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Rachel Vahey comments on the publication of PADA's investment consultation

The personal accounts delivery authority (PADA) has today issued a consultation on the design of the default strategy for personal accounts and the range of funds it will offer scheme members <http://www.padeliveryauthority.org.uk/investment-discussion-paper.asp>

Rachel Vahey, head of pensions development, says:

"Several million people could be auto enrolled into personal accounts, many of whom have little or no investment experience or knowledge. Selecting a suitable range of funds and designing the default fund, where typically 90% or more will end up, will be crucial.

"The concern is the economic crisis and the fact that fear of losing money is uppermost in people's minds will lead PADA to design an ultra cautious default fund, with little potential for investment growth. If coupled with low contributions, this could have a profound impact on people's retirement income.

"It's vital people understand that building a decent income in retirement involves paying decent contributions and taking some investment risk at the right stage of saving. And that understanding will only come with increased investment awareness. PADA and the Government have a responsibility to improve savers' investment knowledge as part of the personal accounts journey. Simply getting people into a fund and leaving them there for 20 or 30 years is unlikely to be in their best interests."

Background

PADA is keen to consult with the industry and other stakeholders on the design of its default strategy and the range of funds it offers personal accounts scheme members. PADA also wants to have a better understanding of the role of responsible and socially responsible investment principles in setting the personal accounts scheme's investment strategy.

The consultation document is a wide-ranging and very green consultation. PADA is keen to set its investment strategy set against the needs of potential members. In setting its strategy, PADA needs to take account of its core membership – low to medium earning employees who don't have access to work-based pension schemes. The appetite of risk varies from person to person, but as typically 90% of pension scheme members tend to choose the default fund, PADA will need to devise a default fund which meets the needs of the majority of its members, balancing risk against investment return.

PADA will need to consider the interests of its members who may want to make sure their investment funds consider social, environmental and ethical issues. These issues mean different things to different people, so the trustees will need to be very clear about what they mean. Meeting the investment needs of so many people who might be less financially sophisticated will require very careful consideration.

The consultation period will close on 7 August 2009.

For further information:

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