introduction

- 1.1 Most of the detail about Personal Accounts was contained in a White Paper 'Personal Accounts – a new way to save' published in December 2006, and the Government's response to consultation, published in June 2007.
- 1.2 This is now contained in the Pensions Bill, published 5 December 2007, which is currently working its way through Parliament and it will become the Pensions Act 2008 later this year.

#### 2 Delivering Personal Accounts

- 2.1 The Government has decided on a single-provider model. It felt that competition between providers was unlikely to improve the offering to members and so has accepted the model proposed by the Pensions Commission. It has stated it will draw heavily on existing private sector expertise in setting up and running the scheme. Paul Myners (whose current public appointments include membership of the Court of the Bank of England and Chair of the Low Pay Commission) has been appointed to chair the Pensions Accounts Delivery Authority (PADA). Tim Jones, who formerly ran retail banking at NatWest, has been appointed as Chief Executive.
- 2.2 The Personal Accounts scheme will be an occupational pension scheme run by a Trustee Board (the Personal Accounts Board). Employer and member panels will be set up to report to the Trustee Board and ensure their interests are represented. The member panel will nominate one third of the Trustee Board.
- 2.3 The PADA will set the scheme up (using 'consumer test panels') and will then hand over responsibility to the Personal Accounts Board. The PADA has been in talks with experts from Australia in order to discuss the issues of setting up a new pension system from scratch. Australia's superannuation system was set up 20 years ago and includes mandatory saving for all those in employment.
- 2.4 The PADA intends to tender for scheme administration services for the new system of Personal Accounts in January 2009, with the contract expected to be awarded by the summer of 2010.
- 2.5 In a recent discussion note and prior information notice published on its website ([www.padeliveryauthority.org.uk](http://www.padeliveryauthority.org.uk)), PADA highlighted that the administration and investment capabilities for the Personal Accounts scheme will be outsourced to the private sector as separate tenders. PADA said that the services are expected to be split into six contracts, which could include:
  - Scheme Administration;
  - Annuity Purchase;
  - Trustee Services;
  - Investment Administration and Custodian Services;
  - Investment Management; and
  - Communications.

2.6 The Pensions Regulator will have powers to ensure compliance with the Personal Accounts regime.

### **3 Auto-enrolment**

3.1 In 2012 - or perhaps later, depending on 'staging arrangements' (see below) employers will have to auto-enrol staff between the ages of 22 and state pension age into a Personal Account or a qualifying workplace pension scheme, provided earnings are above the primary threshold. Staff can opt-out but must be automatically re-enrolled every three years. Those under 22 or between state pension age and 75 can request to be enrolled.

3.2 The Pensions Bill 2007/08 allows for a 'staged' introduction of employer duties, so that different groups of employers become subject to the duties at different times. The rationale for staging is to facilitate 'a smooth take-on of employers by The Pensions Regulator and the Personal Accounts scheme.' Staging could be by size or geographical location, for example. More detail is awaited.

3.3 In most cases there will be no 'waiting period' except where an employer qualifies for exemption from the requirement to offer Personal Accounts – more on exemption later in this fact sheet.

3.4 However, where employers offer a defined benefit scheme, or make contributions higher than the minimum for a defined contribution scheme, there will be an exception to allow employers to defer enrolment. Mike O'Brien, Minister for Pensions Reform, explained that deferral of entry would be allowed where an employer is making a 'fairly good quality contribution', such as '6%, or double the minimum'. The Department for Work and Pensions (DWP) is consulting stakeholders regarding the length of the deferral period. More detail is awaited.

### **4 Contributions**

4.1 Contributions will be 8% of a band of earnings (between £5,200 and around £35,000 in today's terms), made up of 4% from the employee, 3% from the employer, and 1% 'from the Government' in respect of tax relief. Annual contributions will be limited to £3,600 (indexed in line with earnings between now and 2012) to 'reduce the risk of Personal Accounts competing with existing forms of pension provision'. It is thought that this limit will be more than adequate for the vast majority of the target group for Personal Accounts – low to medium earners who are not currently saving at all for their retirement, other than through their National Insurance contributions. A higher contribution may be permitted in the first year, to encourage people to save in the lead-up to the introduction of Personal Accounts.

4.2 Once an employer becomes subject to its duties regarding Personal Accounts, the 'default' contributions will be phased in. Contributions in the first phase must be at least 2% of qualifying earnings, with at least 1% coming from employers. This will rise to 5% in the second phase, of which the employer must pay at least 2%. Finally, the contributions will reach their permanent level of 8%, including a 3% contribution by the employer. This will mean that employers will be able to meet the additional contribution costs in a series of steps.

4.3 Where employers offer exempt defined contribution (DC) schemes, the defined benefit (DB) phasing arrangements will apply. However, where employers offer exempt DB schemes as an alternative to Personal Accounts, they will be allowed three years to enrol different groups of members. Phasing in by contributions or benefit accrual levels was discounted as too complex and costly for DB schemes.

## **5 Investment**

- 5.1 Members will have a choice of funds in which to invest; for the expected 80% or more who feel they cannot choose there will be a 'lifestyled' default option which will automatically switch members into less risky investments as they approach their nominated retirement age.

## **6 Charges**

- 6.1 Charging (the annual costs of running the scheme) will be decided by the scheme (i.e. the proposed Trustee Board). 30 basis points continues to be controversial. Financing is not decided either, though there is a commitment that set-up and operational costs should not be subsidised by the taxpayer.
- 6.2 The PADA launched, in January, the first of three scheduled formal consultations. Its paper analyses the options for the charging structure of Personal Accounts. The consultation ran until 22 April and PADA's response is awaited.
- 6.3 A copy of PADA's charging structure consultation press release can be found at <http://www.padeliveryauthority.org.uk/files/pressReleaseConsulting.pdf>
- 6.4 Of the two further consultations planned, one will look at fund structures and investment choice, and the other at the scheme's rules.

## **7 Exemptions for qualifying workplace pension schemes**

- 7.1 Employers who already offer workplace pension schemes will be able to apply for exemption from the requirement to offer Personal Accounts. A pre-requisite is auto-enrolment into the existing workplace scheme – obviously this may discourage many employers who offer access to a pension scheme with more generous contribution rates than those proposed for Personal Accounts.
- 7.2 The remaining hurdle for an employer offering a DC scheme is contributions for each member must at least match what would be payable into a personal account with a minimum employer contribution of 3%; there is, however, no mention of charges, which could be an additional burden for employers.
- 7.3 A contracted-out DB scheme will be exempted (subject to the auto-enrolment rule) and other DB schemes must offer an accrual rate of at least 1/120th of earnings.
- 7.4 It is expected that employers will be allowed to impose a waiting period of up to three months before auto-enrolling employees into their exempt workplace pension scheme.
- 7.5 For all employees who opt-out, automatic re-enrolment will be required but not more than every three years.

## **8 Transfer policy**

- 8.1 In order to protect existing schemes, it is proposed that no transfers between occupational schemes and Personal Accounts should be permitted until at least 2017 when the new scheme will be reviewed.

## **9 Consultation**

- 9.1 As mentioned above, Government is consulting on various aspects of the proposals, and it will be some time before the detail is finalised.

9.2 Alongside this, the Government announced, in February 2008, that it will investigate the impact of means-tested benefits on Personal Accounts. The study will seek to determine how many workers could end up no better off despite saving into this national pension scheme. It will also come up with possible solutions to the problem.

## 10 The Pensions Trust's view

10.1 The Pensions Trust has some concerns about Personal Accounts. They are intended to 'complement, and not replace' existing pension schemes. However, the criteria for exemption from the requirement to offer Personal Accounts include auto-enrolment. Employers who offer a good scheme but after a waiting period of more than three months will either have to reduce the waiting period or auto-enrol new employees into a Personal Account after three months – so Personal Accounts may well compete with existing schemes.

10.2 Most importantly, The Pensions Trust shares the pensions industry's concerns that Personal Accounts could lead to 'levelling down' – employers presently providing good quality pensions may well decide that they need only pay the Government minimum contribution of 3% of band earnings.

Further updates about Personal Accounts will be included in future issues of Pensions Bulletin and also via supplementary, more detailed, fact sheets.

*While every effort has been made to ensure the accuracy of the information contained in this fact sheet, it should not be treated or relied upon as a statement of law. Readers should contact their regular Account Manager at The Pensions Trust in relation to their own circumstances and/or refer to the original source material as appropriate.*