

# UKSA

## UK SHAREHOLDERS' ASSOCIATION

The independent voice of the private shareholder

Lord Blackwell  
Centre for Policy Studies  
57 Turton Street  
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cc: Jacqui Lait MP

30 January 2001

Dear Lord Blackwell

Jacqui Lait MP has very kindly sent us a copy of "Pensions: A Secure Future", and encouraged us to write to you with our comments.

I'm afraid that we cannot take a position on the broad principle of encouraging young workers to opt out of the basic state pension and into private, funded schemes. Having taken soundings, I've found that, as I suspected, this is too politically-charged a proposition for a non-partisan organisation such as UKSA.

**However, UKSA has a long-standing general policy that savers should not be required to invest in collective or insurance funds, sacrificing direct control of those savings and incurring heavy long-term management charges, in order to benefit from tax incentives. This is particularly applicable to pension savings, which carry major tax benefits but were for a long time the exclusive preserve of insurance funds.**

**Our strong view is therefore that savers who choose to opt out of the basic state pension and to make alternative pension arrangements, as proposed, should be permitted to manage their pension investments and should not be forced into collective or insurance funds.**

So I am concerned at the argument on pages 13 and 14 that, in order to prevent savers from "engaging in very speculative investments", "there needs therefore to be a requirement that pensions are invested in appropriate pension vehicles."

I believe there is little evidence of savers blowing away their pension investments in SIPPS on speculative schemes, whereas the heavy cumulative costs of charges on collective

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investments held over many decades is very well documented: it should be fairly clear that an annual charge of, say, 1.5%, applied 40 times on a savings scheme that is built over 40 years up to retirement, will heavily reduce the size of the eventual pension pot.

There is, on the other hand, an important minority of savers who wish to manage their own pension savings, and thereby, among other things, to claim a direct share ownership stake in British industry. For these savers, the lack of control over pension savings in collective or insurance funds is a major disincentive to making adequate pension provision.

Fortunately, these savers are now able to manage their pension savings, and to invest directly in shares, through SIPPS - although this vehicle is still excessively regulation-bound and expensive to set up and maintain.

**We would support measures to make SIPPS far more accessible and inexpensive. Equally, we would be very disappointed if the proposed reforms excluded savers from making use of SIPPS for their opted-out savings.**

Yours sincerely