**Shaping the system to suit**

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For the most part, the personal accounts system is recognised as being an efficient way of making the pensions industry work for consumers, but there are further challenges ahead

The national pensions savings scheme approach to delivering personal accounts is a radical attempt to make the financial system work in the national economic interest and provide security in retirement for consumers.

Not radical in the sense of being innovative; it is self-evidently the most economically efficient method of making the pensions industry work, given the previous failures with retail pensions.

But radical in the political sense, in the rediscovery of the collective approach to meeting consumers’ needs, and the way the government, with the support of Which? and public interest groups, fought off vested interests who mounted fierce overt and covert campaigns to derail personal accounts.

**The collective approach**

The reforms recognise that, unlike other retail markets, individual consumers exert very little power in complex financial markets.

The collective approach at the heart of the reforms fundamentally changes the relationship between consumers and powerful financial markets.

In other countries, such as the USA and the Netherlands, the collective approach has proved vastly more economically efficient than the retail model – which can destroy value because of the inefficient proliferation of products and providers. The UK personal accounts board will be able to use the financial clout provided by a collectively run pension scheme to demand the best terms from the most efficient institutional fund managers.

The reforms are not perfect. The contributions cap is a sop to the insurance industry, and the combined contribution rate will need to be regularly reviewed to ensure people’s retirement incomes are on target. But we have got this far and that is encouraging.

However, much needs to be done to ensure personal accounts are delivered as intended.

**The need for consensus**

We need to maintain consensus and public support. There is a long way to go, and we continue to see sniping and reckless statements from certain industry representatives and politicians. Sustained communication campaigns are needed to embed the benefits of personal accounts into the national consciousness so that vested interests undermine reforms at their peril.

In terms of fund choices, simplicity is key. Consumers’ core investment needs can be met with a limited number of options. Superfluous options destroy consumer value, create the illusion of choice, cause confusion and increase the need for financial advice.

**Coproduction for success**

Effective governance and consumer representation mechanisms will help maintain public support. I’m very encouraged so far by the efforts of the Personal Accounts Delivery Authority (PADA) to involve public interest representatives, such as the Trades Union Congress, Which? and Citizens’ Advice. I hope this attitude carries over to the running of personal accounts. The Financial Services Consumer Panel provides a good model for ensuring consumer interest is represented.

Personal accounts need to be designed in a way that is understood by, and engages, consumers. Policymakers should adopt the idea of coproduction, which has been used successfully in other public services such as health and social care. Coproduction actively involves consumers in the design of services so that their needs and preferences are embedded into systems from the outset.

**Free access to advice**

From my perspective, the greatest challenge will be meeting the needs of vulnerable, hard-to-reach consumers, who may not be familiar with making long-term financial decisions. This requires concerted efforts to ensure personal accounts and communications strategies are designed with the needs of excluded groups in mind. We also need clarity around the interaction between savings and welfare benefits.

Access to unbiased, free financial advice to help consumers make informed decisions will also be critical. Consumer advocates support the idea of a national generic advice service. This service is needed to provide information and guidance to consumers on general financial matters. But a coordinated generic advice service building on the work done by organisations such as The Pensions Advisory Service (TPAS) will also support the delivery of personal accounts.

**The need for change**

Finally, we must think about the interim period from now until future generations start to benefit from personal accounts – maybe not until around 2030. The level of financial underprovision in the UK is shocking.

Greater numbers will face sustained, transitional dips in retirement incomes due to record levels of debt, low levels of personal savings, and the demise of decent employers’ schemes.

We need to change the UK from a debt culture to a savings culture. And it’s time for more radical thinking from policy innovators to provide consumers with financial security by helping them utilise home equity safely, and improve the operation of the annuities market. The work of providing secure retirement incomes for UK consumers has only just begun. Interesting times ahead.

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