

The Ambachtsheer Letter

Research and Commentary on Pension Governance, Finance and Investments

Letter # 291

April 2010

TOMORROW'S PENSION FUND

"We entrust our retirement savings to those who claim expertise in managing them. A chain of agents takes our money and invests it in those areas of the economy deemed the most productive. This process should lead to cost effective investment in companies... and mean that those who raise the funds will be held to account. At present, neither of those goals is being realized..."

David Pitt-Watson
"Tomorrow's Investor"
Royal Society, United Kingdom

Pensions for the People

The quote above comes from a paper that is part of a project sponsored by the United Kingdom's venerable Royal Society for the encouragement of Arts, Manufactures, and Commerce founded in London in 1754. The Society describes itself "as an enlightenment organization devoted to finding innovative, practical solutions to today's pressing social problems". The goal of this specific project is to "create the policy, market, and business case for new, low-cost, responsible pension funds with high transparency and accountability; pension funds that deliver long-term returns regardless of the economic climate". The paper asserts that such new vehicles are needed because the current investment chain for retirement savings is too expensive, and because it does not exercise adequate shareowner stewardship over the companies that it invests in.

The Royal Society paper addresses three specific issues:

1. The design of retirement savings vehicles with the desired features.
2. The positive impact such vehicles would have on retirement savings, the economy, and on shareowner stewardship.
3. A feasible plan for implementation.

It notes that with the already-made decision to create personal pension accounts for the seven million workers in the United Kingdom without pension plans, to be operational in 2012, important steps in the right direction have already been taken. However, the opportunity could be squandered unless a number of further steps are taken now. The paper argues that rather than having a single delivery authority, there should be a number of approved service providers that commit to conform to clear low-cost and long-horizon investing standards. It also argues that it would be a mistake to limit access to these new vehicles by placing a £3,600 per year ceiling on contributions, as is currently planned. This low ceiling makes it impossible for middle- and higher-income earners to take full advantage of them to meet their retirement income needs.

The United Kingdom is not the only country looking to achieve better outcomes with its retirement savings arrangements.

Stirrings in Other Places

Australia launched its Super System Review last year, chaired by Jeremy Cooper. The Review resulted from a Rudd Government judgment that the "Choice of Fund" legislation passed by the Howard Government in 2004 was not producing the desired results. The assumption of this legislation