



## Chapter 2: Choosing the personal accounts model



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The Pensions Commission proposed a National Pension Savings Scheme (NPSS) for delivering personal accounts. The Commission felt that, out of the various models they considered, the NPSS was the best solution as it offered low charges and simplicity for individuals and employers. The scheme would be arm's length from government.

The Government has undertaken a thorough evaluation of all the proposed alternative approaches for delivering personal accounts. This has revealed that each approach has advantages and disadvantages. Focusing on the needs of the target group shows that the NPSS approach would be the most effective delivery model.

This is because the NPSS:

- is the simplest model for individuals – balancing simplicity for the majority with choice for the significant minority who want it;
- delivers low charges – providers do not compete directly for individuals' accounts so there is less marketing expenditure and switching of accounts. Low charges will ensure larger pensions for scheme members; and
- minimises delivery risk – it is not a government model: instead, it utilises the skills, expertise and capacity of the private sector to develop, build and deliver personal accounts.

### The Pensions Commission proposals

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- 2.1 The Pensions Commission proposed an independent, arm's length governance structure for delivering personal accounts, the NPSS. They recommended a non-departmental public body at the centre with its own board. The new body would be responsible for oversight of the new systems – collection, account administration and fund management – but would outsource these functions to the private sector.

- 2.2 In their report they also described a number of other possible delivery models. Whilst favouring the NPSS model, they did make clear that this was only a proposal, and would require further detailed analysis. Their proposal highlighted the importance of low cost and simplicity for the target group of individuals.

“There is a segment of the market, employees of average and lower earnings working in small and medium companies, plus many self-employed, which the retail financial services industry cannot serve profitably except at annual management charges which are disincentives to saving and which substantially reduce pensions available in retirement.”

(Pensions Commission second report)

## Reaction to the Pensions Commission

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- 2.3 The idea of personal accounts was welcomed. Most people recognised the need for a large-scale, low-cost scheme that could provide access to pensions saving for the large and growing group who did not belong to an existing employer scheme. The portability of the account – it could move with individuals as they changed jobs between employers who operate personal accounts – was seen as an important characteristic in a changing labour market. And the size of the scheme – they estimated that it would have between 6 and 8 million members – would help to reduce costs and drive down the high charges that many in the target group faced.
- 2.4 However, a number of stakeholders did not believe that the operational model proposed by the Pensions Commission was the right solution. They considered that it failed to use the existing pensions industry’s expertise and capacity.
- 2.5 As part of the National Pensions Debate, in December 2005 we set the pensions industry the challenge of coming up with a workable alternative using industry experience and capacity. We made clear that any alternative model would need to maximise participation among the target group and deliver a radical reduction in the annual management charge against existing pension products.

## May 2006 White Paper proposals

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- 2.6 There was a lively response from the pensions industry to this challenge. A number of different operational models for delivering the new savings scheme were proposed. These were set out in detail in the May 2006 White Paper.

- 2.7 Based on extensive consultation, analysis and research with key groups, particularly employers and individuals, our evaluation allowed us to be clear on a number of areas of policy in the May 2006 White Paper.
- 2.8 **Employer choice** – some of the models we received required the employer to make a decision about what pension scheme their employees should join. In some cases the choice could be between large-scale trust-based schemes, in other models the employer chose between insurance providers.
- 2.9 Whilst some employers are keen to be involved in pension decisions, the **research**<sup>1,2</sup> shows that others, particularly smaller employers and those without current provision, tend not to want the burden of having to choose a provider. They do not feel equipped to make the decision for their employees and they do not want the burden of doing so. We also felt that employer designation undermined the principle of promoting personal responsibility.
- 2.10 **Establishing a clearing house** – analysis of persistency and job turnover showed that for any of the models to work effectively and efficiently, a central clearing house would be needed. Without a central body that collected contributions and information we would not be able to improve the persistency of saving, which is one of the key drivers of costs in the pensions market. Therefore, it was crucial that we improved the portability of pensions to help reduce costs.
- 2.11 **Managing the market** – we also concluded that the market would need to be simplified in some way. This was for two reasons:
- there are currently 26 stakeholder providers on the Financial Services Authority list<sup>3</sup> and it is very difficult for individuals to choose the right one for them. As complexity in pensions often leads to people disengaging, we need to ensure this does not happen with our target group; and
  - we need to achieve scale to drive down costs. Restricting the market would achieve the scale necessary to reduce costs.
- 2.12 On balance, our initial evaluation supported the NPSS approach over the industry alternatives. Industry argued that competition between branded providers would help drive down costs over time and lead to higher levels of service and better products. In addition, they argued that individuals wanted to have a choice about who administered their pension and that this decision would foster greater engagement and help people feel they had ownership of their pension.

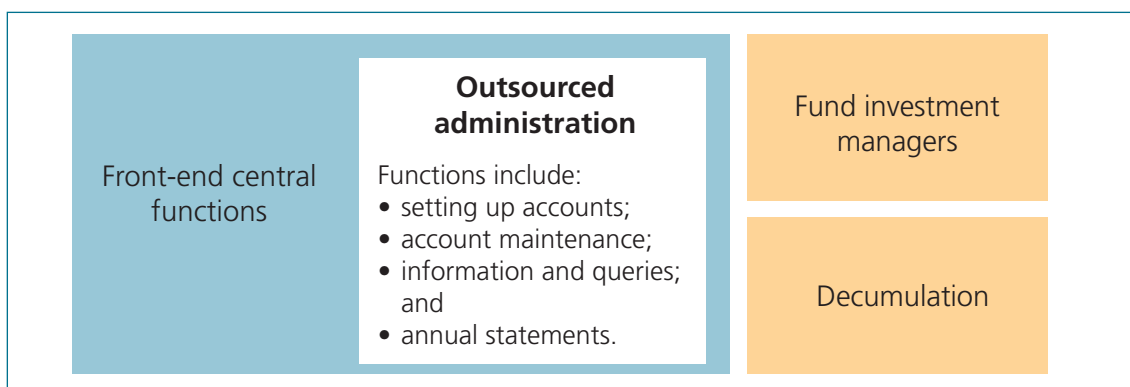
<sup>1</sup> Marshall H and Thomas A, 2006, *Employer attitudes to personal accounts: Report of a qualitative study*, DWP Research Report No 371.

<sup>2</sup> Bolling K, Grant C, Fitzpatrick A and Sexton M, 2006, *Employer attitudes to personal accounts: report of a quantitative survey*, DWP Research Report No 397.

<sup>3</sup> Malcolm K and Wilsdon T, 2006, *Competition in personal accounts*, CRA International.

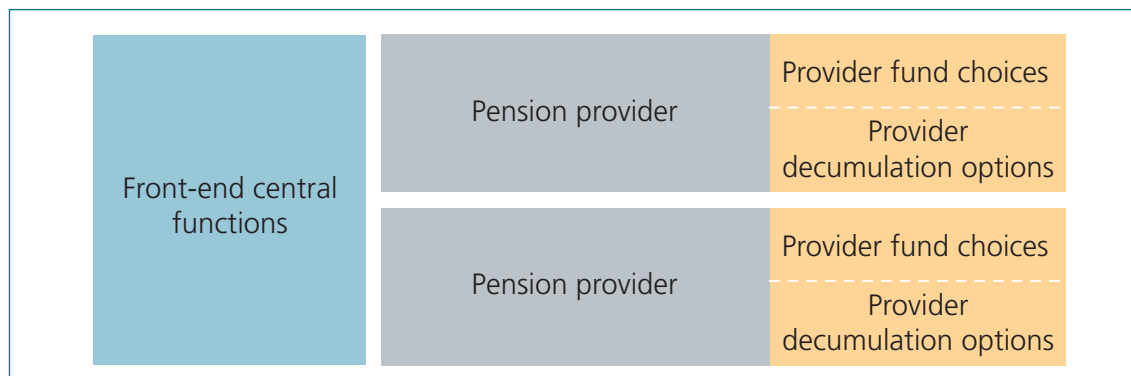
- 2.13 Further evidence on competition and choice and their impact on cost were essential to make a decision on the right model. Additional work was also needed to strengthen the business model and its costs, and to confirm the deliverability and financing arrangements for personal accounts.
- 2.14 The May 2006 White Paper outlined two distinct approaches to administering the new savings accounts:
- Option 1: the Pensions Commission’s approach – competition for contracts; and
  - Option 2: the alternative approach – competition through branded providers.

### Option 1: Competition for contracts – the NPSS approach



- 2.15 Personal accounts would be governed by a single organisation, which would organise the scheme in members’ best interests. The day-to-day running of the scheme would be outsourced to a number of pensions administrators. The NPSS would offer a limited choice of funds for savers and a default fund for those who do not choose a fund.
- 2.16 The Pensions Commission also suggested that, in addition to these funds, a further choice of non-centrally negotiated funds could be offered which would allow ‘alternative asset classes’ for those who wish to have a wider range of funds available.

### Option 2: Competition through branded providers – the provider choice approach



- 2.17 This model builds on existing pension provision. Enrolment, collection and processing of contributions would be similar to Option 1. Rather than one single organisation having oversight of the system, a limited number of pension providers would offer personal accounts and perform similar functions to those outlined for the outsourced administration in the NPSS model. Savers could choose one of these providers (or they would be allocated to one of them). Each pension provider would offer a selection of fund choices and decumulation options for retirement.
- 2.18 We asked for views on whether a model delivered through branded providers would benefit people. We were interested, in particular, in whether this approach added value for the individual or would give them greater confidence in the scheme. We also sought views on which scheme would lead to lower costs.

## Understanding the various approaches

- 2.19 Since May we have received proposals for a number of new models for delivering personal accounts. All of the models that we have received are variations on the approaches set out in the May 2006 White Paper but differ around a number of key areas:
- the level of choice for individuals – whether they should choose their administrator or their fund;
  - the extent to which administration and fund choice can be bundled together or offered by the same provider;
  - how many funds or administrators there should be; and
  - the consequences for those individuals who do not make a choice – whether they remain with a default provider or whether they are allocated to branded or unbranded providers.

- 2.20 The models that extended the choice for individuals were based on the principle that increased choice leads to increased competition. Increased competition in these models would, over time, drive down costs for individuals. They are described in Box 2a.

### Box 2a: Alternative approaches to delivering personal accounts

There were a number of proposed alternative approaches to delivering the personal accounts model. These were variants around the two main models outlined in the May 2006 White Paper. The variants on the NPSS approach were:

- **NPSS plus** – this is similar to the NPSS model. The individual is placed with an unbranded NPSS administrator if they make no active choice. However, if they wish they can choose an alternative administrator for their personal account from a shortlist of providers;
- **NPSS minus** – this is similar to the NPSS model, but there is no choice of fund – only the default is available; and
- **the provider choice minus** – this is very similar to the NPSS model except that the account administration is operated by branded pension providers. Funds are common across all providers so anyone not making a choice will get a common default fund but will be allocated to an administrator on a carousel basis.

The variants on the provider choice approach were:

- **the provider choice plus** – this is broadly similar to the main provider choice approach outlined in the May 2006 White Paper, though there would not be a limited panel of providers; any organisation able to deliver an appropriate service would be allowed to participate. This also provides an option where employers can, but are not required to, choose a default provider for their employees, which the individual has the right to override. If the employer does not select a default provider for employees, those not making a choice would still be allocated by carousel. The provider choice plus differs from the provider choice approach as there is unlimited choice and the employer has the option of choosing a provider; and
- **the hybrid provider choice** – this is a hybrid of the NPSS and provider choice approaches. Anyone not choosing an administrator would go into an unbranded provider with a common range of investment choices. Savers who wish to can make an active choice of branded administrator on an open-market basis. It is unlikely that those firms running the unbranded NPSS would also be offering branded choices.

## Evaluating the different approaches

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- 2.21 A thorough evaluation of the possible delivery models has been undertaken. Full details are set out in the Regulatory Impact Assessment. This has involved working closely with the pensions and savings industry, consumer groups, employers and their representatives and other interested stakeholders.
- 2.22 This work aimed to:
- understand, in more detail, the processes involved in delivering personal accounts;
  - refine the costings and how these might feed through to the charging structure;
  - understand the potential financing regimes;
  - conduct further research and analysis around the impact of competition and choice;
  - understand more about international experience;
  - develop potential governance regimes;
  - understand more about the risks to individuals; and
  - understand the impact on the existing pensions market.
- 2.23 We are grateful to those in the pensions and savings industry who have helped us. They have provided us with information to enable us to build operational models of the different approaches to understand how they would work in practice. They have given us advice on potential financing arrangements and charging structures. In addition, we have held a range of seminars and workshops as part of our consultation, as well as many less formal meetings.
- 2.24 The work that has been done ensures that the decision on the delivery model is robust. It is important to remember what a significant reform this will be – a new way of saving for up to 10 million people. The scheme will collect contributions worth around £8 billion a year.

## Which model?

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- 2.25 As the full evaluation in the Regulatory Impact Assessment makes clear, both the NPSS and a branded provider approach have a number of advantages and disadvantages. But focusing on the needs of the target group **we believe that the NPSS approach, overall, would be the most effective delivery model.** The NPSS:
- is the simplest model for individuals – balancing simplicity for the majority with choice for the significant minority who want it;
  - encourages competition – the personal accounts board will be able to negotiate contracts to ensure that charges for consumers remain low;
  - uses the skills, expertise and capacity of the private sector to develop, build and deliver personal accounts; and
  - is the model with lowest charges. As providers do not compete for individual accounts there is less marketing expenditure and switching of accounts.
- 2.26 The evaluation shows that the NPSS approach meets our key criteria of extending coverage, maximising participation and minimising costs.

## Maximising participation – providing individuals with the appropriate choice

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- 2.27 Individual choice is normally the best way of allocating goods. In all the models, members will need to make a number of choices, including whether they should stay in the scheme and whether they should contribute above the default. Where the models differ is in decisions about investment and administration. In the provider model, individuals choose the provider they would like to administer their account. These providers are generally linked to fund managers who would invest individuals' funds.

- 2.28 Research evidence consistently indicates that many UK consumers find choices in pensions<sup>4</sup>, including investment fund choice<sup>5</sup>, overwhelming. This is one of the reasons why many do not choose to save voluntarily and are reluctant to seek information. This is particularly true of the target market. Evidence from both qualitative<sup>6,7</sup> and quantitative research<sup>8,9</sup> reveals a widespread lack of confidence among UK consumers in their ability to make decisions about pension provision. This lack of confidence is underpinned by low levels of financial capability, particularly among younger groups.
- 2.29 However, research indicates that a significant minority – perhaps up to 2 million members of personal accounts – may want extra choice among investment funds. Some younger respondents in particular mentioned a desire to have the choice to invest ethically. The inclusion of extra fund choice for those that want it could provide competitive pressure on the main investment funds as well as promoting personal responsibility amongst this group by encouraging higher contributions. Box 2b looks at our findings in more detail.

<sup>4</sup> WHICH?, 2006, *Pensions Research: qualitative research*.

<sup>5</sup> Hall S, Pettigrew N and Harvey P, 2006, research by Ipsos MORI for DWP, *Public attitudes to personal accounts: Report of a qualitative study*, DWP Research Report No 370.

<sup>6</sup> Pensions Commission, 2005, *A new pension settlement for the twenty-first century: The second report of the Pensions Commission*, TSO.

<sup>7</sup> Hall S, Pettigrew N and Harvey P, 2006, *ibid*.

<sup>8</sup> Marketing Sciences, 2006, *Retirement Planning Monitor*, 2005.

<sup>9</sup> Research by the National Centre for Social Research and Stephen McKay for DWP (Clery E, McKay S, Phillips M and Robinson C, forthcoming in 2007, *Attitudes to Pensions: Findings from the 2006 survey*).

## Box 2b: Investment choice

The majority of the target group for personal accounts do not want to be faced with a choice over investments or administration of their pension, but a significant minority do. This minority tend to be younger or be higher earners, who have higher levels of confidence in their ability to choose and greater familiarity with financial choices.

**Consumers lack confidence to make investment choices** – evidence<sup>10,11,12</sup> reveals a lack of confidence among UK consumers about investment fund choice. This is compounded by low levels of financial capability, particularly among younger groups and with regard to financial product choice.<sup>13</sup>

**Too much fund choice can be confusing** – focus group discussions have suggested too much fund choice would make the scheme more complicated and confusing than it needs to be and that it would be likely to increase opt out rates.<sup>14</sup> Findings from the US 401(k) scheme<sup>15</sup> found that larger numbers of fund choices significantly reduced participation levels.

**Consumers want structured choice** – research indicates a shortlist of funds would provide choice for those who want it whilst minimising complexity, although overall no choice was generally preferred.<sup>16</sup>

**Choice needs to be appropriate** – research evidence shows that where consumers choose their own investment, a substantial proportion adopt a 'naïve diversification' strategy, in which money is divided equally among a number of funds irrespective of the underlying asset composition of the funds. So, consumers who do exercise choice may not necessarily make the right decisions.<sup>17</sup> Findings also show that investments are influenced by recent returns in the market, implying that the timing of the launch of the programme can have a strong impact on the asset allocations of the participants. This effect can be long-lasting because very few participants have altered their portfolios.<sup>18</sup>

<sup>10</sup> Hall S, Pettigrew N and Harvey P, 2006, *ibid.*

<sup>11</sup> Hall S, Pettigrew N and Harvey P, 2006, *ibid.*

<sup>12</sup> Marketing Sciences Ltd, 2006, *Retirement Planning Monitor 2005.*

<sup>13</sup> Atkinson A, McKay S, Kempson E and Collard S, 2006, *Levels of financial capability in the UK: Results of a baseline survey*, FSA Consumer Research Report No 47.

<sup>14</sup> Hall S, Pettigrew N and Harvey P, 2006, *ibid.*

<sup>15</sup> Iyengar SS, Jiang W and Huberman G, 2003, *How much choice is too much? Determinants of individual contributions in 401(k) retirement plans*, Wharton Pension Research Council.

<sup>16</sup> Hall S, Pettigrew N and Harvey P, 2006, research by Ipsos MORI for DWP, *Public attitudes to personal accounts: Report of a qualitative study*, DWP Research Report No 370.

<sup>17</sup> Benartzi and Thaler, 2001, *Naive diversification strategies in defined contribution saving plans*, *The American Economic Review*, 91(1): 79–98.

<sup>18</sup> Cronqvist and Thaler, 2004, *Design choices in privatized social-security systems: Learning from the Swedish experience*, *American Economic Review*.

This underlines the importance of a default fund for those who do not want to make these choices.

**The benefits of choice** – the industry has argued that having choice will promote personal responsibility and drive higher participation rates and contribution rates. Research from US defined contribution schemes found that a participant who has a choice of investments contributes over 8.5 per cent more into the scheme than a comparable participant without choice.<sup>19</sup> Having a choice also allows customers to switch, Oxera find that some degree of switching is desirable since it “...creates conditions for competitive pressure on pension providers to reduce costs and improve their customer service and product offerings”.<sup>20</sup> CRA International<sup>21</sup> also find that switching exerts some pressure on providers, although for this to be successful depends, to a large extent, on customers becoming more financially sophisticated than they are currently.

#### Administrator choice

**Choice of administrator does not appeal to target market** – DWP research suggests that savers, especially those earning less than £30,000 a year, prefer not to make a choice of administrators over having to choose from a panel or open market.<sup>22</sup> Evidence<sup>23</sup> provided by the industry shows that some less financially aware consumers expressed concerns about having to make a choice of provider, which they considered daunting, and might put them off participating. Higher earners felt that they had the necessary aptitude to make decisions such as this and felt that choice could have benefits for them. Research also suggests that a default option would reduce the burden on consumers who did not want, or were unable, to make a choice.<sup>24</sup>

- 2.30 All of the analysis points to the need for a successful model to: maximise simplicity; not require the majority to make decisions they find overwhelming; and provide choice for the significant minority who want it. This is one of the central reasons why we are proposing the NPSS model over a branded provider approach.

<sup>19</sup> Papke L, 2004, *Choice and other determinants of employee contributions to defined contribution plans*, Working Paper, CRR WP 2004–06. The sample used in this survey was all aged 51–61 with an average age of 54.

<sup>20</sup> Oxera, 2006, *How to evaluate alternative proposals for personal account pensions: An economic framework to compare the NPSS and Industry models*, commissioned by the ABI.

<sup>21</sup> Malcolm K and Wilsdon T, 2006, *Branded choice in personal accounts*, CRA International.

<sup>22</sup> Hall S, Pettigrew N and Harvey P, 2006, research by Ipsos MORI for DWP, *Public attitudes to personal accounts: Report of a qualitative study*, DWP Research Report No 370.

<sup>23</sup> Malcolm K and Wilsdon T, 2006, *Branded choice in personal accounts*, CRA International.

<sup>24</sup> Hall S, Pettigrew N and Harvey P, 2006, research by Ipsos MORI for DWP, *Public attitudes to personal accounts: Report of a qualitative study*, DWP Research Report No 370.

- 2.31 Only an NPSS model can deliver the simplicity and protection for the majority. The independent governance arrangement can ensure the scheme is run in the interests of its members; ensure there is an appropriate default fund; and enable those who want extra choice to have it, maximising contribution rates and participation levels (see Chapter 5).

## Minimising charges in the scheme

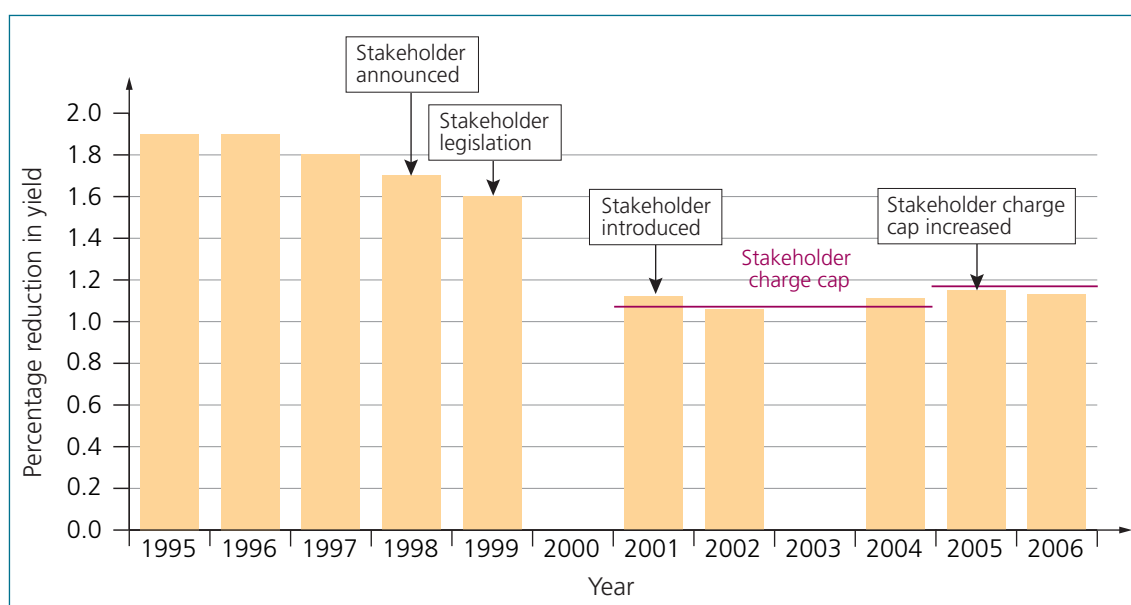
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- 2.32 The May 2006 White Paper made clear that achieving scale was important in driving down costs. Our analysis shows that both the NPSS approach and a restricted market for branded providers will achieve the maximum scale possible. This is backed up by the Association of British Insurers' (ABI's) **analysis**.<sup>25</sup>
- 2.33 Costs can be affected by other factors, most notably competition, the need for advice or regulation of sales, and whether the models provide extra functions that add to cost.
- 2.34 Both the NPSS and provider choice approaches are competitive models, but how competition works in them is different. In the NPSS approach, the board takes responsibility for agreeing contracts with companies, be they administrators or fund managers. The board acts in members' interests and tries to ensure the best outcomes for them. In all the provider models, companies compete to get individuals to join their scheme. As people can switch between providers they can move to one with the lowest charge or the best service according to their judgement.
- 2.35 This argument only works if individuals are well informed about the market. They would need to be able to see which is the best provider or the best fund. Evidence suggests the target group are not well informed about this particular market. They find pensions confusing: they shy away from making decisions and their concern about making the wrong choice often means that they do not make any.
- 2.36 We have considered the competitive impact of each model in some depth. We do not believe the arguments are conclusive for either an NPSS or a provider choice model, but evidence shows that in the current pensions market competition does not always work to the customer's benefit.

<sup>25</sup> ABI, 2006, *How to evaluate alternative proposals for personal account pensions: An economic framework to compare the NPSS and Industry models*, research carried out by Oxera.

- 2.37 The Sandler review showed that there was little evidence that choice and competition in the pensions market drove down costs. The Pensions Commission<sup>26</sup> showed that the reductions in charges that many people now benefit from were caused by regulatory changes – such as the introduction of stakeholder pensions and changes in the charge cap – rather than competitive forces. Figure 2.1 demonstrates the impact of regulation on charges over time.

Figure 2.1: Impact of regulation on charges over time



Source: FSA disclosure reports and comparative tables

- 2.38 We know that the provider choice model has additional costs which are not in the NPSS model. Because firms compete directly for consumers, they have marketing costs which are not borne in the NPSS model. In addition, the costs of switching accounts as a result of successful marketing can be significant. If these costs help drive competition and, in turn, drive down charges then these initial costs would benefit individuals in the long run. But we are not confident that competition will work in this way in personal accounts.
- 2.39 Our analysis suggests that the marketing and switching costs, which are not present in the NPSS model, could make the branded provider models about 20–25 per cent more expensive. Box 2c looks at the impact of competition on costs and whether it could drive down this difference in cost.

<sup>26</sup> Pensions Commission, 2004, *Pensions Challenges and Choices: The First Report of the Pensions Commission*, Appendix C.

- 2.40 Our objective is to minimise the charges faced by individuals. The Pensions Commission suggested that the NPSS model could be delivered for an annual management charge of 0.3 per cent in the longer term. The Commission's proposal did not include the costs of monitoring automatic enrolment and it assumed that costs would be recovered over an individual's full working life. However, our analysis indicates that it would be possible to achieve a substantial reduction in the cost of providing personal accounts for our target group, possibly as low as 0.5 per cent in the short term and below 0.3 per cent in the long term, even taking into account the likely need to finance the scheme over a shorter timescale and including the cost of compliance. This gives the NPSS model a strong advantage over provider choice models.

### Box 2c The impact of competition on costs

Our analysis suggests the NPSS approach would have costs that are 20–25 per cent lower than a provider choice model. We look here at whether competitive activities could reduce the cost differential:

**Could the competitive activities of providers increase participation in the provider choice model?** – participation would have to be at the optimistic end for the provider choice model and at the pessimistic end for the NPSS model – participation would have to be twice as high in the provider choice model for it to have lower charges than the NPSS model.<sup>27</sup>

**Could competitive activities of providers increase contributions in the provider choice model?** – contributions would have to be nearly 25 per cent higher (10 per cent as opposed to 8 per cent on average) in the provider choice model for it to have the same charges as the NPSS model. Whilst we believe that providers may have a greater incentive to engage customers with their accounts (since the providers derive a financial benefit from doing so) this effect is unlikely to be significant enough to result in the required increase in contributions. US evidence<sup>28</sup> suggests that there is a "...tendency of employees to stick with the default" at least in the short term. Often the most effective method of increasing contributions is through pre-commitment – a mechanism which could be used within NPSS or in other models.<sup>29</sup>

<sup>27</sup> DWP research indicates that provider choice might lead to confusion and therefore, increased opt-out. Hall S, Pettigrew N and Harvey P, 2006, research by Ipsos MORI for DWP, *Public attitudes to personal accounts: Report of a qualitative study*, DWP Research Report No 370.

<sup>28</sup> Choi et al, 2001, *Defined Contribution Pensions: Plan Rules, Participant Decisions, and the Path of Least Resistance*.

<sup>29</sup> For an example, see Benatzi S and Thaler R, 2003, *Save More Tomorrow: Using Behavioural Economics to Increase Employee Saving*.

**Could competitive activities of providers in the provider choice model lead to a higher level of cost reduction over time than the NPSS model?** – costs in the provider choice model would have to increase at **3 per cent less than inflation** for it to have the same charges as NPSS models or finance costs would have to be 25 per cent higher in NPSS models (11 per cent cost of capital compared to 14 per cent) to mean that charges are the same for both models. There is no evidence that finance costs within a provider choice model would be cheaper than in an NPSS model.

Competition may drive down costs within a provider model, and we believe that these models could be more competitive on a daily basis than NPSS, where there will be a periodic competition for contracts.<sup>30</sup> However, within any model a 3 per cent real fall year-on-year<sup>31</sup> over a 25-year period is unlikely to be readily achievable (especially given that a share of the costs will be labour costs which are likely to grow faster than inflation). Even if it is possible, there is a further difficulty in ensuring the reduction in costs benefits the consumer<sup>32</sup> rather than the providers.<sup>33</sup>

- 2.41 Chapter 3 outlines plans for the delivery authority for personal accounts and the final governance structure. The scheme will be set up from the start to have independence from the Government. We will use expertise from the private sector, where there are the skills required to establish such a scheme.

<sup>30</sup> Malcolm K and Wilsdon T, 2006, *Competition in personal accounts*, CRA International – they conclude that inertia within the target group may mean competition will not work as providers will have low incentives to compete in terms of price and service. Therefore, competition in an open market will not necessarily work better than competition for the market in a panel setting. In order to maintain dynamic efficiency (competition in the long run), any limited panel needs to be updated at intervals, but this is easier with unbranded funds as consumers will not notice changes in providers: however, this may lose any positive effect of established brands.

<sup>31</sup> In the case of lower participation in a provider model, or where there is a requirement for a regulated sale, then the relative decline in costs would need to be even greater than a real fall of 3 per cent year on year.

<sup>32</sup> Malcolm K and Wilsdon T, 2006, *Competition in personal accounts*, CRA International. CRA looked at the economies of scale in fund size required to reduce costs and found that: "...given behaviour of consumers in the target market, it is likely that this part of the market will be insensitive to price and the time taken for market discipline to result in consolidation to an efficient number of providers could be significant."

<sup>33</sup> Sandler R, 2002, *Medium and long-term retail savings in the UK: A review*, HM Treasury. The example of personal pensions is pertinent in that here, regulation (through RU64 and the stakeholder charge cap) appears to have been far more effective in reducing charges than competition. The Treasury's review of the competitive process in the retail long-term savings industry (Sandler Review) in 2001 concluded that: "Price competition in the industry is not intense. Consumers find prices extremely difficult to assess and may in fact not even be conscious of the concept of "price" for a savings product."

## Conclusion

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- 2.42 We have consulted on a range of model and process options and looked at financing and charging structures. Our analysis of these options, and the responses we received through consultation, gives us confidence that personal accounts is a model that can be delivered in a way that will work for all the interested parties – Government, employers, existing providers and, most importantly, for the individuals who through it will save for their retirement.
- 2.43 We will deliver personal accounts through an NPSS approach. The extensive evaluation shows that it is the model that maximises participation, by providing a simple effective scheme and minimising costs.