

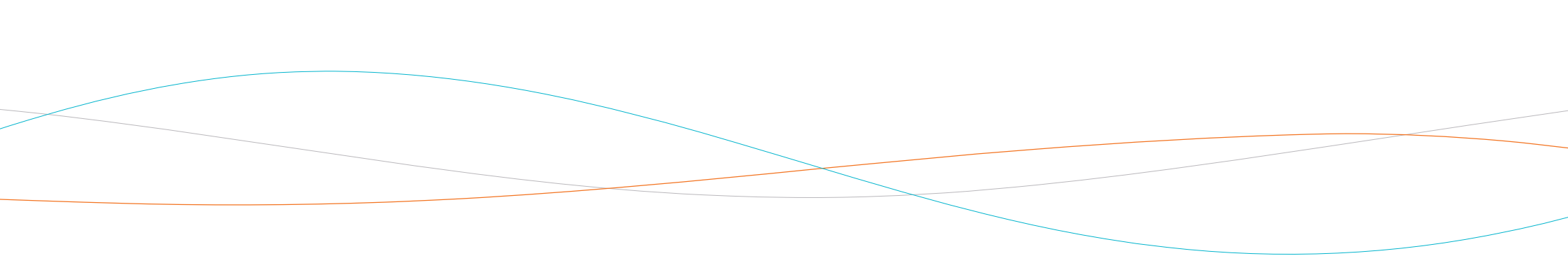


Personal Accounts Delivery Authority

Myth buster

personal accounts
delivery authority

helping millions save
for their retirement



Myth: “Personal accounts” is the name for the Government’s workplace pension reforms.

Reality: The Government is reforming workplace pension provision from 2012. It is placing a duty on employers to automatically enrol eligible workers into a pension scheme that meets certain criteria and to make a contribution into the scheme.

The personal accounts scheme is one aspect of these reforms and is being set up to provide access to millions of people who currently don’t have access to a workplace pension. It will be one of the qualifying schemes on offer to employers to discharge their new automatic enrolment duties.

Myth: Workers will be automatically enrolled into the personal accounts scheme.

Reality: Under the Pensions Act 2008 employers will be required to enrol eligible employees into a workplace pension that meets certain criteria.

It will be up to employers to select suitable schemes for their workers. This may mean using existing schemes, setting up a new one, using the personal accounts scheme or choosing a combination of options.

Myth: Automatic enrolment means employers no longer have the freedom to choose the best pension scheme for their workers.

Reality: Employers can choose the pension scheme they believe is most appropriate for their employees. However, the new duties mean that there are new minimum requirements for workplace pension provision. This means whichever scheme employers choose it will need to meet these criteria to comply with the legislation.

The personal accounts scheme will be one such scheme.

Myth: The personal accounts scheme is a government pension scheme.

Reality: The personal accounts scheme will be an independent pension scheme run by a not-for-profit trustee corporation in the interests of its members. It will be accountable to Parliament.



Myth: The personal accounts scheme is only suitable for small companies.

Reality: The personal accounts scheme could be used in a number of ways and by employers of any size. Employers have to decide how they want to comply with the new duties and may decide that different approaches and schemes suit different members of their workforce.

For example, personal accounts could be:

- the sole scheme for employers with no current provision
- an entry scheme for some employers – particularly for sectors with high turnover, to provide flexibility for workers who change jobs frequently and to save on employer admin costs
- a foundation scheme

Myth: The personal accounts scheme will compete with existing pension schemes.

Reality: The personal accounts scheme is being designed to complement existing workplace pension provision. Rather than diminishing the current market for pensions, the reform programme, including the personal accounts scheme, will be increasing access to workplace pensions for millions of people. The personal accounts scheme is being designed specifically for low-to-moderate earners who don't currently have access to workplace pension provision.

Myth: The personal accounts scheme will be expensive for employers to use.

Reality: PADA is building a pension scheme for the future that will be low cost, minimise employers' administrative burden and is easy for members and employers to use. The personal accounts scheme will be an e-business with non 'e' services where appropriate, for example, for complex services that don't easily fit an e-model and for members who can't access digital channels.



Myth: Economic turmoil means PADA will not hit its deadline of 2012 for delivering the personal accounts scheme.

Reality: The recent economic situation is not expected to have an impact on the implementation of the personal accounts scheme. Pensions are a long-term investment and the position of the financial markets is likely to change many times between now and when the personal accounts scheme is introduced and beyond. PADA is on track to enable introduction in time for the onset of employer duties in 2012.

Myth: The personal accounts scheme can only be used to meet the legal minimum.

Reality: Employers can decide to offer more than the minimum requirements. There is no reason why the personal accounts scheme, or any other occupational scheme, can't provide pension products that allow employers to offer more than the minimum requirements.

Myth: The annual contribution limit of £3,600 for the personal accounts scheme will deter potential members¹.

Reality: In most cases there will be headroom under the limit for employers and/or members to contribute more than the minimum and to structure their contributions in different ways. For example:

- where an employer makes contributions on the minimum band of earnings required by the Pensions Act 2008, an 8 per cent contribution for an average earner (approx £25,100²) would be approximately £1,600 per annum
- alternatively an employer might choose to make contributions on a broader band of earnings, for example by making them on the first pound of pay. In this case an 8 per cent contribution for an average earner (approx £25,100²) would be approximately £2,000 per annum

1. The government is committed to reviewing the annual contribution limit (and the ban on transfers) in 2017.

2. 'Average' refers to median earnings – Source: ONS (ASHE) March 2009 Economic and Labour Market Review, Vol 3, No 3.