Commentary

Personal accounts: International experiences — Clues as to how the landscape will change after 2012

Received (in revised form): 22nd September, 2008

Clare Ward

has been working for Xafinity since 2004 and focuses on new business opportunities in the pension administration, payments and annuities market. She is recognised within the pension industry as one of the commentators on the changes in pension provision in the UK. Clare is a graduate of Oxford University (Brasenose College) and has 20 years' experience in Business Process Outsourcing, IT and consultancy specialising in Financial Services, specifically pensions.

Abstract From 2012 all employers will be required to automatically enrol their employees into a 'qualifying' pension scheme or the default Personal Accounts scheme. How will this change the UK pensions landscape? Compulsory schemes introduced in other countries may give us clues as to how pension professionals can plan to be winners rather than losers.

Pensions (2008) **13**, 247–250. doi:10.1057/pm.2008.30

Keywords: *auto-enrolment, personal accounts, qualifying, international, pensions, 2012, Xafinity*

Introduction

Personal accounts is the working name given to a new defined contribution pension scheme that the government is creating. From 2012 all employers will be required to auto-enrol their employees into a 'qualifying' pension scheme, which meets certain minimum standards, and the personal accounts scheme will be the 'default' scheme for those employers that do not already have a qualifying pension arrangement in place (Figure 1).

Looking at other countries

It is possible to observe what has happened in other countries that have made similar changes to see how this change may affect us in the UK. National schemes have been set up in Australia, Sweden and New Zealand and it is worth studying what has been happening in each of

these countries for indications of what may happen after 2012.

Australia

Superannuation ('Super' for short) is a pension scheme in Australia. It has a compulsory element whereby employers are required by law to pay a proportion (currently 9 per cent) of employees' 'ordinary-time' earnings into a superannuation fund, which can be accessed when the employee retires.

Key facts about the Super

The compulsory employer contribution applies to all working Australians, except those earning less than A\$450 per month, or aged under 18 or over 70. Individuals can choose to make extra voluntary contributions to their Super. Contributions and investment income are tax advantaged but not fully tax exempt.

The Super follows the 'provider model' where several providers compete for a share of assets, and was a model considered in the UK and

Correspondence: Clare Ward, Xafinity Paymaster, Sutherland House, Russell Way, Crawley, West Sussex RH10 1UH, UK.
Tel: +44 7917 277 732
Fax: +01293 604 893

Figure 1: Employers will have to certify to the Pensions Regulator how they intend to meet the auto-enrolment requirements, whether through their own DB/DC scheme or personal accounts

discounted. Australians may have more than one Super account, arising, for example, from job-changing where the new employer does not support contributions to the individual's existing Super provider. This has led to there being more than twice the number of Super accounts in existence than there are working Australians.

After more than a decade of compulsory contributions, Australian workers have amassed well over A\$1,000bn in superannuation assets, and the majority of these assets are managed within retail or wholesale Master Trusts. Because of the Super, Australians now have more money invested in managed funds per capita than any other economy.

What is happening in Australia?

Owing to the amount of money invested in the Super, there has been a significant increase in the level of investor sophistication. There is a broad range of investment choice, which leads to increased member communication requirements and increased reporting and management requirements for fund providers. In addition there has been a proliferation of Super funds offering online self-service.

A number of fund performance comparison websites have emerged, motivated by a keen inter-provider transfer market. Often, these sites also offer to track down 'lost' Super accounts, where the individual has lost track of where funds from an earlier employment are held.

The choice on offer also gives rise to a need for advice. Investment advice from an IFA can be offered as a staff benefit or is sometimes paid for from the Super account. Advisers, partnered with a Super fund provider, often provide educational seminars both inside and outside the workplace. These advice channels and the various websites are also used as a platform for selling insurance products to Super fund members.

Sweden

The Premium Pension Scheme (PPM) was launched in 2000. It is the upper tier of the Swedish state pension with a fixed contribution level collected via the tax system.

Key facts about PPM

There are now nearly 6 million accounts, one for every working person. Individuals can choose to

invest their contributions in a large range of funds (over 750), but there is also a 'default' fund run by the government.

Investment performance is shown prominently on the home page of the PPM website, indicating a level of sophistication in the Swedish population. They have been successful in driving volume through the web with 99 per cent of transactions handled via web self-service. In Sweden the average age of the person who is most actively engaged in managing their PPM pension is 42.

What is happening in Sweden?

The introduction of the scheme has led to a great deal of public awareness of pensions and knowledge about funds, with PPM in the press on average once a week. Everyone in Sweden receives an 'Orange envelope' once a year which summarises their state pension entitlement, including their PPM fund, and when these are sent out there is a national debate about pensions.

The government has established a website www.minpension.se (my pension) where people can see their consolidated state pension, and due to consumer pressure most life companies have been persuaded to add personal pension data so that people have a more consolidated view of their pensions.

There are a few specific developments in Sweden that are indicators of what may happen in the UK when the changes occur here in 2012. Banks have recognised the opportunity presented by PPM and some provide a facility for people to access details of their PPM account via online banking. In addition, new products are emerging on the back of PPM, for example, a new insurance product that pays out on death (based on a yearly fee and contingent on selecting particular funds).

Other developments may be specific to the Swedish scheme, which has a very large number of funds. For example, there has been an emergence of 'commoditised' advice where, for approximately £40 a year, IFAs provide a 'robotic' switching service. This is less likely to emerge as a trend in the UK if there are a very limited number of funds in the personal accounts scheme.

New Zealand

KiwiSaver was launched in 2007 and is the first national scheme to introduce auto-enrolment. On 1st July, 2008, exactly one year after the launch, there were 718,000 members, which is remarkable considering the working population of New Zealand is only 2.1 million and so far only new employees have been auto-enrolled. This is also in the context of the expected first year take-up of just 275,000.

Key facts about KiwiSaver

Auto-enrolment is compulsory for new employees and the opt-out rate from auto-enrolment is running at around 35 per cent. KiwiSaver follows the 'provider model', which was adopted in Australia and was considered and ruled out in the UK. There is a choice of some 20 providers, with those who do not choose a KiwiSaver provider allocated one against a list of six 'default' providers.

The Government contributes a one-off lump sum of NZ\$1,000 to each account and an annual fee subsidy of NZ\$40 for each account. In addition, the scheme has a mortgage diversion feature and a first home deposit subsidy feature. All these features will undoubtedly have contributed to the popularity of the scheme.

KiwiSaver is backed up by an excellent free information website run by the Retirement Commission, www.sorted.org.nz. This aims to promote awareness and saver engagement and is well worth visiting.

What is happening in New Zealand?

Although it is still early days, KiwiSaver seems to be increasing consumer awareness of retirement savings. The findings of an annual survey, which was carried out by AMP in February, were: 'KiwiSaver appears to be making a significant contribution to savings awareness and savings'. The same survey also identified a drop in investment in residential property, which has traditionally been a popular retirement savings vehicle for people in New Zealand.

KiwiSaver also seems to have stimulated the need for advice to employers and employees, with comparison websites now appearing that compare

fees and performance. These are also becoming a channel for marketing other products alongside KiwiSaver funds.

Conclusion

There is clear evidence from these international examples that with the changes that will occur in 2012 and the introduction of the new personal accounts scheme, it is likely that we will see

wider participation in workplace pensions and this will have a knock-on effect on financial products and advice generally.

People are likely to become more interested in retirement products and investments products and it is likely that successful companies will embrace the advent of these changes and decide how best to respond in order to thrive in the new market.