

Building Personal Accounts **Securing a retirement income**



**A response to the Personal Accounts
Delivery Authority's discussion paper**

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Introduction

aquilaheywood is the leading supplier of pensions administration software solutions in Europe. The pension schemes of over 200 organisations and more than nine million retirement accounts are administered using our market leading solutions.

As such we welcome the opportunity to respond to the discussion paper issued by the Personal Accounts Delivery Authority (PADA) in December 2008 about securing a retirement income.

We appreciate the need for greater participation in saving for retirement and believe that many of the Government's proposals will help increase the awareness and involvement of individuals in providing for their retirement. At the end of our response we have provided some details about *aquilaheywood* and our clients to put our response in context.

We are engaged in all market sectors in the retirement space, so we understand how to deliver a strong customer experience through quality and timely service and good communications, provided at low cost, through efficient business processes and automation. We have limited our response to PADA's key propositions and left it to those more directly involved in the annuities market to respond to your specific questions.

Summary

Whilst purchasing an annuity is a good way of securing an income for life for many individuals, other options are available and we feel these options should not be excluded from the retirement options presented to individuals.

We believe that there would be some significant benefits in individuals being provided with a pension direct from the National Pension Savings Scheme (NPSS), that is, administered by NPSS and paid by NPSS with the pensions being backed by one or more annuity contracts. This provides all the benefits of a seamless service and value for money together with the reinsurance backing from the annuity provider to support the guaranteed payment of the pension throughout life.

Whilst the consultation paper states that bulk annuity purchases and bulk buyouts at retirement have been explicitly excluded as options, we believe that PADA should consider some of the innovative options now being brought to market to provide retirement benefits for pension schemes. For example, the bulk buy-in solutions provided by Aviva, Prudential and Aegon can effectively remove the risk of the NPSS providing a guaranteed pension.

We are concerned that the use of the panel of providers may be misguided. This 'focused choice route' will bias individuals towards a provider on the panel and an element of trust will be implied by the NPSS selecting a provider. In addition, such focus may be construed as providing advice to a member. It will be difficult for a panel provider to ensure that their annuity product is the most suitable option for a particular individual. In addition, if a panel must be used then the full range of options should be presented to the individual, including impaired/enhanced and with profit annuities; together with other retirement options, such as income withdrawal, where applicable.

Retirement Income Options

A lifetime annuity is one of the safest and most appropriate ways for most individuals with a Personal Account to secure a retirement income. In the early years of the scheme these individuals will have relatively small pots with which to secure an income, and as PADA's research shows, an annuity is the preferred option for savers with pots of this size. The options presented to an individual should, however, not exclude other options at retirement, such as income withdrawal or investment backed annuities; individuals may well have significant pensions that have built up during their working life. In addition, the lifestyle of the individual may be such that they qualify for enhanced or impaired annuities; such options should also be available, especially given the intended size and scale of the scheme.

Many good quality pension schemes (administered by companies, third party administrators and financial services providers) provide the option of a pension paid by the scheme at the same time as offering retiring members the opportunity of an open market option/transfer value to purchase an annuity or income withdrawal product.

This option avoids:

- the need to have separate contractual arrangements with a new provider and related new service contacts
- unnecessary form-filling
- data transfer from one organisation to another
- delays in setting up the pension payments.

Instead it offers an easy, straightforward communication process and set-up procedure focussed on the needs of the individual.

Moreover, using a modern single administration system, such as those offered by *aquilaheywood*, means that the whole process can be delivered in a seamless, efficient manner with significant cost savings through automation of the communication and pension set-up processes.

Buying an Annuity

Any dispensations that PADA or the NPSS receive must be extended to all providers of pension schemes on competition grounds; if PADA insists that annuity providers accept funds below £5,000 then this should not be exclusive to the NPSS.

As a technology provider, and a leading player in the provision of pension administration systems in the UK, we support and embrace PADA's attempts to use new delivery methods to enable individuals to secure an income in retirement. This would require an accepted electronic message standard between the NPSS and the annuity providers to transmit the details on the Open Market Option. Whilst the pensions industry is working towards a common set of standards for information transmission no such standard has yet been developed for the Open Market Option.

We understand that PADA has said that the NPSS will not be engaging in a bulk purchase exercise. We believe there will be merit in considering such a solution to purchase annuities for individuals who are in contact with the NPSS but reach their 75th birthday without agreeing to purchase an annuity themselves.

Supplying Annuities

We are surprised that PADA want to avoid paying the pension commencement lump sum (PCLS). If a robust and proven UK based pension administration system is used then the calculation and payment of the PCLS should be a standard function. The NPSS will be making other payments out to individuals, for death benefits and commutation on serious ill health, for example, so making a PCLS payment will fall into a similar payment process. In addition, our understanding is that if the NPSS passes the responsibility for paying the PCLS onto an annuity provider then the NPSS is still liable in the event of any mistakes or delays in the payment.

We do not support the use of a panel of providers for several reasons:

- Despite best intentions and the information from the NPSS, such a panel may be taken by individuals as the only choices that are available to them.
- Even given the suggested criteria for provider selection, NPSS would need to constantly update the panel to ensure that it provides the best buys available for males and females of all different ages and types of annuity.
- The use of a panel by the NPSS may itself distort the existing market for annuities. Since one of the stated main objectives of Personal Accounts is to not distort the existing market then this must be considered in their recommendation.

Taking Small Pension Funds as Cash

This is an issue where the pensions industry is currently seeking clarification from HMRC. The problems that NPSS members will face are those that pension scheme members with small stranded pots currently face.

One way in which PADA could ensure that HMRC deals with all the issues around small stranded pots would be to add its weight to industry efforts to achieve a viable solution from HMRC.

About *aquilaheywood*

aquilaheywood, the Group comprising *aquila* and *heywood*, is the leading supplier of pensions administration software solutions in Europe. The pension schemes for over nine million members in more than 200 major organisations are run using the Group's three administration software solutions, *administrator*, *AXISe* and *altair*. These solutions cover the whole range of available schemes including DB, DC, hybrid, career average, cash balance and stakeholder, as well as group and individual products such as group and individual personal pensions including SIPPs, income drawdown and flexible retirement.

The Group provides solutions to the Financial Services, Third Party Administration, Corporate and Public Sector pension scheme markets in the UK. Its clients include Prudential, Aviva, BBC, Asda, BP, Diageo, Aon Consulting, JLT and most local authority schemes and Fire and Police Schemes. We have also recently announced new contracts with the Scottish Public Pensions Agency (to provide our software for the administration of the Scottish Teachers Pension Scheme and the Scottish NHS Pension Scheme) and with the Northern Ireland DHSSPS (to provide our software for the administration of the Northern Ireland NHS Pension Scheme).

As the leading provider of software solutions for the administration of pensions through occupational pension schemes in the private and public sectors and through financial services companies, *aquilaheywood* is pleased to be able to contribute to the debate about the development of personal accounts.

We hope you have found this response informative and interesting and would value any feedback on our response.

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