



Personal Accounts: a new way to save **Response to the Consultation from Amicus**

Amicus is the UK's second largest trade union with 1.2 million members across the private and public sectors. Our members work in a range of industries including manufacturing, financial services, print, media, construction and not for profit sectors, local government, education and the health service.

Executive Summary

- Amicus strongly supports the conceptual basis of the NPSS and has campaigned for some years for the extension of compulsory pension contributions.
- Amicus does not support some elements of the framework now proposed and argued for alternative proposals in our submission to the earlier White Paper (Security in Retirement: towards a new pension system). In particular, Amicus argued against allowing an employee opt-out and the long timescale for introduction of NPSS and in favour of a move to a higher minimum level of contribution and for employers to be obliged to pay a higher share of the total.
- In this submission, Amicus notes the Government's response to the earlier White Paper and responds to the issues raised in this second-stage consultation.
- The Response is in two parts:
 1. Firstly, Amicus makes an overall proposal which has fundamental implications for a range of issues raised in the consultation – i.e. that whilst employees are allowed to opt-out, employers will still be obliged to make contributions
 2. Secondly, Amicus comments on some of the specific questions raised in the Consultation

1. No Opt-out for Employers

- 1.1. A major concern we have about the success of the NPSS is the level of prospective take-up. Given the target audience, which includes a high proportion of employees and employers least attuned to pension provision, Amicus has no confidence in the Government estimate this will be limited to one third of the target audience.
- 1.2. The Government has accepted the Pension Commission's view that it would be wrong to compel employees to save through the NPSS on the grounds that for some pension saving in this way might not be beneficial or appropriate. This has led to the conclusion that employees should be allowed to opt-out.
- 1.3. Amicus does not accept that this line of reasoning should lead to the employers of those employees who opt-out of NPSS escaping a liability to make compulsory contributions. In principle Amicus believes all employers should contribute minimum amounts towards higher pensions. If these contributions do not go to the direct benefit of their own particular employees then they can at least go towards the benefit of employees in general, as we shall argue below.
- 1.4. In our view a key element of NPSS should be to reduce the level of unfair competition as between employers who do provide for their employees' pensions and employers who do not. It is this sort of competition which does more to undermine decent current pension provision than will the advent of the NPSS, through any levelling-down impact.
- 1.5. This requirement will instantly align the interests of employers with that of the legislation as, if they are going to have to pay anyway, they will be keen to encourage their own employees to sign-up in order that they get the direct benefit from their employer's contribution.
- 1.6. A key concern about the NPSS, as proposed, which will have a large bearing on the level of take-up is the degree and spirit of compliance by employers who have previously not provided pensions to their employees. This proposal largely defuses these concerns.
- 1.7. The requirement could also transform the debate in respect of what level of scheme employers would be obliged to offer before they were allowed to be exempt from the NPSS requirement. If in an exempt scheme there were no requirement for an employer contribution to be paid if the member opted-out then a significantly higher quality of scheme could be required. That would of course be conditional on ensuring that the terms of auto-enrolment and exemption requirements were regulated in the spirit envisaged in the White Paper.
- 1.8. Under this proposal the NPSS would therefore be collecting in contributions from all non-exempt employers and in respect of all their

designated and qualifying employees. Most of these contributions would be accompanied by employee contributions and to those the employer contributions would be directly allocated. What then happens to the unallocated employer contributions, i.e. those relating to employees who have elected to opt-out?

1.9. Amicus can see a number of different and potentially very beneficial applications for these monies which could be allocated to one or more of them. These might include:-

- subsidising the level of charges applied to NPSS accounts;
- a reserve fund to underpin NPSS investment performance or provide a minimum return on contributions (net of benefits);
- provide an initial bonus to employees signing up;
- paying for NPSS running costs, communications materials etc;
- transfer to the Exchequer to help fund means-tested benefits.

1.10. The first four options are all intended to be directly or indirectly of benefit to NPSS savers and to make the scheme more attractive.

1.11. The last option reflects the fact that one key reason for opting-out might be that the member believes that means-tested benefits make NPSS saving of no value or insufficient value for them. The transfer means that employers who have chosen not to provide voluntary contributions to their employees' pensions would help to pay for their means-tested benefits

Response to specific consultation questions

Amicus would offer the following comments on the specific questions asked in the consultation document:-

1. Maximum age for automatic enrolment

1.1. Amicus would favour there being no maximum age - but with provision for standard literature/ decision trees being made available to highlight categories of employee for whom scheme membership might be inadvisable.

2. Repeat automatic enrolment

2.1. Amicus would support three years as a suitable interval.

3. Member representation

3.1. The member interest should predominate in non-executive board positions. The NPSS is not an employer scheme and so the employer interest should be limited to reflect that. Amicus is unclear as to which 'other stakeholder groups' would merit recognition.

3.2. In respect of the member interest, the TUC should play a lead role in nominating board members

4. Charging structure

4.1. The single annual management charge approach has been one of the best elements of the stakeholder framework and we can see no reason to follow a different approach for the NPSS.

4.2. The relevant NPSS Board should be under a duty to secure a reduction in charges as the Scheme funds accumulate.

4.3. Amicus would question the suggestion that Social, Environmental and Ethical criteria in respect of investment should be special investment options only available at an extra charge to the member. The NPSS should be charged with a general duty to take some account of these factors and to see to what extent they can be built-in to the default and standard low-cost options.

5. Exempt employers/auto enrolment/waiting periods

5.1. Amicus believes it is a mistake to set the minimum level of employer contributions to a Defined Contribution alternative at the same level as that required for the NPSS. To obtain exemption, employer schemes should confer a clear advantage over, and not just equality with, the NPSS. Otherwise too much depends on regulation of exemption to ensure members are not disadvantaged.

5.2. The White Paper identifies concerns about charges, enrolment procedures and waiting periods without giving any clear or convincing

explanation as to how these might be regulated so as to ensure members are not disadvantaged relative to the NPSS.

5.3. Amicus would propose that a minimum employer contribution of 5% be required in order for NPSS exemption to be obtained. This might or might not be associated with lifting the required minimum 8% total contribution requirement.

5.4. This higher contribution level might also excuse the application of a waiting period on the basis that it is associated with a net advantage to the total workforce even if it threatens a disadvantage to some short service individuals within a workforce.

5.5. Amicus supports the specification of the auto enrolment procedures for scheme exemption to be laid down clearly in regulation backed up by a statutory code of practice.

6. Compliance

6.1. Amicus sees compliance as a major area of concern and believe the framework proposed provides an incentive for recalcitrant employers to discourage membership.

6.2. The central estimate of one third of prospective members opting-out is in our view extremely optimistic. It would be difficult to achieve a rate as low as this even if employers were committed to encouraging scheme membership, which many will not be.

6.3. While Amicus is inclined to support the proposal for no waiting period before NPSS membership commences it is concerned that employers may draw particular attention to them in recruitment/induction interviews, when individuals feel most vulnerable.

6.4. Our central proposal to minimising is as outlined in the first section of this response, i.e. to stop employers from benefiting where their employees opt-out and, by making them pay in all circumstances, aligning employers interests with the success of the Scheme.

7. The £5000 limit/restriction on transfers

7.1. In this area Amicus has to be mindful of whether restrictions are in the interests of members of the NPSS and of existing schemes or whether they are being advocated in the interests of those in the pensions industry making money out of currently established schemes.

7.2. Are concerns about levelling down of existing provision reflecting a genuine concern that worse schemes will be offered to members or a concern that pension companies will lose business to the NPSS. In respect of the latter concern there is a certain irony that this should surface in respect of Defined Contribution schemes some of which

have been marketed on the basis of their being cheaper than pre-existing Defined Benefit provisions.

- 7.3. Amicus supports a maximum contribution of at least the £5000 level as we believe that the NPSS framework should allow ample scope for members and employers to double up on minimum NPSS contribution levels across a wide range of incomes. This is required to give the Scheme scope to approach the minimum income replacement levels initially focussed on by the Pensions Commission, i.e. total pension income of around 60% rather than 45% of pre-retirement earnings.
- 7.4. Amicus would not want to see the NPSS characterised only as a minimum scheme. Once established, Amicus can see no reason to place obstacles on employer and employees agreeing on higher levels of contributions. Such levels may help to keep down overall NPSS charges levels.
- 7.5. In respect of restriction of transfers-in to the schemes, the proposed ban until a review in 2020 seems to be unduly restrictive.
- 7.6. If Schemes are discontinued in favour of the NPSS framework then it is not clear that it would be in members' interests to be forced to retain a separate Defined Contribution account in another scheme.
- 7.7. Amicus recognises that pension companies have invested in the stakeholder framework which has involved their incurring costs which may not be recovered if schemes melt away in their early years. However, a blanket ban on transfer or other measures artificially restricting the development of the NPSS should not be imposed under the guise of protecting employees' interests, when that is not the real reason. A more flexible and sensitive approach needs to be developed based on an honest appreciation of the interests of both pension schemes members and pension companies.

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