

Pension Reform Proposals

Summary

AXA is supportive of the government's aim of enabling people who do not have access to a pension scheme to be able to save through a personal account (to be named National Employment Savings Trust [NEST]). These reform proposals are being introduced following a major review into pension provision conducted by Adair Turner who reported in the summer of 2006. We also believe that auto-enrolment is an appropriate policy response to overcome consumer inertia. However, while the new arrangements are being set up as a centrally-administered scheme (thus ignoring the considerable expertise and experience available via an industry provided model) we do not believe the private sector could serve all parts of the market within the current price-capped environment. We are also sceptical that reluctant employers can be effectively served at very low cost and this poses great future risk to the taxpayer.

The success of the pension reform proposals will ultimately be judged by their effect on the following objectives:

- Increasing the number of people saving for their retirement, whether in NEST or employer-sponsored pensions, and
- Increasing the total amount saved by the population.

The reforms will not be successful if they largely move current and future savings from occupational schemes into NEST, especially where many of these make total contributions at significantly higher levels than those proposed for NEST.

Although AXA is supportive of the state pension reforms in general, we continue to believe that too much complexity will remain within the system, particularly with the provision of means-tested benefits which will continue to impact negatively on peoples' willingness to save. A core principle should be that people who save should be better off than those who don't. People need to be clear about what the state will provide so they can understand what they need to do in addition.

Similarly, many people are likely to believe that the default level of saving in NEST is in some way endorsed by the government to provide a sufficient – perhaps even comfortable – level of income in retirement. This will inevitably mean that the majority of people will never pay more than the default contribution unless more guidance is given about the value of doing so.

While personal responsibility is an important principle, people will need help and guidance in understanding the consequences of the decisions they will be making with NEST. This will require effective engagement of employers and employees through the provision of meaningful generic financial advice beyond the provision of simple information. Without such engagement people will not necessarily value (or even understand) the benefits being accumulated for them, including the contribution being made by their employer and the state.

This has been confirmed by research that AXA has conducted among a group of consumers who were asked to make a relatively simple decision about a choice of an appropriate credit card for their future needs. Consumers were far more able to decide on a course of action following an explanation of the situation – plus an element of persuasion – than they were in making their own decision based on the information alone.

Finally, a key area for ensuring NEST operates on a level playing field with private sector provision is around the long-term viability of their financial structure. NEST must be priced with considerable care to ensure the system is genuinely self-funding and does not become reliant on taxpayer subsidy.