NAPF SUBMISSION TO THE DEPARTMENT OF WORK & PENSIONS CONSULTATION ON DEFAULT OPTIONS IN WPP AND USE OF GSIPP'S FOR AUTOMATIC ENROLMENT

SECTION 1 - INTRODUCTION

1. The National Association of Pension Funds welcomes the opportunity to respond to the consultation document *The use of Default Options in Workplace Personal Pensions and the use of group Self Invested Personal Pensions for Automatic Enrolment* issued by the Department for Work and Pensions (DWP) on 24 September 2009.

2. The NAPF supports the 2012 reforms, especially the introduction of auto-enrolment and mandatory employer contributions, and - as a means of providing a workplace pension to those who currently do not have access to one - the creation of the Personal Accounts scheme.

3. This submission sets out the NAPF's general views on the DWP's draft guidance as set out in their consultation paper and also contains the responses to the specific questions posed.

About The NAPF

4. The NAPF is the leading voice of workplace pensions in the UK. Our 1,200 pension fund members provide pensions on behalf of more than 15 million people and have combined assets of around £800 billion.

SECTION 2 – NAPF GENERAL COMMENTS

5. The guidance from the DWP within the consultation document covers the three key issues for default funds design, governance and review. The NAPF believes strongly that any guidance should remain generic and not become prescriptive.

6. Having reviewed *The use of Default Options in Workplace Personal Pensions and the use of group Self Invested Personal Pensions for Automatic Enrolment* the NAPF would like to make the following points :

- **Overall view**: we agree with the objective that default funds for receiving auto-enrolled members into workplace personal pension schemes after 2012 should become more suitable in meeting the needs of members, however, we do not believe that the prescriptive and detailed guidance of the sort being proposed is either helpful or appropriate.

- **Good governance is key**: We believe that the best way of ensuring default funds meet the needs of members is to ensure they are well-governed. Outside of the trust based model we believe tPR should place a greater and renewed emphasis on ensuring that contract-based DC schemes are well-governed. On the basis of statements made by David Norgrove, the Pensions Regulator, at the NAPF's Trustee Conference on 10 December 2009, we are aware this is a view that he shares and regards as a priority.

  A good starting point in raising the bar on scheme governance would be a requirement for all contract based DC schemes to publish a document which sets out why they believe their choice of default arrangement is suitable and in particular how they will ensure that it remains appropriate to members' needs.

  It should also be noted that the TPR Investment Governance Group is about to consult on a new set of principles for investment governance which considers in full the issue of default funds. Rather than DWP producing new guidance on default funds, we recommend that the IGG's principle on DC default funds should be used instead.

- **Nature and role of guidance**: We are concerned that the guidance is too specific and prescriptive. In addition, we are concerned that non-compliance may be used as future evidence that guidance is insufficient and that inevitably regulation will follow. The Government should amend the guidance so that it is only very high-level, eg. "the objectives of the default fund should be suitable to the needs of members". We also believe it should be made clear that non-compliance will not be deemed as a failure to meet regulatory requirements. If guidance is to be adopted it should only operate at a principle based or high level.

- **Dangers of current proposals**: There is a very great risk that the current approach will result in default funds that do not fully meet members' needs and/or will be unable to fully exploit the latest developments in this area. Default funds are the subject of considerable product development at present. A wide range of new defaults eg target date funds, absolute return strategies and diversified growth funds are all being developed. It would be disappointing if prescription excluded suitable product development in default fund design.

- **Application to occupational pension schemes**: We do not believe it is appropriate to apply guidance to occupational DC pension schemes. Trust based occupational pension schemes already benefit from formal governance arrangements (trustees with legal fiduciary responsibilities) that seek to ensure the default fund meets the needs of members**.**

SECTION 3 – NAPF COMMENTS TO SPECIFIC QUESTIONS

7. This section provides the NAPF's responses to the ten specific questions raised by the DWP in their consultation paper.

Part one – Default options in workplace personal pensions used for automatic enrolment

Q1 – Does the use of operator provide enough clarity on who falls under the remit of this guidance?

8. Although essentially a proxy for the scheme (and therefore) the default provider the description of the operator is drawn sufficiently narrowly to make it clear who will be covered under the remit of this guidance.

Q2 – Do you think the Department should issue separate guidance on the design of default options in occupational schemes as well?

9. No. The DWP should be especially aware that within trust based occupational DC schemes it is the trustees not the operator who have ultimate responsibility for default design. The underperformance of DC investment funds between autumn 2007 and Q2 of 2009 highlighted the key role of default funds in UK DC provision. The debate about current and future default design is ongoing and we welcome any constructive input which adds to that debate.

Q3 – Would it be helpful to set out in guidance how many options we feel should be offered to the employer? If so, we would welcome views on what is a manageable number of options.

10. Guidance to providers that considered a suitable range of investment options and the rationale which underpins that type of design could help focus thinking on credible investment choices. It is, however, particularly important that guidance should remain generic.

11. At present the current debate has concluded there is no agreement (and there may never be a total consensus) on the composition of the ideal default fund and number of fund choices and the NAPF would support that view. However, based on some qualitative research we undertook in Q2 of 2009 the majority view of respondents was that a range of less than ten fund options was the most sensible approach to default design. Suitable diversification of asset classes should be considered within this range which could also incorporate ethical and religious investment choices if considered appropriate for the scheme.

Q4 – Would it be useful to define 'common industry benchmarks' more closely?

12. Yes. Composition of benchmarks should be totally clear and avoid ambiguity which might lead to misinterpretation. This is particularly important if they are to be regarded as a relevant standard or 'common industry benchmarks'.

Q5 – Are there any other cases which should trigger a review?

13. The high level review is the responsibility of the operator which should consider regulatory changes and market developments. However, within paragraph 25 of the consultation document there is a suggestion that providers (operators) remind employers to regularly review the suitability of the default fund for the member profile of their workforce. In undertaking an internal review the employer should consider any structural change to the business and the potential impact of that change on its constituent workforce.

Q6 – What else should the review of the default option look at?

14. The review might also consider the de-risking mechanism within the default fund (eg if lifestyling is operated is the lifestyle strategy still appropriate particularly if based on mechanistic switching from equities into non equities.) Consideration could also be given as to whether the length of the glide path for de-risking still remains suitable.

Q7 –We are considering recommending that operators should make information on the review of the default option available on their website. How feasible is this?

15. Given technology available this option should be well within scope for operators via their websites. However, transparency for compliance reasons is not particularly useful without a proper context and the presentation and consistency of the review information will be important. Any overview or summary should not be a substitute for providing bespoke information to those members who are approaching retirement.

Part two - Automatic enrolment into Self Invested Personal Pensions (SIPPs)

Working definitions provided by the DWP (including emphasis in bold)

A **Self Invested Personal Pension (SIPP**) is an arrangement which forms all or part of a personal pension scheme, which gives the member the power to direct **specifically** how some or all of the member's contributions are invested (as opposed to simply choosing a fund of funds).

A **Group Self Invested Personal Pension (Group SIPP)** is a group personal pension where the contracts are SIPPs rather than personal pensions. So a GSIPP is a SIP which is available to employees of the same employer or of employers within a group.

Q1 – Are these definitions helpful and are there any alternative definitions which you could suggest

16. Yes the definitions are clear. We have no alternative definitions to put forward at this stage.

Q2 – Would it be helpful to provide separate sections on the use of insured and non-insured group SIPPs given their different structures?

17. No. Provided that the descriptions for insured and non insured are clear, separate sections for insured and non-insured group SIPP should not be necessary.

Q3 – Do you view non-insured group SIPPs as a suitable product for auto-enrolment, given their non-tiered structure.

18. We have no comment to make regarding the suitability, or otherwise, of non-insured group SIPP's.

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