
New Public Pension Fund in UK Ponders Investment Strategies

By Editor Test *Wed, Mar 31, 2010*

Britain is developing a system of personal investment accounts targeted at low and middle-income workers who may or may not have a workplace savings plan.

In Britain, the chief investment officer of the Personal Accounts Delivery Authority (PADA) suggested that a proposed national trust fund for private savings accounts should start by investing conservatively, rather than taking excessive risks.

PADA was set up under the Pensions Act of 2007 to create a national, trust-based pension plan called NEST (National Employment Savings Trust)—a system of personal investment accounts targeted especially for use by low and middle-income workers whose employees may or may not have a workplace savings plan.

Debate has been going on since last year over how the assets in the trust fund should be invested. Mark Fawcett, PADA's chief investment officer, said that the impact of high volatility in the first five or 10 years of the fund could cause people to give up contributing to personal accounts.

"If we want to build a savings culture, why give them [members] volatility. Keeping them in and keeping them saving is more important than taking a lot of risk in the early years," Fawcett told delegates at last week's National Association of Pension Funds meeting in Edinburgh, Scotland, in mid-March.

Under the plan, which is currently scheduled to take full effect in 2012:

- Employers will be required to automatically enroll eligible workers into a workplace pension and make a minimum contribution to their pension.
- The Pensions Act 2008 allows for the introduction of automatic enrollment to be introduced in stages. New duties are expected to fall on large employers first, but the details of how the new duties will be staged are still to be confirmed. This will be specified by secondary legislation.
- A minimum employer contribution of three percent on a band of earnings will be required. However, contributions can be more than this.
- The total minimum contribution for eligible workers should equal eight percent of that band of earnings. This is made up of employer contributions, worker contributions and tax relief.
- Contributions from both employers and employees will be phased in over a transitional period. Minimum employer contributions are likely to initially be one percent on a band of earnings; rising to two percent before reaching the full three percent.