



7 March 2011

Our ref: ICAEW Rep 25/11

Your ref:

Adam Harper
Department for Work and Pensions
Enabling Retirement Savings Programme
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London
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By email: default.guidanceconsultation@dwp.gsi.gov.uk

Dear Mr Harper

Defined Contribution Automatic Enrolment Pension Schemes – Default Options

The ICAEW welcomes the opportunity to comment on the consultation paper *Offering a default option for defined contribution automatic enrolment pension schemes* published by the Department for Work and Pensions in December 2010.

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Overall, we are concerned that the tenor of the consultation is that an increase in the regulatory burden on employers who offer defined contribution schemes is envisaged. Such an increased burden would be unwelcome and does not appear to us to have been part of the impact assessment for the Pensions Act 2008 introduction of automatic enrolment.

In our view, a likely consequence of increasing the burden for defined contribution schemes that are provided as an automatic enrolment option is that employers will be pushed towards levelling down to just using NEST. The proposals and part 4 in particular, appear to level up the complexity of defined contribution occupational schemes towards the same level of complexity that is required for defined benefit schemes. The fundamental premise appears to be that the employer and all trustees of the scheme should have more complex legal duties, giving rise to an increase in the risk of legal liability on their part.

The extended responsibilities for those offering pension schemes seems to increase a “blame culture” where members do not take responsibility for their own investments, even though, in our opinion, they should. In our view the appropriate solution to the current lack of understanding on the part of individual

scheme members is to improve their knowledge base by education rather than passing the burden for choosing each member's investment strategy on to those who do not necessarily know the full circumstances of the members.

This would be an issue simply with the current system but, even more so, it will create barriers to the innovative development of the pensions market and in particular the greater use of industry wide defined contribution schemes established under trust. It would be extremely difficult for trustees of such schemes to cope with the legal duties that are proposed, for instance in section 4.2, where the trustees are expected to design default options with the "likely membership profile in mind". We would be surprised and disappointed if the Department wished to stifle innovation in the pensions market in this way.

This same burden will become increasingly difficult to discharge as the workplace continues to evolve in time with the government's social policy: How can an employer or trustees construct a lifestyle option for all members when there will no longer be a default retirement age, and members may choose to draw some pension while continuing to build other pension up and may wish to access pension saving that is permitted by other proposed legislation (for instance for a deposit for a house or to pay off tuition fees)?

Please contact me should you wish to discuss any of the points raised in this response.

Yours sincerely

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