

The National Pensions Savings Scheme: the right solution for all

Following publication of the Pensions Commission's Report, pension reform has become a hot topic. The Report itself puts forward a carefully balanced combination of state pension reform with a new low cost savings scheme into which those with no company scheme would be "auto-enrolled".

The IMA has put forward a set of proposals in respect of this last recommendation – the National Pensions Saving Scheme, or NPSS. The basic idea is simple but its impact is potentially profound. Employer and employee contributions would be invested in a funded scheme to build up a "pot" of savings belonging to the individual which would augment the state retirement pension. Even with the modest contribution levels proposed by the Commission, this pot would build up over time – for somebody on average earnings it could amount to £100,000 over a working life, providing an income in retirement of perhaps £100 a week.

There remain many issues to resolve before the idea can be put into effect. Perhaps the most important is the need for state pension reform. The Commission put forward its proposals as a package and that is how the IMA thinks they should be seen. If the NPSS is to be introduced it has to sit on top of a simplified and streamlined structure of state provision. Otherwise it will just add to the bewildering complexity of the present system.

Also important is to make sure the scheme is employer-friendly. For the NPSS to succeed it needs employers to embrace it in a way which many have not with stakeholder pensions.

It is essential therefore that employer participation should be "hassle-free", involving the absolute minimum of red tape.

Then there is the question of the design of the scheme and how it should be run. IMA members have a lot of experience of managing large sums of money both for big occupational pension schemes and personal pensions, and it is on this aspect in particular that investment managers have expertise to bring to the debate. Broadly speaking we take the view that the Pensions Commission got this about right when it proposed a centralised administration. Such an arrangement is likely to offer the best deal for both individuals and employers. If properly implemented, with an appropriate governance structure to safeguard the interests of its members, we believe the NPSS will enable people on low incomes, who currently do not have a pension, to have professionally managed retirement savings.

IMA's proposals have attracted support from a wide range of groups, including Which?, the TUC, employer organisations and Help the Aged.

In brief

- For simplicity and value for money, the NPSS should be run through a centralised administration, making use of existing private sector providers to the financial services industry, giving access to institutional asset management services.
- An NPSS Board should be responsible for running the scheme, appointing investment managers and ensuring that the interests of savers are upheld.

- Individuals would be offered a choice between fund types, but the extent of that choice will be determined by the NPSS, and is likely initially only to involve a limited range of NPSS badged funds.
- The scheme should be independent of Government, but accountable to Parliament through its Board.
- IMA estimates that the scheme could be run at an overall cost of between 0.3% and 0.5% of fund value a year, but the ultimate level will depend on the precise details of the scheme's administrative requirements. ■



'Lord Turner's proposal for a National Pensions Savings Scheme is the right solution and offers the best deal for both individuals and employers.'

Richard Saunders
Chief Executive of IMA

Comment by Richard Lambert, Chairman of the Retail Financial Services Group

The long-term savings industry needs to open a constructive dialogue with leading consumer groups and other customer-focussed organisations in order to rebuild public confidence in its products and services. That was the conclusion of a report in 2004 by the Treasury Select Committee of the House of Commons, and it's a recommendation which is now being acted upon – with the IMA's support.

The Retail Financial Services Group is made up of very senior executives from the banks and long-term savings providers, along with others from organisations like Which?, the National Consumer Council, the Financial Ombudsman Service and Citizens Advice. The Treasury and the FSA are on board too, as is Simon Davies, Chairman of the IMA and Chief Executive of Threadneedle Asset Management.

So it's a unique gathering of people from very different backgrounds and with very different interests, but with a single shared objective: to promote an industry that serves its customers better.

The Group has a two-fold mission. It aims to promote best practice, and encourage frank and constructive dialogue between all players. The big picture is about consumer confidence – how it can be strengthened, and how

threats to such confidence can best be addressed.

The second objective is to help identify possible problems at an early stage, and find ways of addressing them in advance. Under this heading, the group has taken a close look at Equity Release products, in particular the advice and sale of lifetime mortgages. In principle these products should have a useful role at a time when so many people have much of their wealth tied up in their homes. But it's also clear that the complexity, variety and potential long-term consequences of releasing equity in this way pose difficult questions for prospective borrowers, and subsequent challenges for all parts of industry, providers and intermediaries, in providing clear, fair and informative advice.

A mystery shopping exercise by the FSA at the start of 2005 highlighted a number of serious shortcomings in the sales process. The FSA is looking at the industry again at the moment, through further mystery shopping and thematic investigations. The challenge now is to champion best practice.

The Group also hopes to look at the new pensions tax regime which comes into force after 'A Day' – 6 April. Most commentators acknowledge that these long-planned reforms represent a major simplification of the

tax system, potentially for private and occupational pensions. The focus of our Group will be to examine how the industry has prepared for change, and whether customers are being placed in a position to understand both the potential opportunities and the risks of the new regime.

All sides of the table are anxious for this new initiative to work, and the Treasury Select Committee is no doubt keeping an eye over our shoulders to make sure that things are being kept up to the mark. I hope that over time our efforts will make a positive difference. ■



Richard Lambert
Chairman of the Retail Financial
Services Group

On 1 July Richard Lambert will take over as the next Director General of the CBI.

IMA lobbies Lords on Company Law Reform

As regular readers will know IMA welcomes the Company Law Reform Bill and the steps being taken to improve the transparency of information and shareholder engagement. However, we have serious concerns regarding certain clauses in the Bill.

In particular we have been lobbying for Clause 866 of the Bill to be dropped as we believe that should the Treasury exercise the reserve power it creates, it would place a significant administrative burden on institutional investors to disclose publicly how they have voted.

The IMA's latest annual survey of fund managers' engagement with investee companies showed widespread volun-

tary adherence to voting disclosure. The 34 managers that participated in the survey collectively managed UK equities worth £552 billion i.e. 55 per cent of all UK equities under management. Of these managers, 32 responded that they reported their voting intentions to their clients quarterly and seven made this information public. This seven has now increased to eleven.

Liz Murrall, IMA's Senior Adviser on Corporate Governance said 'Whilst IMA supports a regime where institutional investors are transparent about voting and disclose to their clients information regarding how they have voted, we are strongly against any such disclosure being mandatory or that an obligation

to disclose should be owed to the public at large. Institutional investors are increasingly making their voting decisions more transparent and the text of the proposed reserve power would put an unnecessary additional burden on them". ■



Liz Murrall
Senior Adviser at IMA

IMA responds to Conservative Tax Reform Commission

IMA has submitted its views to the new Tax Reform Commission, launched by Shadow Chancellor George Osborne last year with a remit to “provide recommendations designed to improve the economic efficiency, transparency, simplicity and fairness of the current tax system.”

One of the Commission’s tasks is to look at Britain’s ability to compete globally. This is something we at the Investment Management Association (IMA) looked at recently. We found that the UK as a centre for asset management – that is the core business of investing – remains secure in the short-term due to the performance and liquidity of the UK’s capital markets, the quality of its financial infrastructure and the size of its qualified labour pool. But it faces excessive regulatory change and other centres could challenge the UK’s pre-eminence. Moreover, the UK has already lost out badly as a fund domicile.

Despite many laudable pronouncements on the need to achieve a ‘level playing field’ for taxation, this is still some way from being achieved. The effect of this is to introduce artificiality and needless complexity for potential investors and their advisors, and adds to the operational costs of the industry.

Another key international competition issue is Stamp Duty on the purchase of securities. It impacts ordinary investors, reducing the value of pension schemes and resulting in lower pensions on retirement. It also increases the cost of capital for companies and depresses share values, which in turn impacts investors. We recognise that complete and immediate abolition may not be achievable, so we are recommending a staged approach. An intermediary step would be the abolition of Stamp Duty Reserve Tax (SDRT) on the purchase of units in authorised funds and a proper exemption for pension funds and charities, no matter what pooled vehicles they wish to invest in. Investors in authorised funds (whether they be individuals, pension funds or charities) are hit by double costs with regard to SDRT – SDRT itself and the costs of calculating it, which add to the cost of administering a fund. We have even received reports from firms that the cost of calculating the SDRT bill has

been greater than the bill itself. There can be no rationale for such a situation which has a negative impact on both investors and firms.

Leaving aside the international aspects, a key requirement for business and investors, when it comes to the tax regime, is stability so that investment and planning can be carried out with certainty. On occasion, proposals are put forward involving significant cost implications for business and disruption for investors, yet with no real increase to the tax take. In the last year alone, the industry has had to deal with unwanted and unexpected proposed changes to the offshore funds rules, the distribution rules, and the taxation of ‘significant holdings’ by investors.

IMA has recently been lobbying Parliament over moves to consolidate the tax regime for Authorised Investment Funds (AIFs) into secondary legislation. The legislation had become something of a patchwork over time, so the move towards consolidation was welcome. But some of its proposed changes are unrealistic, for example, the taxation of ‘significant holdings’ by investors (the ‘10% measure’). The proposal, to impose a penal tax on authorised funds with an investor holding more than 10% would have devastated the UK funds industry. After much lobbying, the proposal was modified and the

measure now applies to any investor holding more than 10% of the assets of a Qualifying Investor Scheme (a new form of authorised fund for institutional investors introduced as a helpful deregulatory measure by the FSA). This has had the effect of undermining a piece of deregulation that would have encouraged innovation. ■

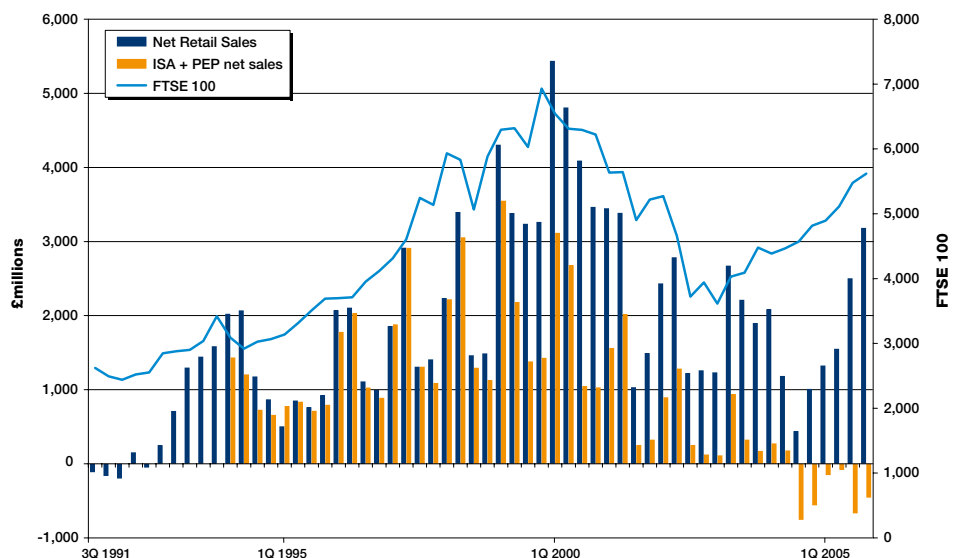


“Investors can find themselves faced with uncertainty which has implications for planning and confidence. In the interests of not further damaging the level of savings we hope the Government will respond to industry concerns and join the ranks of those wanting to see a more competitive and efficient business environment in the UK.”

Julie Patterson
IMA’s Director of Regulation,
Operation and Taxation

INDUSTRY FACT

Quarterly Net Retail Sales and ISA/PEP Net Sales vs FTSE 100 to Quarter End December 2005



Source IMA and Lipper Hindsight 5. Net Retail includes ISA and PEP business. From April 1999 PEP business is only repurchases.

2005 finished on a strong note, with net retail sales rising to levels not seen for 5 years

European round-up



Sheila Nicoll
Deputy Chief Executive of IMA

Markets in Financial Instruments Directive

The Markets in Financial Instruments Directive (MiFID) remains a major pre-occupation, although we are seeking to ensure that it is kept in perspective: some recent scare-stories have, we believe, over-exaggerated the issues, particularly as regards the asset management community. It remains high on our agenda, and we are devoting considerable resources to it as we look towards the Brussels institutions, UK authorities and our own members.

After the delay in the publication of the Commission's proposals we are following up with them a number of areas in their latest proposals where we do not believe that the particularities of asset management have been sufficiently taken into account. We are also keeping in close contact with the European Parliament who now have three months to consider the text. They are likely to focus on a few key areas and to resist suggestions that they go into detail on specific issues.

The most controversial question has been about the amount of flexibility Member States will have to interpret or go beyond the Level 2 provisions when implementing national legislation and regulations. The FSA and HM Treasury are leading the way among EU regulators and legislators in thinking about such implementation, and we are continuing our close discussions with them. We will be responding to HMT's recent consultation document on its approach to implementation in the UK. As well as direct contact with the UK authorities on asset management issues we are participating in MiFID Connect, a co-operative project of some ten UK financial services trade associations, which is seeking to ensure a co-ordinated view to UK implementation and will be producing industry guidance on a number of the most difficult areas of MiFID.

The timetable will be very tight (the UK is required to bring the necessary rules into force by 31 January 2007 and firms must comply by 1 November 2007). The FSA will be consulting on various aspects of the proposed changes to its rules during the course of 2006 and we will endeavour to ensure the best outcome for asset management.

Future of investment funds in Europe

There is an ever closer focus on asset management in European circles. The European Parliament is in the process of preparing its report on the EU Commission's Asset Management Green Paper. The expectation is that they will support the industry in its calls for regulatory barriers to be removed to notification, mergers and pooling on a pan-European basis, thus removing existing inefficiencies. They are also likely to support industry and consumer calls for a re-think on the simplified prospectus, which practice has shown is neither simplified nor a prospectus. The one, not unexpected, controversial area appears to be over the extent it is necessary to re-write the UCITS Directive (Undertaking for Collective Investment in Transferable Securities).

We remain of the view that this issue is a distraction and that all those involved should be focussing on the priorities noted above.

Meanwhile, the UK is well represented on the two Expert Groups which have been established by the Commission to look at how to tackle inefficiencies within the pan-European funds industry and what the pan-European policy should be to alternative investments, particularly hedge funds and private equity. We expect the reports of the groups to be published in June. The Commission then plans to issue a White Paper outlining its concrete plans, in the autumn of 2006.

Activities of CESR

The Committee of European Securities Regulators (CESR) remains very active in the area of asset management. IMA has welcomed its final advice to the Commission on which assets should be eligible for investment by a UCITS. Our experience in this work encourages us to hope that CESR will listen carefully to industry concerns about the lack of ambition in CESR's consultation on the simplification of the notification regime for investment funds. We await a second consultation on this subject.

Staff announcement

We are very pleased to welcome to IMA Jarkko Syyrilä who has been CESR's expert on asset management for the last two years. ■

Do you want to know more about the work of the IMA? Do you want to meet with one of our experts to talk over an issue in detail? Do you have a comment on anything in this edition of imag? If so, the IMA would be delighted to hear from you. ■

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