INTERVIEW

A portfolio of success

Adam Cadle talks to NOW: Pensions CEO and former ATP vice president Morten Nilsson about how the UK AE provider has continued the Danish pension fund's success story

WRITTEN BY ADAM CADLE

What were the biggest transitional factors you implemented from ATP when constructing the rise of NOW: Pensions in the UK?

For some years, ATP had been considering exporting its proposition into other markets. With the introduction of auto-enrolment in the UK, a unique opportunity arose. Initially, ATP tendered for the government contract for the scheme that became Nest but withdrew from the process after deciding that it could offer the UK market something different.

NOW: Pensions was built on the ATP principles of transparency and simplicity. Unlike other providers in the UK, NOW: Pensions took the decision not to offer any investment choice. Extensive research shows that over 95 per cent of auto-enrolled savers would make no active investment decision and find themselves in the scheme default fund. As a result, NOW: Pensions offers a single investment solution with all members in the diversified-growth fund until they begin their final approach to retirement. At the time we launched, this was not viewed favourably but we remained adamant that it was the right approach for our membership and data from Nest shows that 99.8 per cent of its members are in the default, reinforcing the fact that auto-enrolled savers have no appetite for investment choice, which adds additional cost and complexity.

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We also wanted to ensure a value for money scheme and were unique in offering a dual charging structure that combined a low AMC (0.3 per cent) with a simple pounds and pence administration charge for members. Again, this was unusual in the UK market, which was well known for its opaque and complex charging structures.

This simple and transparent approach has resonated with employers and, from a standing start, we now have over one million members and more than 22,000 employers.

How has the investment strategy for NOW: Pensions differed from ATP?

The NOW: Pensions Investment Strategy follows the same fundamental approach as ATP's Investment Portfolio. Our investment beliefs are essentially the same, and the balanced risk approach that we employ adopts the same four risk factors, in the same proportions, as the ATP model, however the NOW: Pension fund is in sterling and the ATP fund is in Danish Krone.

Having a clear understanding how any investment we hold impacts the rest of the portfolio is a key similarity. Any differences in the way the strategy is implemented can be predominantly explained by the fact that the NOW: Pensions portfolio is still relatively young and doesn't hold illiquid assets in the same way that ATP does. This is likely to change as the assets under management grow.

How has the experience been of dealing with two different client bases in Denmark and the UK and why do you think it has taken so long for the idea of an auto-enrolment savings system to be a firm part of the UK pensions system?

The Danish system is based on a three-pillar system: the public pension (tax-funded state pension and funded ATP Pension), occupational schemes and private pensions. The first pillar provides a very basic level of protection, the second makes the pension adequate relative to earnings and the third offers comfort. The two first pillars are the most important and the workplace pensions have been growing rapidly and are now dominant. The private pensions haven't been growing much and relatively become of less importance.

It is because of automatic enrolment into a pension with no opt out that this system is so successful. That also means the few people with less than adequate protection are typically self-employed and the few groups of workers where their employer does not need to auto enrol them.

Worldwide, the Danish system is recognised as one of the best in the world but the UK has been slow to follow suit. Partly this is due to the large and fragmented nature of the workforce. In Denmark it's much more homogeneous and the unions play a strong role.

In Denmark, despite there being no statutory requirement for additional occupational pension provision, plans that have been introduced by collective agreement by the relevant employer associations and unions are compulsory for all companies covered by the agreement with only limited opt-out opportunities.

On average, the contribution rate amounts to 15 per cent of income with the employer contributing two thirds. This is more generous than in the UK, as when auto enrolment is fully rolled out employers will pay 3 per cent, with employees paying 5 per cent (and then only of a band of earnings). The overwhelming majority of these schemes (more than 90 per cent) are collective defined contribution (DC) schemes based on industry sectors.

SERIOUS THOUGHT NEEDS TO BE GIVEN TO INCREASING MINIMUM CONTRIBUTION RATES TO A 12 PER CENT-15 PER CENT LEVEL

What do you see as the future main challenges for auto-enrolment in the UK?

There are still over a million smaller employers that are still to undertake auto enrolment and these employers are likely to have little or no experience of pensions and are going to require considerable support.

While 6.9 million people have been auto enrolled, six million have been excluded. Of these, 3.3 million have been disbarred because they don't earn £10,000 per annum – the current auto-enrolment trigger. From a policy perspective, the next big challenge is to ensure that auto-enrolment is covering enough people and that the amounts being contributed are adequate.

Auto-enrolment minimum contributions aren't sufficient and when you take into account the impact of qualifying earnings it's far from adequate.

Serious thought needs to be given to increasing minimum contribution rates to a 12 per cent-15 per cent level. It is critical that it is made affordable for both employers and employees, which means it will have to be phased.

While opt-outs are currently low, circa 9 per cent, if these start to rise the government should consider making pension saving mandatory but will need to ensure that sufficient incentives are in place.

Re-balancing contributions so that the employer contributes more than the employee would be a good start. In Denmark the general rule is one-third employee two-thirds employer. In the UK it is almost the other way round currently.

These are all things that the government should consider when it undertakes its review of auto- enrolment in 2017. ■