

Personal Accounts Charging Structure Consultation

Sam Brand
Personal Accounts
DWP

The Need for Reform

- Ø An estimated 7m people are currently under-saving for retirement.
- Ø Private pension saving in decline
- Ø To avoid pensioners becoming poorer in the future:
 - Ø People need to save more
 - Ø Or work longer
 - Ø Or find revenues to increase State Pensions

Pensions Reform: Security in retirement – May 2006

Ø Government white paper following Pension Commission recommendations:

- Ø Private Pension Reform
- Ø State Pension Reform
- Ø Extending Working Lives

Private Pension Reforms: To Increase Saving

Personal Accounts:

- Ø Will offer access to a low cost, good value way to save in a pension scheme
- Ø Auto-enrolment (with opt out)
- Ø Requires employers to provide minimum contributions of 3% (employees 4% and tax relief 1%)
- Ø A simple approach to saving which empowers savers

Personal Accounts : A new way to save

December 2006

Ø Model Choice

- Ø To delivered through a National Pensions Saving Scheme model
- Ø Simple with low charges
- Ø At arms length from government

Ø Delivery Authority

- Ø 1st bill introduced in Nov 2006 seeking to set up as advisory body
- Ø Aiming to provide with executive powers from 2008
- Ø To deliver the pension scheme using expertise
- Ø Remit set by Government with members interests at it's core

Charging Structure Options

Ø We may want to consider a single charge structure or a combination of charges. This list is not exhaustive but here are some potential charge structures:

Ø Annual Management Charge

Ø Contribution Charge

Ø Joining Charge

Ø Flat Fee

Ideal attributes of the personal accounts charging structure

Ø The charge structure that is decided upon will ideally have the following attributes. But no one charge structure is likely to meet all the ideal attributes.

Ideal attributes of the personal accounts charging structure

- Ø Simple and easy to understand**
- Ø Fair to all members**
- Ø Incentivises the scheme operator to maximise the fund value**
- Ø Incentivises members to help keep costs down**
- Ø Provides significant revenue in the early years of operation, thus**
Ø reducing the amount and length of operating losses and reducing financial costs

Consultation Questions

- Ø Which overall charge structure is most appropriate?
- Ø How much flexibility should the delivery authority or the personal accounts board have in deciding the charging structure?
- Ø Are there particular circumstances or activities for which it is appropriate to make an additional charge?