



NEWS RELEASE

The ACA has responded to the Government's Personal Accounts White Paper...

ACA SAYS LEVELLING-DOWN CAN BEST BE ADDRESSED BY A LOWER CAP ON PERSONAL ACCOUNT CONTRIBUTIONS

3 April 2007: The Association of Consulting Actuaries (ACA) agrees with the Personal Accounts White Paper's conclusion that a contribution limit should be imposed on personal accounts. The ACA believes this is essential to limit the risk of levelling down of existing good employer pension provision.

In their response to the White Paper, the ACA welcomes the intent of personal accounts to extend private pension provision to those not presently covered by employer pension schemes. The important next step is that the Government takes really positive steps to strengthen and encourage existing and new workplace pensions that are better than the minimum provided by personal accounts. Measures to do this need to be included in its legislative programme for 2007/08 otherwise the ACA says there is a real danger that many employers – particularly smaller and mid-sized firms – will level their pension provision down to personal accounts with minimum contributions.

The ACA says the White Paper limit on personal account contributions of £5,000 is too high and certainly should not be higher as intimated by the White Paper. The Regulatory Impact Assessment states that a £3,000 p.a. limit – the level proposed by the Pensions Commission – would be sufficient for median earners to earn a pension of 67% of pre retirement earnings about 75% of the time.

The justification for increasing this figure to £5,000 p.a. seems to be based on the contributions presently made by individuals earning well in excess of £33,500. Such

individuals are not part of the target group for whom personal accounts are aimed, and their inclusion distorts the analysis. As a result, the ACA does not believe there is sufficient evidence to justify a substantial increase in the maximum recommend by the Pensions Commission.

“We would also note that personal accounts are intended to complement existing pension schemes and that under current HMRC rules it is permissible for individuals to contribute both to a personal account and to another scheme such as a Stakeholder or a personal pension,” said Charles Young, Chairman of the ACA’s Pension Schemes Committee.

“There is nothing to stop individuals who find the annual personal accounts contribution limit too low directing some or all of their excess contributions into another savings vehicle. Since it is likely that investment advice will be needed for individuals that take this route it would also alleviate concerns about the lack of advice associated with personal accounts when significant amounts of members’ money are being invested,” he added.

The ACA response also expresses concern about volatility in fund values. Variations in fund values of 30% to 40% or more for the same level of contributions are not unusual, it says.

“The potential for unpleasant surprises for individuals and disappointment of expectations is a significant risk for all defined-contribution schemes. The larger the funds involved the greater the significance of these risks. We are concerned that, with the maximum contribution limits suggested, some members will be investing substantial proportions of their income, potentially in excess of 10%, into personal accounts with insufficient advice,” added Charles Young.

The ACA paper also says that some lower paid employees, specifically lower paid women now aged 45 to 60 and men aged 50 to 65, would be very unlikely to build up sufficient benefits in personal accounts to exceed the value of the State Means Tested Assistance (SMTA) that they would lose as a result of saving in personal accounts. The ACA suspects the impact has been underestimated and will need to be carefully monitored on a year by year basis as State benefits are revised otherwise ‘mis-selling’ may occur.

The full ACA response to *Personal accounts: a new way to save* is on the ACA website at www.aca.org.uk (see 'policy statements')

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Notes for Editors

About the Association of Consulting Actuaries (ACA)

The **Association of Consulting Actuaries (ACA)** is the representative body for consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies. The ACA has over 1500 members working in around 80 firms. ACA Members are all qualified actuaries and are subject to the code of professional conduct of the Faculty and the Institute of Actuaries. Advice given to clients is independent and impartial. The ACA forms the largest national grouping of consulting actuaries in Europe.