

Age Concern's submission to the Work and Pensions Committee's Inquiry into the Government's proposals for Personal Accounts

Ref 0307

1. Introduction

- 1.1 Age Concern England (the National Council on Ageing) brings together Age Concern organisations working at a local level and 100 national bodies, including charities, professional bodies and representational groups with an interest in older people and ageing issues. Through our national information line, which receives 225,000 telephone and postal enquiries a year, and the information services offered by local Age Concern organisations, we are in day to day contact with older people and their concerns.
- 1.2 We welcome the opportunity to comment to the Select Committee following the publication of the White Paper '*Personal Accounts: a new way to save*'. This response refers to findings from a survey of women and pensions which we carried out between August and October 2006. Over 600 women responded to an invitation to complete the survey - mainly via the internet.

2. Overview

- 2.2 Age Concern supports proposals for personal accounts and the approach set out in the White Paper. Many low and modest earners without access to a good occupational scheme are likely to benefit and we found a positive response from the women who completed our survey. Those under the age of 60 were asked about personal accounts and three-quarters who responded agreed that they sounded like a good idea. Excluding those who said they would not join because they were already paying into a private pension around six out of ten of all

under the age of 60 and seven out of ten of those under 45 said they would stay in the scheme because it would help them save.

- 2.3 However personal accounts will not be suitable for everyone at all times so it is essential that an information and advice strategy accompanies the development of the scheme. It is also important that there is an adequate state pension as a platform for saving. We support the state pension reforms currently before Parliament but believe there is still more to be done to reduce means-testing in retirement. Otherwise many people may be deterred from saving or reach retirement feeling they are little better off from having saved.

3. Automatic enrolment

- 3.1 We have long supported the concept of automatic enrolment which in our view provides the right balance between encouraging and forcing saving. We believe that it is right that the system will apply to all people aged 22 to state pension age but support the Government's proposal to allow people outside these ages to opt in and receive an employer contribution.
- 3.2 People approaching retirement should not be exempt from auto-enrolment – they run the risk of effectively losing pay, in the form of employer contributions and tax relief. Although the amounts may be small there will be other cases in which very small sums may be accrued (e.g. somebody joining for a brief period and then moving out into unemployment or self-employment) and we see no justification for not enrolling purely on grounds of age. However people will need appropriate information and advice to make informed decisions about remaining in the scheme.
- 3.3 We understand why the Government proposes a minimum earnings level of £5,000 for auto-enrolment as saving will not be feasible or worthwhile for many with very low earnings. However those with lower earnings, particularly those earning more than the lower earnings limit, should have the option to join with an employer contribution. This could for example, enable a woman who is combining low paid part-time work with raising a family, to build up her own independent pension provision rather than relying solely on her partner's pension. There will also be people, usually women, who earn more than £5,000 through two or more part-time jobs but will not reach £5,000 threshold in any one job.

4. The Personal Accounts model

- 4.1 Age Concern is very pleased that the Government is proposing a model in line with the Pensions Commission's National Pensions Saving Scheme. We believe this is likely to be the easiest to understand and most cost effective scheme for individuals.
- 4.2 We are unclear how the three-tiered approach to fund choice will work and whether a wider range of branded funds can be included without adding to costs and complexity. There is a risk that consumer choices may be distorted by brand awareness, outweighing more rational decisions about asset allocation and making the task of providing information and advice more difficult. We also question how branded funds would be selected for personal accounts, and how companies would market them, incurring extra costs. We agree that some 'ethical' choices should be available – although, since every individual has different ethical concerns, it will be difficult to find a fund, or funds, to meet all these concerns.
- 4.3 We believe that the delivery authority should have flexibility in deciding charge structures. However, an earlier decision that needs debating is the extent of cross-subsidy to be permitted between personal account-holders. For example, a flat fee would bear down disproportionately on the lower-paid. There are also questions about whether different charges should apply to any wider fund 'menu' of ethical and branded funds, to avoid cross-subsidy.

5. Governance

- 5.1 We are pleased that the need for member representation is highlighted. We accept the need for flexibility, but it is important that consumer input should be given statutory backing on the face of the Pensions Bill, that it is embedded in the processes of the delivery authority from its outset, and that it is independent and properly funded. Although the National Pensions Day and our own 'listening events' show that it is possible to engage the public, there will be a large amount of detailed decision-making that must also incorporate the consumer viewpoint, and in particular any bodies to which functions are delegated should also be required to take consumer needs into account.
- 5.2 The scale of work required suggests that there should be some consumer body charged with advising the delivery authority and holding it to account. Such a body should have its own funding and statutory backing, with rights of access to the delivery authority and the right to a considered response to its advice.

6. Information and advice

- 6.1 Our women and pensions survey found lack of appropriate information and advice was an important barrier to building up a pension. The White Paper refers to the delivery authority designing and developing information and marketing strategies. This is welcome although decisions about personal accounts are only one aspect of financial planning, and the need to increase pension saving should not dominate the financial capability agenda. We are pleased that the paper states that an 'evidence-based' information strategy will be developed with a range of organisations and we welcome the cross-departmental approach being taken in the Government's financial capability strategy launched on 15 January. Age Concern looks forward to contributing to this work including feeding in experiences from a project we are developing to help individuals make decisions about saving funded from the DWP Pensions Education Fund.
- 6.2 People will need information and advice around whether to stay in the scheme, to regularly review their finances, and on how to access savings at retirement. Good general leaflets and web-based information is important but many will need information specifically tailored to their needs by telephone or on a face-to-face basis. We strongly welcome the Government's announcement that a task force is being set up to research and design a national generic advice. We would expect that such a scheme will require some central Government funding but believe such spending is justified by the potential savings from individuals making better financial decisions.
- 6.3 Any strategy on information and advice needs to take into account the interaction between saving and means-tested benefits. While the majority of people will be better off from saving, some will receive little or no return, and it is generally difficult to say with any certainty what return any individual will get. The ability to save enough to have an income well in excess of benefits is affected by factors including: changes in earnings and employment; changes in family circumstances; investment returns; and the tax and benefit rules at the time of retirement. At present different messages are given out. Age Concern would like to see Government, industry, and consumer organisations working together to agree an overall approach to providing information about potential risks and benefits of saving in the context of means-tested benefits.

7. Accessing pension savings

7.1 Accessing savings on retirement is important but many people have little understanding of how this works. Particularly in the early years some will have only small levels of savings in a personal account. This may be their only source of private pension or they may have other provision. Three areas that need to be considered are:

- Trivial commutation: the amount of pension taken as a lump sum (£15,000 from April 2006) should be kept under review with the introduction of personal accounts.
- Interaction with means-tested benefits: concerns about people with small savings losing benefit could be addressed though increasing the amount of savings disregarded or specifically disregarding a lump sum from trivial commutation (as is the case with a lump sum from deferred state pension).
- Minimum pension: If someone has, for example, just a few hundred pounds in a personal account it may be easier to pay this as a lump sum even if someone's overall savings are higher than the trivial commutation limit because they have build up provision elsewhere.

8. Waiting periods

8.1 We support the Government's view that there should be no waiting period for personal accounts. As the White Paper says otherwise those who change jobs frequently would be disadvantaged. Currently tax and national insurance are due when people start to earn and the same principle should apply to personal accounts.

8.2 Given the White Paper states there is 'strong evidence' against requiring any waiting period it is surprising that it then asks whether employers who operate an exempt scheme with contributions more than the minimum should be able to operate a waiting period. Age Concern agrees that employers should be encouraged to maintain good schemes but employees in the target group should not be disadvantaged by being forced to forgo the employer's contribution and their opportunity to save during a waiting period. If it is felt a short waiting period is essential this could be addressed, for example, through back-dated contributions after the waiting period or automatic enrolment into personal accounts during the period.

9. Saving options before 2012

- 9.1 We agree that it is important to encourage saving between now and the introduction of the new scheme in 2012. We would like to see more done to promote existing schemes to employees and to encourage employers to offer and maintain provision.
- 9.2 Those who are not currently saving and do not have access to an employer scheme need to be aware of their options especially given the proposal not to allow transfers between personal accounts and other pension products. For example saving in an ISA may be an appropriate short-term option. The White Paper proposes that contributions of up to £10,000 will be allowed in the first year but we believe this may be too low as it is only twice the proposed annual limit. Someone who starts saving for retirement now may well build up more than this by 2012.

10. Existing pension provision

- 10.1 We support the need to protect existing high-quality pension provision. However Government and regulators cannot take their eye off the ball in the exempt market - protecting existing provision by capping personal account contributions and not allowing transfers also brings with it the need to ensure that standards are in fact high. In particular, the costs of Group Personal Pensions, which tend to have lower overall contributions than 'trust-based schemes' and predominate among smaller employers, should be kept under review. Otherwise the benefits of remaining in a scheme with higher contributions than a personal account may be outweighed by higher charges.

A list of Age Concern England policy papers is available from the Policy Unit at the address given below on receipt of a large sae. The list is revised in March, and September of each year. Policy papers are also available to download on our website: www.ageconcern.org.uk.

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