NPSS: Friend or foe?

By Malcolm Small –August 2006

In my spare time, I run a standing conference for senior professionals in the pensions space. We last met at the beginning of June, just after the White Paper detailing the likely timing and shape of NPSS (or Individual Pension Accounts) emerged.

There was a rather gloomy atmosphere amongst the current pension players in the room, whilst the investment community seemed rather bullish, as did some of the administrators and systems providers.

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As currently framed, NPSS will see a form of 'soft' compulsion introduced, whereby employees will have to make a positive decision to opt out, with overall charges set between 0.3 per cent and 0.6 per cent. The aim is to cut costs by centralising administration to gain economies of scale, theoretically increasing the size of individual pension 'pots' available to lower earning employees.

Government research suggests that over 70 per cent of people are in favour of 'soft' compulsion and that between £4 and £5 billion of additional saving would be generated.

So far, so good.

However, it was interesting to note how the mood of members at the conference changed as some of the implications were debated.

First, 'soft' compulsion is relatively untried – we just don't know how many people at the lower end of the employee scale would opt out. Many will already be struggling to make ends meet and may well have debts that they need to clear. How wise would it really be to make pension contributions they can ill afford, even when matched by employers?

Second, as things stand, many will be doing themselves out of means tested benefits by saving for retirement at all. The conference was unanimous that for the scheme to work, means testing of pension benefits must be abolished and a decent basic state pension provided, in order to provide a clear incentive to save.

Third, the existing players cheered up as they realised the size of the opportunity in front of them.

NPSS has brought the issue of pensions to the front page of every newspaper in the land, creating a favourable environment for new business.

Furthermore, NPSS is not scheduled to arrive until 2011, giving a five year sales window, particularly for new forms of low cost, wider choice, pension products, especially at the upper end of the market. This is where the existing operators play, in any case. Their experience with stakeholder pensions at the lower end of the market has not been positive and has indicated that customers will not beat a path to your door simply because something is cheap.

Moreover, the evidence is that employers willing to provide benefits for their workers will not want 'basic' solutions – they are likely to want something that covers more than just pensions.

To make matters even more joyful, there is a wall of money emerging over the next few years from defined contribution schemes of various kinds as the 'baby boom' generation heads for retirement, and many of them are looking to use the new freedoms associated with 'A' day to do imaginative things.

At the end of the meeting, there were smiles all round, with everyone seeing opportunities they could get their teeth into.

It looks like NPSS might definitely be a friend.