NOW: Pensions

Making auto-enrolment work

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ACA Sessional Meeting, 25 October 2012

Basic requirements

- all eligible employees to be auto-enrolled
- ‘staging dates’ set by size of company
- those auto-enrolled may opt out
- automatic re-enrolment after 3 years
- …or on change of employment

Eligible job-holder

- not already in qualifying workplace pension scheme
- aged at least 22
- aged below State Pension Age
- earning more than £8,105 a year
- working (ordinarily) in the UK

Requirements for minimum contributions

- on qualifying earnings from £5,564 to £42,475
- employer to contribute at least 3%
- employee to contribute at least 4%
- tax relief on 4% provides another 1%
- full rates to be phased in over several years
- employer can choose to set higher minimum level

Big issues

- raising awareness of auto-enrolment
- helping employers to get on with it
- administration of complex requirements
- level of charges
- nature and suitability of default funds
- governance (who looks after the member?)

Pensions Institute (Cass Business School) – findings (1)

Pensions Institute

- “Caveat venditor” rather than “caveat emptor”
- auto-enrolees are the customers
- but employers are the buyers
- TCF does not apply to advice to employers

- http://www.nowpensions.com/wp-content/uploads/2012/10/Default-funds-with-high-charges-should-not-be-permitted-in-the-new-auto-enrolment-market.pdf
- http://www.nowpensions.com/wp-content/uploads/2012/10/CaveatVenditor.pdf

Pensions Institute (Cass Business School) – findings (2)

Pensions Institute

- huge differences in expense levels
- TERs from 0.3%pa up to 3%pa
- considerable obfuscation of charging structures
- hard even for experts to bottom out all the charges
- difference in charges could double the pension
- charges are not regulated
- could lead to another mis-selling scandal

Pensions Institute (Cass Business School) – findings (3)

- wide variety of default funds
- some have very high equity content
- enormous range of expected outcomes on model
- ...and wide range of associated volatility

Pensions Institute (Cass Business School) – recommendations (1)

Pensions Institute

- agree common definition of TER (ongoing charge)
- high charges on legacy funds should be eliminated
- scheme should be a scheme
  - not just a series of individual contracts
- kite mark should be introduced
- reform regulatory approach
  - regulate advice to employees
  - projection rates should be credible
  - measure of downside risk should be presented

Pensions Institute (Cass Business School) – recommendations (2)

- introduce kite mark to help employers
- requirements might be:
  - TER of 0.5%pa or less
  - good investment governance
  - suitable to be purchased by employers directly
  - no need for advice
- information on kite-marked schemes on a website

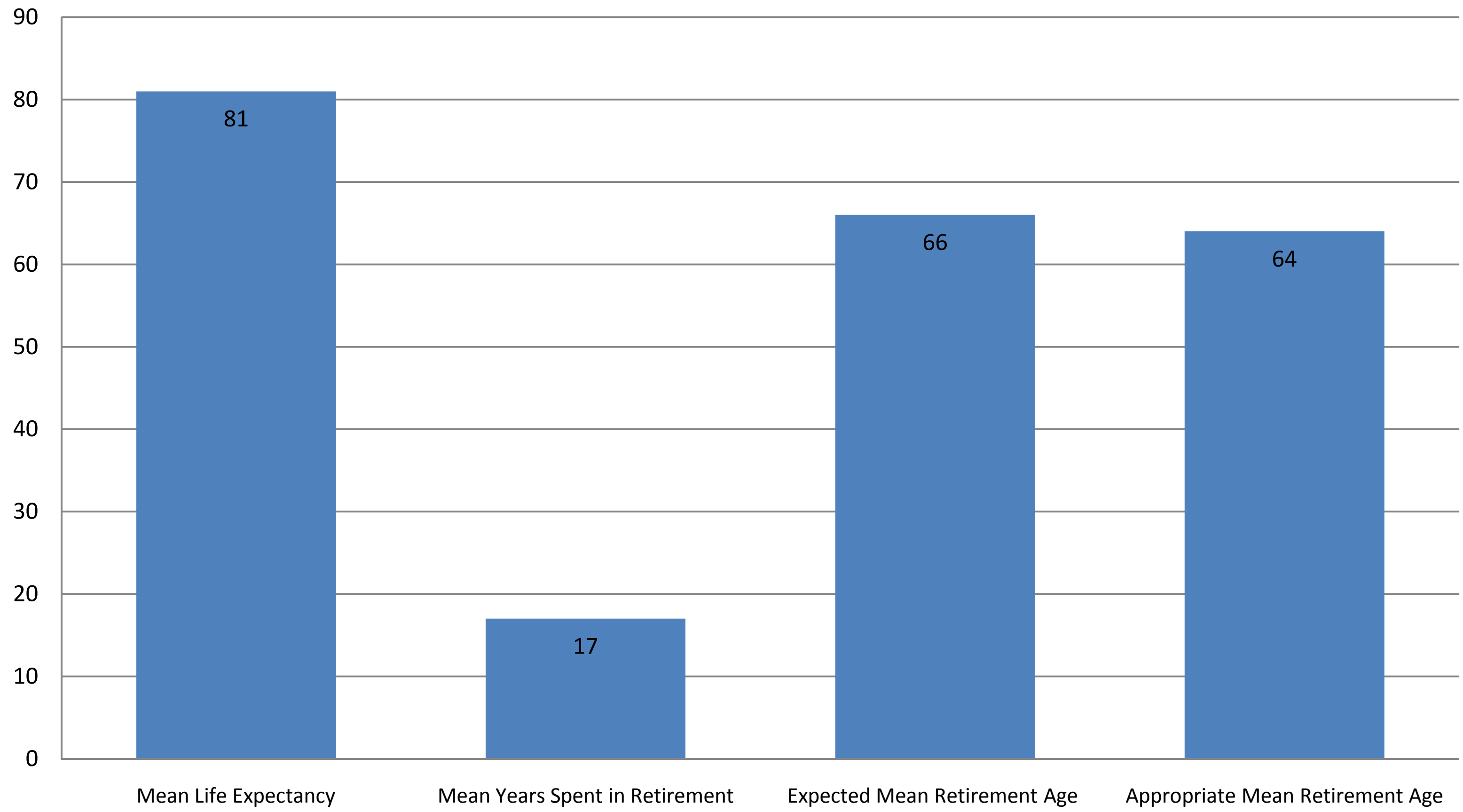
Consumer research

- purpose of the online research was to highlight how the pension reforms will affect consumers and their attitudes towards retirement
- 39 questions - carefully selected to gain an understanding of:
  - what age people expect to retire
  - how well prepared people are for their retirement
  - attitudes toward pensions and retirement
  - people's understanding of financial and saving products

Study Statistics

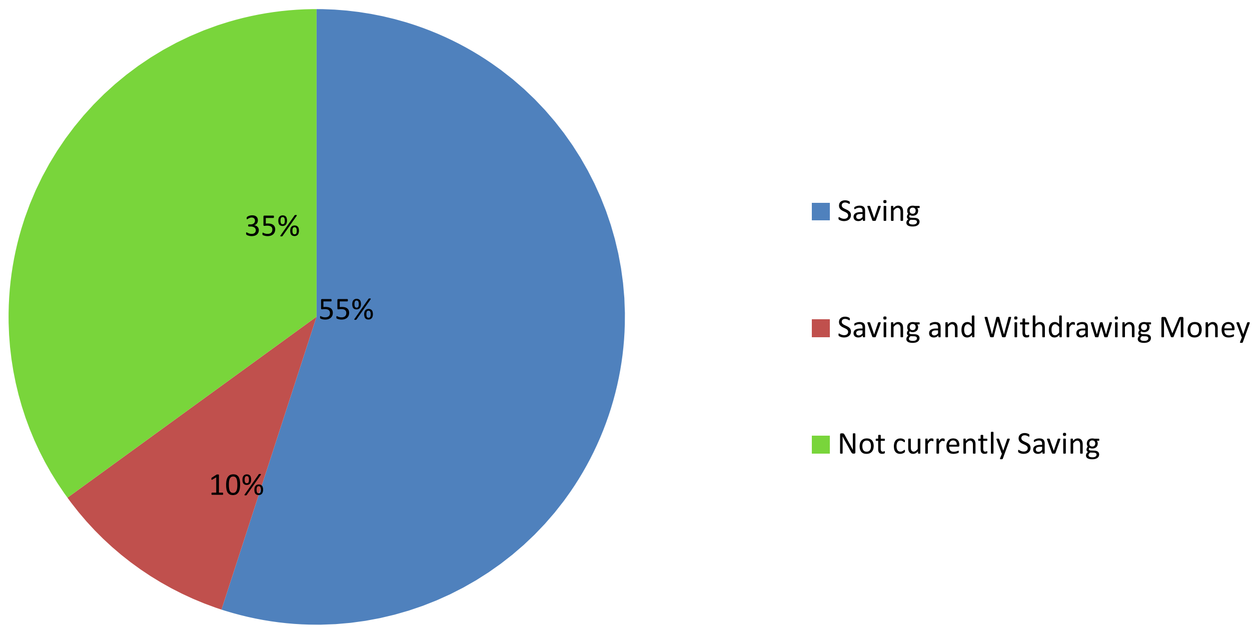
- total respondents - 2033 UK adults aged 18+ from 16 Aug 2012 – 21 Aug 2012
- age distribution of the respondents:
  - 18-34 years old – 799
  - 35-54 years old – 919
  - 55+ years old – 315

Expected Time in Retirement



Yours truly NOW: Pensions

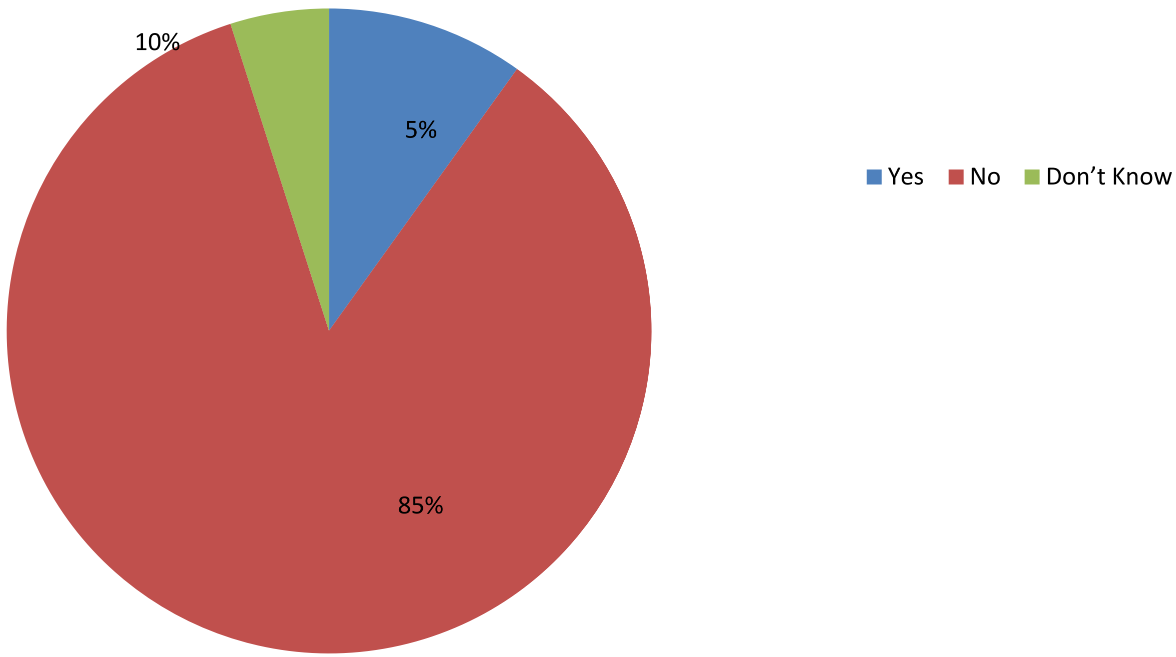
Financial Status



- over a third of respondents not currently saving into a pension scheme
- of the cohort defined as semi-skilled or unskilled manual workers:
  - 32% were saving into a pension
  - 14% were saving and also withdrawing money
  - 54% were currently not saving

Financial Education and Knowledge

- respondents were asked whether they could rank the riskiness of assets (bonds, cash, commodities and equities)



- when asked to rank the assets in order just over a third named equities correctly as the most risky

Yours truly NOW: Pensions

Concept of Auto-enrolment

- 55% of respondents unaware of auto-enrolment
- 80% had not received any communication from their employer
  - 89% of skilled manual workers
- amongst manual workers only about 5% thought the phrase *default investment fund* had positive connotations

Decision-Making Process

- 57% of females said the main reason for not saving into a pension was because they could not afford it
- 50% of males stated this as a reason
- 15% of respondents defined the reason as because of distrust of pension providers

NOW: Pensions approach – 1

- strong trustee governance
- low charges
  - 0.3% pa on AUM
  - £18pa administration charge
  - low earner (<£18,000pa) only £3.60pa to 31 October 2017
  - cap on charges for deferred members at 0.5%pa on AUM
  - very low overall TER – depends on duration
    - over 10 years, an equivalent TER of 0.423%
    - over 20 years, an equivalent TER of 0.329%
    - over 40 years, an equivalent TER of 0.305%
- risk-managed diversified growth fund (ATP style)

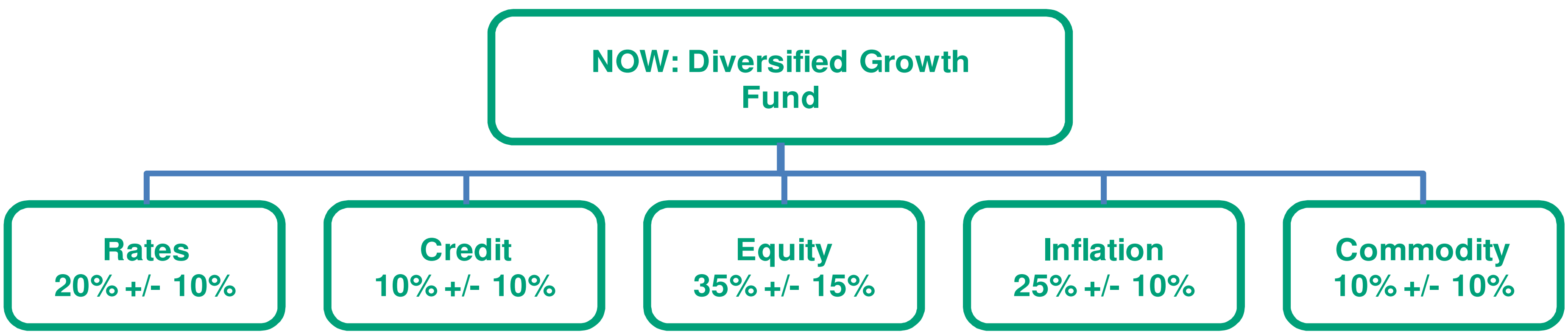
TER assumptions: Qualifying Earnings: £20,000 / Contributions 8% of qualifying earnings / qualifying earnings growth at 4.00% / investment return of 6%

NOW: Pensions approach – 2

- high level of implementation assistance to employers
- welcome all earnings levels
- welcome contributions above minimum
- happy to take transfers of legacy funds

NOW: Pensions approach – 3

- Diversified growth fund strategy
  - allocation to 5 main classes
  - tight process of risk budgeting and risk management
  - triggers to force response according to market circumstances
  - target levels and ranges set by trustees from time to time



ATP

- Danish social security institution
- responsible for labour market supplementary scheme
- also will soon be administering flat-rate basic pension
- long track record of good returns and low volatility
- highly diversified investment strategy - £86bn AUM
- strong risk controls
- admin. expenses an average of £7.65 for each member
- total investment expenses in 2011 were 0.16% of AUM
- over 2001-10 ATP achieved an average market return, after tax and expenses, that outperformed the Danish pension industry as a whole by 2.3 percentage points (according to Danish FSA)

Performance

ATP Track Record

2011 IPE award commentary

"ATP continues to impress the judges with its clear vision for financial security …. its investments process that combines disciplined liability hedging, risk diversification, tail risk protection, and dynamic risk budgeting …".

Performance table - ATP's performance for the last 20 years, as calculated by the Danish FSA.

ATP performance	
1991	15.2%
1992	1.2%
1993	22.3%
1994	-2.7%
1995	15.0%
1996	15.6%
1997	16.6%
1998	4.8%
1999	11.7%
2000	7.6%
2001	-3.5%
2002	-2.9%
2003	8.2%
2004	18.8%
2005	20.6%
2006	1.2%
2007	-2.6%
2008	18.8%
2009	2.0%
2010	17.2%
2011	26.1%

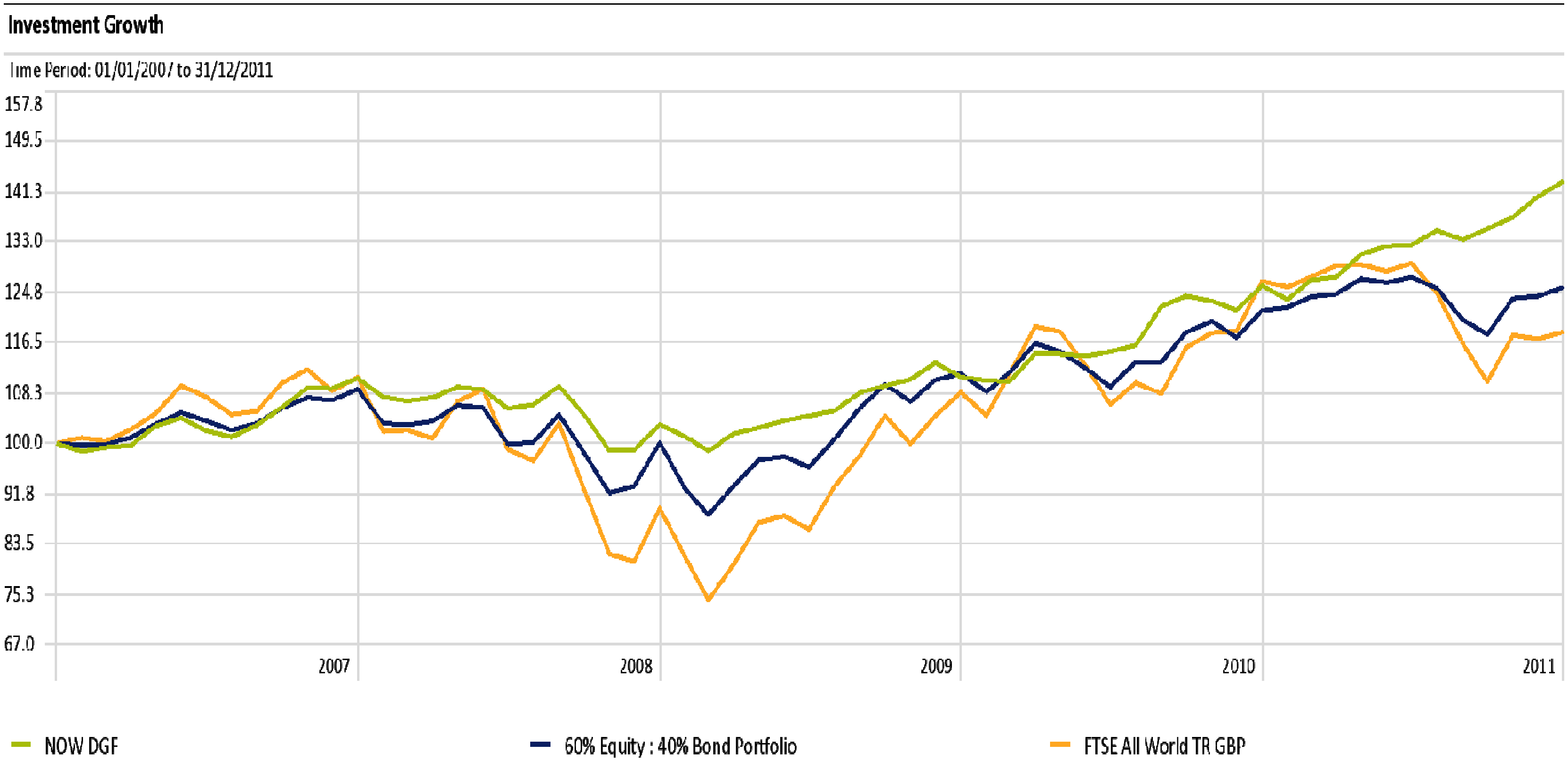
+9.4% p.a. average return on investment over the past 20 years

+10.3% p.a. average return on investment over the past 10 years

Average annual return no. of years

Back Tested Performance of the Managed DGF

Relative to Global Indices



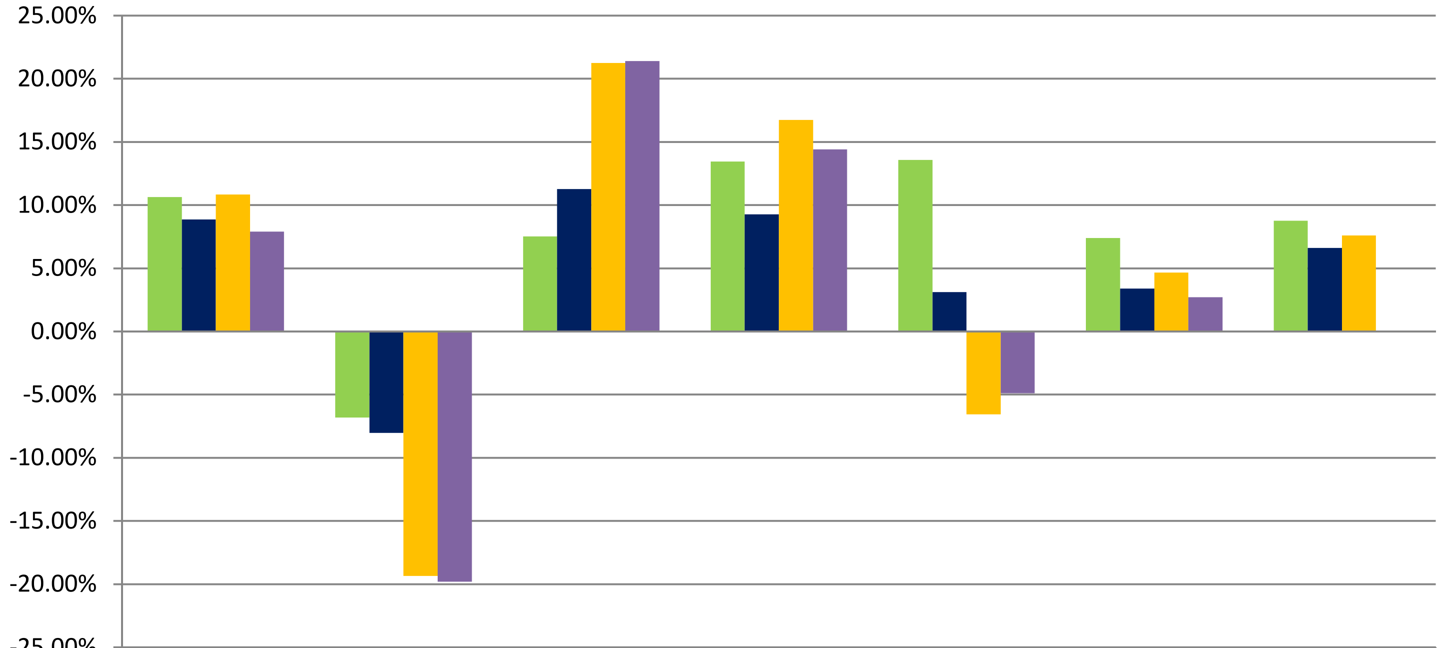
Source: Morningstar Direct

Back-testing is a process of objectively simulating historical investment returns by applying a set of rules for buying and selling assets, backward in time, testing those rules, and hypothetically investing in the assets that are chosen. The performance of the NOW fund is hypothetical and does not represent actual investment performance. While back-testing results reflect the rigorous application of the investment strategy, back-tested results should not be considered indicative of future results. The returns do not take into account the deduction of charges.

Strong performance in extremely difficult investment conditions

Back Tested Performance of the Managed DGF

Discrete Returns



	2007	2008	2009	2010	2011	Average	01/01/12 to 31/08/12
NOW: MDGF	10.64%	-6.82%	7.52%	13.46%	13.57%	7.39%	8.76%
60/40 Portfolio	8.87%	-8.04%	11.27%	9.26%	3.12%	3.40%	6.60%
FTSE All World	10.85%	-19.36%	21.24%	16.74%	-6.57%	4.65%	7.60%
CAPS Survey Balanced Fund Median	7.90%	-19.80%	21.40%	14.40%	-4.90%	2.71%	

1. *Back-testing is a process of objectively simulating historical investment returns by applying a set of rules for buying and selling assets, backward in time, testing those rules, and hypothetically investing in the assets that are chosen. The performance of the NOW fund is hypothetical and does not represent actual investment performance. While back-testing results reflect the rigorous application of the investment strategy, back-tested results should not be considered indicative of future results. The returns do not take into account the deduction of charges.*
2. *The 60/40 Portfolio consists of 60% Equity (1/3 each to FTSE All Share; S&P 500 & Euro Stoxx 50) and 40%* EFFAS Bond Index UK Govt 7-10 Yr TR.
3. CAPS: Source BNY Mellon Analytical Solutions CAPS where available. Newton where not available. CAPS indices adjusted for withholding tax. Total return, gross of fees.

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