



Personal Accounts will never happen!

You may be wondering how I can make such a bold prediction? Personal accounts are this Government's answer to the pensions crisis we as a nation are facing and are to be introduced in 2012. The fact is the pensions world we're heading for in 2012 looks like it will be very different to the world we live in at the moment. Our private sector final salary schemes that have been so dominant in the workplace for nearly half a century will probably be almost gone by then. The vast majority are already closed to new employees and are a long way down the road to complete closure. By 2012 I doubt any such schemes in the private sector will still remain open to new entrants to the workforce and many, many more will have shut down altogether for existing employees too.

By and large, these dying schemes are being replaced by Grouped Personal Pension schemes (GPPs) and I would guess that by 2012 GPPs will be widely regarded as being the norm for workplace pensions in the private sector in the UK. But it won't just be the pensions world that will be different in 2012. By then we will have had a General Election, probably in 2010, and we will therefore have a different Government. That Government could be formed by a different political party, or the same party as now, but with a different majority. Either way the make-up of the Government after 2010 will be different to the one we have now in 2008. The Pensions Bill currently going through the legislative mill will be sitting on the statute books by then. There will be plans in place to launch the new national private sector workplace scheme of Personal Accounts along with the process of the auto-enrolment of the unpensioned millions of employees.

That process of auto-enrolment whereby up to ten million mainly lower paid employees will be swept into either the new Personal Accounts or 'good' existing workplace pension schemes will, of course, come with a political risk. Indeed, I'd say there's a very good chance that the people swept into saving in that way will eventually come to understand that the underlying system of Pension Credits and other means-tested support for the elderly will mean that the poorest savers will face the real risk of tax rates of between 40% and 100% effectively being applied to the value of their savings. They won't be happy when they find out that the new pension scheme, that will understandably have been hyped-up in its launch phase, will have come with such hidden dangers to the value of the savings of the poorest in society. If recent voter revolts are anything to go by, I doubt the Government in 2012 will be happy either if it is seen to be responsible for something as awkward as 100% taxes being applied to the savings of the poor. One way of fixing that, of course, would be for the means-tested support systems for the elderly to be completely overhauled before 2012 so that such catastrophic losses of the value of savings induced through auto-enrolment will not upset people. But that's something that can't be done that quickly. It would probably take a generation for the system of credits to be reformed, not a couple of years. It would also cost a lot of money that we don't have.

It seems to me that the easiest way out of the problem, and certainly the most politically expedient, would be for the new national scheme of Personal Accounts to go ahead as planned, but for the process of auto-enrolment to be quietly dropped. That would defuse the political dangers for that future Government. Personal Accounts would then be free to offer a 'no-frills' alternative to Personal Pensions for employers and employees who may prefer them as a potentially cheaper option. This assumes, of course, that rates of take up and persistency allow the scheme's designers to construct a commercially viable product that can undercut the costs of existing pensions. Well we've been here before with the stakeholder pension regime...remember that one?

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