



Costs Soar for Pension Accounts.

I've just read a shocking report into the anticipated costs of setting up Personal Pension Accounts from 2012. It looks like it's not just the Olympics that are going over budget in 2012. The report (from news agency Reuters) concerned the apparently spiraling cost of establishing the national scheme of Personal Pension Accounts that ten million people look likely to get auto-enrolled into in 2012. The Personal Accounts Delivery Authority (the PADA) has been put in place to oversee the development of this new occupational pension scheme. It will be the largest occupational pension scheme in the world and will take a fair bit of setting up and running.

The whole idea of it, though, is that it's supposed to be done so cheaply and efficiently that it will outperform all existing pension schemes by miles, thus proving once and for all that the government guys can run pension schemes better and cheaper than private industry can. Having pulled that trick off, of course, the scheme will be able to give real value for money for savers and everything thereafter will be just tickety-boo. That's the plan, anyway. But reality seems to be kicking in early on in the dream.

The bottom line, according to this report, is that the cost of setting up the scheme looks likely to top £2 billion, or four times the original budget of £500 million! Part of this cost is apparently due to the fact that something like a hundred consultants are currently working on the project and being paid a daily rate of anything between £800 and £2,500. Nice work, if you can get it!

I find this whole thing to be really depressing. If these costs get out of hand in the building and running of this massive and unique pension scheme who will end up footing the bill? It ought to be the members of the scheme (if it ever gets any that is); that's the way it works with other private sector schemes. The costs of establishing and running schemes, particularly with regard to variables like take-up and persistency, cannot be taken lightly. That has to be doubly the case, I'd have thought, with a titanic national scheme like this that is designed for ten million to be swept in, but with the understanding that over two million will immediately jump ship. That's a problem really with this whole concept of 'voluntary compulsion' and I wonder if those tasked with building this massive scheme from scratch have just started to work that out? It's odd indeed to be building a scheme that's only going to be suitable for some of the people being auto-enrolled into it and, therefore, with many expected to extricate themselves ASAP- if they can work out how to do it. That's an administrative nightmare if nothing else and this will only add further to the running costs of the scheme.

I'm a little concerned that the UK taxpayers could end up shelling out their hard earned to get this scheme launched. Well I hope not; quite apart from anything else that would surely be unfair competition for existing commercially run pension schemes. But even putting that worry aside, there's something else that I think we should be questioning here. If it really is going to cost billions of pounds to build this untried and clumsy pension scheme wouldn't we all be better off if those billions could be channeled into providing a decent basic state pension entitlement for everyone, thus providing a solid bedrock for private pension saving? That would cut the costs of distributing and running existing pension schemes considerably. The argument against providing a decent subsistence level of state pension entitlement and thereby making pension saving suitable for all was that it would cost billions of pounds to do so. But if the untried and uncertain alternative is to cost billions of pounds anyway what's the issue?

Politicians naturally have a lot to answer for, but I can only see trouble with this scheme unless the new Pensions Minister gets to grips with the problem. Now who might the latest Pensions Minister be? ...our very own James Parnell.

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