

Personal Accounts

HSBC Actuaries and Consultants Limited



Personal Accounts - Rt Hon John Hutton MP



“We estimate that 7 million people are not saving enough for their retirement”

“..Personal Accounts will radically improve access to affordable, low-cost pension saving for many on moderate to low incomes...”

“Our Goal is to give people a good expectation that if they contribute to the state pension for most of their career, they will be better off for having saved.”

Agenda

- What are they
- Governance Framework
- Impact on employers
- Impact on individuals
- Will it work?

Personal Accounts - Outline

- Target Group - 7 million who may not be saving enough
- Aged between 22 and 65 earning less than £33,500 pa
- More likely to be:
 - Earning less than £15,000 pa
 - Younger ie 20s to 30s
 - Women - a significant majority of those with low earnings

Personal Accounts - Outline

- Individual DC accounts
- Based on Earnings between £5,000 and £33,500 pa
- Contributions
 - Employee 4%
 - Employer 3%
 - Tax Relief 1%
- At retirement
 - 25% cash option
 - remainder as pension
- Automatic enrolment for those between 22 and SPA

Personal Accounts - Outline

- Fast track enrolment for previous members
- Individuals may opt out
- Automatic enrolment repeated after 3 years for opters-out
- Self employed/Non-earners/those outside the age group may opt-in
- Expenses
 - amc forecast to be between 0.3% and 0.5%
 - Contribution charges/Joining charges and a Flat fee are also mentioned
 - views sought on the appropriate structure
 - will overall charges be higher than the estimated amc?

Personal Accounts - Investment & Decumulation

- The model provides a default fund but offers investment choice.
 - Investment risk is borne by individuals
 - can the risks and the scale of volatility be properly communicated
- At retirement it is envisaged that an annuity will normally be bought
 - Open market option review

Personal Accounts - Governance

- NPSS approach adopted
 - Simple => Maximises participation
 - minimises costs
- Other models considered but rejected
- Three stages
 - Design & legislation - Government
 - Implementation & commercial procurement - PADA (Personal Accounts Delivery Authority)
 - Managing Personal accounts - PAB (Personal Accounts Board)
- Stage 2 includes design & development of Investment Strategy

Personal Accounts Board

Governance arrangements

- Oversees all responsibilities in the best interests of members
 - Ensures performance

Clearing house

- Enrols individuals
- Collects contributions
- Allocates to funds
- Maintains records

Administrator

- Deals with customer contact
- Manages changes of customer details
- Issues regular statements
- Manages changes of fund choice

Fund managers

- Investing and managing contributions
- Reports to clearing house

Accessing pension savings

- Providing information on options to savers
- Managing the process of accessing pension savings

Personal Accounts - Employer impact

- Contributions phased in over 3 years
- Exemption for employers with a qualifying employer scheme
- Same phasing for qualifying employer schemes
- Light touch but effective regulation
- No Transfers (reviewed in 2020)
- Maximum Contribution limit
 - £5,000 (or higher suggested)
 - Why increased from £3,000 recommended by Turner?

Personal Accounts - impact on Individuals

- Compulsory Employer contributions
- Lower expenses (?)
- No impact if in a good employer's scheme (?)
 - what about FSA regulated DC Schemes?
- Need for advice
 - 8% plus of earnings will be contributed, who provides investment advice?
 - Impact on State Means Tested Allowances
 - Decumulation

Personal Accounts - Questions

- Will the expected coverage be achieved?
- Will the lack of advice lead to disappointment/lack of Trust?
- Will employers level down?
 - Reduce the maximum contribution level?
- Will the impact on SMTAs discredit the scheme at the outset?
 - Mis-selling?
 - Exclude those within 5/10 years of SPA?
- Are the expense estimates realistic?
- More encouragement for “good” employer schemes needed
 - enable risk sharing approaches
 - additional incentives (what?)