



# The-Pensions-Net-Work

*"Leading Thought In The Employee Benefits Market"*

## **The-Pensions-Net-Work (TPNW) – March meeting**

### **The role of alternative providers in the world of auto-enrolment**

From October 2012 employers will enrol their qualifying employees into a workplace pension, subject to certain criteria. Following on from the very informative presentation from Graham Davey of National Employee Savings Trust (NEST) at the last TPNW meeting it only seemed right to give alternative providers a say as part of our first meeting of 2012.

Our presenters for this session were John Jory and Nigel Waterson:

John needs no introduction as he has been a regular supporter of TPNW. John is a spokesperson for B&CE Benefit Schemes, the provider of employee benefits for, primarily, manual workers in the construction industry on pension matters. Late last year BC&E announced that they were planning to launch The People's Pension, a competitor to NEST, drawing on their experience of operating the UK's largest stakeholder pension scheme based on the number of members. John is also a director of the Centre for Retirement Reform.

Nigel Waterson was Conservative Member of Parliament for Eastbourne from 1992 to 2010. For his last seven years in Parliament, Nigel was Shadow Pensions Minister. He is a recognised expert on pensions and issues relating to ageing; as well as financial services more generally. Nigel is Chair of the Board of Trustees for NOW: Pensions. Danish national pension scheme ATP set up NOW: Pensions to provide auto-enrolment compliant schemes in the UK.

### **The People's Pension**

The three key principles behind The People's Trust are:

- An online Employer Assistance Program designed to support the employer by assessing uploaded payroll information for the right contributions as well as highlighting any employees about to approach an auto-enrolment date. It also provides management information such as recording opt ins/outs and assists with employer duties with regards monitoring, notifying and reporting.
- Employee engagement through education and engagement. Each employee will have an online account which enables them to engage with their fund.
- Design simplicity. The People's Pension is a multiemployer super-trust with strong trustee governance (including the appointment of an independent trustee) plus economies of scale.

It will look to provide a range of funds which suits the investment preferences of the majority but provides flexibility for those who want to make an individual choice. Typically they will look to match 3 risk fund profiles – cautious, balanced and adventurous, with the default being balanced. This will look to provide a 15 year glide-path to retirement in recognition that there is no longer the traditional 'cliff edge' to retirement with people not knowing when they are going to retire or indeed not being physically able to reach normal retirement age. For those that want other funds these will be available including Sharia, ethical, fixed interest and cash funds.

A transparent charging system has been designed: 0.5% annual management charge (AMC) with no other charge on transfer in or out, no extra charge for deferred members and no cap on contributions.

### **NOW: Pensions**

NOW: Pensions is a new independent UK multi-employer trust scheme, supported by ATP (a leading pension provider in Denmark).

It aims to cost less, perform and protect and is also based on the three key principles:

- Simplicity
- Transparency
- Accountability

With this in mind the trustee board is made up of a number of independent individuals (including representation from NOW: Pensions), with a depth of experience to provide rigorous governance in collaboration with ATP and Xafinity Paymaster, for fund management and pension administration, respectively.

Similar to The People's Pension and NEST, automation is key to its proposition with the administration software compatible with any HR and payroll platform allowing the employer to validate contributions and providing management reporting.

There is full on-boarding support for employers with flexibility on branding, simple communications and flexible scheme design. An employer consultation forum allows employers to share information. Employee support and engagement is in place through a call centre and online service.

Unlike NEST and The People's Pension, there are no fund choices: the fund is a diversified growth fund including life-styling 10 years prior to retirement. There is also no ban on transfer ins or outs, no cap on annual contributions, and life insurance is optional but available.

Finally, there is one charging structure for all: £1.50 per month member administration fee plus 0.3% per year of funds under management.

When asked to specify their target market both providers stressed that their proposition was fit for purpose across a wide range of employers.

### **Market view on opt-out rates**

Both parties agreed that they expected early opt outs to be low while the employee contribution rate was 1%. Indeed BC&E's experience of 'quasi' auto-enrolment (i.e. through the contract of employment) was that the rate of opt out tended to be relatively low, where contributions were small or not required. However, it was predicted that when employee contributions increased (such that it became more of a significant part of their pay packet) opt outs will almost certainly increase.

The over-riding message was "don't be misled if there is a low rate of opt out in the early days".

### **Contribution rates**

A discussion ensued on whether, irrespective of which vehicle is used, how many employers were looking at 'levelling-down' to the legal minimum or to what extent were employers looking to do something better. It was generally felt that not all employers had considered how auto-enrolment was to be funded and therefore it was difficult to see what impact this might have on future provision in the long term.

BC&E's current experience is that they have about 50% of employer customers looking to comply with the legal minimum particularly in current financial environment. The remaining 50% appear to want to do more, but will likely want some kind of participation with the employee (e.g. matching contributions). Given the concern of increasing opt-outs, however, some may start with the legal minimum to simplify the refund process.

### **Industry poll**

Prior to closing the session, the attendees\* of the session were asked:

"Do you believe that NOW: Pensions and The Peoples Pension can take significant volumes away from NEST?"

Almost two-thirds (64%) of those surveyed agree that the alternative providers would take away significant volumes of auto-enrolment business from NEST, while 30% did not believe this would be the case and less than 1% were unsure / didn't comment.

*\*33 individuals attended the session, representing a wide variety of pension industry backgrounds.*

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