Policy Papers

Age Concern's response to the Pensions White Paper 'Personal accounts: a new way to save'

Ref: 1207

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 170,000 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 Age Concern welcomes the opportunity to respond to the proposals for personal accounts set out in the White Paper 'Personal Accounts: a new way to save'. We believe that personal accounts will provide a good option for saving for retirement for many people with low and moderate incomes who do not currently have access to a good occupational pension. We found support for personal accounts among many of the women who chose to complete our women and pensions survey, mainly carried out via the internet between August and October 2006[1]. The survey included over 400 women aged under 60 and of those who responded to questions on personal accounts three-quarters 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.

[1] *Counting the costs of caring: a women and pensions survey* Age Concern, 2007.

1.3 In developing personal accounts we believe that it is important to ensure that the vast majority of people can benefit from saving. However personal accounts will not be suitable for everyone at all times during their life so it is essential that an information and advice strategy accompanies the development of the scheme and that where a small pension would be of little or no benefit this can be taken as a lump sum instead. Other points we would like to highlight are: automatic enrolment should apply to everyone up to state pension age, consumer input should be embedded into all stages of setting up and running the system; and the design, including any contribution limits, should enable and encourage saving among those (often women) whose working patterns change over their life time.

1.4 In this response we highlight some of our main views on the proposals. However we are aware that there are many key aspects of how the new system will be run that are still to be decided. Relatively minor operational points may have a significant impact on the success of the scheme. We welcome the willingness of the Government to consult and seek views, and to carry out research among potential members of the scheme. We believe it is important to continue this approach as personal accounts are developed.

2. Summary and recommendations

Automatic enrolment

- Age Concern supports the proposals for automatic enrolment.
- We do not believe that there should be a cohort of employees approaching state pension age who should be excluded.
- We recommend that a working group involving DWP, HMRC, employers and consumer groups is set up to explore how those with multiple jobs and low earnings can benefit from the system.
- There need to be easy ways for self-employed people to contribute.
- We support a three year period for repeat automatic enrolment.
- We support the proposal that there should be no waiting periods for personal accounts.
- Employees should not miss out during any waiting period allowed for exempt schemes. This could be addressed by enrolment into personal accounts during this time.

The personal accounts model

- We strongly support the Government's decision to use the Pensions Commission's NPSS as the model for personal accounts.
- The priority should be to set up a system based on a default fund and a limited number of options. Branded funds should only be offered if there is demand and if this can be done without increasing costs or making choice more difficult.
- Our preliminary view is that an annual management charge is likely to be the best option but this depends on how the infrastructure for personal accounts is funded, and the delivery authority should have the flexibility to decide charging structures.
- Any extra costs of branded funds should be ring-fenced and come solely from those funds.
- There is a strong case for HMRC involvement in the collection of contributions

Governance

- Consumer input should be embedded in all processes of setting up and running personal accounts.
- We recommend that a body such as one similar to the FSA Consumer Panel is set up.

Information and Advice

- The provision of good information about personal accounts is a key role for the delivery authority and board.
- We would also like to see a generic advice service set up to provide personalised information and general advice around personal accounts and other aspects of financial capability.
- A generic advice service could be delivered through a national telephone service and, for a small minority who need greater support, through a face to face service.

Interaction with means-tested benefits

- A key aim must be to ensure that people do not find they are little or no better off from having saved in a personal account due to the interaction with means-tested benefits.
- There should be information targeted at those who fall into certain groups where the risks are greater to encourage them to seek more personalised help.
- The trivial commutation level and savings limits for means-tested benefits should be reviewed to ensure that those who would benefit little from additional pension income can receive their savings in a lump sum.

Accessing pension savings

- We support the structured approach to annuity purchase which should apply to all provision not just personal accounts.
- More transparency is required for annuity pricing in pension companies that do not offer the open market option.
- The option for unisex annuities should be reviewed regularly and it is important that couples understand the impact of single life annuities.

Contribution limits and transfers

- A lifetime limit for personal accounts should be considered as an alternative to an annual limit on contributions.
- The ban on transfers should be reviewed after 3 years.
- If there is a general ban on transfers this should not prevent pension sharing on divorce nor should it apply to very small funds.

Saving options before 2012

- People need information about their current savings options – for example joining an existing employer's scheme or saving in an ISA.

Monitoring and evaluation

- The Personal Accounts Board should monitor overall membership and opt out rates and be able to carry out further investigation among employers and employees to ensure that people are making appropriate decisions.
- We would also like to see an ongoing commission to monitor pension reform more broadly and make recommendations.

3. Automatic Enrolment

- *Age Concern supports the proposals for automatic enrolment.*
- *We do not believe that there should be a cohort of employees approaching state pension age who should be excluded.*
- *We recommend that a working group involving DWP, HMRC, employers and consumer groups is set up to explore how those with multiple jobs and low earnings can benefit from the system.*
- *There need to be easy ways for self-employed people to contribute.*
- *We support a three year period for repeat automatic enrolment.*

- *We support the proposal that there should be no waiting periods for personal accounts.*
- *Employees should not miss out during any waiting period allowed for exempt schemes. This could be addressed by enrolment into personal accounts during this time.*

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.

Upper age

3.2 People approaching retirement should not be exempt from automatic enrolment purely on grounds of age. Otherwise they run the risk of effectively losing pay in the form of employer contributions and tax relief. With increasing numbers working beyond state pension age older workers may still be able to contribute for a number of years. Although for some the amounts of money accrued in a personal pension may be small there will be other situations where very small sums may be accrued (e.g. somebody joining for a brief period and then moving out into unemployment or self-employment).

3.3 And even a small amount of additional pension may improve someone's standard of living in retirement especially if they have also accrued other pensions which take them above the limits for means-tested benefits. The White Paper Regulatory Impact Assessment (RIA) notes that over 85% of those currently aged between 50 and state pension age have either existing private pension rights or over £6,000 in savings.

3.4 However there will be some people approaching state pension age who would see little or no benefit from making additional saving. As discussed later it is essential that people have appropriate information and advice to make informed decisions about remaining in the scheme and that the rules on trivial commutation and means-tested benefits are designed to ensure that individuals do not lose out.

Minimum earnings limit and multiple jobs

3.5 We understand why the Government proposes a minimum earnings level of £5,000 for automatic enrolment as saving will not be feasible or worthwhile for many with very low earnings and there would be added administrative complexities in trying to apply the scheme in other circumstances.

3.6 However we are concerned that as proposed the following kinds of situations will arise:

- A woman combining care and low paid part-time work – say 16 hours a week at the minimum wage (around £4,500 a year) – would not be able to pay into a personal account with an employer contribution even though, particularly if she had a working partner, it could be a good opportunity to start building up independent pension provision.
- A woman with 3 part-time jobs each paying £6,000 would receive an employer's contribution on £3,000 of earnings while a friend earning £18,000 from one job would receive a contribution on £13,000.
- Employers might be encouraged to employ part-time staff, or discourage opting-in, to reduce pension liabilities.

3.7 The White Paper RIA states that 350,000 individuals have multiple jobs and an income over £5,000 but are not paying into a private pension – nearly two-thirds are women. While many of these (and others with low earnings from one job) will feel they cannot afford to save, some might choose to pay personal account contributions on earnings below £5,000 in any one job if there were able to get an employer contribution.

3.8 We acknowledge that it is difficult to aggregate earnings and that there has been ongoing discussion around this in relation to those with multiple jobs who are not in the national insurance system. However the advent of personal accounts makes this an increasingly important issue. In principle we would like anyone with earnings who wishes to contribute to a pension to be eligible to receive a matching employer contribution. In practice this may be difficult for those with very low earnings but at least for those who are liable for income tax or who will be paying pension contributions on part of their earnings it should be possible to use the current or new collection systems to deduct employee and employer contributions. We recommend that a working group involving DWP, HMRC, employers and consumer groups is set up to explore this matter forward.

Self-employment

3.9 We accept that it would be very difficult to automatically enrol self-employed people but believe that it is important to promote personal accounts among this group and to consider ways of making it easy to contribute. For example the self-assessment tax return currently gives taxpayers the option to waive a potential tax rebate in favour of charity, and self-employed people also pay their student loan repayments through the tax return. It might be possible to include a question on the return giving taxpayers the option to add a pension contribution to their statements of account for the following tax year – a 'save more now' commitment. The contribution could then be routed to their personal account via the HMRC (which has to liaise with the fund manager in any case in order to provide the tax relief).

Re-enrolment

3.10 We agree with the proposals to re-enrol employees when they change employers and every 3 years when they continue to work for the same employer. As the White Paper states, people's circumstances change and this will give those who have opted out a prompt to re-consider their position on a regular basis.

Waiting periods

3.11 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.

3.12 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 above 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, by automatic enrolment into personal accounts during the period. We acknowledge that this will increase costs – the White Paper RIA estimates the cost of enrolling an employee into personal accounts as between £3.50 and £9. However this seems a relatively low additional cost compared to other aspects of recruitment and induction of an employee. An alternative would be to provide back-dated pension contributions after the waiting period. However this will not help those who do not subsequently stay in employment and it would be difficult for individuals to pay a lump sum matching payment unless they had started to save during the waiting period or contributions were collected and held in a temporary fund.

4. The Personal Accounts model

- *We strongly support the Government's decision to use the Pensions Commission's NPSS as the model for personal accounts.*
- *The priority should be to set up a system based on a default fund and a limited number of options. Branded funds should only be offered if there is demand and if this can be done without increasing costs or making choice more difficult.*
- *Our preliminary view is that an annual management charge is likely to be the best option but this depends on how the infrastructure for personal accounts is funded, and the delivery authority should have the flexibility to decide charging structures.*
- *Any extra costs of branded funds should be ring-fenced and come solely from those funds.*
- *There is a strong case for HMRC involvement in the collection of contributions.*

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 (NPSS). We believe this is likely to be the easiest to understand and most cost effective scheme for individuals.

4.2 The priority should be to set up a system based on the NPSS offering a default fund and a limited number of options. This will best fulfil the objectives of offering a low-cost easy to understand pension to the target group. We note that the White Paper states that it expects personal accounts to include branded funds but it will be for the personal accounts delivery authority to decide. Any proposals to offer a wider choice of fund need to be accompanied by evidence that there is a demand for this and that choice can be introduced without increasing costs, or making the decision to save more difficult for the majority who will not be interested in this option.

4.3 We agree that some 'ethical' choices will be important for some people – but, since every individual has different ethical concerns, it will be difficult to find a fund, or funds, to meet all these concerns. Again, the delivery authority will need to ensure that these are introduced without increasing costs, or making choice more difficult, for those who are not considering this option.

4.4 If a range of branded funds is offered 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. There are questions about how branded funds would be selected for personal accounts, how companies would market them, (potentially incurring extra costs), and whether the fund charges would be the same whether bought through personal accounts or not.

Charges

4.5 We believe that the delivery authority should have the flexibility to decide charging structures in the light of market developments. However, an earlier decision that needs debating is the extent of cross-subsidy to be permitted between personal account-holders.

4.6 For example, we believe that any extra costs that might arise if branded funds are included should be ring-fenced so that there is no cross-subsidy between the default funds and the branded funds. Similarly, if a planholder wishes to switch between funds it may be appropriate that a switching charge is made, provided that it achieves a balance between full cost-recovery and not being so large that it deters switching when appropriate.

4.7 We certainly hope that a 0.3% charge will be achievable but as costs are expected to fall over time this raises the question of how to achieve fairness between different generations of account-holders. It would be unacceptable for the first generation to bear the set-up costs of the infrastructure for personal accounts and Government should commit itself to providing adequate funding for this.

4.8 Depending on how the set-up costs of the scheme are funded, our preliminary view is that an annual management charge (AMC), is likely to be the most attractive option, as it is straightforward, transparent and would be simple to adjust as necessary to reflect the actual cost of particular funds. If an initial charge is required to fund set-up costs, this should be contribution-based - we do not support a flat fee as this would bear down disproportionately on the lower-paid. In addition, the level of any AMC should be reduced for people who stop saving in the scheme before retirement, so that their contributions do not bear a disproportionate charge.

4.9 We would also like to see controls on the extent to which expenses such as share registration, trustee, legal and audit fees may be charged to the fund. The ‘drag’ on fund performance arising from such expenses can be significant. The decision on what expenses may be charged to the fund should rest with the delivery board, but we believe that it should issue contracts to managers based on principles of maximum transparency, and that it should monitor and publish the Total Expense Ratios of all personal account funds.

4.10 Because the value of the AMC is related to fund performance, an AMC might place the fund's management under cost pressures at times when the market is low. In the interests of fairness between different generations

Collection of contributions

4.11 The White Paper does not discuss the administration in terms of collection of contributions. We know that the Government is keen to ensure that the expertise of the private sector is fully utilised in developing the system and we agree that it has an important role to play in many aspects of delivery. However in terms of the collection of pension contributions we believe there is a strong case for HMRC involvement and for the systems to be linked to the collection of national insurance and income tax given that these systems are already in operation and employers are used to dealing with HMRC.

4.12 Whichever agency is responsible for the clearing house, there a major risk to individual account-holders if things go wrong, as they did with the introduction of tax credits and the NIRS2 system for National Insurance Contributions. The potential impact of such problems on individuals, and on the standing of the scheme, is such that we think it is essential that Government commits itself to adequate testing of the system before going live.

5. Governance

- *Consumer input should be embedded in all processes of setting up and running personal accounts.*
- *We recommend that a body such as one similar to the FSA Consumer Panel is set up.*

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, including any outsourced services, should also be required to take consumer needs into account.

5.2 As well as strong non-executives on the Board, 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. We think the model of the Financial Services Consumer Panel is a good one.

5.3 An important part of governance is complaints-handling. There should be a well publicised independent system for enquires and complaints, including a dedicated customer helpline, and a clear procedure for making a formal complaint to the relevant ombudsman service.

6. Information and Advice

- *The provision of good information about personal accounts is a key role for the delivery authority and board.*
- *We would also like to see a generic advice service set up to provide personalised information and general advice around personal accounts and other aspects of financial capability.*
- *A generic advice service could be delivered through a national telephone service and, for a small minority who need greater support, through a face to face service.*

6.1 Many people find pensions complicated and often do not know where to get appropriate support to make decisions about saving for their retirement. For example our women and pensions survey found that a lack of appropriate information and advice was an important barrier to building up a pension. Just over 6 out of 10 participants under the age of 60 said that not knowing enough about pensions was definitely or probably a factor that was affecting their ability to build up pensions. A similar proportion of those aged 60 or over said this had affected their ability to save when younger.

6.2 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 in January 2007.

6.3 People will need information and advice to help them: to understand personal accounts and alternative means of pension saving, to decide whether to stay in the scheme and if so how much to contribute, to review their finances, and to decide how to access savings at retirement. For many people, an equity-based fund will provide their first explicit exposure to investment risk, and they will also need to understand both the risks and benefits of saving this way, and how lifestyling works. The provision of good general leaflets and web-based information is a key role of the Personal Accounts Delivery Authority and the Personal Accounts Board and materials should be developed in conjunction with consumer organisations with expertise in this area and tested with individuals in the target group for personal accounts.

6.4 However many people will also need information specifically tailored to their needs and one-to-one support. We strongly welcome the Government's announcement that a task force is being set up to research and design a national generic advice scheme. We see this as having an important role in helping people make decisions about personal accounts and their finances more generally. 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.

6.5 At this stage we would envisage the scheme might include: interactive web-based materials, a national telephone helpline and for the minority who need it, support on a face-to-face basis. The Pensions Advisory Service (TPAS) helpline currently offers independent and expert general information and advice around pension issues and could be expanded and more widely promoted to enable it to provide information and guidance relating to decisions around personal accounts. An important question to be explored in the debate around generic financial advice is the extent to which it would be possible for a single service to have the expertise to cover all financial issues or whether part of its role should be to identify needs and refer to other more specialist services such as debt advice or TPAS.

6.6 There are a number of challenges in providing a generic advice service – a few of which are set out here. Firstly the service needs to be comprehensive enough to enable people to make appropriate decisions relevant to their own circumstances without providing so much detailed financial information that people are confused or overwhelmed. We would expect the service to ask for basic details about an individual's circumstances which would enable an adviser to give an idea of the likely outcome of contributing to a personal account with some broad caveats such as the effect that a change of circumstances might have on the outcome. The individual would have the opportunity to explore areas in more detail if they wished. People will also need to understand the difference between generic advice and regulated advice.

6.7 There will also be the challenge of encouraging those who most need support to seek help. There should be marketing and publicity strategies targeted at those for whom saving may be less beneficial with the aim of encouraging them to seek information and use the generic advice service. This is discussed further below in relation to the interaction with means-tested benefits.

6.8 It is important that the information and advice strategy draws on previous good practice and learns lessons from other related initiatives. For example Age Concern and other organisations received funding from the DWP Pensions Education Fund. We are in the processing of setting up MoneyTrail - a project which will provide help planning for retirement for individuals aged 45 to state pension age through a computer based programme on the internet or CD Rom. This will include 6 pilots run by local Age Concern organisations where people, mainly women, with modest earnings will receive support to work through the programme. Two projects will focus on people from black and minority ethnic communities.

7. Interaction with means-tested benefits

- *A key aim must be to ensure that people do not find they are little or no better off from having saved in a personal account due to the interaction with means-tested benefits.*
- *There should be information targeted at those who fall into certain groups where the risks are greater to encourage them to seek more personalised help.*
- *The trivial commutation level and savings limits for means-tested benefits should be reviewed to ensure that those who would benefit little from additional pension income can receive their savings in a lump sum.*

7.1 We want to see a system where the vast majority of people will fully benefit from saving. However for some the interaction with means-tested benefits could mean they gain little or nothing from a small additional private pension. This risk is considerably reduced if people have 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 ensure everyone reaching state pension age in 2012 and beyond is able to build up an adequate level of state pension.

7.2 In the context of a system where there remains a substantial amount of means-testing the information and advice strategy will be important in helping people decide whether to remain in personal accounts. Reports by the DWP and the Pensions Policy Institute (PPI) both emphasise that the majority of people will be better off from saving[2]. However some will receive little or no return. The PPI have identified groups who are at low, medium and high risk of benefiting little from saving. For example they conclude that single people who are likely to rent in retirement and have no additional savings are at high risk of personal accounts being unsuitable and that people with a combination of low earnings and broken work histories could be at medium risk.

7.3 However although broad categories of higher risk groups can be identified it is generally difficult to say with 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.

7.4 At present different messages are given out. Age Concern would like to see Government, industry, and consumer organisations working together to agree a consistent overall message about the potential risks and benefits of saving in the context of means-tested benefits. This would help inform the information and advice strategy, ensure greater consistency in messages given from different sources and also help identify those who may be less likely to benefit from saving. These groups could then be targeted with information specifically encouraging them to seek help – for example by contacting the generic advice service.

Trivial commutation and means-tested benefits

7.5 Trivial commutation enables people with small pension funds to receive a lump sum payment rather than a regular pension and for those who have not had many opportunities to save this may be a good option on retirement. Age Concern believes the level (£15,000 from April 2006) should be reviewed.

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[2] *Are personal accounts suitable for all?* PPI 2007, *Financial incentives to save for retirement* DWP 2007.

7.6 At the same time it is important to consider the impact of a small pension paid as a lump sum on entitlement to means-tested benefits. Currently any capital over £6,000 affects benefits. Increasing this limit or introducing a specific disregard for a lump sum from trivial commutation (as is the case with a lump sum from deferred state pension), combined with an increase in the trivial commutation limit should help reduce concerns about people paying into personal accounts inappropriately.

7.7 The Equal Opportunities Commission has commissioned the PPI to carry out further work in this area and we expect that this will provide a useful contribution to the debate on what level the trivial commutation and capital disregards should be set at in order to ensure that people do not miss out because of the interaction between pensions and benefits.

8. Accessing pension savings

- *We support the structured approach to annuity purchase which should apply to all provision not just personal accounts.*
- *More transparency is required for annuity pricing in pension companies that do not offer the open market option.*
- *The option for unisex annuities should be reviewed regularly and it is important that couples understand the impact of single life annuities.*

8.1 While much attention has been paid to building up pension savings it is equally important to consider the ways that people can access their savings on retirement. Currently many people have little knowledge about how a pension fund is converted into income. For example DWP qualitative research on personal accounts found only those who currently had private pensions or high incomes had heard of annuities and even then understanding was sometimes low[3].

8.2 Pension annuities should be looked at in the round, not only in the context of personal accounts. The shift from defined benefit to defined contribution pensions over recent years means that increasing numbers of people already have to deal with annuity purchase. We also note the 'deep concern' expressed by Lewin and Sweeney in the Deregulatory Review of Private Pensions that some members currently retiring from defined contribution occupational schemes may not be getting adequate information about the open market option. We support the proposal for a structured approach to annuity purchases for personal accounts whereby information and guidance is given to help the individual consider the type

[3] *Public attitudes to personal accounts: report of qualitative study*, DWP, 2006.

of annuity that is suitable, followed by a second stage which involves selecting a provider. We believe that this approach should also apply to people in exempt schemes, such as group personal pensions.

8.3 Other issues that may need to be considered are:

- Guidance for people with impaired lives – by definition, people with the lowest life expectancy because of social needs may be least likely to have access to advice on getting an enhanced annuity
- The ‘fit’ with the state pension. For example, the availability of an annuity may affect an individual’s decision whether or not to defer a state pension (and vice versa)
- Whether administrative difficulties, such as complicated forms, cause barriers to shopping around and the extent to which technical language (such as the term ‘annuity’ itself) inhibits action
- The process of consolidation should be examined to ensure that people are not disadvantaged from having several small pension funds. If consolidation would benefit people it may need to start some time before the annuity is drawn, and the process for doing so should be as simple as possible.

8.4 Although we support the review of the open market option that is currently under way, we would also like to see some examination of the annuity rates offered by pension providers to their pension planholders. Information is freely available on the rates offered in the open market, but not on those offered by companies who only offer annuities to their existing customers. Given that the open market option currently works imperfectly there may be little pressure on them to improve their rates. We believe that there should be some requirement for them to publish their rates for comparison.

Women and annuities

8.5 As pension provision becomes more annuity-based the position for women, who receive lower rates of return than men, must be considered. The arguments for and against unisex annuity rates need to be reviewed regularly particularly as the gap between men and women's life expectancies has been narrowing.

8.6 The position of couples mainly dependent on one partner’s income in retirement also needs to be reviewed as most annuities purchased are single life. This means that for example a woman who has been the main carer reducing her ability to earn and save on the understanding that income in retirement will be shared, can end up in financial difficulties if widowed. More needs to be done to encourage couples to assess their situation jointly – the structured approach should help. However if couples cannot be encouraged to plan their finances jointly there is a case for looking at how a requirement to consider a partner's needs could be introduced into the process.

Minimum payments as a lump sum

8.7 Particularly in the early years some people 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. In addition to the trivial commutation limit there is a case for considering whether there should be a minimum level of fund that could be commuted regardless of other funds. If someone has, for example, just a few hundred pounds in a personal account it may be more practical from the point of view of the individual and the provider 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.

9. Contribution limits and transfers

- *A lifetime limit for personal accounts should be considered as an alternative to an annual limit on contributions.*
- *The ban on transfers should be reviewed after 3 years.*
- *If there is a general ban on transfers this should not prevent pension sharing on divorce nor should it apply to very small funds.*

Contribution limits

9.1 The White Paper proposes a cap of £5,000 for contributions – somewhat higher than the Pensions Commission proposed. If there is an annual limit then Age Concern believes this should be set at a minimum of £5,000. However a lifetime limit on the size of the personal account might be a better alternative to an annual limit on contributions. This could be based on a percentage of the lifetime limit for tax purposes currently £1.5 million (£1.6 million from April 2007).

9.2 We know that many people in the personal accounts target group will not be in a position to save £5,000, or even £3,000 in each year in their working life. However it is important that there is flexibility for those whose income changes or who receive a lump sum – such as a modest inheritance – to contribute more when they can. This will be particularly important for women who often spend periods of their life not in paid work, or in low paid part-time work, due to caring responsibilities but who may have the opportunity to save more later on in life. It would also benefit self-employed people with variable incomes.

Transfers in and out

9.3 Ideally people should be able to transfer money into personal accounts as otherwise there will be some who have money tied up in private pensions with higher charges. We understand the arguments in favour of a cap on transfers in the short-term. However we believe that the situation should be reviewed after 3 years (rather than 8 as proposed) and there should be consideration of some exceptions to any general ban on transfers.

9.4 In particular it is important to ensure that a ban on transfers does not prevent pension sharing on divorce. Legislation that allows current pension provision to be shared should apply equally to personal accounts. Secondly there is a good case for allowing a small level of money built up in a pension fund to be transferred in or out of personal accounts from the start of the scheme. It would simplify the system for both providers and individuals if very small funds could be consolidated.

10. Saving options before 2012

- *People need information about their current savings options – for example joining an existing employer's scheme or saving in an ISA.*

10.1 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.

10.2 Those who are not currently saving and do not have access to an employer's 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, and just over three times the annual cash ISA limit. Someone who starts saving for retirement now may well build up more than this by 2012.

11. Existing pension provision

- *We agree it is important to protect high quality existing provision.*
- *We support the development of a quality mark for pension schemes.*
- *It is important that the benefits of an exempt scheme are not outweighed by higher charges.*

11.1 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.

11.2 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.

11.3 The White Paper states that the Government has decided not to make charges part of the exemption test, but to take reserve powers to reconsider this if charges cease to be comparable with those offered by personal accounts. However, we note that the evidence on charge levels appears to date back to 1998, and that when the Government Actuary's Department pension schemes survey 2006 asked about the level of charges it did not receive enough good eligible responses to analyse. We believe that the decision whether or not to take charges into account should be taken on sound evidence, and that exempt DC schemes should be under an obligation to report their charges publicly.

11.3 To provide an incentive for employers to keep standards high in the exempt market, we would like to see a benchmark developed for high-quality DC schemes. We therefore welcome the work that the National Association of Pension Funds is carrying out on developing a quality mark. Otherwise, in the run-up to the start of the personal accounts, there is a danger that employees are sold mediocre schemes.

12. Monitoring and evaluation

- *The Personal Accounts Board should monitor overall membership and opt out rates and be able to carry out further investigation among employers and employees to ensure that people are making appropriate decisions.*
- *We would also like to see an ongoing commission to monitor pension reform more broadly and make recommendations.*

12.1 Age Concern believes that the Personal Accounts Board should monitor and regularly publish information about membership of personal accounts. We hope it will be able to collect information about membership and those opting out by:

- member characteristics eg age, gender, ethnicity
- employment status - (employed, self-employed, not in paid work)
- earnings
- contribution rates
- type of employer

12.2 The Board should also carry out follow up work where further information is needed. For example if opt out levels are high in a particular industry or among certain large employers the reasons for this should be explored to ensure that employees are not being put under undue pressure or given incentives to opt out inappropriately. Follow-up could also include exploration of any particular groups of employees where opt out was unexpectedly high and research among a sample of employees to gauge their understanding of personal accounts and their reasons for deciding to join or opt out. This would inform marketing work and information and advice provision.

12.3 However, separate to the monitoring role of the Board there should be independent evaluation of progress towards achieving the goals of pension reform more broadly. This should look at overall progress towards an improvement in retirement income through a combination of state and private provision - for example assessing whether contribution levels are appropriate and ensuring that those who stay in personal accounts are better off from having done so.

12.4 We have previously argued for an ongoing independent commission as proposed by the Pensions Commission. The Government has stated that instead it will commission regular independent reviews. We have concerns that these may focus on certain aspects of provision and not provide the comprehensive review that the Pensions Commission was able to do. We recommend an independent study is carried out to help ascertain the most effective and efficient way to monitor pension reform and recommend any changes needed to achieve agreed goals.

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. Most policy papers are also available to download on our website: www.ageconcern.org.uk.

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