

Personal accounts – a view from The Actuarial Profession

The Actuarial Profession welcomes, in principle, the proposed introduction of personal accounts. They should make pension saving more affordable and easier to access for the large proportion of employees who cannot join decent employer-sponsored schemes, and should make it easier for some people to plan for a more comfortable retirement.

However, we have concerns about the way personal accounts might be presented to those in the target group who are on low to medium incomes. We have expressed these concerns to the Government and look forward to working with the Government to get this right. It is vital that we do get it right, because otherwise another ‘mis-selling’ legacy may be in the making.

The background is that a significant proportion of lower earners who will be auto-enrolled into personal accounts in mid or late career may end up on means-tested benefits in old age. The likelihood of this will vary from person to person, very much depending on individual circumstances – and this is what makes the subject difficult. For example, a lack of previous pension or other savings provision makes it more likely that means-tested benefits will apply, but having a high-earning life partner makes it less likely.

Where the person lives in rented accommodation the stakes may be raised dramatically, due to the existence of means-tested Housing Benefit in old age.

The crux of the problem is that the means-testing regime means that people who are affected by it get less than full credit for whatever modest savings they have built up.

So it is clear that people will need to understand the impact of their personal circumstances on their prospects for means-testing in old age, before knowing whether it is right

to opt out of auto-enrolment. If they do not opt out, they may need advice about whether to pay in more than the minimum. If they have choices at retirement, they may need help to exercise those choices well. We accept that getting good financial advice, at an economic price, to such individuals is a major challenge in itself.

In determining whether someone is likely to be ‘better off’ through auto-enrolment, the Government assumes that the employer contribution is not available to the person in any other form. We have strong reservations about this as a general assumption. We believe in many cases this money will be deducted from future pay awards, even if it is not described in this way.

We appreciate that the Government is exploring ways of improving public understanding of financial issues such as these, and welcome the recently announced initiative, the Thoresen Review of Generic Financial Advice. This review is led by Otto Thoresen, a member of the Profession.

We also appreciate that the decision for individuals as to whether to accept auto-enrolment is multi-dimensional. For example, access to a low-charging pensions saving vehicle must have a value, and the individual’s debt situation must also be relevant. It is also a decision which could change over time. Consider an individual who has credit card debt in 2012 charging 25% interest, but who has cleared that debt by 2015. For such a person it might be easier to accept auto-enrolment second time around.

It is sometimes suggested that it is absurd to assume continuation of existing benefit legislation indefinitely. That may be so, but without



Left, Nick Dumbreck, President of the Institute of Actuaries. Right, Stewart Ritchie, President of the Faculty of Actuaries

knowing what future changes will be, it is difficult to see a better alternative.

Perhaps the Government feels it is acceptable, for the greater good, to allow certain people to be auto-enrolled, knowing that they could well regret it in hindsight. If this is so, it is important that the Government documents this publicly, and anyone associated with auto-enrolment into personal accounts is clearly indemnified against retrospective claims for poor advice.

The Actuarial Profession wants to work with the Government to get this right. If at the end of this process we still have serious concerns, then we are likely to feel driven by our public interest duty as a profession to express those concerns.

INSTITUTE OF ACTUARIES
Staple Inn Hall
High Holborn
LONDON WC1V 7QJ

FACULTY OF ACTUARIES
Maclaurin House
18 Dublin Street
EDINBURGH EH1 3PP