



## Chapter 3: Delivering personal accounts



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Effective governance of the personal accounts scheme is essential for long-term sustainability and credibility.

Personal accounts will be delivered using private sector expertise, working within a remit set by the Government with members' interests at its core.

The Government plans to do this in three stages:

- setting up an advisory delivery authority to develop the commercial and procurement strategies;
- extending the remit of this body to take on executive powers to negotiate contracts and construct the personal accounts scheme; and
- transition to the personal accounts board to run the scheme from launch.

The Government is consulting on the most effective methods of member representation.

"Consultation with CBI members indicates they support a private sector solution for administering the transfer of money from employees and employers into personal accounts regardless of which model the Government chooses to adopt."

(Confederation of British Industry)

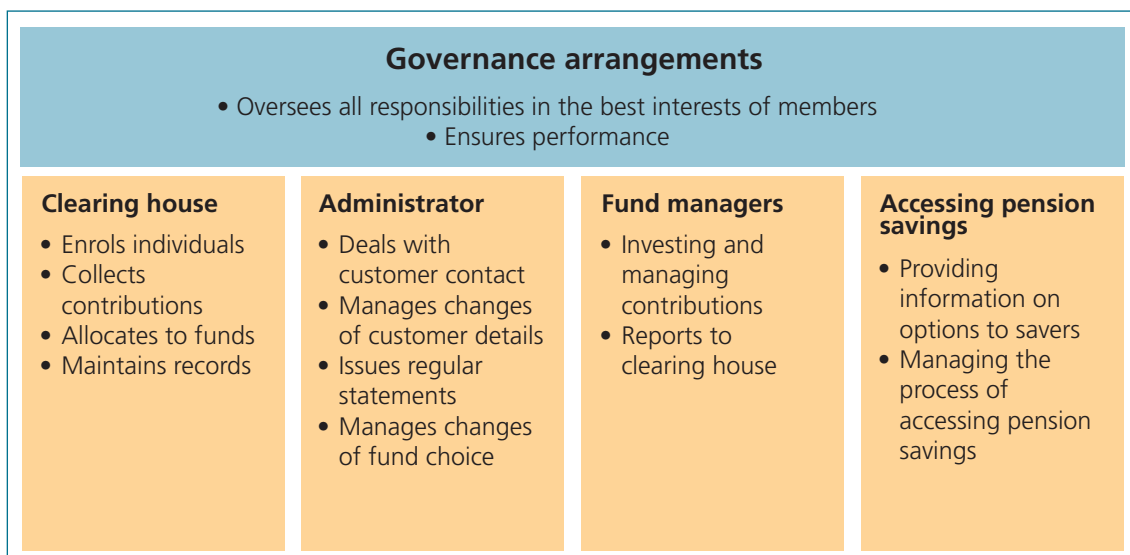
- 3.1 Managing a major occupational pension scheme such as personal accounts, with up to £8 billion in contributions a year from millions of savers, should not be a task for government. There is a wealth of relevant expertise in the private sector. We need to draw on this expertise to build the organisation that will deliver and run personal accounts. We want an organisation that is independent of government, run for its members and delivered by the private sector.
- 3.2 People need confidence that their money is being managed responsibly and that members' interests are at the heart of the system. Stakeholders across industry, and employer and consumer representatives all agree that harnessing the skills and expertise of the private sector to deliver personal accounts within a framework specified by government will allow the scheme to build credibility and public confidence. This is the approach the Government intends to take.

## Organisation structure

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3.3 Chapter 2 explained the Government’s choice of the NPSS approach as the best way to deliver a low-cost, portable account for the target group. The full details of what this will mean in practice will be refined as the policy and commercial processes are developed further. It is clear, however, that four key functions will be central to successful delivery: the clearing house, account administration, fund management and accessing pension savings. These are represented in Figure 3.1.

**Figure 3.1: Organisational structure**



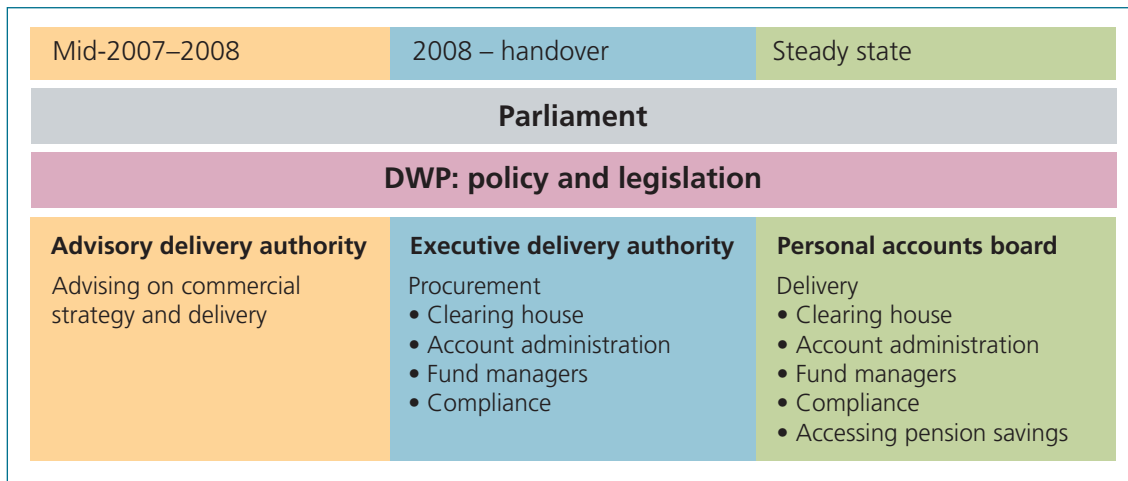
3.4 All of these processes and underpinning systems exist already in the private sector. The Government anticipates that some companies will focus on delivering one part of the process, for example fund management: others will provide an end-to-end service for investors. Their expertise will be essential to help build the personal accounts system and then to run it effectively.

## Creating personal accounts

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- 3.5 There is a huge amount of work to be done before personal accounts can be introduced. It is essential to bring in private sector expertise at an early stage. The Government wants to ensure that the financial, commercial and operational implications are fully understood, and the most effective systems and structures are put in place to deliver personal accounts.
- 3.6 The work falls broadly into three stages:
- **Stage 1** – finalising the detailed policy design and developing a commercial and procurement strategy within the framework set by legislation.
  - **Stage 2** – implementing the commercial and procurement strategy: design, build and test of systems.
  - **Stage 3** – managing a fully operational personal accounts scheme.
- 3.7 The Government proposes an organisational structure to deliver personal accounts which will reflect this three-staged approach. **In the Pensions Bill introduced on 28 November 2006, we have included powers to set up a personal accounts delivery authority.** This will act initially in an advisory capacity on the detailed scheme design and the commercial and procurement strategies. It will be led by a chairman and chief executive, recruited almost certainly from the private sector, with the necessary skills to oversee the setting up of a financial institution. They will be supported by appropriate legal, commercial, operational, business and financial expertise.
- 3.8 The Government intends to introduce a second pensions Bill in a later session which will include the detailed provisions on personal accounts. **It will also include powers for the advisory delivery authority to take on an executive role, reporting to Parliament through the Secretary of State.**
- 3.9 This second, executive stage of the **delivery authority will be followed by the establishment of the personal accounts board** which will be responsible for all aspects of running the personal accounts scheme from launch. Figure 3.2 sets out the different responsibilities for each stage.

Figure 3.2: Responsibility for personal accounts



3.10 Legislation to set up the advisory delivery authority is included in the Pensions Bill introduced on 28 November 2006. The intention is that people will be recruited to key leadership positions, including the chair, chief executive and commercial director, by mid-2007. The remit for this stage of the delivery authority will be:

- providing advice and making recommendations – supporting the Government in understanding the operational and commercial implications of policy options; and
- developing the commercial strategy – taking forward the financial, technical and commercial development work prior to commencement of the procurement process.

3.11 The proposed second Bill will include powers to give the advisory delivery authority executive powers. This is expected to allow the authority to enter into formal negotiations, finalise contracts, and manage the development of the systems and structures needed before the scheme can go live. The delivery authority will finalise commercial contracts, create the infrastructure for personal accounts, design the investment strategy and take full responsibility for the delivery of the scheme.

3.12 During this second stage the delivery authority is likely to be responsible for:

- procurement – commercial contracting that will create the infrastructure for personal accounts;
- project management – responsibility for programme delivery and management of delivery against targets;
- design and development of the investment strategy – agreeing the statement of investment principles, determining the level of choice available to members, designing the default fund and contracting with fund managers;

- engaging with stakeholders – working with stakeholders across government, industry, employers and consumers to ensure that delivery remains focused on the objectives for the target group;
  - marketing and communications – designing and developing information and marketing strategies; and
  - setting up the most effective arrangements to ensure constructive engagement with members.
- 3.13 The second Bill will also set out the legal framework for governing the scheme after launch. It will include the objectives and statutory requirements of the personal accounts board. Within this framework the organisation will have the flexibility to deliver the scheme in the best interests of its members.
- 3.14 **The delivery authority will be subject to the normal scrutiny and accountability arrangements, providing an annual report and accounts to the Secretary of State for Work and Pensions, who will lay these before Parliament.**

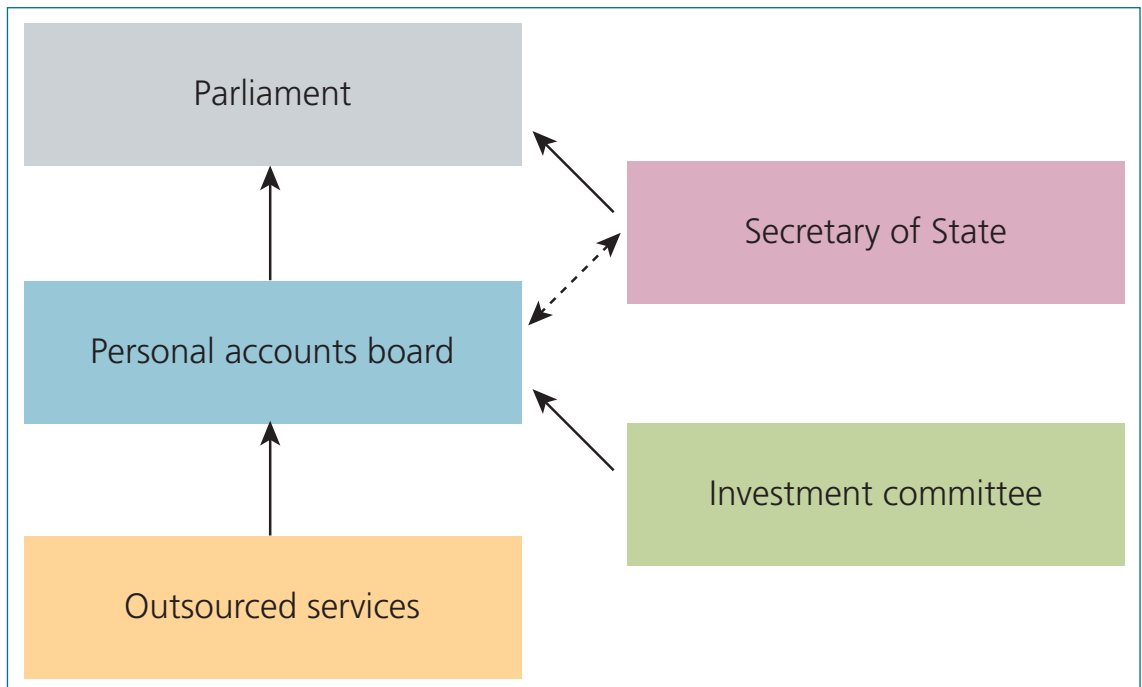
## The personal accounts board

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- 3.15 **At the third stage, a personal accounts board will be established to be responsible for the management of personal accounts.** There is a clear distinction between the work of the delivery authority and the personal accounts board. For instance, the delivery authority with executive powers, is likely to be responsible for designing the investment strategy which will be in place when personal accounts are launched, whereas the personal accounts board is likely to be responsible for regularly reviewing that investment strategy, in the light of participation rates, evaluation of evidence on how the scheme is operating, and feedback from members or their representatives.
- 3.16 The Government anticipates that there may be an overlap period during which the delivery authority and the personal accounts board are both in place, so that the delivery authority can address any operational issues which arise around the time of the launch. The full personal accounts board structure has yet to be determined but it will comprise executive and non-executive members responsible for ensuring the delivery of the scheme's objectives.

- 3.17 The objectives of the scheme will be set in statute and are likely to include:
- optimising levels of participation and contribution among the target group;
  - setting an investment strategy in the best interests of members;
  - minimising burdens on employers;
  - considering the impact on other high-quality pension provision;
  - assuring security of administration;
  - governing in the best interests of members and beneficiaries;
  - ensuring that the board acts impartially, prudently, responsibly and honestly;
  - delivering appropriate levels of choice;
  - achieving both the lowest possible charges for members and charges that are fair between members; and
  - ensuring that funds are invested in the best interests of the members.
- 3.18 The personal accounts board will also ensure that the needs and requirements of individual groups, for example women, within the wider target group are considered.
- 3.19 The board will be responsible for three distinct areas:
- setting the **strategic direction** of the scheme and how the objectives set by government will be achieved;
  - **overall management of the scheme** – oversight of scheme delivery; monitoring levels of service to members; setting standards for collection; verification and payment; and information to members; and
  - **investment strategy** – ensuring that contributions are invested in the best interests of members; deciding on the range of choice available to investors; the strategy for investment of the default fund; and appointment and management of fund managers.

Figure 3.3: Governance structure



- 3.20 It is anticipated that the personal accounts board will be a body corporate, established under statute and self-financing. It will be subject to the normal scrutiny and accounting procedures, accountable to Parliament and will provide an annual report and accounts (see Figure 3.3). The board will be responsible for employing its own staff: it is expected that this will not be a large organisation as most of its functions will be contracted out.

## Member representation

- 3.21 The Government has decided on the NPSS approach for personal accounts because it believes that this approach best meets the needs of the target group. It will be essential to the success of the scheme that members' needs remain at the core of operational decision-making and are fully considered in the development of investment strategy, additional levels of choice and the charging structure.
- 3.22 Best practice in engaging with consumers is an area that is developing rapidly. It would not be wise to try and anticipate now what might work best when personal accounts are introduced. The success of the National Pensions Day in March 2006 showed that it is possible to engage people in debating the future of pensions, usually considered too dry to capture the interest of the average person.

- 3.23 The Government believes that requiring the board to be open and consultative and to act in the interests of its members is the minimum level of engagement required. Options could include representation on the board (with non-executive members of the board tasked with representing the interests of individual members, employers and other stakeholder groups) or a stakeholder advisory body, with the board required to consult this body at regular intervals or when making significant changes to the structure of the scheme.
- 3.24 The delivery authority, and subsequently the board, will be tasked with setting up the most effective arrangements to ensure constructive engagement with members. In the meantime we would welcome views on which structure would best ensure members are effectively represented.
- 3.25 **The Government is interested in views on how members' interests can best be represented in the governance of personal accounts.**

## Information

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- 3.26 All stakeholders agree that providing good quality information will be critical to the success of personal accounts. It is too early to specify the details of the information products linked with personal accounts – and this is an area where the Government will need to work closely with the delivery authority – but early development work shows that different parties will require the following types of information:

### **employees:**

- understand automatic enrolment and possible reasons for opting out, such as high levels of debt or short-term residency in the UK;
- be aware of their right to join a pension scheme (if eligible) and to receive an employer contribution;
- understand the initial choices to be made, particularly:
  - whether to opt out;
  - whether to invest more than the minimum;
  - what fund to invest in;
- understand the broader context before making long-term saving decisions;
- the level of savings accumulated and what this means for retirement income;
- options for accessing pension savings;

**employers:**

- understand how the scheme will work, their obligations under personal accounts and the importance of compliance;
- have access to any support they might need to help them meet their obligations;

**the self-employed:**

- understand the option to enrol in personal accounts and how it could benefit them to opt in;
- support in deciding on a contribution level;
- the same choices on saving and accessing pension savings as employees;

**third party/intermediary organisations:**

- information ahead of scheme introduction so that they can support their service users.

- 3.27 A number of organisations are involved in communicating information about pensions, including the DWP, the Financial Services Authority, the Pensions Advisory Service and organisations in the voluntary sector. We will be working with these groups to develop an evidence-based information strategy for pensions and personal accounts over the next year.
- 3.28 This work will be developed in the context of the financial capability strategies, led by the Financial Services Authority and HM Treasury, and will draw on ongoing and future DWP research including:
- nationally representative surveys of public attitudes to personal accounts, (covering likely reactions and information needs), and to pensions and planning for retirement; and
  - in-depth qualitative research exploring information needs in the context of personal accounts; individuals' understanding of pension forecast information; and young people's attitudes to saving.
- 3.29 The Government would welcome views on what sort of information should support personal accounts, and the responsibilities of different organisations in communicating this information.

## Conclusion

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- 3.30 The new personal accounts scheme is a significant reform of the welfare state. Robust technical design, effective delivery and good governance are all vital to the credibility and sustainability of this new system.
- 3.31 The proposals for personal accounts have been developed through extensive consultation with the private sector, and personal accounts will be delivered using private sector expertise working within a statutory remit set by government, with members' interests at its core. The Government proposes a three-staged approach to achieve this:
- setting up an advisory delivery authority to develop the commercial strategy, powers for which will be taken in the Pensions Bill currently before Parliament;
  - extending the remit of this body, in a later session, to take on executive powers, system specification and development, and negotiation and management of the contracts which will create the personal accounts scheme; and
  - managing a fully operational personal accounts scheme.
- 3.32 The delivery authority and the personal accounts board will both be subject to the normal scrutiny and accountability arrangements, providing an annual report and accounts to the Secretary of State, who will lay these before Parliament.

## Questions for consultation

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The Government is interested in views on how members' interests can best be represented in the governance of personal accounts.

The Government would welcome views on what sort of information should support personal accounts, and the responsibilities of different organisations in communicating this information.