

# NPSS to set pace for pensions

The pension industry's fixation with the low cost of the National Pension Saving Scheme is well documented. However, there is more in store than just costs

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**Four high energy years have given us** the Pension Protection Fund, the Pensions Regulator, and now a glimpse at the future NPSS. It's important stuff for it sounds as if taxes and long life are going to be just as certain as taxes and death. Which all points to one thing - the pensions industry is set for high growth.

Are we ready for it? Things are very positive on the fund management side: widening range of markets, enormous skill and new techniques, risk sharing, buyouts, liability matching. On that side of pensions there has been a paradigm shift as important as the shift in the way that banks have come to manage their balance sheets.

The plumbing side of pensions is different. Not for the first time in our economy the technology is the area that offers the cold shower. Will NPSS prove to be the next expensive disaster?

After all, there is no national infrastructure upon which NPSS can be built. This is not universally acknowledged. Some say that the direct debiting mechanism can be used to collect contributions into NPSS. Loads of money is collected through

direct debiting and so the argument goes that this should be the method of NPSS collection.

The fundamental problem here is that it simply wouldn't work. At one end there are many businesses that will not allow their accounts to be direct debited; at the other end there are businesses and people who do not use bank accounts. In short something new is needed and the NPSS model will be very different from the existing pensions market.

Still, DWP is working with the existing pensions industry, hence the contribution limit in NPSS. But the industry cannot be shielded from change. If DWP is right that pension provision can be delivered much more cheaply than the current model then there will be pressure for change in the existing market.

Lower cost is one issue but there are other areas where the existing market is not a good model.

During formative discussions on NPSS, DWP targeted a model in which contributions would be invested as soon as received through whatever payment channel, a model enabled by CASHFAC technology. It is striking that there is no rule in the current market that dictates how long pension contributions may take to pass through the allocation and reconciliation process after they have been paid over by the employer but before they are invested. Indeed in the current market this process can take weeks, sometimes months. Current market practice in that area is not a good standard to follow.

The effects of NPSS upon the existing pensions industry will be profound. Put it this way – what is the point of great fund management expertise if the contributions haven't reached the fund manager? ●

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