Dear Mr McCabe,

I am writing to express my concerns that NOW: Pensions is attempting to pull the wool over your eyes.

I refer to your recent questioning of the Financial Conduct Authority regarding the charging structure of NOW: Pensions on 6 February 2019.

I believe you were reading from PensionBee’s 5 September 2018 submission on the matter, specifically regarding “NOW: Pensions’ unique charging structure”.

I also refer to Adrian Boulding’s response on 7 February 2019 arguing that “our dual charging structure is very cost efficient for our members over the medium to long term, and...will lead to more valuable pots over 10, 20, 30 and 40 years” and “Structuring our charges in this way rewards long-term saving as we hope the vast majority of our members, like us, are in it for the long haul”.

We are deeply concerned that the NOW: Pensions charging structure allows small pots to be extinguished by charges, an outcome that is inconsistent with auto-enrolment and inconsistent with achieving value for money for those customers.

The arguments in Mr. Boulding’s letter may sound fair, but we fear they are misleading.

Mr. Boulding has presented you with a set of assumptions that are likely inconsistent with the reality of the NOW: Pensions member base.

According to Mr. Boulding, the average person in the NOW: Pensions scheme is earning £25,000 and has a likelihood of being an active member for 10, 20, 30 or even 40 years.

If Mr. Boulding's assumptions were correct, the average NOW: Pensions pension would likely be over £2,000. One can apply a simple mathematical calculation that shows if Mr. Boulding’s assumptions were reflective of reality, just the value of the first year’s contribution would be £2,000 (£25,000 x 8% = £2,000). Even taking into account the staging of auto-enrolment
contributions, a 5% contribution rate would imply £1250 of first year contributions, which is substantially higher than the average pot of £500 (a figure which Mr. Boulding has articulated is the average size in his letter).

Therefore, one of the following is likely to be true:

1) The average salary of a NOW: Pensions member is substantially lower than £25,000, meaning the probability of pension pots being extinguished disproportionately affects the lower income members of our society

2) The average NOW: Pensions member is switching jobs more frequently than NOW: Pensions anticipated. Indeed, DWP estimates the average person switches jobs 11 times, making the average pension duration c.4 years and not 40 years (assuming a working life of 45 years)

3) The erosive nature of NOW: Pensions charging structure has already taken its toll on a substantial number of the 1.6 million members of the scheme

We suspect all of the above are true and that there is an unacceptable level of risk that a large proportion of pensions in the NOW: Pensions scheme will continue to be eroded to zero by charges.

This is a structural flaw in the charging model that is at odds with the characteristics of the member base and quite simply unfair.

Additionally, NOW: Pensions (unlike B&CE and NEST) do not allow members to continue to make contributions to their pot after they leave their employer. This means when you change jobs, you have no choice but to become a deferred member of the NOW: Pensions scheme or leave.

We hope you will ask Now: Pensions to act NOW in order to stop this injustice on lower income members of society.

You may wish to follow up with NOW: Pensions with the following questions:

1) do the assumptions in your analysis reflect the reality of your customer base?
   1a) what is the average salary level?
   1b) what is the average time spent in the scheme?

2) What proportion of your pots are at risk of being eroded by charges? PensionBee have calculated that any deferred pots lower than £300 have a strong chance of being fully extinguished by charges.

Kind regards,

Romi Savova
Chief Executive Officer of PensionBee

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