PPI seminar: Improving the value of saving in personal accounts and exempt schemes

The Pensions Policy Institute (PPI) held a seminar on 18 March 2008 on the issue of whether it will pay to save in personal accounts and exempt pension schemes. The Pensions Bill currently going through Parliament will auto enrol most employees into saving in a pension. However, both of the main opposition parties have expressed concern about the potential for some individuals to be little, or no, better off after auto enrolment. The Government has agreed that this is an issue for further consideration outside the progress of the Bill and has announced a pensions savings incentives work programme that will report by the end of the year.

The seminar was sponsored by B&CE Benefit Schemes and the Equality and Human Rights Commission (EHRC). It was chaired by Paul Lewis, freelance financial journalist who presents Radio 4's Money Box programme, and attended by the Pensions Minister Mike O'Brien MP and over 70 pensions experts.

Niki Cleal (Director, PPI) welcomed the Government's work programme on this issue and summarised existing PPI research. She said that, although the Government's reforms to state and private pensions will increase returns from saving in a pension, saving may still not be suitable for some groups of people, including some people who are likely to rent accommodation in retirement and some low earners in their forties or fifties who have not yet started saving. Further work is needed to identify how many people may be at risk of saving being unsuitable for them.

John Jory (Deputy Chief Executive, B&CE Benefit Schemes) argued that if we want to encourage those on lower to moderate incomes to save for retirement, then we must be able to assure them that they will be demonstrably better off for doing so. He said that current means-tested benefits do not give people this assurance. Pension saving is not a priority for many people, so it is important to ensure that all possible disincentives to save are properly addressed.

Christina Barnes (Policy Head, EHRC) said that, by opening up pension saving for all, the Government's reforms have the potential to reduce future inequalities in retirement income. The EHRC therefore welcomes and supports the introduction of personal accounts. Looking forward to the Government's work programme, she said it will be important to improve understanding of the numbers and characteristics of people in the at-risk groups, the relationship between incentives to save and rates of opt out from auto enrolment, and the potential role of information and advice.

Chris Curry (Research Director, PPI) summarised PPI research on two options that could increase incentives to save in Personal Accounts: increasing the trivial commutation limit and introducing a pension income disregard. Any option requires a series of trade-offs to be made, for example, between increasing returns from saving and cost to the taxpayer, and between the benefits of being able to give a clear message about the value of saving and the danger that perceptions are worsened as a result of more people being eligible for means-tested benefits.

Mike O'Brien MP (Minister of State for Pensions Reform) argued that policy must strike the right balance between encouraging personal responsibility, alleviating poverty and being acceptable to the taxpayer. Although some individuals might receive low returns from saving in a pension, the question is whether the factors that lead to low returns are predictable. The Government's work programme will strengthen the evidence base and build a shared understanding of the evidence. Any reforms to improve returns from saving must be both fiscally sustainable and operationally feasible.

Nigel Waterson MP (Shadow Pensions Minister) argued that it must pay to save if personal accounts are to get off to a good start. He said that the extent of the problem remains unclear and access to the Pensim2 model, currently operated by the Department for Work and Pensions, is needed to understand the size of the at-risk groups. Pensim2 must be extended to cover Housing Benefit if the modelling analysis is to be comprehensive.

The following points were raised by speakers or members of the audience in the discussion. They do not necessarily reflect the views of the PPI.

- If people perceive that pension saving is not suitable for them, then they may opt out of saving. Effective communication will therefore be essential to the success of the reforms.
- The value of saving in a pension cannot be known in advance, since individual circumstances change in unpredictable ways. There is a question about how much of this complexity can be reflected in an effective system of generic advice and information.
- There is a question about whether the state should ensure individuals will still have a good return from saving even if their circumstances subsequently change in unpredictable ways.
- While modelling can help illustrate the potential size of the at-risk group, some factors relevant to incentives to save cannot be quantified, such as the risks inherent in relying on state benefits that may change in future.
- The reforms to increase trivial commutation limits or introduce a pension income disregard could be combined, or their precise design altered.
- Other reform options include altering Savings Credit, increasing the amount of individual or employer pension contributions, increasing the level of state pensions, or allowing pension saving to be refunded to individuals whose life circumstances change in a way that means that they may no longer benefit from their saving.
- Pension saving might be more attractive to individuals if the rules around saving were made more flexible, for example, by allowing pension saving to be accessed before retirement in some circumstances.