

## **Review of Pensions Institutions**

### **Aegon submission to the Institutional Review: 9 February 2007**

#### **Personal Accounts**

The advent of personal accounts will introduce a new form of work-based pension to the UK. Government's decision to class personal accounts as a centralised multi-employer occupational scheme clearly has an impact on the regulatory framework within which they will sit. While this decision may remove some issues such as the constraints imposed by the Distance Marketing Directive, we are not at all convinced that the current occupational regime is fully fit for purpose for personal accounts. In many ways, personal accounts look more like personal pensions. The employer's role is restricted to making a 3% contribution and operating an auto-enrolment process.

The sheer scale of the personal account scheme, with up to 10 million members, makes it very different from any other occupational scheme. The role of trustees will impact not only on members of personal accounts, but on the nation's confidence in pensions. And the ability of self employed and non earners to join has no parallels within current occupational provision.

In our response to the Government's first White Paper, "Security in retirement: towards a new pensions system", at which point the model for personal accounts was still under discussion, we argued that there was no single regulator which lent itself to the regulation of personal accounts. We also warned of the dangers of "reverse engineering" the outcome to minimise the regulatory burden. We sought to identify all areas where regulation might be beneficial, identified the purpose and then suggested an appropriate regulator. We can provide this analysis on request.

After the second White Paper, "Personal accounts: a new way to save", we have been revisiting this analysis and I attach where we have got to (Attachment 1). This is very much work in progress and raises more questions than answers. It is highly likely that different regulators will need to find new ways of working together if we are to have an effective regulatory structure for personal accounts.

As part of this analysis, we identified a specific role for the FSA in considering its regulation of pension advice in general, taking into account the existence of personal accounts. This is relevant both before and after 2012. I attach our initial thinking in this area (Attachment 2). Again, this is designed to begin to uncover issues rather than to provide answers. But the need for regulators and Government to consider the role of each other as legislation and regulation is finalised, comes through clearly.

One particular example of this concerns the requirement for employers to auto-enrol their employees into a personal account unless they are exempt as a result of auto-enrolling all employees into an alternative scheme. AEGON supports the policy intentions here and we anticipate increased pensions coverage as a result. But there could be a range of unintended consequences. The potential for employers to "level down" existing schemes to the personal account contribution level has been well documented. But the potential impact on individual pensions has not received the same attention.

Consider the situation of an individual employee who in the absence of any employer scheme has, after seeking regulated advice, taken out an individual personal or stakeholder pension to which they are contributing. Come 2012, their employer will be required to auto-enrol them into a personal account, with a 3% employer contribution and a 5% gross employee contribution deducted from salary. We suspect most individuals in this situation will wish to reconsider their overall pensions planning. In such circumstances, we would expect the FSA to require the person's adviser to highlight the benefit of the 3% employer contribution if they remain within the personal account. But this is contingent on the individual paying in 5%. This may prompt the individual to stop contributions to their existing pension contract. On a larger scale, this could lead to widespread discontinuance of individual pension contracts which we suspect is not what Government intends. By thinking ahead, this outcome might be avoided.

For example, if Government were to exempt employers from the auto-enrolment process provided they paid 3% on behalf of every employee into some arrangement, and did not insist on the employee paying 5% into that same arrangement, it is much more likely that current individual pension arrangements will continue.

### **The Pension Regulator Consultation on Defined Contribution Risks to members**

This recent consultation gives a very good example of the varying roles different regulators and other Government bodies have in the governance of work-based pension arrangements.

Defined contribution arrangements are not homogenous. The membership, set-up and administration vary greatly, from large occupational pension schemes with thousands of members to small contract-based arrangements with only a handful of members. However, there should be common principles to make sure the member experience does not also vary wildly.

But in establishing these principles we should be aware we may encounter practical difficulties. And the action of one regulator could have implications for areas which fall outside its own remit or expertise. This is exacerbated by different regulators and Government bodies having their own priorities regarding what they want to achieve, as well as different accountability. (For example different bodies appointed by Government are accountable to different Government departments.) This has on occasion led to conflict in legislation and guidance, with knock on consequences for customers.

When taking action on examining and improving the experience of work-based pension arrangements, we believe it's important that regulators and Government bodies work well together to identify each others' roles and also how the various initiatives combine. We need to make sure all areas are working to a single policy objective (or at least a set of aligned objectives), and importantly are accountable to that objective. This will provide much needed clarity.

### **PPF and tPR**

As providers and third party administrators of defined benefits arrangements, we work with both these institutions, and we are aware that there appears to be duplication with

many very similar functions running separately in both the Pensions Regulator (tPR) and the Pensions Protection Fund (PPF).

For example both organisations are involved in assessing the solvency position of the scheme and the strength of the employer's covenant. They both impose different levies.

We suggest this institutional review considers these areas of duplication and whether there are ways of reducing them to the benefit of the pensions industry and taxpayer.

We hope that you will find this submission of relevance to your review. We fully support the need to consider the role of different institutions as the pensions landscape evolves, particularly with the advent of personal accounts. We would be very happy to meet with the review team to discuss any aspect of our submission if this would be helpful.