

"Power to the People"
Designing an Investment Approach ^x
discussion paper
The Personal Accounts Delivery Authority
response
Stephen Wynn

Recommendations

- The assets of the personal accounts scheme should be held internally.
- They should also be invested mostly or entirely, by the scheme itself rather than by external "managers".
- It should have a buy-and-hold investment policy, which implies an emphasis on fund investment rather than "management".
- The scheme should set up its own stockbroker.
- There should not be a choice of funds for members.
- Members should be able to cash in their savings at any time, without limits on transfers in or out.
- It should be possible for members to receive investment income on retirement rather than have to buy an annuity.

1. Introduction

Gordon Brown promised "power to the people" in his acceptance speech:

And the principles of my reforms are these: Government giving more power to Parliament; both government and Parliament giving more power to the people. ^x

He set up the FSA which gave power to the industry. There is a parliamentary EDM to provide consumer representation on the board of the FSA.

.. urges the FSA to ensure that suitable consumer representation is reflected on the board as a matter of urgency. ^x

"Power to the people" is also promised by David Cameron, ^x and there are various proposals,

including the introduction of a petitions committee. ^x But personal accounts are being "delivered by the private sector", ^x which is giving power to the industry.

"Power to the people" implies people having control of their own money, rather than handing it over to the pensions industry. People should not be required to make their own pension arrangements. Pensions, that is income in retirement, should be provided by group schemes. But defined-contribution schemes are a problem, because they are a half-way house where savings are locked in limbo land, because they cannot be withdrawn, and have to be used to purchase an annuity. Defined-benefit schemes have the problem of early leavers and affordability. In short, pensions and the private sector are incompatible.

Congratulations to PADA for publishing the responses to its consultations. The discussion paper says:

We will summarise your comments and publish them along with a response to this consultation. This will occur within three months of the close of the consultation period.

This is a contrast, for example, to the consultation *Freedom of Information Act 2000: Designation of additional public authorities* of the Ministry of Justice, which was published 25 October 2007, with close date for responses 1 February 2008, to which the government responded 20 July 2009. That is nearly 18 months later. The responses have not been published (at the time of writing 20 July 2009). Although it says on the Ministry of Justice website: "Responses published: 16 July 2009". ^{x x}

Unfortunately the responses to government consultations are usually not published. It seems that they would be if more people made Freedom of Information requests to see them. I have written about this on: www.comparativetables.com/follow.htm. ^x This non-publication is not giving "power to the people". ^x Responses to consultations should be published. There are frequent calls for a national debate on different topics. Non-publication does not facilitate national debates.

The full name of the respondents to consultations should be requested, to reduce the possibility of spoofs. The full name is not requested, and is not always given in the published responses to Building Britain's Future, and there may be spoofs. The maximum permitted length for responses is 1000 characters, and it is impossible to enter more. ^x But some responses are considerably longer than 1000 characters. ^x I asked for the email address of one of the respondents, without a reply (at the time of writing ^x). So I have no way of checking they are real.

The Building Britain's Future website says: "Your voice is important. Contribute to the discussion and help shape the future of Britain!" ^x This seems to be a rerun of The Big Conversation, which Tony Blair described as "an honest, serious debate about the future of

Britain". ^x

2. "Ethical basis"

How does the PADA reply to someone, such as a contributor to a discussion?

Why you should NOT invest in a pension at all, ever. ^x There is no longer a sufficient ethical base in the UK to do so. .. So it ran fine as a company for 183 years, but was then over 20 years taken over by, successively, AMP in Australia, HHG and Pearl, and may now finish up part owned by some shark in the Cayman islands! ^x

What is the ethical basis of the personal accounts scheme? Requiring people to make an embarrassing decision whether to stay in, or opt out of the scheme, does not seem very ethical. This decision is embarrassing because it is a gamble on: future investment returns, the annuity rate at retirement, the rate of inflation during retirement, whether they will actually need an income in retirement from the scheme. They might decide in later years that they made the wrong decision.

According to the legislation:

The trustee will have 9 - 15 'members' appointed for a term of up to five years renewable once. It may also have employees. The Secretary of State appoints the initial members; thereafter the trustee appoints its own members (from a PADA Industry Day ^x)

The Trustee Board members should be appointed by outside organisations, otherwise this is a self-perpetuating oligarchy, as Equitable Life was described in the Penrose report. This does not seem much of an ethical basis. Self-regulation is causing problems with MPs expenses and financial regulation. ^x

The PADA paper *Securing a retirement income* seems to have a hidden agenda - to promote the sale of annuities. It is pro-annuity in comparison with the income drawdown option, as discussed for example in the IMA discussion paper *Enabling choice for retirement*. ^x The money's worth values in the paper cannot be checked by being able to see the calculations. It quotes values from *Survey of Annuity Pricing* by Cannon and Tonks. ^x But when giving money's values, this paper does not at the same time give the annuity and interest rates used in the calculation, so these values are impossible to check.

Designing an investment approach seems to have the same hidden agenda - providing business for the City. The use of external fund managers combined with a choice of funds for members, could result in personal accounts turning into yet another kind of personal pension. ^x Personal accounts

are a third bite at the cherry. So there is a loss of credibility, because the government did not get it right with personal pensions and stakeholder pensions.

3. A City orientation

This consultation seems to be giving power to the City. It proposes that fund management is "allocated" to the City, and perhaps also investment funds. The PADA paper *Securing a retirement income* also has an industry orientation. It is promoting the sale of annuities, by not even mentioning inflation, or for example, discussing the relative unpopularity of annuities abroad. When members retire they will have to purchase an annuity or be "transferred out" of the scheme for income drawdown:

If a member wants to take out an income drawdown product, they will be able to do this by transferring their funds out of their personal account to another registered pension scheme. ^x

Having a scheme covering the whole country seems rather ambitious, rather than starting it in part of the country, and then extending it. The personal accounts scheme seems too centralised. There should arguably be several organisations, for the English regions, Scotland and Wales.

Should PADA not be doing more itself rather than procuring so much from outside companies? Contracts are being signed which will be expensive to change or back out of. Using outside contractors has been expensive in other areas, such as the development of NHS computer systems.

^x PADA says in an Industry Day:

What is PADA procuring?

- **Contract Set A - a range of goods and services contracts in order to support the Trustee Corporation**
- **Contract Set B - a single contract for Scheme Administration Services**
- **Contract Set C - single contract for Fund Administration Services**
- **Contract Set D - the selection of a number of funds**
- **Contract Set E - a number of contracts for Annuity Purchase Services ^x**

4. The total expense ratio

Annex five says:

The TER provides investors with a clearer picture of the total annual costs involved

in running an investment fund.

But how clear? For example, is the stakeholder cap on charges on the TER or only on the management charge? Regulation 13 of the stakeholder regulations suggests the latter, because "expenses, commission" are in the heading whereas the cap on charges is defined by regulation 14. ^x

5. Unnecessary deals

The City makes money from "deals". The FSA is concerned with promoting "deals":

- **promoting efficient orderly and fair markets;**
- **helping retail consumers achieve a fair deal;** ^x

As pointed out by Lord Myners there is much unnecessary share dealing going on. ^x This is fund managers passing shares between each other. The discussion paper gives the portfolio turnover for actively managed funds, 58 per cent (page 145). London Stock Exchange statistics show that the number of bargains and shares traded per annum has risen steeply since 1997.

6. Portfolio turnover

The discussion paper says:

To address some of these issues for collective investment schemes, the Financial Services Authority (FSA) introduced a requirement for collective investment schemes to calculate a Portfolio Turnover Rate (PTR).

This PTR was introduced as the result of the Third UCITS Directive. ^x This PTR has to be in the Simplified Prospectus of UCITS-approved funds. The FSA has resisted making the declaration of portfolio turnover compulsory for all funds, as it is for mutual funds in the US. The FSA's Consultation Paper *Informing consumers: product disclosure at the point of sale* (2003) says:

We have concluded that portfolio turnover would, as some respondents suggested, be very difficult to interpret in a useful way. We accept that it would be over-simplistic to interpret low turnover as a good thing. We also accept that for the information to have any validity a correlation would need to be demonstrated between past turnover and future turnover. We have not yet determined such a correlation exists. For those reasons we have decided that we will not bring forward proposals to require the disclosure of portfolio turnover. ^x

The PTR referred to by the FSA is *not* the usual US definition of PTR, which is the minimum of

the total purchases and total sales of securities, divided by the average value of investments during the year. ^x_x

The UCITS definition of PTR is unsatisfactory and confusing. ^x Let X be the total of all investment transactions, that is all purchases and sales *by* the fund during the year, and Y be the same for the units (or shares) *of* the fund then:

$$\text{PTR} = 100 \times (\text{X} - \text{Y}) / (\text{average assets during the year}) \%$$

This could be negative, since there could be turnover of the units of the fund without any turnover of its investments. That is the money obtained from the purchase of units is used for redemptions. The adoption of this formula has resulted from feeble representation of investors at the European level.

The personal accounts scheme should specify the portfolio turnover of its funds using the more comprehensible US definition.

7. Stockbroker commission

The discussion paper says:

It is this lower cost of trading that allows pooled funds to offer efficient diversification to investors who may not be able to achieve it cost effectively on their own.

But it is easy enough for trading to be reasonably "cost effective". On-line trading for nominee account costs typically £10 per trade and certificated trades by telephone and on-line Crest twice as much (Jarvis Investment Management ^x, Fastrade ^x). Dealing costs depend on frequency of trading, which is higher for pooled funds, partly because of soft commissions.

The personal accounts scheme should specify the broker's commission and stamp duty of its funds. This is part of the charging structure, although not discussed in the PADA report *Choosing a charging structure*.

The discussion paper does not mention "stockbroker" or "soft commission". The personal pensions scheme needs to ensure that its fund managers are not using stockbrokers in return for "backhanders":

Backhanders, or 'soft commissions', are also allowed by the regulators. 'Soft commission arrangements are common between fund managers and stockbrokers,' said Justin Urquart Stewart, a director of Barclays Stockbrokers. 'Basically, it is payment in kind in return for the fund manager giving the broker his business.' ^x

A 2001 article explains:

Broking houses are clearly willing to make substantial payments out of their commission income - either to fund managers in the form of soft-commission, whereby the fund manager receives goods and services free of charge, or whereby pension funds and other clients secure substantial rebates through commission-recapture programmes. ^x

The personal accounts scheme should have its own wholly owned stockbroker, to avoid the problem of soft commissions. ^x The FSA has developed new rules for soft commissions, which can now only purchase "research": .

The new rules stipulate the only research and execution-related goods and services can now be purchased with commissions. ^x

But this is vague. It includes advice on which shares to buy - leaving fund managers with little to do. That is fund managers are offloading their work onto stockbrokers.

Research is a broad category and survey respondents found it easier to classify their expenditure in this way now, rather than representing a very significant change in the goods and services actually purchased from commissions. ^x

Soft commissions are provided in return for a certain amount of dealing - which promotes high portfolio turnover.

8. Buy-and-hold

The discussion paper says:

An important decision for the trustee corporation will be the balance of passive and active management used to invest the scheme's assets.

A more important decision is arguably whether or not they have a buy-and-hold strategy, that is low portfolio turnover:

Research in the US has shown a positive correlation between high turnover and poor performance.

Index-tracking results in a buy-and-hold strategy:

indexed portfolio assets are attractive sources of lendable securities due to their low turnover

Portfolio turnover can be even lower, because shares are regularly included or excluded from particular indices.

Buy-and-hold produces an incentive to see that companies improve rather than just selling shares when they do badly. Index-tracking is lazy. A buy-and-hold strategy results from specifying that portfolio turnover must not exceed a value such as 10%. If this strategy is followed for a particular fund, it would need to be set in stone by regulations or legislation.

The more "management" the higher the portfolio turnover. Portfolio turnover for UK funds is alarmingly high as discussed in *Annex five*, and on my website. ^x Funds need to be *invested* rather than "managed". The personal accounts scheme should employ fund *investors* rather than "managers". Judging from my experience, fund managers are too hasty investing cash in the stock market, when an investor would wait for a downturn, when shares can be bought more cheaply.

9. Internal and external

9.1 Fund managers

The discussion paper mentions "external manager" five times and does not mention "internal manager". "External fund manager" always seems to be a company.

It is apparently intended that all the fund managers will be external. The fund managers should arguably be in-house rather than external, especially if the personal accounts scheme invests directly in property. In the present response a fund manager can be either a person or a company. A fund manager is in-house or *internal* if and only if they are an employee of the personal accounts scheme, otherwise they are *external*.

9.2 Funds

If the personal accounts scheme has money in a bank account, or owns shares/bonds and has its name on the share/bond register, then these assets are *internal*, otherwise they are *external*. Shares in nominee accounts are *external* assets.

The consultation asks:

Should the trustee corporation offer branded funds as part of the fund choice offered to members, and if so why?

"Branded funds" are external. This is asking whether funds should be internal or external. They should be internal. Branded funds should not be permitted. The response to this question will

depend on whether the respondent is from the industry which likes branded funds, or has been infiltrated by the industry. The FSA is continually doing the wish of "most respondents" to its consultations. ^x This sounds democratic. But "most respondents" are always from the industry, so it is acting for the industry.

The consultation seems to be trying to introduce branded funds:

Overall, however, participants would generally be willing to consider branded funds alongside 'own-brand funds', and to consider which provides the 'best deal' when making a decision.

"The best deal" is impossible to determine because charges vary with time, and there will be hidden charges.

10. "Funds will be passed on"

The white paper *Security in retirement* (2006) ^x says that funds are "passed on" to these external managers:

Funds will be passed on to professional and independent fund managers as in current industry practice. (1.76) ^x

"Passed on" implies that the funds become external. But does "allocating" in the discussion paper: "allocating assets to investment managers"? "Contract Set D - the selection of a number of funds" suggests that the funds are external. An *external* fund manager can manage *internal* funds. For example, St James's Place has internal funds managed by external managers.

We do not employ any in-house investment managers, instead we carefully select a number of external managers of outstanding ability to manage our range of funds. ^x

Someone has given me the password to their on-line Fastrade account. They are not my shares or account. I trade on their behalf, and cannot transfer anything to my account. No funds have been passed on to me, though I am acting as a fund manager. The funds are internal to this person. But I am an external fund manager, because I am not an employee.

If funds are external, a change of manager implies a change of fund, which is costly:

Manager change can be a costly process. It requires a search for a new manager and the transition of the assets from the old to the new manager often requiring a transition manager. This will incur additional trading costs. ^x

St James's Place says:

When a manager is changed there are no direct consequences for the fund itself, which remains as it was. It is simply that the responsibility for managing the underlying assets has been handed over to a new investment professional who will then make their own adjustments to the portfolio. ^x

This does not seem to be "a costly process", though "additional trading costs" can result from "adjustments to the portfolio" resulting from different views. This is a problem with external fund managers.

The personal accounts scheme should have an in-house capability. Pension funds are sometimes managed in-house by internal fund managers, to a greater or lesser extent - such as the Universities Superannuation Scheme. ^x The personal accounts scheme should have custody of its assets, with its name on share registers and share certificates. They should be internal and not be "passed on", if this means they become external. There is no mention of "custody" or "custodians" in the discussion paper.

"Fund management" implies buying and selling, in comparison with "institutional investor". But initially, as the personal accounts scheme expands it should be (almost) entirely buying. Its funds should be invested by the personal accounts scheme itself, that is by employees who could be called "investors" rather than "managers".

11. Corporate governance

The discussion paper says:

- A high level of corporate governance can be achieved in three ways:**
- fund manager selection**
 - corporate-governance overlay**
 - in-house capability**

Shareholders of companies are expected to take part in corporate governance, by voting on resolutions and attending AGMs. The investment funds of the personal accounts scheme should be internal so it is a shareholder and can take part in corporate governance. This will help develop an "in-house capability". Leaving this to external managers seems unreliable. "Selecting fund managers with a more committed approach to corporate governance", and "require fund managers to closely monitor and research the companies they have invested in" seem vague. "Corporate -governance overlay" seems to be passing responsibility to someone else. In short, I am in favour of the third option.

12. "Diverse needs"

The discussion paper asks:

Should the personal accounts scheme offer choice beyond the default fund?

No it should not, for various reasons listed in Appendix 1. The discussion paper says:

respecting the diversity of members .. to avoid individuals or groups feeling excluded, alternatives to the default fund are required to cater for a wide range of members with different needs, aspirations and values. .. limited choice may lead to increased opt-out from the scheme if the fund choice available does not meet the diverse needs of the target group.

People do not have "diverse needs". This is the "suitability" myth. Howard Davies said to Treasury Select Committee *The mis-selling of personal pensions* (12th November 1998):

The whole learning experience of the last few years has taught us I think, that suitability is at the core of the problem which investors face, whether this is a suitable product for you.

Investors want a good return on their investments. This is not "diverse needs" or "suitability", which imply that investors have needs other than wanting a good return. The industry - that is the industry regulated by the FSA - likes choice, because no choice no industry. Governments like choice because it enables them to offload responsibility for decisions onto the public. So they make up reasons for choice such as "religious views", which is a vague concept to apply to fund selection.

13. Level of risk

The discussion paper says:

Pada investment director Mark Fawcett said the fund would be designed on the basis that most members would be risk-averse and have lower-than-average financial understanding. But he said other funds would be available for investors seeking additional risk. ^x

People should not have to think about the appropriate level of risk for saving towards a pension. This should be the responsibility of the personal accounts scheme. Risk appetite can rapidly change, and levels of riskiness are difficult to assess, moreover:

There may be a mismatch between our members' perception of investment risk and what investment risk is appropriate for them, particularly in the context of long-term savings.

"Investment funds with greater or lesser risk could also be made available for those who want to seek higher returns or greater security."

Similarly, members should be able to receive investment income instead of having to purchase an annuity. This income is not "garanteed", but likely to increase for those "seeking a higher return". But there is no such option in *Securing a retirement income*:

We believe that a lifetime annuity will be the most appropriate product because:

- **lifetime annuities provide a guaranteed income for life.**

14. "Alternative investment funds"

The discussion paper says the personal accounts scheme should offer choice beyond the default fund:

We anticipate that the majority of members of the personal accounts scheme will be invested in the default fund. However, some members will want to choose alternative investment funds for their contributions.

Which "alternative investment funds"? There might be pressure to include particular popular funds in the scheme. I am opposed to having a choice of funds, even if these are all internal. This could be the thin end of a wedge, for example:

When Ripa originally became law, only nine organisations - including the police and security services - were allowed to use it. That has since been extended to 795 bodies.
x

Similarly 9 funds could become 795. A limited number is a cap. The government has been unsuccessful with maintaining caps in the past, such as the stakeholder cap on on charges, and the cap on the management charge of unit trusts. Whenever there is a "cap" or "maximum" in government publications, you often find subsequently that this was only "a guide". ^x Having a choice of funds means that millions of people will have to make a choice between the same alternatives.

Giving people a choice of funds, is also giving funds a choice people they can target to persuade them to invest in their funds. The discussion paper does not mention persuasion or sales. Many people opted out of the Swedish Premium Pensiion Scheme initaly because they were persuaded:

The first investment selection in the Premium Pension took place during the fall of 2000. The objective was to induce as many participants as possible to make an active

choice and the Premium Pension Agency launched a large advertisement campaign to encourage participants to select their own portfolios. In addition to the PPM, private fund managers also put significant resources into ad campaigns to attract investors. About 68 percent of participants made “an active choice” and chose their portfolios. ^x

The default fund has performed better on average than the other funds. A 2009 report *The Swedish Premium Pension: Should an investor actively select funds or keep the default option?* found the default fund to be the best option:

Our results prove that *Premiesparfonden* is a very attractive fund. Although the fund is outperformed by a few, the attainable return and utility gains are rather small in comparison to the effort required to identify these. Hence, we have strong reasons to believe that an investor is better off keeping the default option. ... Our analysis identifies that there are currently a large number of underperforming funds. ^x

The report by Sharon Collard commissioned by PADA says that only 1.6 per cent of members opted out of the default fund in 2007.

In Sweden, overall figures show that 58 per cent of pension savers have made an active choice, but this masks a rapid decline in the proportion doing so over time, from 67 per cent when the scheme was introduced in 2000, to 1.6 per cent in 2007. It is notable that during the period 2001-2005, the Swedish default fund performed better than an average of all funds that could be actively chosen, and was considerably cheaper. ^x

The discussion paper says:

In comparison, only 40 per cent of members of the US Thrift Savings Plan, which offers five fund choices, invest in the default fund.

But this is not a fair comparison, because the default fund is the less-risky government securities (G) fund. ^x So it is not a good option for long-term growth.

More meaningful as a selection criteria is whether or not a fund provides an income. There is no reference to "fund income" in the discussion paper. Funds should provide an income as a pension when people retire. "Lifestyling" and "target date" focus on capital values. They could be just an excuse for fund managers to trade. An article in the Financial Times discussing the call for regulation of target date funds in the US quoted "a great idea in theory", but not in practice:

Fund companies take the responsibility for making investment decisions but have zero responsibility for the outcomes. ^x

I am not in favour of funds selling investments in order to buy other investments as people approach retirement. People should be able to receive the income from investmentd when they retire. In which case if buying invetments shortly before people retire, funds should arguably buy those providing a larger income.

15. Retirement income

It should be possible for members to receive investment income in retirement rather thsn funds needing to be converted into an annuity. This might be called "an in-house capability" for "retirement strategy" - using the terminology in Figure 1.2. That is the personal accounts scheme should provide an income drawdown option, whereas *Securing a retirement income* said it would not. Investment income is far more stable than capital values. Converting pension funds into an annuity is a triple gamble, on stock market prices, annuity rates and inflation. Annuities have further disadvantages listed in Appendix 2.

The PADA paper *Securing a retirement income* praises annuities, saying for example:^x

Providers will need to reassure the personal accounts scheme that annuities will provide value for money, regardless of their size.

"Value for money" compared with what? There is no discussion of dividends as a source of retirement income, as shown for example by FTSE Actuaries Share Indices. ^x Annuity rates are declining. ^x The rate for a RPI-linked annuity (for a man aged 65) is below 4 per cent. The dividend yield on the FTSE 100 Actuaries Share Index (8th May 2009) is 4.8 per cent. In support of the claim that annuities are value for money, the paper quotes money's worth values which are impossible to check, because the calculations are not shown in spreadsheets and interest/annuity assumptions are not specified. This is taking the side of the industry, promoting the sale of annuities. What is the PADA doing to persuade the government to make them no longer compulsory (except with a heavy tax penalty)? This has been promised by the Conservative Party. ^x

The personal accountw scheme should itself provide annuities. A 2004 survey of Watson Wyatt *Pension plan design* found that about a quarter of defined contribution occupational penion schemes provide annuities:

Around a quarter provide annuities directly from the plan on the plan's own conversion terms whilst only 1% allow income drawdown. (page 22) ^x

16. "Maximise choice"

The PADA paper *Choosing a retirement income* says:

Whilst the scheme will aim to keep costs low for members it will, as far as appropriate, seek to maximise members' choice.

This is referring to the choice of an industry "product". It implies that choice increases costs.

Maximising choice is a good idea in the area of saving, but not in the area of pensions. For example, the choice whether to be contracted in or out of SERPS has caused endless confusion and this option will now be abolished: "Contracting out through defined contribution schemes (i. e. money purchase, personal pension and stakeholder arrangements) is to be abolished. Although a date has not been agreed, it is likely to be with effect from 6 April 2012. Anyone contracted out of a defined contribution scheme at that time will automatically be contracted back into the State Second Pension." ^x Are personal accounts a saving scheme or a pension scheme?

Members of the personal accounts scheme are not being given maximum choice, because they cannot withdraw their capital. The discussion paper says:

We expect the scheme will offer a variety of fund choices beyond the default fund ..

But members may not like any of the funds on offer. Requiring millions of people to choose between the same few alternatives seems ridiculous.

Appendix 1 Disadvantages for members of a choice of fund

- 1) It is not efficient to require millions of people to choose between the same options.
- 2) Members will be offered a choice of funds, even though most members do not want such a choice.
- 3) It presents people with an unhelpful dilemma about which fund to choose, perhaps requiring financial advice.
- 4) There will be inadequate criteria for making choices, especially when the funds are new, that is without a track record.
- 5) It is catering for personal likes and dislikes, such as for or against index-tracking funds, which may not be based on much knowledge or experience.
- 6) However many choices are provided, some people may not like any of them.

- 7) It is storing up complaints in years and decades to come from those who (with hindsight) make the wrong choice.**
- 8) It is offloading responsibility onto people, especially the appropriate amount of risk.**
- 9) Providing a choice is expensive - though not as expensive as the Choose and Book system ^x - requiring the creation of the proposed Pension Payment System.**
- 10) It is difficult or impossible to change the fund manager.**
- 11) It will result in competition between funds to attract money, resulting in extra costs, and members being influenced to choose the wrong funds.**
- 12) Switching between funds will increase costs.**
- 13) The number of funds is very likely to increase over time.**

Advantages for the government and industry of a choice of fund

- 1) Offloads responsibility onto the public**
- 2) Enables the industry to sell fund units.**

Appendix 2

Disadvantages of compulsory annuities for the public

- 1) They are a gamble on: a) annuity rates when you retire, b) the value of pension savings when you retire, c) the future rate of inflation.**
- 2) They are based on bonds, which have no capital growth and lower yield than shares, because there is no longer a reverse yield gap:**

The 4.8 per cent paid on the UK share indices is about a percentage point above the yield on long-term government bonds. ^x

- 3) They are dissaving rather than saving.**
- 4) They are irrevocable.**
- 5) They have opaque charges and money's worth calculations.**
- 6) People may not need an income from an annuity, and prefer to receive investment**

income, or the cash.

7) They destroy capital.

such as the proposal to introduce a petitions committee. ^x 8) Try to choose the best annuity is a nightmare, hunting through websites, obtaining quotations, delays. ^x

9) Annuity rates are falling. ^x

Advantages for the government and industry of annuities

1) They help the government finance government debt.

2) They are profitable for the industry.

July 2009.