

## **PPI Supporting Members Event 2006: *Are Personal Accounts suitable for all?***

29 November 2006

50 people attended the event, which was chaired by Tom Ross (PPI Chairman).

Niki Cleal and Adam Steventon presented results from the PPI research  
*Are Personal Accounts suitable for all?*

Claudia Wood (Resolution Foundation) discussed the implications for generic advice, and Robert Laslett (Department for Work and Pensions) placed the research findings in the context of forthcoming DWP research and policy decisions.

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)

The largest component of the 'value' of saving derives from the assumed investment returns. As these assume an element of equity returns, they will be subject to volatility, which is not evident in the headline figures used. A fairer measure would be to use the returns available from bond-like investments, to strip out this volatility. While this would reduce the net present value calculations, it would not substantially affect the risk categorisations used in *Are Personal Accounts suitable for all?*, which are measured relative to the returns on the underlying investments. The implications of different levels of investment returns are investigated in the appendix to the report.

Employer contributions are often thought of as a 'free lunch' funded entirely by the employer. In reality, the employer may reduce wages in response to paying pension contributions. This would in effect mean that the employer contribution is also funded by the employee, and so reduce the value of saving. The impact of this is investigated further in the appendix to the report.

As well as identifying which groups are at risk, it would be very useful to know how many people were in each risk group. However, data in this area is very scarce and there is no obvious way to estimate the size of each group. One possibility would be to use the DWP PENSIM2 model, though this would not be a straightforward task.

***Advice***

The idea of generic advice for Personal Accounts suggests a lower test for auto-enrolment than currently in place for advised pension sales. Should there be a level playing field?

Regulated advice is needed in the current pension sales market to overcome the market failure of asymmetric information and other principal agent problems. There may not be the same market failure in Personal Accounts.

The FSA definition of suitability is only relevant to Personal Pension and advised group pension sales, and is based around knowing the customer and their financial circumstances. Generic advice can come in many forms, from a decision tree to individualised material. The key concern is how much advice costs - today it is often bundled with distribution, and costs could fall if it was unbundled. Who should pay for the advice? Would the consumer pay?

It should be possible to produce sufficient information to allow individuals, or their advisers to make informed decisions. The advice and information process will also develop during the lifetime of Personal Accounts, and will need to cover, for example, maternity leave or periods of illness. It will be important to dovetail generic advice for Personal Accounts with the wider HMT strategy on financial literacy and capability. Could the Citizen's Advice Bureau be used to help disseminate advice and information on Personal Accounts?

The Government has announced the abolition of contracting-out for Defined Contribution schemes, partly on the basis that the decision about whether or not to contract-out is too complicated. Is the decision about whether to contract-out of Personal Accounts just as complicated?

Technology may have a role to play in future levels of financial capability. For example, in health care technological improvements are likely to increase self-monitoring of health in future, which may also be possible for financial health?

**Conclusions and next steps**

Further work needs to be done to identify possible policy solutions to the issues identified, and particularly to establish whether it is possible to design generic advice and information to help people to make the decision about whether to stay-in or opt-out of Personal Accounts.