



Auto-enrolment; making it work

How existing stakeholder schemes can be used and should we use them?

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First off – could existing Stakeholder schemes be used?



- Well undoubtedly yes they could
 - ✓ Good level of governance already
 - ✓ Suitable default fund
 - ✓ Reasonable level of charges
 - but
 - ✗ £20 minimum limit on contributions
- So on the face of it – Easy! (so as long you remove the limit)
- Just bolt on an auto-enrolment process and away you go.....

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But.....



- Current joining processes are not fit for purpose and need to be changed
- This of course costs money
- Would a Stakeholder provider realistically want to pay for it
- You end up creating another version of a NEST like product
- Why would you want a Stakeholder and non-Stakeholder version to compete against each other?
- Where is the market need?

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My personal career advancement plans



- Suggest auto-enrolment for Stakeholder schemes =
 - Go direct to Old Kent Road
 - Do not pass go
 - Do not collect £200

- So guess what?



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What about employers?



- No need to designate a Stakeholder from October 2012
- Still need to deduct contributions and pay them over for existing members – this might be an irritant
- Could use current Stakeholder as their chosen auto-enrolment scheme – if the provider lets them
- Pretty sure DWP won't encourage employers to move
- But that doesn't mean the business will stay put and many Stakeholder schemes are not the sort of business that providers would fight to keep.

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What might advisers do?



- RU64 will go – but could be replaced with something similar
- This “something similar” would surely use NEST as the chief comparator – therefore Stakeholder is a lesser product?
- So Stakeholder is now just another form of personal pension.
- So advisers could legitimately encourage the closure of Stakeholder schemes and their replacement with alternative NEST like products
- If the provider doesn't upgrade the Stakeholder this movement could be pronounced
- Will this happen before 2013?

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So could advisers sell new Stakeholder schemes in the future?

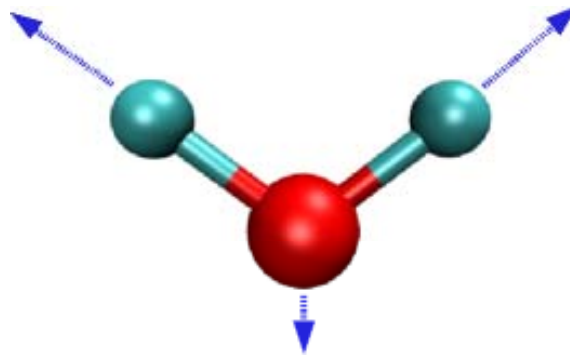


- Stakeholder charge cap doesn't sit at all well with Adviser Charging and looks dodgy even with Consultancy Charging
- Could the charge cap change and if so what would the factory gate price be?
- Would that be for all funds or could a set of acceptable fund charges develop?
- Would there be a decency limit for any charge for advice and would that further restrict the Stakeholder market?

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But...am I stretching the point too far?....



- Or actually a water molecule?

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There could be wider implications



- NEST, Stakeholder and other auto-enrolment schemes all serve the same need and their customer base overlaps to a large degree
- NEST has a limited fund range and restrictions on contributions and transfers – but the other two don't
- NEST also won't enter into the adviser or consultancy charge area the other two could.
- The other two look very similar to me
- So why would one be charge capped and the other not?
- What conclusions could you reach? Could there be contagion from Stakeholder outwards?

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Go back a few steps



- Stakeholder is subject to a different sales regime which is outside RDR
- Commission could continue under Stakeholder and the product then look better than an Adviser Charging or Consultancy Charging variant
- Would this cause market distortion?
- Would providers continue to pay commission to assist advisers?
- Would the FSA let them?



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Where are we then??



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Is this an impasse?



- If we encourage Stakeholder for auto-enrolment with commission retained we distort the market with terrible economics for providers
- If we encourage Stakeholder for auto-enrolment but get a factory gate charge cap and adviser/consultancy charge on top then why one rule for one but not the others?
- How many charge caps do we want to monitor and at what cost?
- So why have new Stakeholder business at all?
- Where is the market need anyway???

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Ban Stakeholder?



- Well why not?
- I can give you lots of reasons why a ban would be good
- But really struggle with the reverse
- Obviously current schemes would be unaffected, just patch on the auto-enrolment process if needed
- Stakeholder has served its purpose



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Conclusion



- Yes perhaps Stakeholder schemes could be and perhaps sometimes should be used
- But how many new ones would have been created?
- Are they really needed or has the market moved on?
- And if we have moved on why take the risk?



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