

NAPF SUBMISSION TO THE PERSONAL ACCOUNTS DELIVERY AUTHORITY
CONSULTATION ON DECUMULATION

SECTION 1 - INTRODUCTION

1. The National Association of Pension Funds welcomes the opportunity to respond to the consultation document *Building Personal Accounts : securing a retirement income* issued by the Personal Accounts Delivery Authority (PADA) on 2 December 2008. The NAPF supports the 2012 reforms and the creation of the Personal Accounts scheme as a means of providing a workplace pension to those who currently do not have access to one.
2. This submission sets out the NAPF's general views on PADA's decumulation proposals as well as the responses to twenty-one specific questions posed by PADA in the consultation document.

About The NAPF

3. The NAPF is the leading voice of workplace pensions in the UK. Our 1,200 pension fund members provide pensions on behalf of more than 15 million people and have combined assets of around £800 billion.

SECTION 2 – NAPF GENERAL COMMENTS

4. The main focus/purpose within the consultation document is to obtain responses from a wide range of stakeholders regarding the suitability of their decumulation proposals for the target group for Personal Accounts. Annex A attached to this response outlines the NAPF's high level position on Personal Accounts originally set out in the 2007 White Paper response *Personal Accounts - Hitting the target?*.
5. Given the potential size of the Personal Accounts scheme the decumulation process implemented by the scheme could eventually become a template for all DC schemes in the UK.
6. Therefore having reviewed *Building Personal Accounts : securing a retirement income* NAPF would make the following points:
 - We agree that lifetime annuities are the best option for the majority of PADA members;
 - We believe that PADA should not underestimate the difficulty that many people will have in making the decumulation decision and urge that PADA provide appropriate information and support;
 - We agree that PADA should provide a range of annuity choice consistent with the target group;

- We agree that the provision of a 'focused choice' option alongside OMO is sensible.

SECTION 3 – NAPF COMMENTS TO SPECIFIC QUESTIONS

7. This section provides the NAPF's responses to the specific questions raised chapter by chapter by PADA in the consultation document.

Securing a retirement income

Question 1- Are lifetime annuities the best way to provide a guaranteed lifetime income for our members?

8. Yes. The NAPF believes that the degree of certainty and income protection provided through annuity purchase means it will be the best option for the vast majority of Personal Accounts scheme members.

Choosing an annuity

Question 2 – Does our research into the way our target Market views the process of buying annuities reflect your own views and experience? What other factors do we need to consider that will help us better understand our audience?

9. Yes. PADA's research supports the current view of a minimal level of engagement regarding financial decision making. The target audience for Personal Accounts is expected to be a largely disparate group which has either limited or no investment knowledge and apart perhaps from possibly selecting their mortgage provider or a decision regarding car finance has very little experience of making key financial decisions.

Question 3 - Are the levels of choice we are offering to enable members to buy annuities the right ones? Should we be offering others?

10. The Personal Accounts scheme should offer a range of annuities that is consistent with its remit of providing a scheme which is simple and low cost so a small number of basic options (ie single life & joint life) seems appropriate to begin with.
11. However, the range of basic choices should not necessarily exclude impaired life annuities as that could prove too restrictive and may deprive certain members of the target group of a significantly higher retirement income.
12. Moreover, the range of annuity choice can be reconsidered based on actual scheme experience when the Personal Accounts scheme undergoes an initial review in 2017/18.

Question 4 – What could the personal accounts scheme do to minimise enquiries from employees to employers about the process of securing a retirement income?

13. The Personal Accounts Scheme could establish and widely publicise a dedicated general telephone helpline and website. This dual information source could become the initial contact point to which employers could immediately redirect any employee queries regarding all aspects of the Personal Accounts scheme.

Buying an annuity

Question 5 – Have we identified the right type of information to give to scheme members, and are we providing this at the right points in the process?

14. In general terms the right type of information has been identified. It has been assumed that many of the target group for Personal Accounts are only expected to engage sporadically with the decumulation process so a long lead in time back from the Personal Accounts scheme Normal Retirement date (with the opportunity to issue reminder correspondence) would appear the most appropriate arrangement.

Question 6 – To what extent have we identified the key components, and key questions, that will need to underpin our processes for helping members access retirement income products?

15. Drawing on the research and analysis already undertaken by Harris Associates PADA have identified a broad range of information which should help underpin the provision of retirement product specifics for scheme members.

Question 7 – Given the objective of delivering low-cost products that are easy to arrange, are there other types of annuity product we should be considering via the panel of providers?

16. This question has some overlap with question three above. The NAPF would Reiterate that PADA consider the importance of offering impaired life annuities among the initial range of annuity choices.
17. As previously stated actual experience of member queries regarding decumulation in the early years of the Personal Accounts scheme will provide an evidence base and could mean additional annuity options or products being provided following the initial scheme review in 2017/18.

Question 8 - How can we identify the numbers and groups of people who will need alternative communication channels to using the internet? What alternatives may be appropriate?

18. PADA could commission research in an attempt to gather data on current/existing internet usage, from amongst the target group, for existing generic information websites to gauge the effectiveness of internet communications.
19. A dedicated telephone helpline along with basic 'hard copy' scheme booklet and factsheets providing general information on the Personal Accounts scheme would be alternative methods of communication.

Question 9 - What technological innovations are likely to make internet transactions more attractive?

20. The geographical extension of broadband coverage in the UK should help further improve internet communications. For some scheme members the provision of information via portable handsets (eg mobile telephones/i-phones) or laptop computers will be an attractive development.
21. It must be recognised, however, that electronic methods of communication will not be suitable for all scheme members and may even become a disincentive to the retention of some members following initial auto enrolment due to a lack of understanding of internet technology.

Question 10 - What views do you have on the potential to use other electronic media, such as digital TV, in helping members choose annuities?

22. As the switchover from analogue to digital signal will occur during 2012 in the UK it would seem sensible to run a trial providing information by digital TV in order to try and assess the suitability of this medium for ongoing communication.

Question 11 - What are your views on our proposal for the trustee to buy an annuity for members who reach age 75 and don't get around to choosing an annuity?

23. The NAPF accepts the general principle that annuity purchase can provide security of income during retirement and would therefore support such compulsory purchase, by the trustee, when members attain age 75.

Question 12 - What good practice can you share regarding how to deal with making payments to members who have not provided bank account details?

24. We have no comments to offer.

Question 13 – How should we address any issues raised by the need to support non-UK residents through the process of securing a retirement income?

25. A website or telephone helpline could provide assistance to scheme members now resident overseas. It is likely that conversion of future annuity payments from sterling into local foreign currency will, alongside any personal taxation concerns, be the key issues for non-UK based scheme members at the point of decumulation.

Supplying annuities

Question 14 – What factors do we need to consider to ensure that the panel of providers approach works effectively?

26. As part of a transparent purchase process the most important factor will be the availability of simple product information which is provided to an agreed timetable in a consistent format by all members of the panel.

Question 15 – How should panel members be selected? Should it be by invitation only or should potential panel members be given the opportunity to bid, or register interest?

27. Potential panel members should be given the opportunity to bid or make a submission for selection to the panel. PADA could then evaluate each bid (against their own internal criteria) on the basis of the written submission received and actual past performance with regard to annuity provision and customer service delivered by each provider.

Question 16 – How frequently should the membership of the panel be reviewed?

28. On a bi-annual basis as a minimum with immediate review if any of the panel providers should experience any specific business problems within the proposed two year period between formal reviews.

Question 17 – What technologies are available or are being developed that would facilitate the interface between the personal accounts scheme and providers?

29. Fast, efficient transmission of data and automatic updating of member records will be very important to the Personal Accounts scheme. The growth and development of immediate electronic data transfer which has redesigned banking and bill payment in the UK will have a major role to play in setting a

standard for service delivery and task completion within the Personal Accounts scheme.

Question 18 – what alternatives to the panel of providers model should we consider to address these issues?

30. PADA could reconsider its position - set out in the consultation document - on providing annuities to the target group via the scheme (self annuitisation) or the purchase of bulk annuities from the insurance market which it believes to be outside the scope of the Personal Accounts scheme.

Taking small pension funds as cash

Question 19 – Have we identified all the issues that affect personal accounts scheme holders who have small pension funds?

31. Yes. Of particular Importance is a recognition by PADA that it may not be appropriate for a small percentage of the target group to actually join the Personal Accounts scheme because the size of funds these members are expected to accumulate will be too large to fully commute but not sufficiently large to annuitise.

Question 20 - Do we need to consider further arrangements to rescue stranded funds, or should we be confident that the market will absorb them?

32. The market should be able to absorb stranded funds. However, PADA may want to consider lobbying the Government for an increase in the limit on trivial commutation which could help provide additional assistance for small funds and enable more lump sum cash to be taken, if the triviality limit was raised from the current 2008/09 level of £16,500. If the trivial commutation limit were to be raised the increase should apply to all UK pension arrangements.

Question 21 – What other approaches should we consider to resolving issues outlined in this chapter?

33. We have no further comment at this stage.

For further information please contact:

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Annex A

NAPF – High Level Points

In *Personal Accounts: hitting the target* (March 2007) the NAPF set out its initial thoughts on decumulation from the Personal Accounts scheme in a section entitled accessing pension savings (paragraphs 6.24-6.28)

The main points of the NAPF position on decumulation were:

Annuity purchase is designed to provide individuals with a regular income stream throughout their period of retirement which is structured to ensure those individuals do not outlive their capital.

The use of the Open Market Option for annuity purchase is to be supported and the government/insurance industry encouraged to improve all aspects of this mechanism including product range and annuitant communications.

There should be a reappraisal of the rules on trivial commutation to extend the limit beyond the current cap of 1% of the Lifetime Allowance (£16,500 for 2008/09) as this will help all prospective annuitants (not just Personal Accounts members) with one or more small pension funds to access their savings more easily.

Annuity investment strategy – on annuitisation a members' fund is likely to be 100% invested in bonds a legacy of the lifestyle investment strategies being applied by most DC schemes but not conducive to providing an income stream for a period exceeding 20-30 years plus during retirement.

The decumulation process for the Personal Accounts scheme should not have incorporated within it any tax advantages which are not available to other pension arrangements in the private sector i.e the personal accounts scheme should not attract any state subsidy or preferential treatment.