

## Stakeholder pensions – employer access

Financial Services Consumer Panel response to:  
Department of Social Security Stakeholder Pensions Consultation  
Brief 2 – employer access proposals

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## Introduction

1. This paper is the response of the Financial Services Consumer Panel ('the Panel') to the Department of Social Security's Consultation Brief *Employer Access*. The Financial Services Authority (FSA) established the Consumer Panel to advise the FSA Board on the interests and concerns of consumers and to report on the FSA's effectiveness in meeting its statutory objectives. There are eleven members of the Panel representing a broad range of consumer interests. The Panel is independent of the FSA - it can raise its own concerns, initiate its own research and publish its own reports.

## Exemption from compliance

2. Firstly, the Panel warmly welcomes the proposed exemption for employers that offer an occupational scheme that allows all employees to join within six months of commencing work (*paragraph 20*). We feel that this proposal strikes the right balance between easing the burden on employers already making good provision for their workforce and providing new employees with quick and easy access to a pension arrangement.

3. The Panel also welcomes the proposal that there be no exemption for specific types of employer e.g. small businesses (*paragraph 31*). It does however appreciate the problems which small businesses will have to encounter. At the end of the day the Panel is of the view that employees should be treated fairly and equitably, regardless of the nature or size of the business concerned and small employers should be actively encouraged to seek the help of an IFA.
4. The proposals (*paragraphs 32 to 41*) to find some way of exempting employers that currently offer and contribute to a group personal pension (GPP) for their employees are also sensible. The Panel recognises the risk associated with not exempting these particular schemes, i.e. the loss of an existing contribution to the GPP. It is however very keen to ensure that employees in these particular situations have adequate and comparable protection to that given by stakeholder schemes. On this basis the Panel lends its support to the proposal for a specific contribution level in order to obtain an exemption (*paragraph 41*). We feel that the level of this specific contribution should at least reflect the average level of employers' contribution to money purchase occupational schemes i.e. around 7% (Source: NAPF Annual Survey of Occupational Pension Schemes 1997).

## Designation of a scheme

5. The Panel feels that there is an issue, outlined below, regarding the whole process by which schemes are designated by employers and, any resulting employer liability for the performance of that particular scheme.
6. Employers must consult with their workforce regarding the choice of nominated scheme (*paragraph 44*) but it appears that they are under no obligation to listen to or act upon any concerns raised by their workforce (*paragraph 45*). As the paper states, "*it is likely that employers will be actively canvassed by schemes seeking to recruit a solid membership base*". With this in mind, the Panel feels that the potential exists for

employers choice of scheme to be unduly influenced by “employer incentives” offered by the scheme rather than by any employee consultation. To that end the Panel welcomes some strengthening of the rights of the employee(s) to a fair hearing e.g. a paper consultation would not be sufficient.

7. The Panel appreciates the concern expressed by employers that they may be held liable for the performance of their nominated scheme. The Panel agrees that exemption should be available, but that the gateway to exemption should ensure that employers take great care in choosing and recommending a scheme and consulting with their employees. Therefore, the Panel feels that immunity from liability should only apply to those employers who:

- are able to demonstrate that they have taken due care to fully investigate the options available;
- have recommended their choice of scheme in the context of these options; and
- have provided full opportunity for employees to consider that choice.

## Interim period

8. Finally, paragraphs 12 and 68 propose that the employer access requirements will not be mandatory for the first year of stakeholder schemes, i.e. April 2001 to April 2002. This is to allow time for schemes to be developed and for employers to make the necessary arrangements for nominating a scheme. However, the Panel feels that interim arrangements need to be clarified, and be transparent. For example, what advice should pension providers and IFAs be giving to consumers during this period where some stakeholder schemes will be in existence but where their employer may not necessarily have nominated a scheme?