Dear Frank,

Thank you for your letters of 18th and 22nd February, following my evidence session to the Work and Pensions Committee. I write to provide further information on the points that you raise and hope these will assist the Committee’s inquiry.

Please note that much of the information supplied is commercially sensitive and I would therefore request that the Committee take this into account in considering the publication of this response.

How do you measure the costs which are passed on to your customers? How are these communicated?

NOW: Pensions places great store on being open and transparent with both employers and members about the costs of administering pensions. We identify separately the costs of services to employers, the cost of member administration and the cost of investment management, and we then charge separately for each of these. This is in line with the Myners’ Principles and best practice in the institutional pensions market, where costs are unbundled and separately identified so that trustees can bring pressure to bear on all areas of cost and members can see what they are paying for.

Members contribute to the running costs of the NOW: Pensions Trust through two charges which are levied by the trustee:

1. A monthly administration charge of £1.50 per member, deducted from member accounts.
2. An annual investment charge of three tenths of one per cent of the value of each member’s account (0.3%pa), which is collected monthly by an adjustment to the unit pricing formula.

Members are advised of the charges in the Member Booklet when they join the Scheme. The charges are also clearly published on our website and members are reminded of the charges in their annual Benefit Statement.
What data is used by your Board to measure your costs and returns against those of your competitors?

NOW: Pensions conducts a ‘value for money’ assessment each year to assess the charges relative to the benefits and services provided by the Scheme to members.

This assessment also includes a consideration of the costs and returns of NOW: Pensions compared to our major competitors. In undertaking this assessment, the Board will draw on published information as to the quantum and impact of other scheme’s charges. The independent survey produced by Defaqto is one such source of data. I have set out below Defaqto’s latest analysis. It shows that NOW: Pensions provides value for money for savers as their pension pot builds up over time:

<table>
<thead>
<tr>
<th>Member Charges</th>
<th>Providers</th>
<th>Value after....</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Management Charge (AMC)</td>
<td></td>
<td>10 years</td>
</tr>
<tr>
<td>No Charge</td>
<td></td>
<td>£28,822</td>
</tr>
<tr>
<td>0.30%</td>
<td>+ £1.50 pm</td>
<td>NOW: Pensions</td>
</tr>
<tr>
<td>0.30%</td>
<td>+ 1.8%</td>
<td>NEST</td>
</tr>
<tr>
<td>0.40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.50%</td>
<td></td>
<td>Aegon, B&amp;CE, LGIM</td>
</tr>
<tr>
<td>0.60%</td>
<td></td>
<td>Welplan</td>
</tr>
<tr>
<td>0.70%*</td>
<td></td>
<td>PensionBee tailored plan</td>
</tr>
<tr>
<td>0.75%*</td>
<td></td>
<td>Smart Pension</td>
</tr>
</tbody>
</table>

*Projected Values calculated by NOW: Pensions for annual management charges of 0.70% and 0.75%, as these weren’t included within Defaqto survey.

These calculations assume:

Salary at start of process: £25,000
Salary growth rate: 2.5% pa
Investment growth rate: 5.0%
Total contribution pa: 8%
We also consider international comparisons in looking at the value that NOW: Pensions offers to members. Again, NOW: Pensions compares well compared to other large (and generally more mature) pension schemes. The following table illustrates the charges from some very large international pension schemes that we have information for. I have translated charges from their domestic currencies into Sterling for ease of comparison:

<table>
<thead>
<tr>
<th>Country</th>
<th>Pension Scheme</th>
<th>Administration Charge</th>
<th>Investment Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Australian Super</td>
<td>£3.51 per month</td>
<td>0.66%pa</td>
</tr>
<tr>
<td>Denmark</td>
<td>Industriens Pension</td>
<td>£2.25 per month</td>
<td>0.50%pa</td>
</tr>
<tr>
<td>Denmark</td>
<td>PensionDanmark</td>
<td>£2.92 per month</td>
<td>0.43%pa</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Brand New Day</td>
<td>£40 one off up front</td>
<td>0.59%pa</td>
</tr>
<tr>
<td></td>
<td></td>
<td>plus 0.5%pa</td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>We Are Sure</td>
<td>£8.75 per month</td>
<td>0.5%pa</td>
</tr>
<tr>
<td>USA</td>
<td>Vanguard Individual 401k</td>
<td>£1.27 per month</td>
<td>0.36%</td>
</tr>
<tr>
<td></td>
<td>Diversified Equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>NOW: Pensions</td>
<td>£1.50 per month</td>
<td>0.30%</td>
</tr>
</tbody>
</table>

What lessons can be learned from Australia, or elsewhere, about the experience of more mature auto-enrolment systems? What evidence is there about how people behave as they approach retirement, and how engaged are they with finding the most appropriate decumulation products?

Following the Cooper Review in 2010, one of the key developments in the Australian superannuation system has been the move towards scale. This identified that smaller superannuation schemes were less able to use their scale to provide value for money for scheme members. As a result, there has been a dramatic decrease in the number of Super Schemes as schemes have merged.

Master Trust Authorisation will achieve much the same outcome in the UK as a number of generally smaller schemes exit the market.

At NOW: Pensions we believe our existing scale – with 1.7 million members and assets in excess of £1bn and set to grow further as contributions phasing comes to an end – means that we are already well placed to leverage our scale for good and for the benefit of our Scheme members.

A further important lesson from the Australian system concerns member engagement. Anecdotally, it is suggested that members started to engage when the size of their pension ‘pots’ started to match the value of their property. Given the cost of property in the UK, that may be a misleading comparison. But it does suggest that members will engage more as their ‘pot’ size grows.
How will you be supporting employers to move beyond simple compliance with auto-enrolment, to considering wider issues such as risk and return?

Since our foundation in 2011 we have been keen to support our employers on their pension journey, for many of whom auto-enrolment has been their first foray into providing retirement savings for their workforce.

Employers are invited to our Annual Employer Forum, at which members of the Trustee Board and Executive Team will set out the matters they have considered over the last year and the future direction for the Scheme. Recognising that not all employers will feel able to send a representative to attend the Annual Employer Forum, we make the content available in an accessible format, including video clips, to those that were unable to join us.

In between the annual forums we encourage employers to visit a dedicated section of the NOW: Pensions website which caters specifically for the needs of employers and includes an active blog site that covers topical pensions issues to help our employers maintain an up to date view of the pensions landscape.

As you may be aware, ownership of the Trust Manager, NOW: Pensions Ltd, is currently passing from the Danish pension scheme ATP to the Anglo-Dutch pension specialist group Cardano. Following completion of this transfer our members will benefit from the commitment that Cardano will make to financial education for members. We are particularly keen to use Cardano’s skills and experience in this area to build on our existing efforts to help both members and employers understand the long-term benefits of sharing the responsibility of saving for retirement, and to understand how they can progress from statutory minimum contributions to providing a pension plan that will deliver an adequate standard of living in retirement.

The Trustee considers issues of risk and return at formal Board meetings and has set up two Board Committees (the Governance and Risk Committee and the Investment Committee) which consider these matters in depth and report back to the full Trustee Board.
What are the largest risks to preventing the next stage of auto-enrolment being a success?

There is little doubt that automatic enrolment has changed the UK’s pensions landscape for the good. The ending of contributions phasing in April this year marks another important milestone. But it is clear there is further to go. We have identified a number of areas where further action should be taken:

1. The Net Pay anomaly. Today employees who are not tax payers will receive 20% pensions tax relief on their contributions if they are in a Relief at Source scheme, but no tax relief if they are in a Net Pay scheme. NOW: Pensions finds this very unfair, and our research with the Pensions Policy Institute shows that many of these non-taxpaying-workers are part-time workers, balancing employment with a period of caring for small children or elderly relatives. Over the course of their working life they will build a significant pension entitlement and so they will be taxpayers in retirement, so they genuinely should receive tax relief on the way in as they will be paying tax on the way out.

2. Auto-enrolment contributions are not based on an employee’s whole salary, but only on a slice of that, called “Qualifying Earnings”. In particular, the first £6,032 of annual earnings at each job are excluded from contributions, so sadly when we appear to reach 8% contributions in April, nobody will actually receive the full 8%. We believe that ‘eight should mean eight’. Although Government had indicated an intention to eliminate Qualifying Earnings in the 2017 auto-enrolment review, they appear to be travelling in the wrong direction at present, as the earnings offset will increase from £6,032 to £6,136 next month.

3. The Government’s auto-enrolment review also highlighted a number of other reforms which would help support the benefits of auto-enrolment and pensions coverage, namely the extension of auto-enrolment to younger age groups and to the self-employed. Whilst we note that Government has undertaken to legislate in this area, it will not be until the mid-2020s. we believe that this warrants further and more immediate action.

If an individual contributes to their pension through multiple employers using NOW: Pensions, are these contributions automatically assigned to the same pot?

Each of our 32,000 employers adhere individually to the master trust, to ensure that each employer retains liability for their own employees only. We do have individuals with more than one employer and where both employers have selected NOW: Pensions for auto-enrolment. In these cases, the individuals will be given separate accounts, and these accounts will remain separate while the individuals are active members, but the individual can merge the accounts if they cease employment and become deferred members.
Irrespective of how many accounts a member has with us, they only pay our £1.50 monthly member charge once.

**How many and what proportion of NOW: Pensions' members have seen costs higher than returns to date?**

The members of NOW: Pensions pay two charges: a £1.50 monthly administration charge and a 0.3% annual management charge. As only the latter is based on their fund size, the relationship between members’ funds and members’ charges will fluctuate over time, according to both how much they pay in and the level of return achieved by our investment manager.

**How many and what proportion of NOW: Pensions’ members have pots of over £4,000 and £9,000 respectively?**

NOW: Pensions is like all master trusts focused on the auto-enrolment market: we are relatively new entities and our members and their employers generally pay only statutory minimum contributions. Therefore, unless pension pots have been transferred in from other pension schemes, few NOW: Pensions Scheme members will have pension pots in excess of £4,000. This will be common across the major auto-enrolment Schemes.

Therefore, in common with other master trusts, NOW: Pensions will have a number of members with small pension pots. At NOW: Pensions we actively aim to support those who have ceased contributions very early and have left behind very small pension pots by encouraging them to consider amalgamating their various pensions.

We believe there is more Government could do to support workers with very small pension pots:

- It could reconsider introducing a “pot follows member” scheme which would give members a simple, automatic, mechanism for consolidating their pension pots. You will recall that this was abandoned by government in 2015.
- It could add functionality to the Pensions Dashboard to help support the necessary data permissions that would both encourage and facilitate the consolidation of small pension pots.
- A third possibility would be to reinstate refunds to members who have saved very small amounts before leaving the scheme for another employer.
I hope the information set out in this letter is helpful.

With kind regards

Adrian Boulding
Director of Policy
NOW: Pensions