Andy Cheseldine

ACA Sessional Meeting 25 June 2009

Agenda

Definitions, weasel words and get out clauses

Context – Why efficient isn't necessarily "right"

The Investment Consultation

Timeline

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Definitions, weasel words and get out clauses

- New employer duties / obligations
- National Pension Savings Scheme / Personal Accounts
- Conflict Statement – Hewitt is one of a number of consultants that has been contracted by the Personal Account Delivery Authority (PADA) to advise on design an implementation issues.

Responsibilities

Government

- Legislation and regulations, including auto-enrolment, contribution structure etc
- PADA's brief

DWP

- Policy development
- Communications
- Programme governance

The Pension Regulator

- Employer compliance

Financial Services Authority

- FSMA compliance
- Consistency with market

PADA

- Plan design, including investment, communications
- Selection of service providers (administration, custody, investment etc)
- Implementation
- Timing?

Trustee Corporation

- Operational maintenance

The Media

- Identifying errors, anomalies and perceived unfairness

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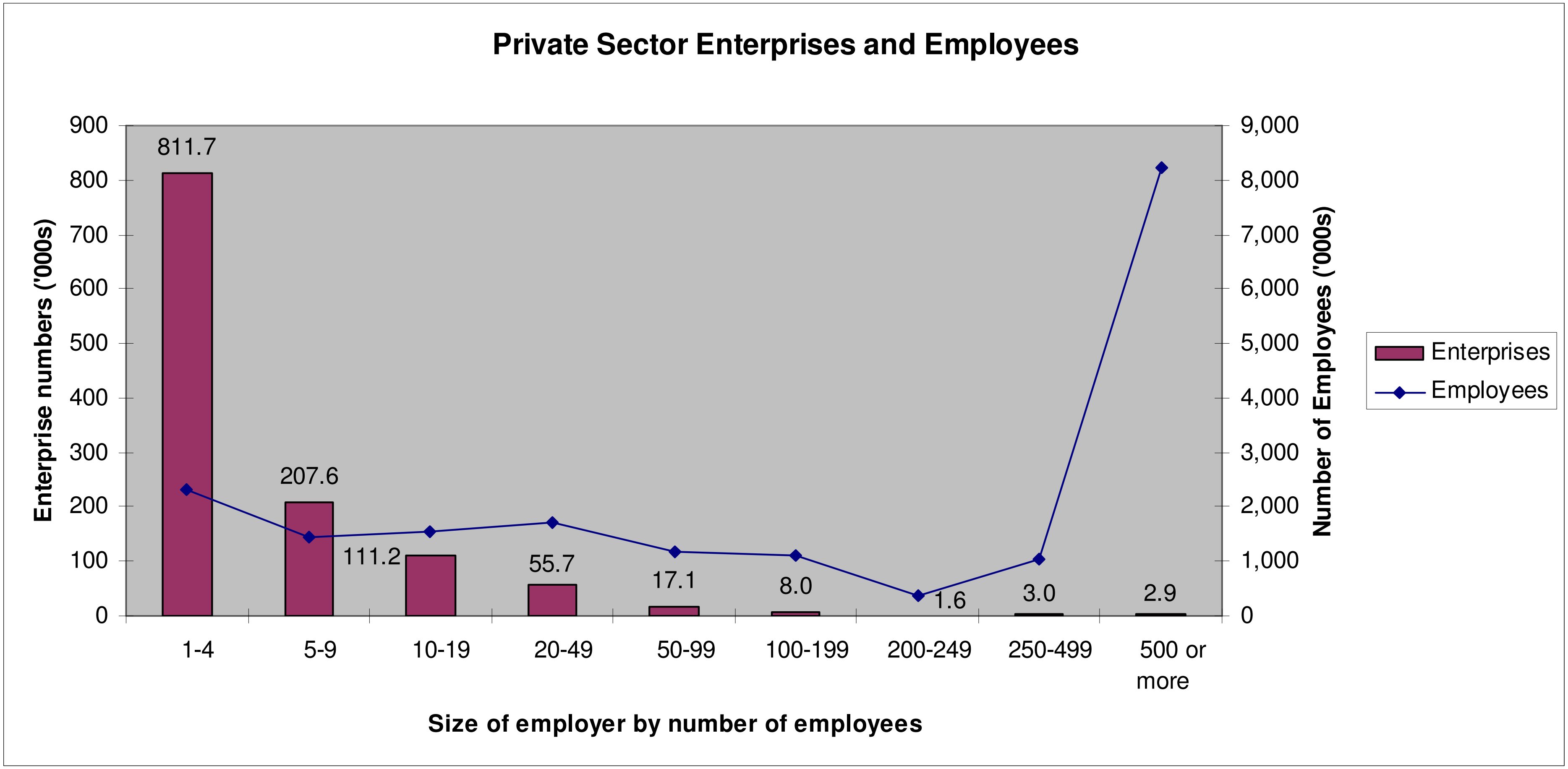
Where are the potential members?



Excluded from chart:
- 5,075 Central & Local Government enterprises with 5.2 million employees
- 3.5 million Self-Employed, Partnerships & Single Director Co's without employees

Underlying Data Source: BERR 2007

Expected footprint – one possible scenario

Co Size by employees	Number of Enterprises	Average Number of Employees	Employers using PA	Employee take up	Total active members
1 to 4	812,000	2.8	90%	75%	1,534,680
5 to 9	208,000	7	80%	80%	931,840
10 to 20	111,000	14	60%	90%	839,160
20-49	55,000	31	30%	90%	460,350
50-500	30,000	125	20%	90%	675,000
500+	2,920	2,800	20%	85%	1,389,920
					5,830,950
Self Employed	1,000,000.00	1	30%	100%	300,000
Non-Business Employees	400,000	1	90%	90%	324,000
					6,454,950

Source: Hewitt Estimate

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Implied Plan size by assets and members

Year	Aggregate Contribution Rate	Number of active Members	Expected AUM inc investment growth, net of retirals (£M)	Monthly Contribution Stream (£M)
2011	2%	5,000	£1	£0.08
2012	2%	5,000,000	£1,046	£87.08
2013	5%	6,000,000	£4,369	£272.99
2014	8%	6,100,000	£10,133	£463.98
2015	8%	6,200,000	£16,502	£492.71
2016	8%	6,400,000	£23,621	£531.35
2017	8%	6,600,000	£31,552	£572.42
2018	8%	6,800,000	£40,365	£616.06
2019	8%	7,000,000	£50,131	£662.42
2020	8%	7,200,000	£60,926	£711.64
2021	8%	7,400,000	£72,834	£763.88
2022	8%	7,600,000	£85,944	£819.31
2023	8%	7,800,000	£100,348	£878.11

Source: Hewitt Estimate

PADA's brief

Pensions ACT 2008 gives PADA has six principles, to guide their actions as an organisation:

- encouraging and facilitating participation in qualifying schemes
- minimising the burden on employers
- minimising any adverse effect on qualifying pension schemes, and the members and future members of those schemes
- minimising the cost to members
- taking the preferences of members and future members into account in considering investment choice
- respecting diversity among members and future members of the scheme.

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The Investment Discussion Paper

- The 171 page paper includes 8 chapters and 32 specific questions consolidated into 7 key areas for consultation:
- Who will our members be?
- What should the scheme's investment objective be?
- How should members' contributions be invested?
- Approaching retirement
- Achieving high-quality corporate governance
- Responsible investment and its role within the personal accounts scheme
- Choice: how much is enough?

The “big” questions (1)

Membership

- How should membership influence design?

Objectives

- Differentiating between Plan objectives, investment objectives and what is communicated to members

Investment issues (particularly in default)

- What asset classes care appropriate?
- Is there room for active investment within the charging structure?
- Would tactical asset allocation work?

Lifestyling and alternatives

- Are a series of target date funds the best fit?

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The “big” questions (2)

Corporate Governance

- How do they achieve robust , efficient, sustainable corporate governance?

Responsible Investment

- What does it mean?
- How do they achieve it?

“Self-select” fund choice

- How much is appropriate
- Distribution of costs
- Branding of funds

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- November 2008: Royal Assent of the Pensions Bill 2007 created the Pensions Act 2008
- December 2008: PADA's Decumulation consultation: Securing a retirement income published
- January 2009: PADA starts procurement for the personal accounts scheme (administration)
- January 2009: PADA consultation process on the approach to Investment strategy for the personal accounts scheme starts with a Responsible Investing and Socially Responsible Investing event
- Spring 2009: PADA's Investment strategy consultation paper published
- Spring 2009: PADA's Scheme Order and Rules consultation jointly with DWP (the personal accounts equivalent to the Trust Deed)
- Spring 2009: Regulations consultation (Pack one) – the detailed employer duties
- Autumn 2009: Regulations consultation (Pack two) – the detailed employer duties

Source: PADA

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