

A test case for flexible global DC schemes

We are so used to seeing NATO mentioned in times of war or providing peacekeeping forces to troubled regions of the world. But we never really think of it as a fully-fledged corporate-like entity with an international staff who like everyone else are thinking of the best ways to spend their retirement. Well, IPE has broken the mould and given the thumbs-up to NATO for winning the battle with its cross-border defined contribution pensions arrangements.

THINK BIG

NATO's DC scheme is a young fund that, like its sponsor, is based in Brussels. It is a small cross-border fund for civilian staff managing some €22.4m for just 1,550 members. But NATO is happy to challenge the big boys with its approach to a sustained and high-return DC arrangement. "We offer multi-investment choices and we are very much at the forefront of the development of DC pension provision in terms of international scale, diversity and complexity," the scheme says.

NATO is no newcomer to pensions and has been running a defined benefit scheme for a long time. Its decision to close the DB section to new entrants was taken, as for many other companies in recent years, as a result of volatile markets highlighting the risks firms take, since DB is a costly guaranteed arrangement. The sponsor would need to inject cash to prevent it defaulting on its obligations if the returns on its investments were not sufficient. The encouraging consequence of this, however, is how well many firms, once freed from the risk, have responded by establishing generous DC plans to ensure younger staff can build an equally good pension pot. And this is where NATO is eager to boast.

Setting up a DC arrangement from scratch is no easy task and NATO sought the advice of both Mercer HR Consulting and fellow consultant Watson Wyatt Worldwide, on the best service providers for its needs before the scheme opened for business in July 2005.

CURRENCY EXCHANGE

Being a major international institution, NATO has to consider the needs of its personnel in each of the 17 countries in which it operates 26 administrative centres covering 70 duty stations across Europe and North America. Members may make contributions to the scheme in one of seven different currencies. These are then converted into euros or dollars – the base currencies the scheme authorises its two investment managers to use to invest in the seven investment funds the scheme offers. This complex arrangement is administered from a single database run by Previnet – the external third-party administration firm NATO employs. "Despite its complexity, this pan-European member pooling system with multi-country, multiple currencies and multi-investment platforms has now been running successfully for over three years," the fund points out.

BEYOND EUROPE

Pan-European would be a significant achievement for many international firms but for NATO, the term is perhaps a touch modest, as the scheme has members in North America as well and NATO has moved eastwards.

Modest the term may be but NATO has been quick to realise that the global nature of its cross-border DC scheme is something of a test case that many others would be keen to observe. The database holds records for over 1,500 members who can invest their money according to a pre-determined age-related life-style option or choose their own bespoke strategies using a range of selected funds.

MODERN TOUCH

In view of its wide geographical reach, NATO says its scheme required a web-based administration system which provides access to the full range of information and pensions facilities in the organisation's two official languages – English and French – from any computer using a standard web browser on a 24-hour basis to both members and local administrators.

Outsourcing to a specialist company with the capacity to offer this level of access was a logical step for NATO. Its chosen partner, Previnet, offers a full range of services including account balances, statements and investment performance that members access by logging in online any time around the clock. Previnet also takes care of the scheme's accounting but contributions are collected by a custodian bank at NATO's Brussels headquarters.

But those are just the basics. Aside from investment performance, members can also manage their investments personally online by moving their assets around the various investment funds or setting out how they would like future contributions to be invested.

For the 26 NATO payroll centres around Europe and North America, access is provided at any time for member contributions records to be uploaded as part of the monthly contribution cycle. Previnet also provides a database containing essential documentation for both members and administrative staff in the 26 centres online.

ADVANCED SECURITY

A key element in running any pension scheme making extensive use of an online portal that is open to all parties is security. To maximise security for both the individual members and the administrative staff, NATO says it devised an innovative two-level system granting access to separate areas to its pensions website.

Level one is known as the dynamic area and this stores and runs the members' and employers' contribution data, investment history and portfolios. The second level is a static area which contains the more standard files such as the scheme's rules and regulations, documents, a learning area, news and multiple graphic presentations charting the scheme's chosen investment funds' performance.

To protect the different parties that can access the site, there are three levels of access: for the members, local office administration staff and the scheme's central management. Each level provides only the information that is relevant to that particular group.

The scheme will remain a bit of a test case for a couple more years, because its rules state members must have paid in for at least five years to be entitled to an actual pension. That is not to say those retiring in the meantime have missed out. "So far leavers have all been paid the full cash value of their accounts on leaving," the scheme says.



Name of fund	NATO DCPS
Type of fund	Other
Date established	2005
Fund structure	Defined contribution
Members	Active 1,550
Capital value of fund (€m)	31 Dec 2007 22.42 31 Dec 2006 7.15 31 Dec 2005 0.69
Investment return (%)	2007 6.05 2006 5.86 2005 2.72