

Press Release

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London, November 24, 2006
For Immediate Release

Complexity remains a barrier to UK pension reform, NAPF's Joanne Segars tells ABN AMRO Mellon client briefing

Joanne Segars, Chief Executive of the National Association of Pension Funds (NAPF) and one of the keynote speakers at ABN AMRO Mellon's 2nd Pension Fund Forum, has praised the 'holistic approach' adopted by the UK Government's Pensions White Paper – but warned of "unintended consequences".

Segars told delegates at the event, held recently in London: "If the Government holds its nerve, there is a real chance of simplification of pensions, and for real change. But the devil is in the detail – and there are a lot of details."

Segars was speaking following a presentation by the Department of Work & Pensions that set out the key elements of the Government's reform programme – uprating the Basic State Pension (BSP); a gradual raising of the state pension age; and a reduction in means testing. Many of the reforms are currently set to come into force in 2012, and will see automatic enrolment of employees in new Personal Accounts to boost participation levels, along with the introduction of a minimum employer contribution equivalent to 3% of an employee's salary.

Segars said the NAPF welcomed the low-cost, portable Personal Accounts, which form the central plank of the UK Government's proposals. She said that, with all interested parties subscribing to the key tenets of Personal Accounts and automatic enrolment, there existed a very real potential to establish a lasting consensus regarding pension provision.

Segars said: "There is such a need to engender greater trust and confidence in pensions, which are currently seen as something of a 'busted flush'. Normally white papers offer piecemeal reform and you end up with a mishmash. This White Paper, by contrast, offers a unified approach to the reform of both state and private provision. As such it is a very

important piece of work. If this process is carried out correctly, we will have the right framework to instigate a step change in the nation's retirement provision."

However, Segars said that both the proposed Personal Account options – the provider model and National Pension Savings Scheme (NPSS) – are too complex: "Although there is auto enrolment, individuals will still have to make choices regarding which brand or product to select and how much to invest. Surveys suggest that half the UK population lack the numeracy skills of an 11 year old, yet they will be expected to make complex investment decisions."

Segars argued both options "cut out employers – and pensions work best when employers are fully engaged". The Association accordingly favours a 'third way' in the shape of so-called Super Trusts. Segars said: "These place responsibility for investment and asset allocation choices back onto employers rather than employees, and are very cheap with fees of around 30 basis points. They would be more effective at the simplification and rebalancing the significant costs of workplace pension schemes."

Segars warned that once Personal Accounts are introduced, existing schemes may 'level down', reducing the benefits they currently offer their members. The NAPF wants to see auto enrolment retained at current contribution rates, with Personal Accounts reserved for those not yet enrolled in schemes. Segars underlined the need for "targeted fiscal incentives" to ensure firms persevere with existing schemes. An annual contribution cap for Personal Accounts – the NAPF advocates £3000 – would serve to ensure the market does not become distorted, she added.

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Notes to the Editor:

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