What should be the roles and objectives of the Personal Accounts Delivery Authority and Board?
Seminar 2 May 2007

The Pensions Policy Institute is conducting a series of seminars exploring outstanding issues in Personal Accounts. The first seminar was held on 19 March 2007, and focused on options for the charging structure in Personal Accounts. The second seminar held on the 2nd May, was chaired by Nick Timmins from the Financial Times, and was on the subject of what should be the roles and objectives of the Personal Accounts Delivery Authority and the Personal Accounts Board.

The seminar was hosted by the Nuffield Foundation, and co sponsored by the Department for Work and Pensions (DWP), the Investment Management Association (IMA), the National Association of Pension Funds (NAPF) and Which?. The PPI is grateful for their support.

The seminar was attended by 46 people representing the range of interest areas across the pensions sector.

Catherine Nalty (DWP) presented an overview of the context for Personal Accounts and the need for an informed discussion on outstanding issues relating to the Delivery Authority and Board. She noted that while the consultation period for the Personal Accounts White Paper has now closed, the Government will consider the findings of this research and the seminar discussion in their evaluation of responses.

Niki Cleal and Penny Beynon (PPI) presented findings from the PPI's latest discussion paper, ***What should be the roles and objectives of the Personal Accounts Delivery Authority and Board?***

The PPI interviewed 32 individuals from 20 stakeholder organisations to explore their views about what should be the remit and objectives of the Personal Accounts Delivery Authority and Board. Stakeholder views are presented in the discussion paper alongside case studies of organisations that face similar governance issues and desk-based review of policy documents and responses to the DWP's Personal Accounts White Paper.

The discussion paper presents three options for the remit of the Delivery Authority and the remit of the Board:

- Narrow remit that would be limited to setting up and delivering the Personal Accounts scheme.

- Broad remit encompassing all aspects of setting up and delivering the Personal Accounts scheme and other elements of pension policy reform, such as designing the test for exempt schemes, registering exempt occupational pension schemes and monitoring employer compliance.
- Hybrid remit that would imply a responsibility to set up and deliver the Personal Accounts scheme and to provide advice to Government on broader pensions policy reform areas, such as monitoring overall saving levels.

Key findings from the research are that:

- Stakeholders believe the Personal Accounts scheme should be run in the best interests of its members – this should be the overriding objective of the scheme, and of the Delivery Authority and Board
- Independence from Government is particularly important to insulate investment decisions
- Interviewees lean towards a hybrid remit for the Delivery Authority and a narrow or hybrid remit for the Board
- Representation of stakeholder interests is important through all phases of set-up and delivery of Personal Accounts, particularly consumer/future members' interests, and interviewees support the establishment of a consumer panel to achieve this

Discussants
Nigel Peaple (NAPF) said that NAPF favours a narrow remit for Personal Accounts. They believe that the body running Personal Accounts should not be overburdened with regulatory and compliance responsibilities, which could be best served by existing institutions. However NAPF does not object to a hybrid remit, which would have the PADA providing advice on a narrower range of issues related to the operation of Personal Accounts. NAPF argued that it is important to have clarity about the target market for Personal Accounts, which it sees as workplaces without a pension, and sees a role for the Government in key policy issues, like setting the exempt scheme criteria and the contribution cap. NAPF thinks the PADA could be an NDPB, but that the Personal Accounts Board should be set up as a trust. Nigel argued that the trust model has been tried and proven to work for large, multiemployer occupational schemes and it clearly sets member's interests first.

Dominic Lindley (Which?) stressed that the needs of consumers must be central to Personal Accounts policy and that the Board and the Delivery Authority should have an overriding fiduciary duty to meet members needs. To achieve this, Which? believes it is very important for the Board to include member representatives, which can provide a clear channel between members and the Board. It is also important for a consumer panel to be established as soon as possible to inform the Delivery Authority in the development stages. Member and consumer representation was crucial for maintaining trust and confidence in the scheme. Dominic argued that the public perception of Personal Accounts will be very important to its success. As such, Personal Accounts should be designed and marketed to be a top standard, first class scheme. Which? favours a hybrid remit for the Personal Accounts Board and for the Delivery Authority. Which? argued that the exempt scheme test should be a policy matter for Government but that some key decisions, such as the charging structure and contribution cap, could be delegated to the Delivery Authority and Board if the governance of these bodies is right.

Dick Saunders (IMA) described three types of activities that will come from the introduction of Personal Accounts: setting rules, regulating compliance, and participating in the market. In Dick's view, Personal Accounts will be a participant in the pension market and, as such, the Board should have a narrow remit reflecting the fact that it is a market participant. Responsibility for setting rules and policy should rest with the Government; while the Personal Accounts scheme will provide a vehicle for saving, the Board should not be responsible for achieving Government's saving objectives. Similarly, regulating compliance should be a task for other agencies; in Dick's view, it would be inappropriate for the Personal Accounts Board, a market player, to police other schemes that it is competing against.

Questions and discussion
The following points were raised by speakers or members of the audience and do not reflect the views of the PPI.

Roles and remits
Setting up and delivering Personal Accounts will be a complex and daunting task and a huge challenge for whoever is responsible. The set up and delivery body will need to be focused on the task at hand; some people felt this was particularly important in the initial stages. There are likely to be several Government agencies, and other bodies involved in setting up and running Personal Accounts and other functions for existing provision – it is important to have clearly defined roles for existing agencies and for the Delivery Authority and Board within the new structure.

Nick Timmins (Chair) took a straw poll and found that attendees were fairly evenly split between supporting a narrow and a hybrid remit for the Personal Accounts Board. There was no support shown for a broad remit.

Attendees discussed some tasks that are clearly out of scope for the Delivery Authority and / or Board, and areas where there is either disagreement or that have not yet had sufficient consideration.

Out of scope
Government should continue to take key policy decisions, such as defining the target market and setting the exemption test. The Delivery Authority and the Board could provide advice on these decisions but would not have ultimate responsibility for

taking them. The Delivery Authority would be one stakeholder that the Government consulted in the decision making process.

There was broad consensus about what should not be part of the Board's remit. There was agreement that extending the Board's responsibilities to include regulation and compliance, particularly of other pension schemes, would overstretch its capabilities, resources and expertise. There already exist a number of institutions such as The Pensions Regulator (TPR), the Financial Services Authority (FSA) and HMRC service who could better take on these roles. It was also argued that if Personal Accounts are competing with existing pension providers then they should be regulated by the FSA to ensure a level playing field.

Disagreement / further consideration needed

There was no consensus on whether setting the charging structure is a policy decision that should be made by the Government or an operational decision for the Delivery Authority and Board. Some people expressed a preference for the Board to make the choice without political interference, arguing that the Personal Accounts scheme is a participant in the market and should therefore be free to set its own charging structure in the same way as other competitors. On the other hand, the choice of charging structure could involve judgements about which scheme members should cross subsidise others. Some organisations argued that this is a political choice that should be made by the Government. This also has wider implications for Government involvement in the long term; if the charging structure needs to change and evolve over time, the structure will need to be able to adapt to these changing circumstances. A third option is for the Delivery Authority and / or Board to set and review the charging structure within parameters set by the Government.

There is currently a lack of emphasis on the financial management of the scheme, which will be the largest of its kind in the world. Initially, there is likely to be a mismatch between costs and revenues so the scale of this challenge should not be underestimated. This suggests the Delivery Authority and the Board should have narrow, focused remits.

The discussion also touched on deccumulation. Currently, only around 30% of people exercise the open market option and shop around for a better annuity deal when they retire. People with small savings currently don't tend to shop around and since lots of people in Personal Accounts are expected to have relatively small pots, this could be an issue for the Board. If the scheme is run in the best interest of members, then the Board might have a responsibility for making sure its members receive value for money during both the accumulation and deccumulation stages.

Objectives

The overriding objective for the Personal Accounts scheme and for the Delivery Authority and the Board should be that it will be run in the best interests of scheme members. Attendees would like to have an opportunity to debate further what the scheme objectives should be before these are set in legislation.

Consumer and other stakeholder representation
Member and other stakeholder representation are essential through all phases of setting up and delivering Personal Accounts. Members' interests are seen to be particularly important. The discussion paper found that there is generally favour for a consumer panel model (as with the FSA) rather than an independent consumer body.

Nick Timmins (Chair) took a straw poll of support for a consumer panel model:

- No attendees voted against establishment of a consumer panel to support the Delivery Authority, and around a dozen attendees voted in favour
- Only one attendee voted against a consumer panel to support the Board, and around a dozen attendees voted in favour.

Transition phase
There was broad agreement that the people who are going to govern need to be involved in the setting up of Personal Accounts. There will be a need for some degree of continuity in personnel between the Delivery Authority and Board, so that experience and know-how is passed on into the Executive phase. This is also important for accountability; the Board cannot be held accountable for a system they had not designed. The open stakeholder engagement process operated by the DWP was seen as encouraging. It was important that this continued through the transition to the Delivery Authority and Board stages.

There was strong support for a pre-2012 handover from the Delivery Authority to the Board. Attendees stated that it was not appropriate to handover at the time of the launch when the scheme governance would need to be established and stable.

Trust structure
The Board could be set up as a Trust although the appropriate legal structure will depend on the remit of the Board. The trust model is not unproblematic and further consideration is needed as to whether it is appropriate. Some of the problems that arise for Member Nominated Trustees of smaller occupational schemes may be overcome by the size/scale of Personal Accounts and the resources it will have available to recruit/train MNTs with appropriate skills. No attendees voiced strong opposition to the trust model for Personal Accounts.

Accountability
Having tri-party accountability (to Government, to the public, and to members) may be problematic and lines of accountability for the Delivery Authority and Board need to be discussed further and clarified.