25 April 2008

Our ref: ICAEW Rep 57/08

Your ref:

Anna Smith-Park
Charging Consultation Team
personal accounts delivery authority
New Court
Room 567
48 Carey Street
London
WC2A 2LS

By email: charging.padeliveryauthority@dwp.gsi.gov.uk

Dear Anna

BUILDING PERSONAL ACCOUNTS: CHOOSING A CHARGING STRUCTURE

The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on the consultation paper *Building personal accounts: choosing a charging structure* published by the personal accounts delivery authority in January 2008.

The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 130,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

We think the following principles are important in determining the most appropriate charging structure:

- The charges need to be clear and unambiguous;
- They need to be simple, so that people can understand them;

- They need to be fair, so that members bear costs proportionate to the administration cost of their personal account;
- Since the scheme will be self-financing, the trustees need to be able to recoup their costs within a reasonable timescale.

Our view is that the fairest way of apportioning costs is as suggested by the ABI, which would be made of two elements:

- a charge on each contribution; and
- a percentage charge based on the balance in a member's account.

A charge on each contribution would reflect the costs of the transaction. It is also an upfront charge which would help the trust's cash flow and would be easily understood by members. It would also mean some fairness to the dormant accounts, which would otherwise bear a disproportionate charge if charges were based solely on the amount invested. Further, if charges were based solely on the amount invested, the trustees will obtain relatively little towards overhead costs in the early years if they could only recoup charges on the basis of the size of the funds under management, since these will be low for some time.

An annual management charge based on the amount invested would reflect the cost of maintaining the account, including the costs of annual benefit statements and the maintenance of data (including member details).

We believe that PADA should also impose a switching charge where members change their investments (this should follow industry practice. There should also be a disinvestment/decumulation charge when people take their money/annuity; we would prefer this to be a flat fee.

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

Yours sincerely

Liz Cole
Manager, Business Law
T +44 (0)20 7920 8746
F +44 (0)20 7638 6009
E liz.cole@icaew.com