



Pension Personal Accounts will not work.

A few years ago now, the Government decided we were not doing a particularly good job of getting pensions out there to the public so they came up with the idea of stakeholder pensions. They designed the product, enshrined it in legislation, forced all employers with more than four employees to set one up if they did not have a pension scheme for all their workers and managed to increase the number of pension schemes in the UK from about 100,000 to around 400,000 overnight.

One way of looking at it was that it was a great success, with an unprecedented growth in pension schemes. Unfortunately, most of the 300,000 new pension schemes had and still have no one in them. We even invented a new term for such schemes in our strange pension argot - shell schemes.

It seemed to me that it would have been far more sensible for our legislators to have tackled the very real structural problems we face when designing, distributing and profitably managing private sector pension schemes than to have come up with a simple product solution that itself was subject to and beset by the very same problems.

But that was not apparent at the time that stakeholder pensions flopped.

The national scheme of personal accounts is different to the attempt to get stakeholder to take root. It comes with soft compulsion as a feature to take advantage of the power of inertia. The automatic enrolment of 10 million people (from 2012 onwards) into pension saving will surely result in more people saving.

But they will be saving in a private sector pension scheme that will experience all the same problems that existing schemes have to and have had to deal with. Those designing the detail of personal accounts right now are struggling with the fairness issues inherent in the type of charging structure the new scheme should have if it is to be fair to as many people as possible. Should it have up-front charges, flat charges, charges based on the value of funds under management or any other charging structure you can think of?

Politicians seem to be in agreement that the charging structure should be exactly the same as the structure enshrined in our legislation for stakeholder but maybe not at the same high level of 1 per cent. That is deemed to be a bit on the high side and somewhere around a third of that level may be more acceptable to people but the structure should be the same.

If personal accounts do not use exactly the same charging structure as stakeholder, pensions, I think we should ask why not. If they do use the same structure, it won't take long before industry providers work out that it will take forever and a day to get the numbers to stack up and everybody will at last see why it is not a product solution we need to fix our self-inflicted pension crisis but some serious changes to the structural problems which our private sector pensions have to cope with.

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THE FINANCIAL SERVICES AUTHORITY DOES NOT REGULATE SOME ASPECTS OF TRUST AND TAXATION ADVICE.
YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE OR OTHER LOAN SECURED UPON IT.
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