PPI Seminar: *Pension reform: is there consensus?*

7 November 2006

48 people attended the seminar, which was chaired by Michael Pomery (Hewitt Consulting and PPI Council Member).

Jay Sheth (Senior Policy Adviser, CBI), Graham Vidler (Head of Pensions Strategy, Norwich Union), Sally West (Policy Manager, Income, Consumer and Housing Team, Age Concern) and Michelle Lewis (Pensions Officer, TUC) summarised the perspectives of their organisations.

Philip Hammond MP (Shadow Secretary of State for Work and Pensions, Conservative Party) outlined the Conservative Party view of the degree of consensus on reforms.

Niki Cleal (Director, PPI) and Melanie Greenall (Researcher, PPI) summarised the level of consensus on the different areas of the White Paper reform proposals:

- State Pension Age
- State Pension Reform
- Personal Accounts

James Purnell MP (Minister of State for Pension Reform, Department for Work and Pensions) outlined the Governments view on the level of consensus on pension reform.

The following points were raised in discussion:
(These were raised by speakers or members of the audience and do not represent the view of the PPI)

Consensus
There are four main planks of reform that require consensus:

- State pension age increasing in line with changes in life expectancy
- State pensions providing a solid foundation for saving
- Auto-enrolment into private pension accounts
- An increase in the coverage of pensions for women and carers

Personal Accounts
There is a large degree of uncertainty surrounding the impact of the introduction of Personal Accounts on existing private pension provision, in particular employers' pension schemes. There is widespread concern that some employers may react by reducing contributions for new members of their pension schemes to the Personal Account level, or even reduce contributions for existing scheme members. Research has given conflicting evidence as to the likelihood of 'levelling down' contributions in this way.

Auto-enrolment into Personal Accounts will not be able to reverse the existing decline in employer pension provision, and further decline cannot be ruled out. Different companies will react in different ways. But it will be important to minimise the impact of policy changes, through exempting existing schemes, and helping employees to recognise the value of existing employers' pension provision.

The true cost of auto-enrolment to employers could be higher than estimated in the White Paper as schemes may auto-enrol current employees in the scheme at existing contribution levels rather than the 3% employer contribution rate assumed. The current opt-in mechanism allows employers to treat employees who value pension provision differently from those who do not value it. However, auto-enrolment is likely to succeed in increasing the proportion of low income individuals, and individuals from ethnic minority groups, who will benefit from the employer contribution. Increasing coverage is the main objective of auto-enrolment.

The level of the 3% employer contribution is not expected to change in the initial stages of the implementation of Personal Accounts, and will be set in Primary Legislation.

Annuity decisions will be difficult for those individuals in the target group for Personal Accounts. This is an area that requires further detailed consideration.

There are aspects of Personal Accounts other than the level of charges that are important if consumers are to engage with Personal Accounts, such as trust and simplicity.

It would be difficult to reconcile full compulsion into Personal Accounts with current concerns about the suitability of Personal Accounts for some groups of individuals. For this to work there would need to be further reform of the state pension system.

It will be very important that any financial advice and information places Personal Accounts in the context of other financial decisions that individuals face. There is likely to be further consultation on this in the White Paper, as the possible models for advice and information will depend on the Personal Account model in operation.

Means-testing

Trivial commutation limits for private pension saving have the potential to increase incentives to save for low earners and those who can only afford to make small private pension contributions.

Continued reliance on means-tested benefits in later life could 'institutionalise' complexity in the state pension system. It is important to consider the ease of claiming means-tested benefits.

Existing pensioners

Older people are not currently part of the consensus on pension reform, and the proposals do little to help today's pensioners and particularly older women. Basing BSP entitlement for this group on the new 30-year qualification rule would help, and would remove the 'cliff-edge' effect that will otherwise occur if the 30-year rule is only introduced or those reaching state pension age after a specific date. However, this may not be the best targeting of resources. The White Paper is primarily concerned with increasing future saving.