



Pensions | Investments | Protection

Pensions reform – effects on the UK pensions market

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Today:

- Opportunities
- Innovation

But before we start – a note of realism

A note of realism

- An ageing population presents new challenges to the UK
 - Action needs to be taken
- We support automatic enrolment and mandatory employer contributions
 - Opportunity to kickstart pension saving
 - More people saving more money for their retirement
- But it won't come easy



A note of realism

- Extensive legislation
 - Pensions Acts / regulations / guidance
- Extensive system changes
 - Changing the fundamentals of contribution collection
- Record keeping
 - New processes for providers and employers
 - How much help to offer employers?
- Communication
 - With all customers



Opportunities



Opportunities

Every employer will have to automatically enrol **most of their workforce** into a pension scheme.

And if the person doesn't opt out, the employer has to pay a **contribution of at least 3% of band earnings** for them.

The total contribution has to be at least **8% of band earnings**.



Every employer – 1.3m to take action

Approx 750,000 employers currently offer no provision

Approx 280,000 employers make less than a 3% cont

Approx 270,000 employers contribute more than 3%



“Most of their workforce”

- Automatic enrolment
 - Those aged between 22 and state pension age, earn above £5,035, ordinarily works in GB
- Offer membership and pay contributions
 - Those younger than 22 or older than state pension age
- Offer to set up membership
 - Those earning below £5,035

**Many more workers will be brought into the pensions net
- But how many will opt out?**



Effect on the employer

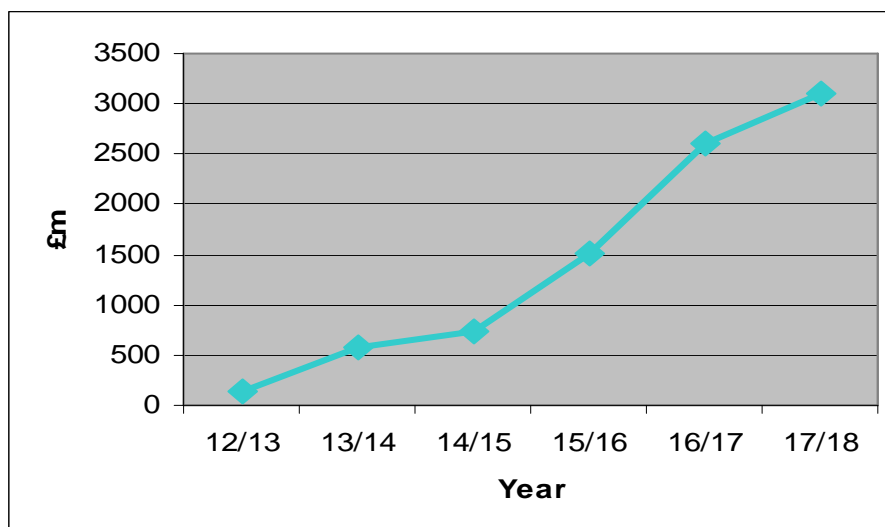
"If employers were to only make the minimum contribution of 3% of all eligible workers, the value of additional employer contributions would be **£3.1 billion**, once contributions have been fully phased in"

The **cost of administration** for employers is **£258m** in the first year, and **£25m** each year thereafter.

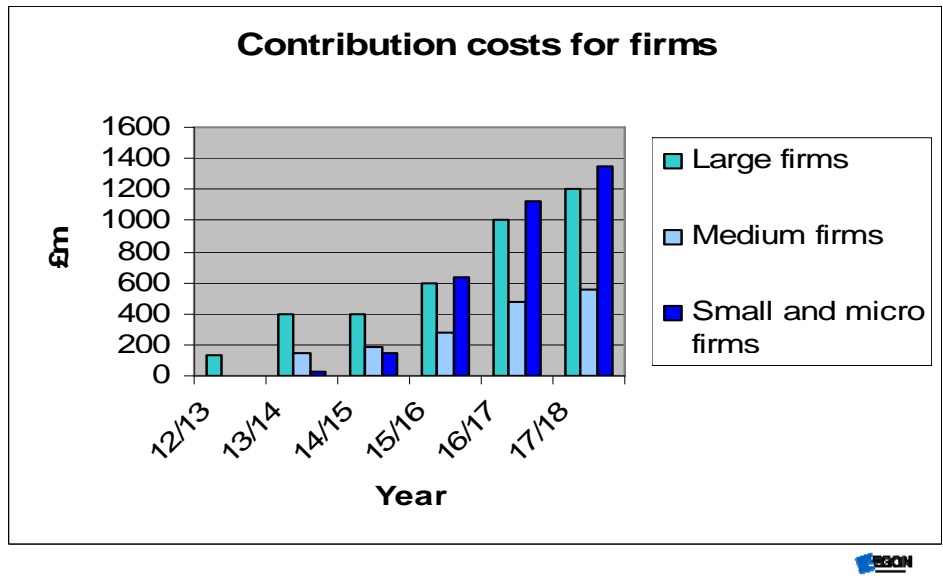
* DWP – Impact Assessment September 2009



Flow of employer contributions



Contribution costs for firms



Activity

- More contributions for more savers
 - Employer and member contributions
- Employers will review pension arrangements
 - Costs – new contributions and new administration
 - New choices of provider (including personal accounts)
 - ‘Good’ pension provision benchmark
- May need to take action to mitigate costs

Employer choices – changes to pension schemes

- Current scheme probably won't cover:
 - All employees
 - All of the time (for each pay period)
- Choices
 - Widen out current scheme to include all employees
 - Move to a different scheme for all employees?
 - Set up something different for some staff?
 - Set up something different for those in a waiting period?
 - Review contribution levels?



Possible action

- Cut future salary increases?
 - Taking action now in anticipation for 2012?
 - Possible in this environment?
- Cut the workforce?
 - Private sector employment could be reduced by 10,000 – 60,000 people (0.1% - 0.3%)*
 - Hotels, restaurants, manufacturing sectors more likely to be affected
- Cut the benefits?
 - Level down the pension contributions?
 - Abandon other benefits?

* DWP – Impact Assessment Sept 09



Talking pensions

- Govt focus has been on rules and regulations
- Automatic enrolment will mean more savers
- But people can still opt out
- 8% of band of earnings is not enough

We need to change the culture around pensions and savings in general



Changing the savings culture

- DWP communications campaign
 - Changes in basic state pension
 - Working for longer
 - Automatic enrolment
- tPR communications campaign
 - An engaged employer leads to better pension provision
 - Should be about carrots – as well as sticks

Automatic enrolment doesn't mean automatic engagement





Innovation

Pension saving will completely change – employers and employees will need help and new solutions

- Personal accounts scheme is necessary – but it won't provide all the answers
- Need to encourage higher contributions
- Turner warned against 'cannibalisation' of private sector
- Overlap between the two types of provision
 - Healthy and fair competition will benefit consumers

ESON

Benefits of private pension provision



Meeting consumer needs

- Help employers meet their new duties
 - Administration
 - Record keeping
 - Contribution collection
- Communication
 - Increased focus on consumer engagement and education
- Investment choice
 - Making sure default investment offers innovative solutions
 - Plus wider options for those who want them



Conclusion



Conclusion

A massive challenge for the **pensions industry**
- but also a massive opportunity

A massive challenge for the **UK**
- but also a massive opportunity

We need to win hearts and minds!





Questions?



Important information

This information is based on Scottish Equitable's plc understanding of current legislation which may change.

Scottish Equitable plc is authorised and regulated by the Financial Services Authority.





Personal Accounts

Thank you

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