Department for Work and Pensions

Report on Personal Accounts

Government response to the Fifth Report of the Work and Pensions Select Committee, Session 2006–07 [HC 220-1]

June 2007

Cm 7122 £9.00

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Presented to Parliament by the Secretary of State for Work and Pensions
by Command of Her Majesty
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WORK AND PENSIONS SELECT COMMITTEE INQUIRY INTO PERSONAL ACCOUNTS

Introduction

1. The Government welcomes the Fifth Report of the Work and Pensions Select Committee, session 2006–07, on Personal Accounts. The Committee performs a vital role in scrutinising the proposals to establish Personal Accounts and its views continue to play a fundamental part in the evolution of our policy.

2. The Work and Pensions Select Committee has helped to create a cross-party consensus in favour of Personal Accounts. The Government welcomes the Committee's recommendations and values the practical suggestions it has made. We have reviewed all of the recommendations in the context of how they can contribute to delivering our package of reforms for private pensions: automatic enrolment, a minimum employer contribution and a low-cost scheme that meets the needs of the target group.

3. The Pensions Commission published its Second Report in November 2005. The Government built on the Commission's report and published its own proposals on 25 May 2006 in the White Paper, *Security in retirement: towards a new pensions system*.

4. On 12 December 2006, the Government published a second White Paper, *Personal Accounts: a new way to save*. This White Paper sets out our proposals for automatic enrolment with a minimum employer contribution into a workplace pension or the new Personal Accounts scheme.

5. The Government has consulted widely and worked with the main opposition parties, pensions experts, lobby groups and the public. We believe that the proposals set out in both White Papers provide a coherent framework that reflects society and working lives in the 21st century.

6. Pensions are complicated, and too many people find it difficult to save what they need for retirement. Although parts of the pensions market work very well, the market is not working for people on moderate and low incomes who do not have access to a company scheme. It is difficult for this group to find the right kind of pension product for their circumstances and pensions providers cannot profitably supply what is needed.

7. Our analysis has shown that people place a high value on simplicity in pension design. It is vital that the Personal Accounts scheme simplifies the decisions people need to take. That is why features such as low

cost, simplicity and portability remain fundamental in the scheme design. Personal Accounts must provide an affordable and flexible way to save for employees without access to a workplace pension.

8. The response to the White Paper consultation has been published in parallel with this response. It captures the key issues raised by the respondents during the consultation period and sets out how the Government intends to take forward the development of Personal Accounts.

9. The reforms we are introducing are, by their very nature, long term. We need to ensure that the decisions we make now will stand the test of time. The Bill currently going through Parliament will establish a Personal Accounts Delivery Authority to bring private sector expertise to support Government in the operational and commercial implications of Personal Accounts design. It is important that we provide the Delivery Authority with the flexibility to deliver a low-cost scheme that meets the needs of its members and that we do not make decisions now that the Delivery Authority will be better placed to make. But, we also need to ensure that the policy framework within which the Delivery Authority will work is well defined and has clear objectives. This will provide certainty for both employers and the pensions industry to plan for reform. We hope the responses to the Committee's recommendations, and the decisions outlined in *Personal Accounts: a new way to save – Summary of responses to the consultation*, succeed in balancing these requirements.

10. We plan to introduce legislation in a future session of Parliament to give the Delivery Authority executive powers and to set the statutory framework for the Personal Accounts scheme. We anticipate that while the Bill will need to ask for primary powers to set up the essential statutory framework for reforms, the detail of operational processes will need to be fully discussed with the Delivery Authority and much of this detail will appear in secondary legislation.

11. The Select Committee's reports have been extremely constructive in the development of Personal Accounts policy; we look forward to this continuing as we move from policy to delivery, and to working with the new Delivery Authority.

Conclusion and Recommendations

1. In our previous report we concluded that two of the Government's criteria were particularly important: achieving a lower level of charges and maximising simplicity for employers and individuals. We still hold this view and have looked at the new proposals with these factors in mind. In our opinion, the achievement of many of the other objectives (such as value for money for the taxpayer, the appropriate type of consumer choice and the administrative burden on employers) logically follows if the Government gets these two aspects of the scheme right. (Paragraph 5)

12. We agree with the Committee that achieving a low level of charges and maximising simplicity are particularly important aspects for Personal Accounts. We also agree that the other objectives mentioned logically follow if you get these aspects right.

13. Personal Accounts will be delivered through a trust-based occupational pension scheme and trust law requires trustees to act in the best interests of members. This makes it clear that the trustees of the Personal Accounts scheme will have a legal duty to manage Personal Accounts in the interests of members.

14. Any additional objectives such as the appropriate level of member choice would also have to be delivered in the best interests of members and as such would be covered by this overriding objective.

2. Public Bill committees have been introduced since our original report on Pension Reform was published. This means that the committee stage of Bills normally includes one or more evidence sessions. We recommend that the committee stage of the Personal Accounts Bill should include two or three evidence sessions. This will enable witnesses to explain to that Committee their views on the Bill which is eventually produced, the accompanying material, and how the Government has responded to our recommendations. We remain disappointed that we will not have a draft Bill to scrutinise. (Paragraph 25)

15. Oral evidence sessions are now a requirement for public Bills introduced in the Commons, in line with revised legislative procedures. Subject to the agreement of the relevant Public Bill Committee, we agree with the Select Committee's recommendations to include evidence sessions. The exact number of sessions will be agreed by the Bill Committee.

16. While it will be for the Bill Committee to decide on the issues on which they would wish to hear evidence, we anticipate that there will be interest in hearing from those leading the development of Personal Accounts, including the Chair and Chief Executive of the Delivery Authority.

3. We ask the Government for the results of each element of its personal accounts analytical research programme to be published and to be sent to this Committee for scrutiny. (Paragraph 27)

17. The Department for Work and Pensions is committed to making the findings of the Personal Accounts research programme publicly available and will provide copies of all publications to the Committee.

4. We recommend that the Government clarify its definition of the personal accounts target market in terms of categories of people and income levels. It should not be positively encouraging those with existing access to a good workplace pension to participate. The Government should explain whether targeting will mean specific encouragement for certain groups or trying to discourage non-targeted participants. The Personal Accounts Board should monitor, once the scheme is in place, the numbers of people opting out in different sections of the target market, and include that information in the Annual Reports it presents to Parliament. (Paragraph 33)

18. We agree with the Committee that the Government should not be encouraging those people who already have access to a good workplace pension to participate in Personal Accounts. This has never been Government policy.

19. Personal Accounts are not being designed to poach people from existing pension providers that are already providing good schemes. The aim of private pension reform is to give more employees access to a workplace pension scheme.

20. Personal Accounts are just one option available to people and complement the range of options that already exist.

21. Personal Accounts offer moderate to low earners – a group not currently well served by the pensions industry – access to a low-cost pension savings vehicle with an employer contribution.

22. We acknowledge the Committee’s view that the numbers of people opting out of Personal Accounts should be included in the Personal Accounts board’s annual reports. We are still in the process of designing the monitoring and reporting arrangements and requirements that the Personal Accounts board will need to follow when reporting to Parliament. We can assure the Committee that the Personal Accounts board will comply with best practice in evaluating new policies.

5. We are concerned that the proposals as they stand will lead to a significant and vulnerable group – lower earners with multiple jobs – potentially being excluded from the personal accounts system, or having the employer contributions they receive markedly reduced. It is clear that the majority of those affected will be women. We recommend later in this report that action must be taken urgently to decide the way in which contributions to the personal accounts scheme will be collected, and we ask that this issue should be considered as part of that review. We intend to look at wider issues relating to part-time working and multiple jobs during our forthcoming inquiry on benefits simplification. (Paragraph 47)

23. We have examined the issues for lower earners with multiple part-time jobs very carefully to see how they can be brought into the scheme. Low earners in this situation may well wish to save for their retirement.

24. We have looked closely at the issue of aggregation, but there is no straightforward mechanism to allow earnings from multiple employers to be aggregated in a way that would not impose additional administrative burdens and costs on business.

25. Many people with multiple jobs earn more than £5,000 in at least one of them and would therefore qualify for automatic enrolment into the Personal Accounts scheme. Only around 40,000 individuals earn less than the threshold for Personal Accounts in each of their jobs.[1]

26. There is no evidence to show that the majority of people remain in multiple low paid part-time jobs throughout working lives.

27. The Government has concluded that anything other than treating each employment independently would be too complex and costly to administer both for the scheme and the employer. However, people with an income below around £5,000 per year may opt in to occupational pension saving, including into Personal Accounts, and will receive an employer contribution if one is offered.

6. We are concerned that an effective strategy to maximise self-employed participation in personal accounts has not been developed, in spite of the recommendation in our Pension Reform report. We ask the Government to set out its latest thinking on the option described by the Pensions Commission of allowing the self-employed to make personal accounts payments alongside their monthly Class 2 National Insurance contributions. We would also ask the Government to consider the arguments for and against an automatic enrolment process for the self-employed with contributions based on their gross income. (Paragraph 53)

[1] *Family Resources Survey* 2004/05

28. There are around three million self-employed people in the UK, around two million of whom have no private pension savings or disposable business assets. A minority of the self-employed do have business assets – with a mean value of around £107,000 and a median value of £30,000 – which suggests that some may be able to dispose of assets to generate income in retirement.[2] But the majority have only very modest assets.

29. There is a range of private pension and savings options the self-employed may wish to consider. The self-employed are not a homogeneous group and Personal Accounts is only one savings option. If we were to introduce a mandatory mechanism to automatically enrol the whole of this group we would capture all the self-employed for Personal Accounts.

30. We have not been able to find any levers to put the self-employed on a par with employed workers, but we have provided a broad access route to suit the fluctuating circumstances of the self-employed. We have considered how self-employed people might engage with Personal Accounts to best effect in the absence of an employer.

31. Overall income replacement rates in retirement would be different from those for an employed person unless the self-employed person were to make significantly higher personal contributions. The absence of employer contributions makes a significant difference to the self-employed but we cannot find a legal way to resolve this problem.

32. For employees, we have set a minimum overall contribution of 8 per cent. This should, on average, enable a median earner with good state entitlement to save in a Personal Account from age 30 and achieve an income replacement rate of around 45 per cent, as recommended by the Pensions Commission.

33. To achieve an equivalent replacement rate using similar assumptions, a median earner with a single ten-year period of self-employment between the ages of 35 and 45 would need to either:

- contribute 16 per cent of gross profit over the Personal Accounts earnings band lower threshold of around £5,000 during the years of self-employment; or
- increase their personal contributions to around 9 per cent every year while employed, making an overall contribution from employee, employer and tax relief of almost 12 per cent.[3]

34. We explored the feasibility of suggesting a minimum payment rate for the self-employed. However, the variation among individuals within the self-employed group, their mix of periods of employment and self-

[2] *English Longitudinal Study on Ageing*

employment as well as fluctuating gross incomes, means that any default or minimum contribution is likely to be misleading. Our inability to set a widely applicable default contribution rate also stops us from establishing a credible trigger for automatic enrolment.

35. To that end, access to Personal Accounts for the self-employed will be on a voluntary basis, for all self-employed people of working age (that is between ages 16 to 75) irrespective of income levels. People may opt into Personal Accounts between State Pension age and age 75. They will be able to contribute an amount of their choosing, as and when best suits them, subject to any limits that apply to members in general.

36. We believe the self-employed remain best placed to make their own decisions about whether they can afford to save towards a pension, and if so how much. They will have a savings route with Personal Accounts which gives flexibility to suit potentially irregular savers with fluctuating incomes.

7. While we look forward to learning the outcome of the Thoresen review, given the central importance of this issue we would have expected that the costs and feasibility of providing robust and reliable generic financial advice to all personal accounts participants would have been properly established or trialled before the Government's Personal Accounts proposals were launched. If either the cost or quality targets cannot be achieved it will seriously undermine the financial performance of, and public trust in, the personal accounts agenda. Given the very high figures currently being quoted for the cost of provision of a national system of generic advice, we ask the Government to set out its own estimates as a matter of urgency, in both absolute terms and as a percentage of funds held in personal accounts. (Paragraph 65)

37. The Government has asked Otto Thoresen to conduct a thorough review into the options for a national system of generic advice, and it would be inappropriate to pre-empt his findings, which are due at the end of the year.

38. The Personal Accounts scheme will provide information on the scheme to its members and prospective members. This will not be regulated financial advice but information to support individuals in making decisions about Personal Accounts.

39. The provision of information to Personal Accounts participants will be tested and refined prior to launch. We are currently developing plans for how this will be developed, including looking at customer focus groups, future product testing and reviewing provision by current pension providers.

[3] DWP modelling based on a median earner working and saving in Personal Accounts from age 25.

8. We noted in our Pension Reform report the Swedish 'orange envelope', which provides information about state pension entitlement in an eye-catching format. The envelopes are sent out en masse annually, which encourages discussion and debate on pension provision. We noted that while the orange envelope was "not the complete solution to the problem, as it does not include information about private or occupational provision, it has two key advantages of being distinctive and simple and should be the starting point for reform." We look forward to learning further details of the Government's plans for the provision of integrated pensions information in the context of the new personal accounts scheme. We would expect this to include information on how to access personalised advice through an Independent Financial Adviser. (Paragraph 67)

40. We agree with the Committee about the key advantages of the 'orange envelope'. Pension scheme members should be able to identify the communications that are relevant to them and have sufficient information to make their own choices.

41. The Government already provides combined pension forecasts, where schemes are willing to work in partnership.

42. In the December White Paper, the Government undertook to work with the Financial Services Authority, the Pensions Advisory Service and the voluntary sector to develop an evidence-based information strategy during 2007. This will address, among other issues, the provision of integrated pensions information in the context of the new Personal Accounts scheme.

43. We are continuing to consider the respective roles of Government, the Delivery Authority and other bodies in providing information and communication to support private pensions reforms, and particularly the new requirement to automatically enrol eligible employees.

9. We accept the arguments we have heard about the importance of employers, particularly small employers, not giving advice about personal accounts. However, it is clear to us that employers will have an important role in being the 'first port of call' for information (even if that role is limited to handing the employee a leaflet or giving them a phone number to call); and it would be best for this role to be anticipated and prepared for, both by employers and by the Government. (Paragraph 77)

44. The Government recognises that employers would have concerns about being put in a position where they are required to give advice about pensions to their employees, or are perceived to have given advice to employees.

45. This has never been part of the plans for delivering Personal Accounts. Following the introduction of automatic enrolment and minimum

employer contributions into pensions from 2012, employers will be required to pay their own, and employees', contributions into a qualifying scheme, either their choice of pension scheme or Personal Accounts.

46. Nevertheless, as the Committee points out, employees may approach their employers for information. We are developing an information strategy for employers and third parties to ensure that they have the information they need to understand how the Personal Accounts scheme works. This is in the context of not expecting employers to provide information about how the scheme is run, apart from how contributions will be collected from employees.

47. We will continue to work with employers and industry as the information strategy evolves. All information products developed will be thoroughly tested and reviewed by employers and employees. We are aware that the timing of information is also critical and are working now to understand the preparations that will need to be made and what information will need to be available.

10. The evidence we have received points to a widespread interest in increasing the trivial commutation and Pension Credit capital limits. These changes have the potential of making it pay to save even for those who save only a little in Personal Accounts and who claim means-tested benefits in retirement. We look forward to learning of the Pension Policy Institute's further work in this area, and recommend that once this work has been conducted the Government publish a detailed response to it. (Paragraph 100)

48. The existing trivial commutation rules[4] already benefit many of the very small minority who would otherwise face high benefit offsets on their Personal Accounts saving.

49. We will study the work of the Pensions Policy Institute with interest.

11. There are clearly advantages and disadvantages of auto-enrolling those close to State Pension age. We look forward to the forthcoming research on this point from the Pensions Policy Institute. This is an area where the provision of advice will be crucial. (Paragraph 105)

50. The Government intends that automatic enrolment should apply to all eligible employees aged between 22 and State Pension age.

51. We recognise that those close to State Pension age will have less time to build up their pension fund. They are still likely to benefit from participating in a qualifying occupational pension scheme through the

[4]Trivial commutation: if total value of all of an individual's pensions rights does not exceed 1% of the Lifetime Allowance (in 2007–08 this equates to £16,000), then these rights can be exchanged for a cash sum, rather than being annuitised. A quarter of this sum will be tax-free, with the rest treated as taxable income in the year in which it is received. This option can only be exercised between the ages of 60 and 75.

employer contribution and tax relief, and they will be able to top up any existing provision for retirement.

52. Those reaching retirement with total pension funds of less than £16,000 will be able to take that saving as a lump sum. The Government agrees with the Committee that it is vital to ensure appropriate information is provided for individuals when automatically enrolling those nearing retirement age.

53. We also await the Pensions Policy Institute's forthcoming research, which we understand they are working on over the next few months, with interest.

12. We ask the Government to set out whether it is considering some form of statutory waiver from mis-selling claims in the Personal Accounts scheme and, if so, how such a disclaimer would operate. (Paragraph 109)

54. The plan to introduce automatic enrolment will not involve the sale of a product to a consumer. As such, there can be no mis-selling, which is why the Government is not considering the introduction of any statutory waiver.

55. The Government recognises the importance of provision of good quality information for those people who were automatically enrolled, which will explain both the issues associated with occupational pension saving and what the individual must do if they wish to opt-out.

13. Given that the Pensions Commission originally envisaged that the NPSS would come into existence in 2010, it is important that steps are taken to minimise the numbers of people who defer their pension saving until the personal accounts scheme is in place. We believe that the Government should consider how best to promote saving before 2012 and provide vehicles for people to do it which offer a simple transition into personal accounts. Promoting good workplace provision also has a role here and we urge the Government to work with industry and employers to make the NAPF's proposed quality mark a success. (Paragraph 121)

56. It is right that people prepare for their retirement. This is why we are introducing these reforms.

57. There are currently a variety of options for people to save for the medium and long term. For example, Individual Savings Accounts allow individuals to save considerable amounts in a tax-advantaged way: From April 2008, the annual subscription limit will be £7,200, of which up to £3,600 may be in cash.

58. We will continue to consider a higher contribution cap for the first year of the scheme. This higher limit is designed to enable individuals to pay in any non-pension saving made between now and 2012.

59. We will want to consult after the Second Pensions Bill on how we can help prepare qualifying schemes for automatic enrolment and minimum employer contributions after the 2012 changes.

60. We welcome the efforts of the National Association of Pension Funds to lead the industry in developing a quality mark, and believe that it could help members to appreciate better the value of their employer's pension scheme. We want to reassure employers that a quality mark would not be used to raise minimum standards. This is why we want the mark to be owned and supported by the industry and employers themselves.

14. The Government is seeking views on how best to represent members' interests in the governance of personal accounts. In our view the consumer voice must be heard from the inside at both Advisory and Executive Delivery Authority stages and we look to the Government to bring forward proposals that will enable this to take place. We reserve the right to invite Authority/Board members to give evidence on appointment, along the lines of the Treasury Committee's hearings with people appointed to the Monetary Policy Committee of the Bank of England. (Paragraph 138)

61. Personal Accounts will be established as a trust-based occupational scheme and the trustees' duty will be to serve the needs of the target market. We can reassure the Committee that we consider it essential that members' needs are at the heart of the scheme.

62. We will introduce the following measures to ensure that the scheme retains this focus:

- a members' panel to put members' views and concerns to the trustees and to nominate one third of trustees; and
- a duty to follow best practice in consultation and consult in innovative ways to encourage member engagement and a sense of ownership.

63. The Personal Accounts Delivery Authority will be tasked with operating in an open and consultative style. As part of this remit we will invite it to establish a consumer panel well in advance of the Personal Accounts launch, so that prospective members' views and concerns are fed in to scheme design from the outset.

15. We conclude that the Government needs to spell out its plans for governance of the Personal Accounts Board, and how the transitions between the Advisory and Executive Authorities and the Board will operate, in further detail. A degree of continuity in personnel between the different stages will be important. (Paragraph 145)

64. Personal Accounts will be a trust based, defined contribution occupational pension scheme. The trustees, who will be well qualified experts in their field, will be responsible for providing strong governance, serving their over-arching objective of running the scheme in the best interests of the members and beneficiaries. This is in line with all other trust-based occupational pension schemes. As an occupational pension scheme, Personal Accounts will be regulated by the Pensions Regulator.

65. We intend that the board of trustees should meet this objective while having regard to the definition of the target group.

66. The process for appointing the initial board will be as open and consultative as possible, involving a wide range of stakeholders including the Personal Accounts Delivery Authority board, who will make the final recommendation to the Secretary of State concerning the Chair. We expect the board once established to be responsible for subsequent trustee appointments. The Secretary of State will appoint the Chair.

67. There will be an influential members' panel with a remit to put members' views and concerns to the trustees and to nominate one-third of the members of the trustee board.

68. The Government agrees that a degree of continuity will be important. Continuity through the transition period will be provided by the need to bring in those trustees responsible for setting the investment strategy. This will not be a full-time role: We would expect the Delivery Authority to do much of the groundwork in preparing a proposed investment strategy for discussion with the board of trustees.

69. Some degree of continuity between the Delivery Authority and the board of trustees, or the operational management of the Personal Accounts scheme would seem appropriate and we anticipate some staff will transfer from the Delivery Authority to the scheme, but this will be a matter for the trustees.

16. We agree with the evidence we have received that there needs to be a hierarchy of objectives for the personal accounts scheme. In our view, the duty of care to members must come first, alongside the other fiduciary duties, in line with the overarching objectives of simplicity and low charges. There should then be a distinct set of second-order social policy responsibilities and a set of performance targets and objectives. While these objectives should be set primarily for the Board, they should also be applied to the work of the Delivery Authority where appropriate. (Paragraph 154)

70. We will give the trustees of the Personal Accounts scheme a legal duty to manage Personal Accounts in the interests of members.

71. Trust law requires trustees, in discharging their functions, to carry out their fiduciary duty, to act “prudently, responsibly and honestly”[5] in the best interests of members and beneficiaries. This is a very strong message about the importance of members’ interests. It makes clear that the trustees of the Personal Accounts scheme will have a legal duty to manage Personal Accounts so that members and their interests come first. We will make clear that in being tasked with the delivery of the Personal Accounts scheme the trustees will be responsible for ensuring that this remains a simple, low-cost pension without any additional features such as life insurance.

72. The board of trustees will, in line with its strategic duty, set its own robust performance targets and monitor progress against these in an open and transparent fashion. We agree that the Delivery Authority should have regard to the objectives of the Personal Accounts scheme in carrying out its functions.

73. The Delivery Authority will have a broad remit, assuming responsibility for delivering the Personal Accounts scheme and wider reforms within a framework set by Government. We propose that the objectives for this executive stage are:

- to design and build the infrastructure that will enable employers to fulfil the requirement to provide automatic enrolment and employer contributions for eligible employees to a qualifying pension scheme; and
- to establish the infrastructure for Personal Accounts within a framework set by legislation and with regard to the interests of future scheme members.

74. We also propose that in delivering these objectives, the Delivery Authority is required to have regard to the following principles:

- Minimising burdens on employers;
- Minimising the impact on high-quality pension provision;
- Optimising levels of participation and contribution among the target group;
- Delivering low charges to members;
- Providing an appropriate range of fund choices; and
- Acting in an open and consultative manner.

75. The Delivery Authority will be required to produce an annual report after the end of each financial year. This will be a public document that will include details of the Delivery Authority’s work, the issues it has advised on and progress made over the year – subject, of course, to questions of commercial confidentiality.

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[5] The Pensions Regulator, http://www.thepensionsregulator.gov.uk/trustees/guidance/fiduciaryDuties/duties-08.aspx

76. A management statement and financial memorandum will be agreed between Delivery Authority and Department for Work and Pensions providing a clear operating framework. These documents will be published and the Delivery Authority's progress will be monitored.

17. We recommend that the Government should set out its planned regulatory framework for the Personal Accounts Board as soon as possible. (Paragraph 159)

77. We are looking at the regulatory issues raised by the introduction of Personal Accounts. As an occupational pension, the scheme will be regulated by the Pensions Regulator.

78. We intend to set up robust internal complaints systems for members and employers, and there would also be recourse to the Pensions Ombudsman.

18. We make particular recommendations relating to charges in the sections on advice, collection and the third tier. In order to address the concerns and uncertainty expressed by parts of the financial services industry the Government should be more open about its modelling and cost estimates. We ask DWP to conduct further research on these points and publish a technical appendix alongside the Personal Accounts Bill with detailed results. (Paragraph 173)

79. As we stated in the White Paper, we aim to provide people with a simple low-cost way of pension saving. As such, the scheme is being designed to keep charges as low as possible.

80. We understand the Committee's interest in further information on our modelling and cost estimates. Much of this information is commercially sensitive. However, we will make available any information that is not commercially sensitive.

19. The Pensions Commission suggested that "during implementation planning, cost benchmarks should be designed for each element of the NPSS business system – payment system direct cost, account maintenance, fixed management fees and communication with members." We agree and we ask the DWP to set this task as a matter of urgency for the Delivery Authority and require that the Authority report annually on this aspect of its work, including the details of the latest cost benchmarks and estimates. (Paragraph 174)

81. The Delivery Authority, in its initial phase, will have a remit limited to advising Government on the operational and commercial impact of options. Part of this role will be to provide advice on the commercial strategy. The Delivery Authority will be required to produce annual reports detailing its accounts and expenditure but will do so with due

consideration to the commercial sensitivity of the financial information within the report.

82. The Department for Work and Pensions will continue to perform a stewardship role, supporting the work of the Delivery Authority, as it does for other Non-Departmental Public Bodies. Objectives and key targets will be agreed between Department for Work and Pensions and the Delivery Authority with the stewardship team monitoring the Authority's performance against objectives and targets. These will be published in the Delivery Authority's management statement.

20. We agree that the final decision on the type of charges levied in the personal accounts scheme should be taken by the Delivery Authority. Our view is that an Annual Management Charge is likely to be the best way forward. It has the advantage of simplicity and will also enable the progress on charges to be monitored clearly. The rest of the charging scheme should be as simple as possible and additional charges should be minimised, as suggested by Which? We therefore oppose the imposition of a joining fee. There is a risk that if a significant amount of people's contributions will be eaten up in charges during the first year it will encourage them to opt out. We note however the concerns about start up costs and ask the Government to set out likely cashflow projections for the Authority and Board, as well as a cost benefit analysis of the various financing options. (Paragraph 192)

83. The December White Paper raised a number of consultation questions in relation to membership charges, including who should set the membership charge structure and what activities should attract additional charges.

84. There are a number of factors that will influence decisions, not least the final design of the scheme, the costs incurred in setting up the scheme and the commercial arrangements with any potential suppliers. Many of the decisions relating to these influencing factors will lie with the scheme rather than with Government.

85. In light of the responses we have received and in recognition that the relevant knowledge, skills and expertise will lie within the scheme, we have decided the scheme is best placed to make decisions relating to the charging structure, the level of charges and any additional charges for particular services in the Personal Accounts scheme.

86. Trust law requires trustees to act prudently and in the best interests of members. Since members bear the costs of higher charges, there will be a clear incentive for the scheme to set a charge structure that is fair and to keep charges down.

87. Current cost projections are subject to change and revision at this stage of development and are commercially sensitive in advance of the potential procurement of aspects of Personal Accounts from the private sector.

21. We do not believe that the contributions cap should exist purely to protect existing pensions industry providers from extra competition. The interests of pensions savers should be paramount, and we expect many occupational or group personal pension schemes to offer a high quality and competitive alternative to Personal Accounts for large numbers of employees without special protection. We take the view that a better justification for the contributions cap is to reduce the risk of levelling down by making it harder for employers to cut their contributions. We also believe that a set annual contribution cap will not reflect the fact that people's circumstances change and that they may need at some times in their working lives to contribute more into the personal accounts scheme. (Paragraph 208)

22. With these three conclusions in mind, we make the following recommendations. Firstly, if there is to be a cap it should incorporate a certain amount of flexibility, allowing people to make greater contributions at certain times, either because they have a lump sum to invest or because they want to make up for years when they did not contribute. Secondly, we would urge the Government to consider whether a separate cap, set substantially higher than £5,000, should be allowed for firms that are willing to pay significantly more than the statutory minimum employer contributions. (Paragraph 209)

Response to recommendations 21 and 22

88. A wealth of analysis has been undertaken into the level of the Personal Accounts contribution limit, both by the Department for Work and Pensions and by a range of stakeholders. The White Paper made it clear that any decision about the contribution limit must balance the twin aims of focusing the scheme on the target market and providing individuals with sufficient flexibility to save for their retirement.

89. After further analysis, the Government believes that a limit of £5,000 would not be the most appropriate reflection of this balance. Instead, a limit of £3,600, based on 2005 prices to compare directly with the Pensions Commission's proposal, would be a more appropriate level. Our analysis shows that a very large majority of moderate to low earners will still be able to reach benchmark replacement rates within a limit of £3,600. This figure will be more effective than a limit of £5,000 in focusing the scheme on our target market of individuals currently without access to high quality employer-sponsored provision. In this way, the risk that Personal Accounts will compete with existing schemes and products is minimised. This will encourage employers to maintain current

pension arrangements and contribution levels, and thus help to support the continuation of existing good schemes.

90. The Government does recognise that there will be some individuals in the Personal Accounts target market who will take breaks from paid employment to raise families or care for relatives, who might be restrained by a lower limit. Additionally, some individuals may wish to pay one-off lump sum contributions into their pension. We will therefore ask the Personal Accounts Delivery Authority to explore the possibility of an additional lump sum contribution limit, to run alongside the annual limit. This additional limit could operate on a lifetime basis. The Delivery Authority will advise on the operational cost and feasibility of this option, and also on what an appropriate level might be. The Delivery Authority would need to be satisfied that the benefits of this added flexibility were not outweighed by the costs of designing and administering this addition.

91. While we agree with the Committee's suggestion that it is important to support the continuation of existing high quality schemes, we do not think that a separate contribution limit for more generous employers would be an appropriate means of achieving this. A separate limit for certain employers risks diluting the main objective of a contribution limit, which is to keep the Personal Accounts scheme focused on serving the target market of moderate to low earners, by making Personal Accounts a more attractive proposition for employers with existing schemes and higher income employees.

92. As discussed above, the £3,600 limit will be based on 2005 earnings levels, and will be uprated with earnings from that point to implementation in 2012 and beyond. The Delivery Authority will advise the Government on the most effective way in which this limit might be introduced.

23. We note the arguments that there should be a period when transfers in and out of the personal accounts scheme are prohibited. It will be important for the scheme to be stable in its early years. However, given the point put forward about the fact that people with a number of small pension 'pots' may wish to consolidate them, we conclude that a review after 5 years – in 2017 – would be better timed than a review in 2020. We also believe that the Government should consider whether an even earlier date should be set to allow transfers in from certain occupational schemes which have failed to meet the criteria to become 'exempt schemes'. We do not see a case for the banning of transfers indefinitely. (Paragraph 217)

93. The ability of individuals to transfer pension funds to and from Personal Accounts could have an important influence on how the market responds to the introduction of automatic enrolment and Personal Accounts. The policy rationale on transfers is intended to position Personal Accounts as a complementary rather than a competitive addition to the existing pensions market. The Government recognises that this position should

be kept under review as the Personal Accounts scheme evolves and the wider market impacts become better understood. The Government agrees with the Committee's recommendation that the Personal Accounts board should review these arrangements in 2017, rather than 2020 as originally proposed, to see whether this prohibition on transfers remains appropriate.

94. With regard to allowing transfers from non-qualifying schemes, we do not feel that such a policy is required at this time. We expect the vast majority of occupational schemes to become exempt, based on a simple and straightforward exemption test. However, this will be included in the 2017 review.

24. We are concerned that there is so little detail available on the architecture and costs of payment collection, a fundamental piece of the personal accounts scheme infrastructure. While it is right that the Delivery Authority should be responsible for making the contractual arrangements, it must do this after the different options have been fully explored and their feasibility tested and discussed. We would have expected the thinking on such a crucial keystone in the operation of the scheme, for employers, employees and the Authority and Board, to be more advanced at this stage, and we are deeply concerned that it is not. This ambiguity could mean that the Government's choice of model is based on flawed assumptions and logic. (Paragraph 230)

25. In our view, giving the PAYE scheme additional functionality to collect contributions should not be ruled out, given the strength of feeling amongst employers, the TUC and other organisations on this point. DWP and HMRC, acting jointly, should conduct an urgent review on the options for payment collection, as part of the HMRC's major ongoing programme to modernise the PAYE process. (Paragraph 231)

Response to recommendations 24 and 25

95. The Government acknowledges the Committee's view. It has explored the options of collection with stakeholders and will continue to do so. As the Select Committee noted, Her Majesty's Revenue and Customs intends to modernise its Pay As You Earn systems – however, these changes, alone, will not enable Her Majesty's Revenue and Customs to meet the requirements of Personal Accounts.

96. The inherent time lag in the existing Pay As You Earn system means that it is unlikely to be suitable for Personal Accounts. The Pay As You Earn system requires employers to pay over money they have deducted every month, but does not require any information about that money to be reported until after the end of the financial year to which it relates.

97. Using this system, contributions to Personal Accounts could not be allocated to the individual's choice of fund until the information identifying their individual contributions was provided to the Personal Accounts scheme up to 18 months after it had been deducted. It would also be impossible, without adding significant information requirements, to identify when in the year any particular contribution had been made, and the precise return on each individual's funds in the period prior to investment.

98. This delay would also mean that there was no validation of who the payment related to when it was made. For Personal Accounts, there would need to be extra processes for handling contributions where the payment cannot not be matched to an individual. The planned modernisation of the Pay As You Earn system will not, on its own, result in it meeting the needs of Personal Accounts.

99. One of the core principles driving work on the delivery of Personal Accounts is that burdens on employers are minimised. The Government will therefore continue to review all the options and will work with the Personal Accounts Delivery Authority to design a collection process that minimises costs to employers. The objective will be to align with employer processes as far as possible and be compatible with existing payroll processes and systems, best practice and IT functionality.

100. In conclusion, the Government's current view is that Pay As You Earn is unlikely to meet the core requirements for Personal Accounts. However, the final decision on this issue will be made on the basis of an appraisal of the risks, costs and benefits of the options available, as part of wider impact assessment work.

26. We note the complexity that a third tier of investment choices could add to the personal accounts scheme. However, while simplicity and low charges are key, a degree of additional choice will be needed. As the Government's own RIA puts it, "the task is to balance this need for simplicity for the majority with choice for the minority." In our view there is a case for choice to be limited to alternative asset classes and social, ethical and environmentally responsible funds. We see less of a case for branded funds being placed in the safe haven of personal accounts, with their attendant higher marketing and advice costs and associated risk of mis-selling. (Paragraph 247)

101. The Government believes that Personal Accounts should be able to offer individuals wider fund choice which we expect to include social, environmental and ethical investments and branded funds. It will be for the Personal Accounts Delivery authority to develop appropriate investment choices, though final decisions on this will rest with the trustees. A similar framework was recommended by the Pensions Commission in its second report; *A New Pension Settlement for the Twenty-First Century*.

102. Existing trustee legislation requires trustees to exercise care in their duty of choosing investments. In addition, investment choices must be made prudently and be sufficiently diversified taking into account the best interests of the members. It is not the Government's intention to require trustees to adhere to a defined set of investment funds, as decisions about investment fall within their remit.

103. As with all occupational pension schemes, the trustees of the Personal Accounts scheme will be required to publish a statement of investment principles every three years. This statement must include, among other things, the policies on investments and the extent to which social, environmental and ethical considerations have been taken into account in the selection and retention of investment funds.

27. We recommend that the Personal Accounts Delivery Authority, and then the Board, include a section in their Annual Reports to Parliament on investment policy, so that this can be scrutinised by the House and Committees of the House. We welcome the White Paper's comments that the default fund will be life-styled; this will be an important way of ensuring that there is a degree of protection for people against the short-term volatility of the stock market. The design of the default fund, and how it will be life-styled, is a crucial issue and we expect this to be subject to extensive consultation by the Delivery Authority and Board. We believe that individuals should have limited opportunities to switch into and out of the default fund. (Paragraph 255)

104. The Delivery Authority and the Personal Accounts board will be accountable to Parliament and this will be underpinned by annual reports which will include financial details and for the Personal Accounts board details of investment performance.

105. Individuals should have the right to switch funds and we agree with the Committee that this could be restricted or charged for if the scheme rules require a limit on the costs incurred through switching. We understand that individuals can normally switch funds a maximum of twice a year without cost. The Personal Accounts trustees must have the flexibility to be able to react to the changing needs of the scheme so it will be for them to set the scheme rules in this regard.

106. We agree with the Committee that the default fund is a crucial issue. This is a decision for the board of trustees who will use investment experts, consulting where appropriate, in order to make the best decisions in the interests of members.

28. The choice of annuity is vital. It will determine what level of income people receive in retirement but it is also a complex decision which hinges on personal circumstances. We welcome the review of the Open Market Option annuity process currently underway and ask that the conclusions be reported to this Committee. There are different potential roles for the Personal Accounts Board, either as a bulk-buyer for those in

certain categories (as suggested by the Pensions Commission), as the provider of a default option (as suggested by Which?), or as a provider of advice (as currently suggested in the White Paper). Given the evidence cited by Which? which indicated that some consumers can improve their annuity income by 30% by shopping around, we recommend that the Government reconsider its decision on the role of the Personal Accounts Board in the provision of annuities after the review of the OMO process has been completed. Whichever role is chosen, the provision of advice on this matter must be prioritised. (Paragraph 267)

107. The Government agrees with the Committee that the choice of annuity is vital.

108. As set out in the paper *The Annuities Market*[6] published at Pre-Budget Report in December 2006, the Open Market Option review has three fundamental aims:

- to substantially increase the number of people exercising the Open Market Option where appropriate;
- to ensure that people make informed choices about their annuity type and fully understand the consequences of their choice; and
- to increase the number of people obtaining the best rate for their given choice.

109. The review will ensure that the Open Market Option continues to work well after the introduction of Personal Accounts. The design of the decumulation process for Personal Accounts will draw on the results of this review in creating a system that supports individuals in making good decisions about their annuities.

29. We welcome the fact that there seems to be broad support for the Government's proposals to exempt certain occupational pension schemes, although there is less consensus on the need for a waiting period for exempt schemes. We take the view that good occupational schemes should be able to impose a short waiting period, in line with recommendations later in this report that the demands on employers should be minimised if they are not to receive supplementary financial assistance. We agree with the point made by EEF that if a waiting period for exempt occupational schemes is permitted those employees should not be auto-enrolled into personal accounts during the waiting period. (Paragraph 291)

110. The Government is committed to designing Personal Accounts to enable employers already providing good pension schemes for their staff to manage the potential costs of automatic enrolment and re-enrolment so that they can avoid any sudden and unexpected increases in costs that could lead to them withdrawing from their current pension provision.

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[6]Her Majesty's Treasury *The Annuities Market* December 2006

111. Government has explored the options in terms of employer costs, individual savings, and equal treatment legislation and has decided that an appropriate balance between supporting employers and ensuring employees can accrue savings quickly, would be to allow employers who offer higher contributions or benefits to operate a three-month waiting period. The intention is to support those employers who already provide or intend to provide higher value contributions or benefits and to encourage them to continue to provide these by allowing them to manage their costs over a period of time rather than incurring an immediate increase in costs.

112. We recognise that a waiting period may make it more difficult for those target group employees who frequently change jobs to accrue a pension fund. However, we have aimed to limit the impact of this by restricting this to employers who provide significantly higher contributions or benefits to their workers.

113. We will continue to engage with stakeholders on how to apply this policy effectively and minimise any administrative burden. We will also need to establish a method for setting the higher contribution (and equivalent benefit) level. An important principle we are considering is that members are able to accrue a pension of equal or better value to Personal Accounts within the first year of saving.

30. We note the evidence we have received on the treatment of group personal pension schemes. We look forward to seeing the results of the Government's consultation, particularly on whether a form of auto-enrolment can be found which is acceptable to all sides and falls within the scope of the Distance Marketing Directive, and take the view that with auto-enrolment will come additional responsibilities to the employer. We agree with the points made that the costs of these schemes should be kept under review and information given to employees which compares charges to those of the personal accounts scheme. (Paragraph 300)

114. The Government recognises that workplace personal pension arrangements, such as Group Personal Pensions and Group Stakeholder Pensions, form a significant and valuable part of the existing pensions market and is keen to see these arrangements continue in the run-up to 2012 and beyond. However, we want to ensure that any decision regarding exemption for employers operating such arrangements from Personal Accounts requirements balances the twin aims of supporting the continuation of high quality existing pension arrangements and ensuring sufficient coverage and savings levels for employees.[7]

[7]European law prohibits inertia selling of financial products, including personal pensions. Inertia selling is the provision of unsolicited services with a demand for payment. This means that it is not possible to automatically enrol individuals into workplace pension arrangements.

115. Since the publication of the December White Paper, the Department for Work and Pensions officials have engaged in detailed discussions with a range of interested parties to better understand the issues involved. We have received a variety of suggestions and analysis from our stakeholders and are examining these options closely.

116. The Government is considering the effectiveness of alternative joining techniques for workplace personal pension arrangements that are compliant with European law, to see whether this could provide a viable solution. There are a number of aspects, which we are keen to understand better, for example:

- What is the best enrolment mechanism for ensuring that participation and contribution levels in workplace personal pensions are comparable to what they would be under pure automatic enrolment?
- How can we ensure that there is a sufficient degree of consumer protection for employers who are subject to such an enrolment mechanism?
- How can we frame such a requirement in legislation in a way that encourages employers to maximise pension participation among their workforce whilst allowing sufficient flexibility for such employers to choose the most suitable processes for operating their pension arrangements?

117. Additionally, the Government is keen to explore how existing products and services within the current pensions market could be utilised further in order to complement workplace personal pension arrangements, both in the run-up to 2012 and beyond. We are also interested in views on:

- What potential there is for the development of corporate trust services and multi-employer master trust schemes in order for occupational pension arrangements to complement workplace personal pension arrangements?

118. We will continue to work closely with stakeholders on these challenging and important issues ahead of the Second Pensions Bill and thereafter in the run up to 2012 and beyond. We are very keen to find a pragmatic solution to this issue.

31. While we understand the concerns expressed by business organisations about the impact of the scheme, particularly on small businesses, the costs of the support packages proposed by CBI and EEF are prohibitive. We recommend that the Government invest in making the scheme as simple and cheap for businesses to administer as possible, rather than subsidising employer contributions. (Paragraph 305)

119. Our priority is to get the design of Personal Accounts right and our consultation with employers suggests it is also their priority.

120. Minimising the overall burden on employers has been a guiding principle in the development of Personal Accounts policy. Our proposals include:

- not requiring employers to choose the fund or give advice;
- the level of the minimum employer contribution will be set in primary legislation;
- the minimum employer contribution will be phased over three years;
- the criteria by which existing employer pension schemes will gain exemption from Personal Accounts will be as simple and straightforward as possible;
- employers offering qualifying schemes with higher levels of contribution or benefits will be able to enjoy a three month waiting period before they are required to automatically enrol their workers; and
- the compliance regime will be a light touch but effective.

121. The Government will continue to ensure the design of Personal Accounts is such that burdens on employers are minimised, and will give the Personal Accounts Delivery Authority an objective to deliver this. At this stage, the business process for employers is not yet decided.

32. We note the importance of having a period of stability for employers, given that they will be incurring significant additional costs. We therefore endorse the Government's approach on this issue. However, we agree that the impact of the 3 per cent employer contribution level should be regularly reviewed by the Personal Accounts Board, which should advise the Government if there is a case for changing the level by further legislation. (Paragraph 308)

122. The Government will place the level of the employer contribution in primary legislation to give employers the certainty they need. The 3 per cent employer contribution is based on estimated replacement rates as outlined in the December White Paper. The Government will evaluate its reform programme to ensure that it is appropriate in the long term.

123. We have already set in train a programme of work to develop an evidence base, in consultation with a range of stakeholders, that can underpin future evaluation of our reforms. Following this consultation, we will publish a strategy document on how we propose to build and maintain a credible evidence base which will support future policy considerations across a range of issues.

33. We note that the Government is working to refine its estimates of the administrative costs that will be incurred by employers, and we look forward to receiving the report of the analytical group looking at this crucial issue. As part of this process DWP should ensure that it provides the fullest possible information on its modelling to interested

organisations. The Delivery Authority should also regularly report updated estimates of employer costs, both in terms of contributions and additional administration. (Paragraph 317)

124. We recognise that bringing up to 5 to 9 million additional employees into private pension provision with an employer contribution will mean additional costs for many employers.

125. Our aim is to develop a Personal Accounts scheme that minimises the administrative burden on employers:

- Government has undertaken an extensive series of consultation events with employers and representatives of small businesses to help inform the design of Personal Accounts; this process will continue under the Personal Accounts Delivery Authority;
- we have published research into employers' attitudes to Personal Accounts[8] and we will continue to develop our understanding of how employers will interact with Personal Accounts in the period before implementation; and
- Government has also set up the analytical group mentioned in paragraph 1.23 of the Regulatory Impact Assessment to *Personal Accounts: a new way to save*[9]. The group has the remit to examine estimates of the compliance and other administrative burdens associated with Personal Accounts proposals.

126. The administrative cost of Personal Accounts will, of course, depend on the processes for employers. The details of these processes will be developed by the Delivery Authority. The work of the group will feed into this development, and help inform any necessary alterations to ensure we deliver on our commitment to minimise the burden on employers. The Delivery Authority will also be required to deliver the infrastructure for Personal Accounts.

127. We note the Committee's wish to see the report of the analytical group examining administrative costs; the Department for Work and Pensions published a full set of its assumptions in the December White Paper, Regulatory Impact Assessment (page 151), including estimates of the administrative burden on employers. We have continued to work with the expert group and are committed to producing our latest estimates with Bill assumptions as part of the Bill's Regulatory Impact Assessment. We are planning to publish new results with full assumptions and evidence with the Bill's Regulatory Impact Assessment.

[8]Bolling K, Grant C, Fitzpatrick A and Sexton M, 2006, *Employer attitudes to personal accounts: Report of a quantitative survey*, DWP Research Report No. 397.
[9]'Department for Work and Pensions will set up a cross-Government group of experts to work together on refining the assessment of the cost impact on employers'.

34. We accept the arguments we have heard that the lack of a formal waiting period is important to maintain coverage of the scheme amongst those who change their jobs more frequently. We therefore welcome the Government's proposal not to have a waiting period for personal accounts. (Paragraph 325)

128. The Government remains committed to not having a formal waiting period in Personal Accounts. This view is supported by a wide range of commentators, including employers, consumer interest groups and the pensions industry. The introduction of a waiting period would have a significant impact on the target group for Personal Accounts in that it would:

- disadvantage short-term and seasonal workers;
- adversely affect individual outcomes;
- affect participation rates; and
- create perverse labour market incentives.

35. We agree with the Government's proposal to repeat auto-enrol employees around every three years. We also believe that there is some merit in EEF's suggestion that this could be done for employees en masse at the end of the tax year in order to reduce the administrative burden on employers. (Paragraph 331)

129. The Government welcomes the Committee's endorsement. We want to extend access to workplace pensions to those not currently saving towards their retirement and, through automatic re-enrolment, to give people who have opted out of a pension scheme an opportunity to review their original decision.

130. We have been working closely with employers and their representative organisations to design a scheme that minimises the burdens on business.

131. Re-enrolment is a complicated matter and has implications for individuals, employers and schemes, including Personal Accounts. The basic aim is to set an interval that strikes an appropriate balance between the key needs of maximising participation and minimising the administrative burden to both employers and schemes. However, Government is also aware of the importance of providing greater certainty for employers about its approach to re-enrolment.

132. We need to ensure the initial interval fits with the roll out of the overall package of reforms. We also need to look at the impact of job churn and other participation factors on scheme costs, in the form of processing peaks and administrative costs to employers.

133. It is important that we get the timing and process of re-enrolment right and, as this will not be introduced until some time after the scheme is

introduced, we need to work with the Delivery Authority to explore how best to do this. We are therefore not yet in a position to confirm the right approach.

134. The Government will start by establishing a minimum period so that re-enrolment cannot occur more frequently than every three years. In adopting this approach, we aim to provide greater clarity for employers and scheme providers, and enable the Government to take account of further analysis and advice from the Delivery Authority, including any wider consultation, before taking the final decision about both the actual period and underpinning mechanism for re-enrolment.

36. The Government is consulting on the various aspects of a compliance regime for the personal accounts scheme, and it is likely that both the TUC and employers' organisations will be making detailed submissions in this area. We look forward to the Government publishing its proposed regime; we trust also that once the personal accounts scheme is operational full statistics on compliance and enforcement action will be published. (Paragraph 339)

135. The Government has continued to build on its understanding of other compliance regimes and has carried out further analysis of the different approaches outlined in last year's Regulatory Impact Assessment to estimate the costs and benefits involved.

136. A comprehensive evidence-based cost-benefit model has been developed, which analyses the response of employers to each aspect of compliance activity, and then builds a cost-benefit profile of the compliance options.

137. The cost-benefit model suggests that under the first two options outlined in the Regulatory Impact Assessment (to rely solely on individuals pursuing matters through the Employment Tribunal, or adopt the National Minimum Wage model of enforcement), the majority of participation in Personal Accounts would be achieved through an effective information campaign. Further compliance would be reliant on employees being proactive in enforcing their rights by either taking their case to an Employment Tribunal or whistleblowing when there is little short-term incentive to do so.

138. Where cases are brought to the Employment Tribunal the costs involved are high for both employer and employee.

139. The third option outlined in the Regulatory Impact Assessment is to match data that is already held in Government departments with that provided by employers and schemes to identify non-compliant employers at an early stage. The model shows that this is likely to be much more cost-effective, and to generate a significantly higher level of compliance, because:

- resources are targeted at ensuring compliance at an earlier stage;
- at this stage employers incur relatively few costs by choosing to comply with the requirement to provide information; and
- where employers do not respond, there is a system of follow-up letters and penalty notices.

140. The penalties would be designed to try and ensure a level playing field so that no one benefits financially from non-compliance.

141. The Government intends to continue to work with employers, together with organisations with expertise in regulating pensions and in employer compliance, to develop the enforcement strategy in more detail. The regime will be developed with full regard to the principles of good regulation as detailed in the Legislative and Regulatory Reform Act 2006 and Hampton Principles.[10]

142. The Government is also developing options for the sanctioning regime following analysis of other regulators' penalty systems and in light of the recommendations of the Macrory Review.[11]

143. The Government notes the Committee's concern that employers should not encourage employees to opt out and it has been exploring how employees can best be protected from being treated unfairly because of their decision or wish to save in a pension scheme. It is considering the introduction of new statutory rights, such as the right not to be unfairly dismissed or to be subject to detriment, to protect individuals in this regard. Some of these rights may be enforceable through the Employment Tribunal system but the Government is continuing to explore alternatives.

144. The Committee has stressed the importance of the public availability of statistics on compliance and enforcement activities. The Government agrees that it will be vital to monitor the effectiveness of the compliance and enforcement strategies.

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[10]The Hampton Report Reducing *Administrative Burdens: Effective Inspection and Enforcement*, March 2005 set out seven principles of good regulation
[11]Macrory RB, *Regulatory Justice: Making Sanctions Effective – Final Report*, Cabinet Office 2006

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