



PPI Member's Event 2006

# *Are personal accounts suitable for all? – an industry perspective*

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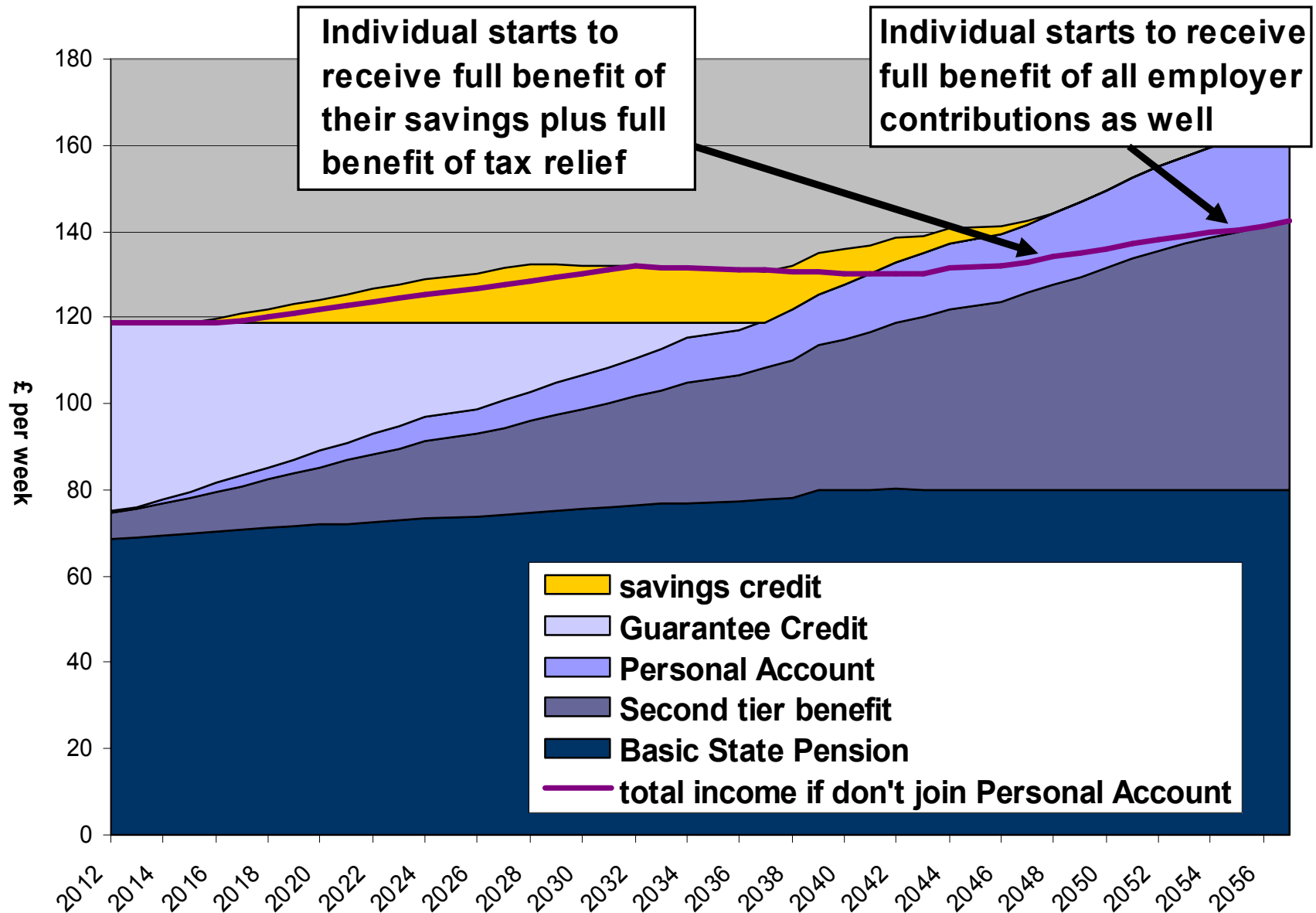
29<sup>th</sup> November 2006

## Standard Life's analysis of the issue

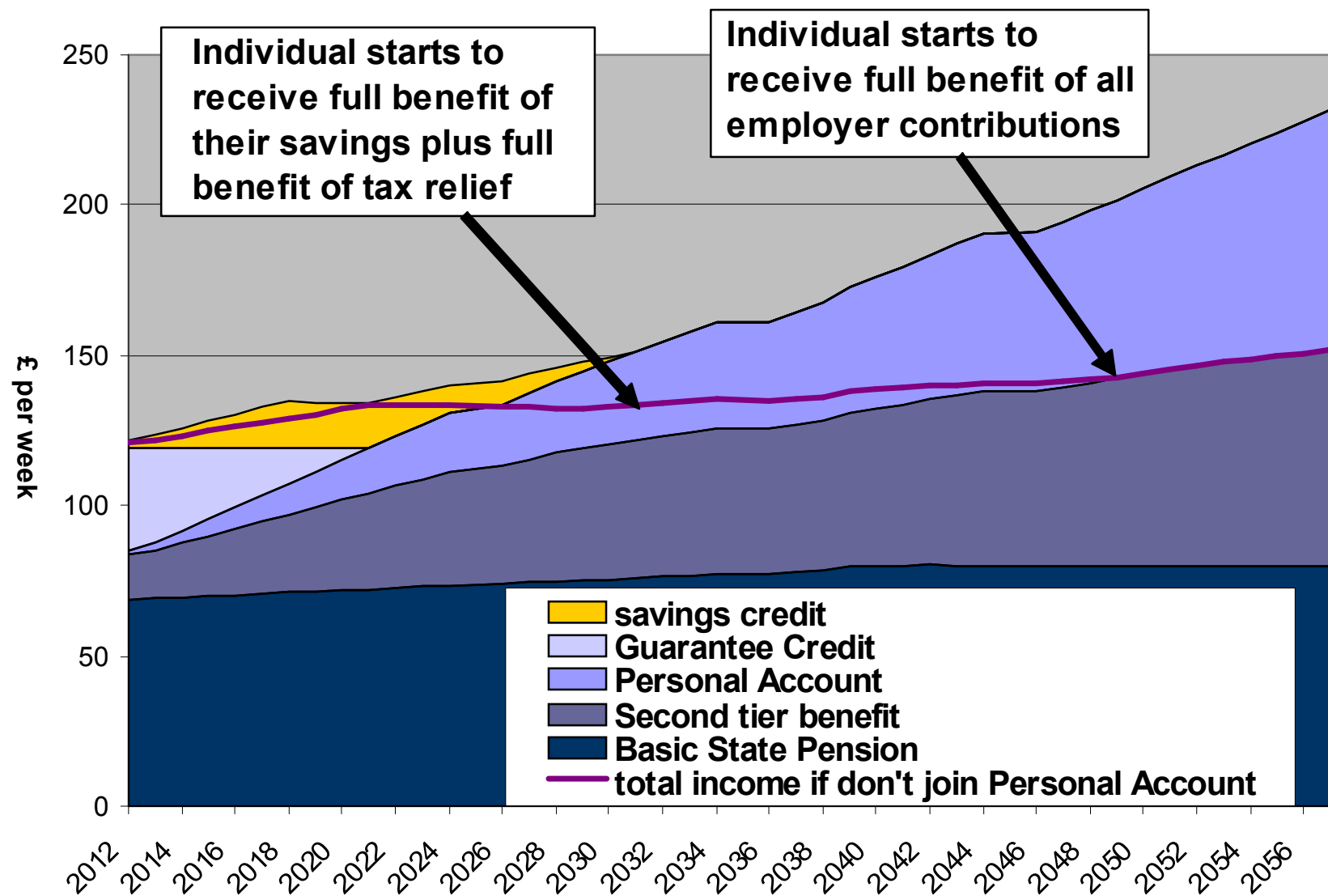
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- Based upon the premise that:
  - As personal accounts are a pension
  - It is only worthwhile saving in a personal account IF
  - The amount of additional gross income at retirement represents your own contributions (4% or 4/8ths)
  - AND the value of tax relief (1% or 1/8<sup>th</sup>)
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- In other words, your income must increase (after means-testing) by at least 62.5% of the pension that the personal account fund buys.

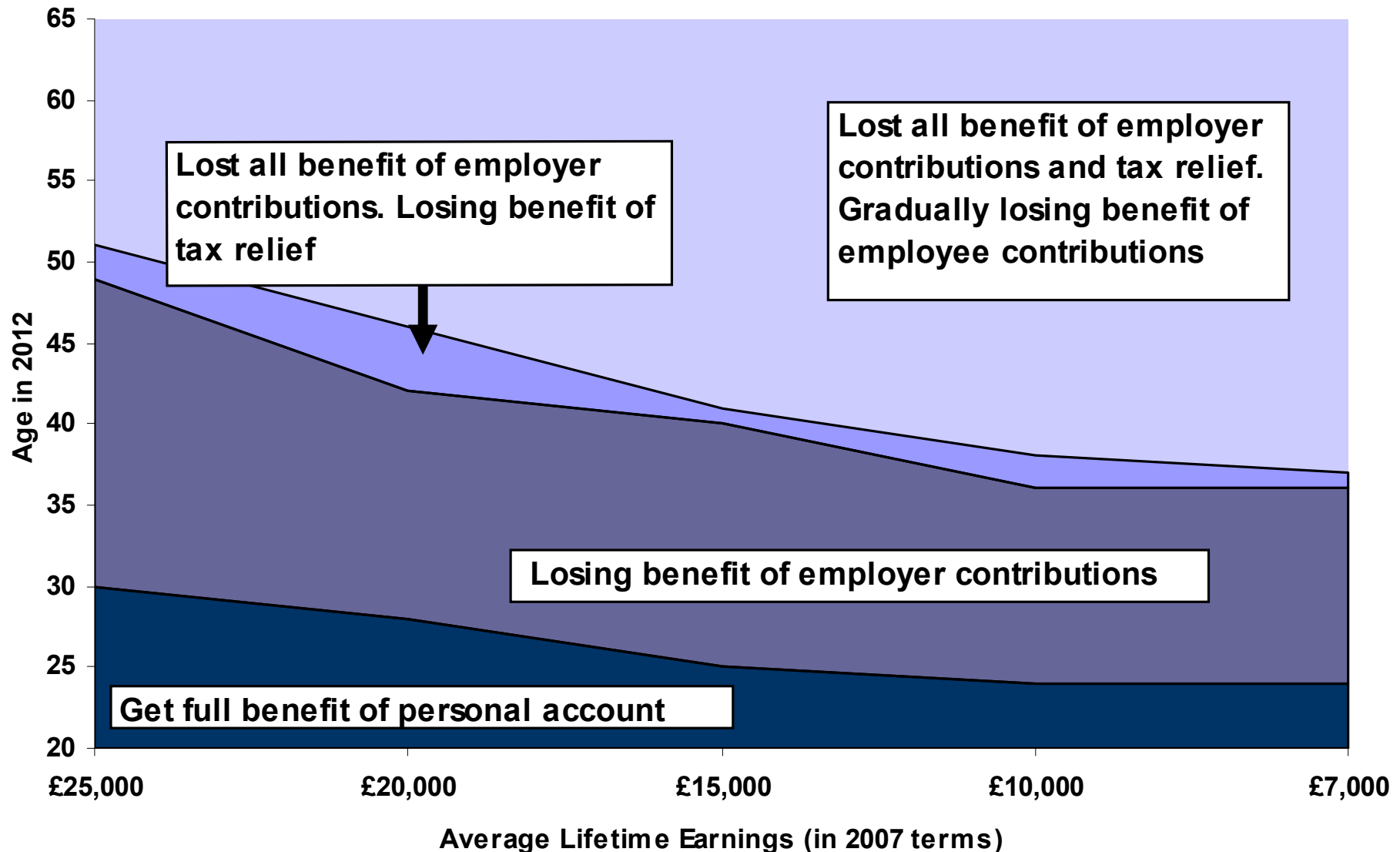
# £10,000 earner – 2007 earnings terms



# £25,000 earner – 2007 earnings terms



# Worth saving in a personal account?



## Weaknesses in SL approach

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- Based only on single people
- Excluded non state pension income
- Not gender specific (underestimates state pensions for men)
- Based on average state benefit regardless of income cohort

However, SL also conservative in assumptions

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- Only based on income at retirement
- Excludes effect of HB and CTB
- Likely to over-estimate historical S2P and SERPS
- Have assumed that all people will ultimately be entitled to full BSP and S2P in future
- Annuity rates stay constant

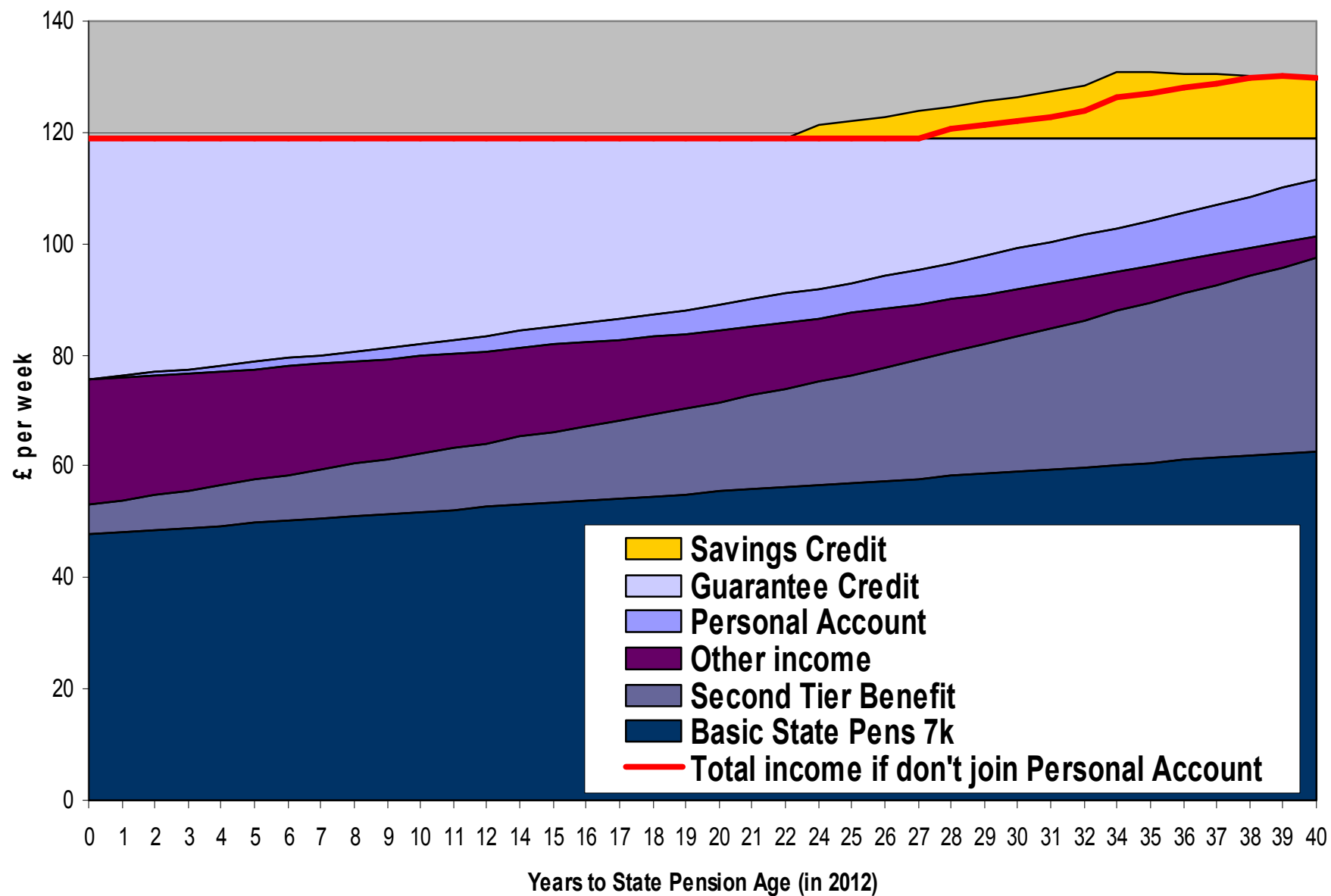
## Refined analysis

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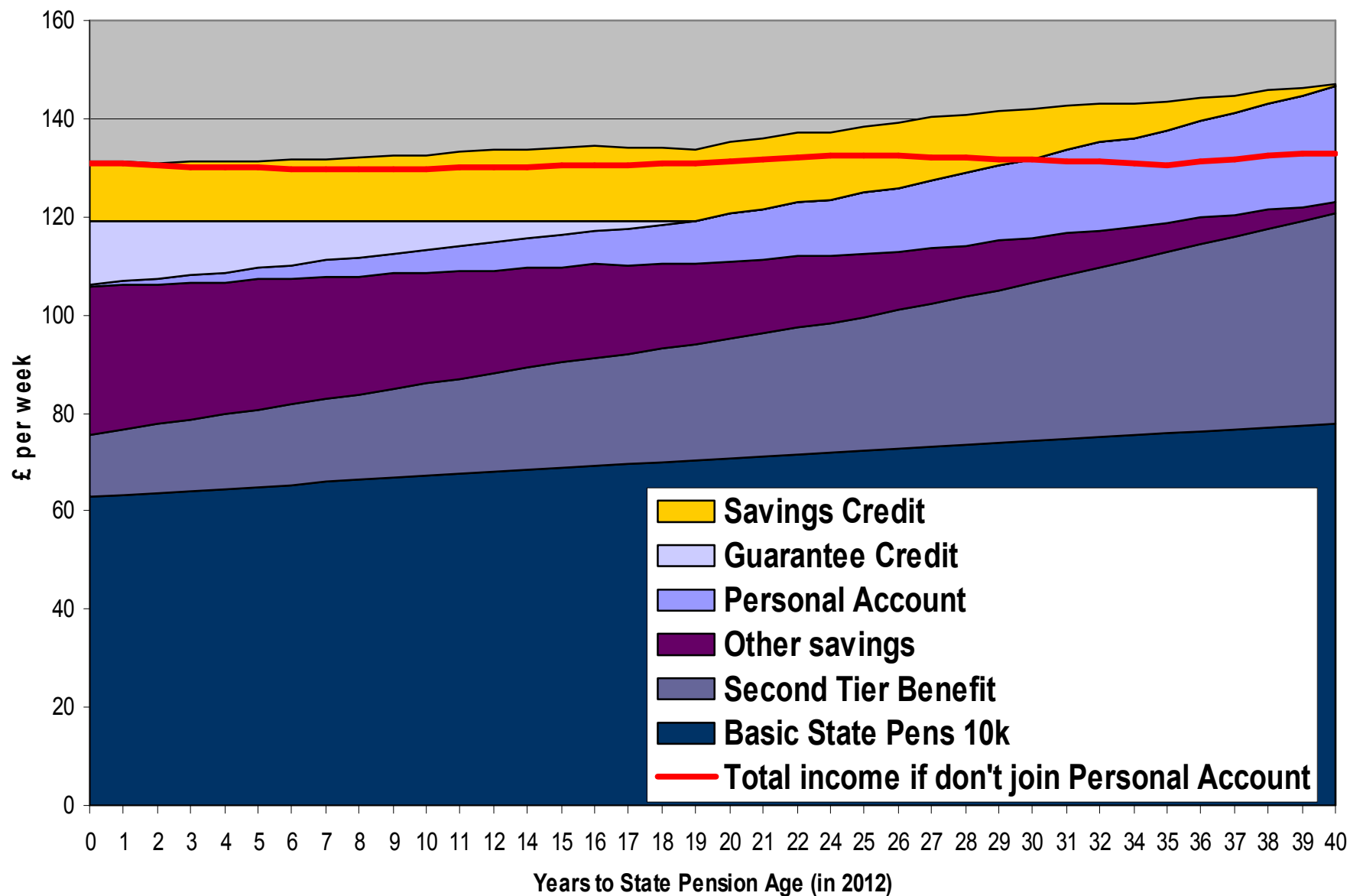
- Gender specific
- State pension linked to pre-retirement income cohorts (quintiles)
- Non-state pension income (including investment income) added



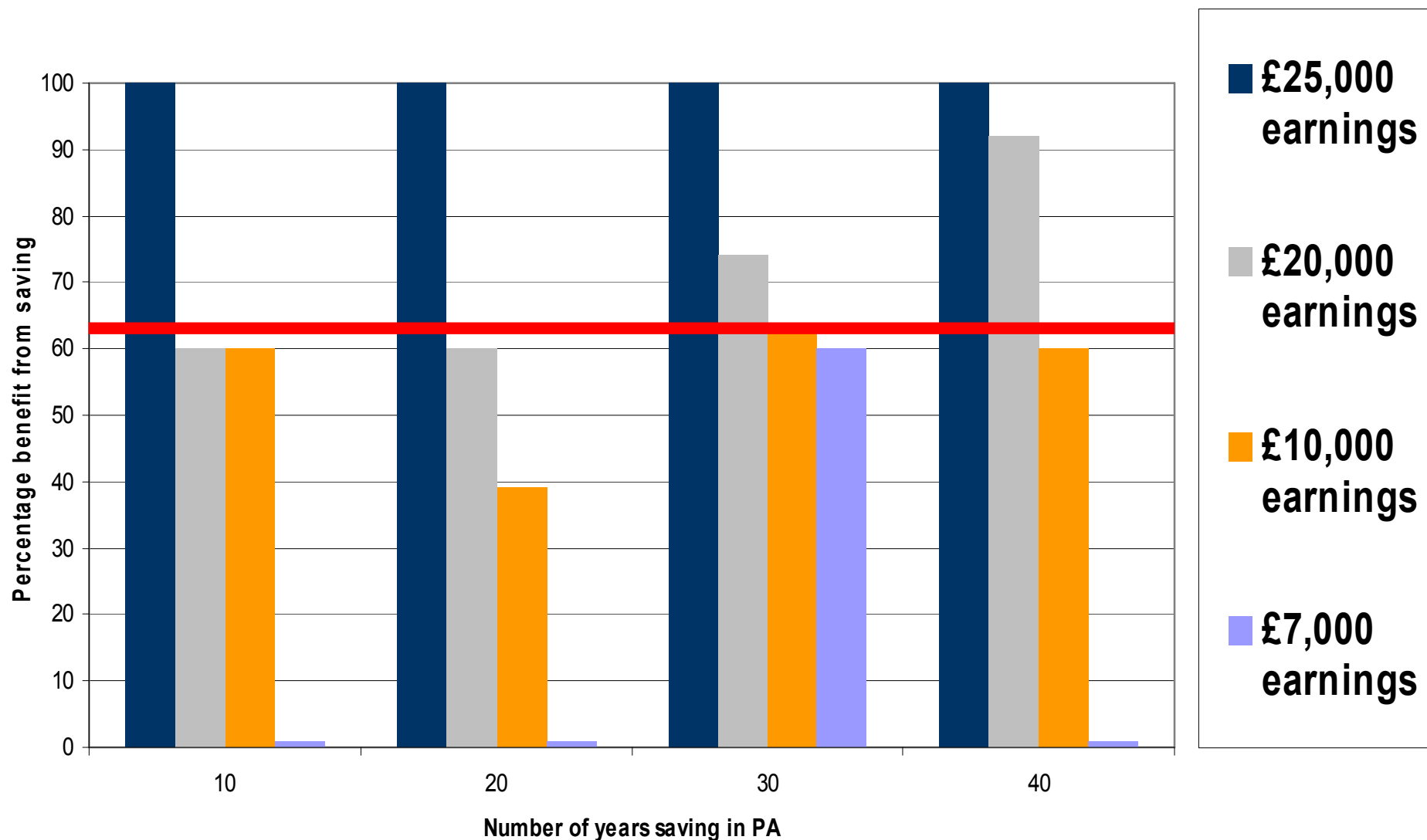
# Female £7,000 earnings



# Female £10,000 earnings



# All single women by age and income



# Solutions

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- Full compulsion
- Exclude older and lower earning savers
- Enrol older and lower earning savers into ISAs
- Scrap the whole thing and start again!

These examples provide a suggested approach only - other approaches may be equally suitable

Every client's circumstances will be different and require advice

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