Westminster Employment Forum conference

12th February 2013

Ros Altmann presented and participated in a panel session at this conference discussing the outlook for auto-enrolment in the UK

Her remarks and powerpoint slides are here.

The next steps for auto-enrolment policy
Dr Ros Altmann

Good morning everyone. Thank you.

I've just prepared a few slides to go through what we were asked to talk about, which is the big challenges for auto-enrolment, which are becoming more obvious now, and what are the next steps. Well, I think we've heard already from my fellow panellists and from Graham this morning, about some of the issues around NEST.

I think for me the big challenges I would like to focus on are the issues of NEST struggling to achieve optimum size in the face of the current restrictions, the issue of charges for auto-enrolment, which are coming increasingly under scrutiny, the key challenges that we've been hearing about as far as administration of auto-enrolment are concerned, especially for small firms. Who will deliver the information and advice that both members and employers so very much need? And importantly, the issue of annuities, which I don't believe has had anything like enough attention throughout this whole process. So just a quick run through some of these challenges for the next steps.

Well, firstly NEST. Should the restrictions be lifted, as the Work and Pensions Committee has recommended and many other groups have recommended, well as far as I'm concerned, absolutely, definitely and the sooner the better. I completely agree that employers need to be able to use just one scheme and currently, because of the restrictions on NEST, that scheme cannot be NEST. NEST basically is being forced to fight and compete with its hands tied behind its back. It's not allowing transfers in and out so at the moment, employers are unlikely... smaller employers, especially those coming up for auto-enrolment in the next 18 months to two years, are unlikely to voluntarily choose NEST, unless they really don't have any other option, or are unattractive to the private industry. And the problem for NEST is that once auto-enrolment is finished, if restrictions aren't lifted until 2017/18 when the whole process is almost done, they won't easily be able to attract business because employers are unlikely to want, voluntarily, to move once they've already signed up to a scheme. So now is the time that NEST needs to compete. And of course the taxpayers, all of us, have an interest in NEST thriving, because we've given rather a large taxpayer loan to NEST to be set up in the first place. The Government's estimates are that if NEST doesn't achieve a decent critical size, the taxpayer loan will amount to nearly £400 million. If it does achieve a decent size we're talking about £200 million. And then the 1.8% upfront fee can only be lifted and that is another self-inflicted problem potentially for NEST, if, or once the taxpayer loan has been repaid. So there is a danger of the taxpayers continually being on the hook because NEST is being unable to compete.

And then of course you've got the issue of charges. The recent awful headlines talking about the schemes being very poor value. Absolutely it is the case that both employers and the employees need information and advice. And of course the funds that they invest in will have investment charges too. All of this needs to be monitored and the important question is, who is going to pay for the advice and how much is it going to cost? The administration costs are another burden, as we were hearing, on small firms and as far as the DWP's consultation on simplification is concerned, I think that is really crucial. The current system is so complicated. And big firms have struggled to cope with it, and they've got experience with pensions. I just don't see how small... particularly the smaller firms, are going to be able to cope. Yes, we've got the issue of consultancy charging and that is another real problem, because at the moment what happens with a consultancy charge is, the employer gets the advice and the member pays for it and the member doesn't get anything for that payment. The DWP, unfortunately rather belatedly, has woken up to this risk and is looking into it now. I think we do need urgency as far as what value are members getting for the advice that the employer receives and can they receive advice that they actually need. Should there be caps on charges? I think we're going to see more about that. And will the NEST charging structure change? I would like to see some change in the 1.8% upfront fee. We'll see what that does as far as members are concerned.

And finally, as so many of us have heard this morning, what attention has been given through the whole of this auto-enrolment process, to annuities and decumulation? So far, it's all been about getting money in, but, the pension fund has to deliver an income and the annuity market is certainly not functioning well. This should have been looked at all along and I have been calling for this for years. It's not good enough just to say, here's a pension fund, if at the end of the day, annuity rates have plunged by 30% as they have, and however much you've accrued in your pension fund, your income is still not there. At the moment, especially after QE, annuities are terrible value. They are terrible value for most people, especially lower earners. And for me, this actually undermines many of the estimates of the benefits or supposed benefits of auto-enrolment itself. Unless a worker can be sure that they will live beyond age 85, if they start taking their annuity at age 65, they will not even get their pension fund back. With a five year guarantee, the insurer will keep 75% of their money. Now, if people understood that I think they would think twice about whether they really wanted to be part of this deal. So I do think that more needs to be done, there are initiatives underway, but, I think there's a long way to go.

Thank you.

Ros Altmann's PowerPoint presentation can be downloaded from the link below:
http://www.westminsterforumprojects.co.uk/forums/slides/Ros_Altmann.pdf

Questions and comments from the floor

KPMG: I jotted down some words from Ros which were so far automatic enrolment is about getting money in and to my mind, also my biggest fear for auto enrolment as a policy success, is that we're tackling a symptom and we are not tackling the disease, and I think actually Mike Cherry, as well as Ros, hit on two important points around affordability of auto enrolment in general, and I think there's the employee affordability of how do I pay the 1% and will I get value back, at the back end for contributing the 1%, and 1% of not a lot is going to be not a lot. And I think the second issue is how do employers afford the 1% and I think you touched on a really important point there Mike about businesses effectively potentially having a 1% payroll increase across their whole business, and I think I haven't yet come across a business we've helped on auto enrolment where they are going to swallow a hit from gross margin for auto enrolment costs, they are going to rob it for a future cash compensation increases and instead of giving an inflationary pay rise, they will effectively subsidise the cost of pensions that way, thus compounding the affordability problem for the employees. So my question to the panel, to make this more succinctly wrapped up, is, are we actually compounding a macroeconomic problem here of affordability around pensions without actually thinking about how the member is impacted in the end?

Lord Flight: Ros.

Dr. Ros Altmann: Well Andy I think I tend to share your concern. I certainly do believe that so far auto enrolment has been all about trying to get people putting money into a pension fund without thinking whether they are going to get value from that in retirement. That is a very different perspective and that, for me, goes to the heart of some of the shortfalls in the current auto enrolment planning process. We are a bit late in the day, unfortunately, because we are quite a long way down the road, but I do still worry that a lot of the advertising and a lot of the messages that are coming through, are lulling members into a false sense of security, because when you ask ordinary people, especially those, for example, that are about to be auto enrolled, they all seem to believe, well my pension is sorted now, and of course it's not, and how do we get the message across to them, are we even going to try to get the message across to them, the issue of losing State benefits when they come to retire needs to be communicated, so that they are monitoring this over time, rather than the normal way which is, I just put the money in and I'm sure it will be fine, I'm trusting someone else to do it.

Lord Flight: Next question … yes.

Standard Life: To me there's a slight conflict developing maybe further down the line in auto enrolment where on the one hand we are understandably talking about things like commissions gone with retail distribution review, consultancy charging is up for question, when we say because there's this potential unfairness of employees being charged for services to the employer, and we all understand the debates around that. However, on the other hand we've got smaller employers and a lot of concern around the cost and complexity of not just employer contributions but also introducing auto enrolment generally. If we don't have commission or consultancy charging, which is fine, we need to then accept there will be potentially a cost to employers in getting the support that we all talk about them needing. I'm just wondering the views on that, as to how employers would get support if they can't use anything, such as consultancy charging, to offset it?

Dr. Ros Altmann: I think part of the problem, a large part of the problem that we are dealing with here, is the fact that what should have been a relatively simple idea has been made so complicated that people can't engage with it properly. If it was straightforward, employers would know, they are paying 3% of salary and that goes into a pension scheme. But with the current complex rules, employers have to keep checking every month, is somebody just above the level, just below the level, - and NEST also has to check have they hit the cap if you are in NEST. What NEST will do when someone actually goes over the cap, I'm not quite sure, but there are all these complexities that make it almost impossible for any small employer to engage with auto enrolment easily. I'm sure they've been put in place for well-intentioned reasons, but the end result is that they've made the system almost impossible for the small employers to engage with, and I don't think we've seen the problems yet, but we will if things don't change.

Lord Flight: A very powerful point. The next question.

Lord Flight: I think one quick final question. Yes there.

Sarah Mortimer: Pensions Correspondent for Reuters.
I wanted to ask the panel if they were confident that future Governments won't significantly tinker with auto enrolment, or do you think this initiative has cross-party support?

Lord Flight: Ros.

Dr. Ros Altmann: I think it's pretty much guaranteed that future Governments will tinker with auto enrolment, anything to do with pensions gets tinkered with, but it depends on the shape of the Government as to how the tinkering will go. I think it also is clear, from what we've been saying today, that changes are required anyway. As the current system has been put in, we are learning already and we will continue to learn that it needs various changes along the way. 8% isn't enough and there probably will need to be more flexibility in the pension product eventually. Encouraging saving is not just about pensions, we are going to need money for care, we are going to perhaps need to help students repay debt. If this is about encouraging saving, then there's more to saving than just pensions, but this is a first step to getting the private sector engaged again with the concept of saving rather than just spending all your money or taking on big debts.