



© Legal & General Assurance Society

Date: 15 May 2008

This presentation is in a 'read-only' format and should not be changed in any way.

This is not a consumer advertisement. It is intended for professional advisers only and should not be relied upon by private customers or any other persons.

Legal & General Assurance Society Limited

Registered in England No. 00166055

Registered Office:

One Coleman Street London EC2R 5AA

A member of the Association of British Insurers

www.legalandgeneral.com

**2012 and all that
Personal Accounts
Financial Adviser EXPO 2008**



2008

**John Gleadall
Senior Manager, Wealth Policy**

2012 and All That Agenda

- **Personal Accounts – the basics**
- **Bones of contention**
- **Market effects**
- **What should I be doing now?**



Personal Accounts - Origins



- **Personal Accounts**
 - Aimed at the “great unpensioned”
 - Scheduled for April 2012 commencement
- **Arose from the Pensions Commission and their “four levers” for solving the “pensions crisis”**
 - Pensioners become relatively poorer and poorer
 - Taxes increase to fund extra benefits
 - People save more
 - People retire later
- **Government claiming to do the latter two of these**

Personal Accounts – The Basics 1



- Will be the mother of all occupational DC schemes
- Jobholders who are at least 22 and less than State Pension Age must be auto enrolled
 - Unless they are already active members of a “qualifying scheme”
- “Jobholder” is defined as anyone with qualifying earnings aged between 16 and 75
- Qualifying earnings are between £5,035 and £33,540 per year (2006/2007 figures)
- “Qualifying earnings” include salary, wages, commission, bonus and overtime and maternity, paternity or adoption pay
- Contributions will be a minimum of 8% of qualifying earnings and at least 3% must come from the employer
 - To be phased in over three years (2%, 5% then 8%)
 - Maximum contribution proposed at £3600 (2006/2007 terms)
- Those who are auto enrolled can opt out, and receive a refund, within an unspecified “prescribed period”
- Those who opt out will be automatically re-enrolled at intervals of no less than three years

Personal Accounts – The Basics 2



- A jobholder between 16 and 22 or state pension age and 75 can give an employer notice that they wish to opt in
 - Employer must then pay the 3%
- The scheme will be, and must remain, a registered pension scheme under the Finance Act 2004
- “Qualifying schemes” which fulfil specified “quality requirements” will be exempt
- Normal retiring age presumed to be State Pension Age but normal 55-75 range available
- Nothing definite on decumulation options but DWP have already said that an annuity will be the best option
- Five year ban proposed on transfers in and out

Personal Accounts - Exemptions



- **A qualifying scheme can be an occupational or a personal pension scheme**
- **Occupational schemes**
 - **Must operate automatic enrolment**
 - **DC schemes must have a minimum 8% of qualifying earnings contribution of which the employer must pay at least 3%**
 - **DB schemes must satisfy the standard scheme test (1/120th at age 65)**
 - **Minimum contributions/benefit levels can be modified if the scheme is contracted out**
 - **Personal Accounts will be a qualifying occupational money purchase scheme**
- **Personal Pensions**
 - **Automatic enrolment into Personal Pensions is currently outlawed by Distance Marketing and Unfair Commercial Practices Directives**
 - **European Commission has relented and will permit automatic enrolment for qualifying schemes from April 2012**
 - **Pensions Bill, FSA COBS rules and appropriate UK regulation to amended to suit**

Personal Accounts – Bones of Contention



- **Definition of qualifying earnings – most employers base contributions on basic earnings**
 - Practical issues around implementation may put employers off
 - Sex discrimination issues
- **Proposals for personal pension exemptions now clearer but timing now an issue**
- **Feasibility of mass auto enrolment at commencement**
- **Doubts over commencement date**
- **Interaction with means tested benefits casts doubts on universally satisfactory outcomes**
 - Affects personal pension sales already
- **Aspirational AMC of 0.3% pa unrealistic and misleading**
- **Effect on existing schemes**
- **Past performance of large Government IT projects**

Market Effects



- **Level down**
 - Default contribution level for new joiners
 - Retain as a voluntary scheme
 - New employees join Personal Accounts
- **Embrace Personal Accounts**
 - Simple
 - Group SIPP for senior employees?
 - Will employees feel abandoned?
- **Raise their game**
 - The existence of a pension scheme will no longer be a competitive advantage
 - Profile of pensions generally will be raised
 - £1 in the pocket of a basic rate tax paying employee costs £1.63 in 2008/09
 - £1 in the pension scheme costs £1

Public Reaction



- **Money Mood Survey of 1000 adults**
- **Of those who were employed earning more than £5000 per year:**
 - **44% said they would remain in**
 - **Higher for females than males**
 - **37% said they would opt out**
 - **19% didn't know**
- **Strong differential by social class**
 - **For ABs**
 - **26% would stay in**
 - **36% would opt out**
 - **37% didn't know**
 - **For DEs**
 - **63% would stay in**
 - **23% would opt out**
 - **13% didn't know**

Source: Money Mood August 2007 wave. Figures may not add up to 100% due to roundings.

Desirable Outcome



- **Most of the target market join, and stay in, Personal Accounts**
- **Existing quality employer schemes remain in place and boost membership**
- **Members understand and appreciate the value of their schemes**
- **Personal accounts Clearing House and Administration perform to expectations**

Undesirable Outcome



- **The majority of potential Personal Account members opt out**
- **The majority of existing employer schemes are abandoned or suffer levelling down**
- **Associated IT projects fail to deliver satisfactorily**
- **Pensions “reputation” suffers further decline**

What should I be doing now?



- **2012 may seem a long way off but**
- **Contact any existing group clients**
 - Will they need to increase contributions?
 - How do they feel about automatic enrolment?
 - Do they regard their pension scheme as a motivator?
- **Contact corporate clients with no pension scheme**
 - How do they feel about being forced to have one?
 - Would they prefer one of their own?
 - Do they feel the need to do something for senior staff?
- **Employed clients with individual pensions**
 - What will their employer do?
 - Will they abandon their current plan to get the employer contribution?

2012 and all that
Personal Accounts
Financial Adviser EXPO 2008



2008

Thank you for Listening