May 2012

Telling Employers about DC Pension Charges:

A Consultation

NAPF

Securing the future of pensions

Contents

Foreword

Pension reform is ushering in a new world in which employees will be automatically enrolled into a pension scheme unless they opt out. There is a broad consensus that this is an important step towards achieving decent retirement incomes for future generations of pensioners.

Employers have a central role to play, both in automatically enrolling their employees and in designating a pension scheme for that purpose. Choosing a pension scheme can be confusing. There are many factors to consider. Charges are important as they can make a substantial difference to the final pension pot of employees. So too is the question of scheme quality and what services the charges are paying for.

This consultation is about how the pensions industry can make it easier for employers to understand pension charges and the service provided in return. It has been put together with the support of a Working Group drawn from employer, employee, consumer and pensions organisations. It proposes a new Code of Conduct on which we would now really like to hear from all interested parties.

Not everyone on the Working Group agrees with every aspect of what is proposed and there are some highly complex technical issues to be resolved. Nor do we think the Code will be a panacea. But we believe this consultation can get us to a new Code of Conduct which will be a significant step in the right direction.

So please take some time to review the document and let us have your views.

Introduction

1. The lack of transparency and understanding around charges in pensions is an important issue for consumers and undermines trust and confidence in pension saving. Although contract-based pension schemes are already required to disclose information to their scheme members about charges, there is a clear need for the pensions industry to improve the way it communicates about the charges associated with providing pensions, especially as the introduction of automatic enrolment approaches.

2. Under automatic enrolment, employers will have a legal responsibility to automatically enrol employees into a pension scheme and make contributions towards their employees' pensions. For many employers, especially smaller employers, this will be the first time they will engage with pensions and it is therefore vital that they have the information they need to make the right choices. Research conducted by the DWP has found that employers will expect to conduct some

research in order to identify which pension scheme best suits them and their employees in terms of cost and security[1].

3. It is worth noting that employers are able to choose from a range of different pension offerings for automatic enrolment. Choices include:

    - Enrolling their workers in an existing pension scheme, if it meets the legal requirements laid down to count as a qualifying scheme;
    - Establishing and sponsoring their own trust-based pension scheme (this may involve working with suppliers of different services such as advisors, pension administration companies and fund managers);
    - Using a contract-based group personal pension scheme typically offered by insurance companies;
    - Using a Master Trust occupational pension scheme run by one of a number of private sector providers where different employers participate in one 'centralised' scheme; or
    - Using the National Employment Savings Trust (NEST) which is a pension scheme established by the Government with a public service duty to offer pension arrangements to all employers (subject to certain limits).

4. Depending on the arrangement chosen, fees or charges may be payable to more than one party. If an employer chooses to use the services of an adviser or consultant fees may also be payable to them. So the roles of all these parties need to be considered in order to get to a position where charges are clear and comparable across the board.

5. The different types of pension arrangement described above are subject to different regulatory regimes. For example, current regulation requires contract-based DC pension schemes to provide information to members about charges, but the same requirements do not apply to trust-based schemes. There are a number of gaps in current regulation and practice which mean it is difficult for employers and members to compare charges between pension schemes and to establish baseline measurements against which to assess value for money. In particular:

    - There are no clear and consistent rules or practice about how employers should be informed of charges when they are selecting a pension scheme for their employees;
    - The language used in describing charges is often dense and technical;
    - The variety of charging structures makes it hard to compare charges between schemes; and
    - The different regulatory regimes for different pension types mean that different definitions of a charge are possible.

6. Against this background, the Pensions Regulator has challenged the pensions industry to develop an approach "that can be used across all DC provision to enable better comparability of value for money"[2]. The Gleneagles Conference in September 2011, bringing together a range of industry

[1] DWP, "*Understanding small employers' likely responses to the 2012 workplace pension reforms: Report of a Qualitative Study*", 2009.
[2] The Pensions Regulator, "*Enabling good member outcomes in work-based pension provision*" discussion paper response, July 2011.

figures, regulators and other stakeholders, agreed that more work was needed on the communication of charges and the value proposition in pensions. At its Annual Conference in October 2011, the National Association of Pension Funds (NAPF) announced that it would be convening a Summit of senior figures from across the pensions industry with the aim to improving transparency around DC pension charges by developing an industry Code of Conduct. This was in response to a number of concerns raised by the Workplace Retirement Income Commission (WRIC) and by the Pensions Regulator. The Pensions Minister Steve Webb also welcomed the initiative.

7. The initial Summit met in November 2011. It was agreed that, with the introduction of automatic enrolment in October 2012, the Code of Conduct should initially focus on making charges clearer to employers. Employers will be required to make decisions about which pension scheme to use under automatic enrolment and it is therefore important that the Code of Conduct is in place as soon as possible. The development of this Code of Conduct was welcomed by the Work and Pensions Select Committee, which recommended in its March 2012 report on automatic enrolment and NEST that "*the pensions industry establishes a clear, accessible and universally-adopted model to allow comparison of charges*" which should be ready for employers to use by the beginning of 2013.

8. The development of the draft Code of Conduct, and this consultation paper, was guided by a Working Group whose members are drawn from employer, employee, consumer and pensions industry backgrounds. A list of members of the group is at Annex B. We are also grateful to those who responded to our initial consultation paper (*Making Pension Charges Clearer* published in November 2011). The points made in those responses have been taken into account in formulating these proposals.

9. It is worth also underlining that this Code of Conduct deals very specifically with the disclosure and comparability of charges and core services provided. It does not address the wider – and important – question of how to compare the value for money of service propositions, particularly with respect to governance structures and investment approaches. To that extent, there were clear differences of view within the Working Group about what was important in scheme choice. At one extreme, some members believe that charges are the key consideration in selection, while others think that the variety of options available with respect to scheme design mean that charges can only be considered in the context of the precise service being offered.

How to respond to the consultation

10. The consultation will run until Wednesday **4 July 2012.** Please send your responses, preferably by email, to Catherine.Cunningham@napf.co.uk.

11. Alternatively, you can post your response to:

Catherine Cunningham
The National Association of Pension Funds
Cheapside House
138 Cheapside
London EC2V 6AE

Telling employers about DC pension charges – a consultation on a draft Code of Conduct

The purpose of the Code

12. The purpose of the Code of Conduct is to ensure that charges are presented to employers in a consistent way that will help them understand the impact charges will have on the retirement incomes of their employees and that will enable them to make informed choices about which scheme to use for automatic enrolment. Its key elements are:
    - A **requirement that *all* charges should be clearly and accurately stated in writing in a "Summary of Charges" document** to an employer before the employer makes a choice of pension scheme, both for the charges borne by the employer and the employee; and
    - A requirement to provide the employer with information in a standard format which will help employers make comparisons between schemes. A **standard guide is proposed to help with comparing:**
        - the **effect of charges on the pension pots of sample employees;** and
        - the **services offered by the pension arrangement**.

Each of these is discussed in more detail below.

Scope and application of the Code

13. The Code is intended to apply to all parties providing services to employers in setting up and administering pension schemes including:
    - Insurance companies providing contract-based pensions and Master Trusts;
    - Multi-employer trust-based schemes including NEST;
    - Fund managers;
    - Financial advisers;
    - Employee benefit consultants;
    - Other professionals providing paid advice on setting up a pension, such as accountants; and
    - Third party administrators.

14. The Code will apply to the default fund(s) used for automatic enrolment purposes.

Question 1: Those respondents who would be covered by the Code are asked to indicate any issues that could prevent them from signing up to the Code. All respondents are asked whether the coverage specified above is the right one.
Question 2: Does the remit of the Code seem appropriate?

Requirement to state all charges in writing

15. The proposed Code will require all pension service providers to state all charges clearly and accurately in writing before the employer makes a choice of scheme in a Summary of Charges document ("the Summary"). This would identify separately:
    - Any charges that would be payable by the employer; and
    - Charges payable from the employees' contributions and/or invested funds.

16. There are a wide variety of arrangements that may suit different employers and providers and we propose the following principles should apply to the Summary:
    - The Summary should include all 'mandatory or inescapable charges' (ie those that will definitely be payable) and should ideally also show what other charges would be payable for 'optional extras'. Where there are discrete components, such as flat rate administration fees or contribution charges, alongside annual management charges, these should be detailed and the way in which they are levied spelt out.
    - Where a fee is payable for advice or consultancy, this should be included in the Summary but separately identified.
    - The Summary should attach an illustrative guide showing the effects of charges payable from the employees' funds. The Code of Conduct will establish a Template format (contained in Annex A) for the illustrative guide ("the Charges Guide") in order to make comparison between schemes easier for employers.
    - The Summary and the Guide (see below) should be provided as early in the process as possible so that the employer has time to reflect and consider other options. (We recognise that in some cases the charges and services will be arrived at through iterative discussions. We don't wish to discourage this, but do wish to avoid the situation where the total charges are only presented moments before the employer is asked to sign up.)
    - The Summary should specify whether charges are one-off or recurring. Where they can be accurately stated in cash terms they should be (but we recognise that some charges will be, for example, a percentage of the fund and cannot therefore be accurately stated in cash terms in advance).
    - All charges should be brought together in one place (the Summary), whether as a stand-alone document or as a distinct section of the product/scheme material. We want to avoid the situation where charges are scattered across a long document and not brought together in one place. Equally, we want to ensure that employers can easily compare different charge structures as they also consider the associated value proposition of the service offered.
    - The organisation making the arrangement with the employer should be responsible for ensuring the Summary of Charges is produced and discussed with the employer. In some cases this will be an advisor/consultant; in others, it may be a multi-employer pension scheme, insurer, or fund manager. We recognise that in some case it may be difficult establish responsibility amongst organisations in the supply chain, particularly where advisers require information from providers in order to complete the guide. However, we envisage that in this case organisations should reach an agreement amongst themselves about who is responsible for producing and discussing the Summary of

Charges with the employer (taking into account existing regulatory requirements). In all cases, each pension service provider should contribute accurate information on their own charges so that the Summary statement is accurate.

Question 3: Do you agree with the proposal for a Summary of Charges document as described above?

A standard guide to aid comparison

17. The second element of the proposed Code is a requirement to use a standard guide to aid comparison between schemes (the "Charges Guide"). It is proposed that the Code will require pension service providers to populate and distribute a Charges Guide to employers which comply with the Template in Annex A. The Charges Guide is intended to summarise key headline information and ensure it is presented in a consistent way to help employers compare between schemes. Our discussions to date have highlighted that while a large range of information and examples could be of interest to employers, many are unlikely to read it unless it is kept brief and simple. We therefore propose to limit the Charges Guide to two A4 pages. Our work has already benefited from input from employer organisations and we will be market testing these formats with employers in parallel with this consultation. This will help refine the presentation, wording and content to ensure maximum impact and comprehensibility. Paragraphs 18 to 49 below discuss the more detailed issues involved in ensuring the proposed Charges Guide is comparable across the range of pension offerings.

Question 4: Is the maximum length of two A4 pages appropriate?
Question 5: For a short document, does the Charges Guide cover the right areas and present the effect of charges in a balanced way? (More detailed questions about what the template covers can be found below).

Allowing comparisons between providers

18. The use of a standard format should help employers compare charges between schemes. We have also considered whether the Charges Guide should contain a baseline comparator which would give employers an idea of what an average or benchmark charge is. The Working Group considered a number of options:

- Compare with NEST, as it is the only scheme which has a public service duty to accept any employer;
- Compare with a hypothetical scheme with a 0.5% on-going charge;
- Include a comparison with average charges across the industry once more information about them becomes available; or
- Do not provide any comparator in the Charges Guide, but encourage employers to seek out guides from various schemes and providers. The development of an interactive tool that can allow employers to compare different propositions could also be considered.

19. The first two options have the advantage of providing a comparator as part of the Charges Guide. A risk with the first is that it may suggest there is a straight choice between the scheme on offer and NEST, when in reality a different provider may offer the best value for money for that particular workforce. It also raises a question about what NEST should use for its own comparator. The second option runs a similar risk and may be unhelpful for those smaller employers to whom the market is unable to offer an on-going charge at that level.

20. The third option may well have potential and we think it is worth reviewing as more information becomes public about charge levels. However, it is important to recognise that many providers offer different charges for different employers. For example a big employer with a stable workforce could expect a lower percentage annual charge than a small firm with high turnover (reflecting the fact that unit costs for providers are lower in the first case). And charging levels will also vary because different employers may want a different service mix. So a broad industry-wide average could be used as a prompt to shop around rather than as a substitute for doing so.

21. The fourth option keeps the charges guide short and simple and may encourage employers to shop around. We could also provide an easy link to a Pension Charges Made Clear website, where charges information for nationally available schemes would be prominently displayed. However, this has a significant potential disadvantage in that pricing is often highly bespoke (ie scheme, service and employer involvement specific) and that different structures can have a very distinct impact at certain contribution and persistency levels. It is far from a totally commoditised market.

22. Looking ahead, it is envisaged that further tools could be developed to help employers compare charges as transparency increases and more information is gathered. One way to get around the challenge of bespoke pricing might be to develop an interactive tool that would allow employers easily to compare different propositions side-by-side and better understand the implications of certain forms of charging structure, eg contribution charge or flat rate administration fee, on specific employee groups. The Work and Pensions Select Committee also recommended the creation of a comparison website for pension charges. Further work needs to be done to see how this would work in practice, although it does remain one of the options for potential development.

23. The Working Group has not reached a consensus on this issue and would welcome views on the options.

Question 6: What are the pros and cons of the options for the comparators listed above? Do you have other suggestions about how comparison can be made easier?

Example scheme members

24. A key feature of the Charges Guide is the illustration which shows the percentage by which the final pension fund is reduced as a result of charges. As with all pensions projections, the precise figures depend on the level of contributions made and the period over which they are made. It is

therefore necessary to decide which sample employee (or employees) should be used in the standard illustrations.

25. We propose to illustrate an employee earning £27,000 per year (approximately national median earnings) and with total pension contributions at the auto-enrolment minimum of 8% of banded earnings (amounting to a little under £150 a month). We have considered whether to add illustrations of one or two other contribution levels reflecting low, and perhaps high, earners. Our initial view is that this complicates the message and that such variations are best dealt with in bespoke templates (see below) but we will explore this further in user testing. We intend to test different versions of the guide with employers, showing a guide with just the central scenario but also guides with multiple scenarios.

26. We have also had to consider what duration of contributions to illustrate. We hope that under auto-enrolment most employees (and their employers) will pay into pensions for most of their working lives. However, for many people a change of job will mean a change of pension provider. So the typical time someone is paying into *any one pension scheme* may be limited by how long they stay with that employer. We therefore propose to illustrate the effect of charges on someone who contributes to the scheme in question for 5 years. This is a little lower than the current average job tenure and a little higher than the current average time spent contributing to a group personal pension. Here too, we hope to consumer test the idea of showing a range of durations but our leaning is toward keeping the guide as simple as possible.

Question 7: Are the characteristics of the sample scheme member appropriate?
Question 8: Do you agree that the standard Charges Guide should be kept as simple as possible?

Active and deferred members

27. A further key question is whether the guide should focus on active members (showing the effect of charges up to the point they stop contributing to that pension scheme); or on deferred members (showing the effect of charges at the point they finally draw their pension).

28. The results can be very different between the two, especially as some schemes offer 'active member discounts' under which charges are lower while the employee is contributing but higher once the employee stops contributing (some members of the Working Group describe this charging structure as a "deferred member penalty"). The pensions industry is engaged in an ongoing discussion about the merits this charging structure and different charging structures more generally. In some cases, the effects of charges in a scheme with an active member discount can be significantly greater at retirement than at the point of ceasing to contribute. The differences tend to be less marked in schemes with other charging structures.

29. Many employees who stop contributing to a scheme will do so because they have moved employer and have been automatically enrolled into the new employer's scheme. It will often make sense for them to transfer their pension pot and the Government is currently considering how to tackle the issue of small stranded pension pots. However, at this stage we cannot safely

assume that transfers will be the norm. We therefore propose that the Guide should show the effect of charges both at the point of ceasing contributions and at the point of retirement, assuming that the pension has not been transferred elsewhere. The draft Charges Guide template at Annex A also includes an additional sentence to flag the existence of an active member discount if applicable.

Question 9: Do you agree that the Charges Guide should show the effects of charges both at the point of ceasing contributions and at the point of retirement? Does the extra sentence in the case of active member discounts help improve their visibility?

Bespoke modelling

30. The draft Code proposes that pension service providers be required to provide additional examples of how charges will affect scheme members with characteristics that reflect the actual demographics of their workforce. We envisage that many providers will do this through the provision of a simple web-tool into which employers can input information about expected contribution (or salary) level; length of tenure and age (see below). However, the Working Group appreciates that this may be difficult at a time when resources are heavily committed to dealing with regulatory change and may therefore have to be introduced later than other aspects of the Code.

Question 10: Will providers have the capability and capacity to provide bespoke modelling at employers' request? What lead-in time is needed for the introduction of this feature?
Question 11: Will providers be able to provide bespoke modelling via non-online tools (ie paper copy) for employers without access to the internet?

Technical assumptions

31. When calculating the effect of their charges on sample scheme members, we propose that providers should use economic and growth assumptions consistent with those they use for Statutory Money Purchase Illustrations (SMPIs) for the product/fund being illustrated. Once agreement has been reached with the employer about the default fund to be used for auto-enrolment the template should reflect the charges and SMPI assumptions for this fund.

Question 12: Do you agree that the technical assumptions should match those used for SMPIs?

Ensuring that all charges are captured

32. It is important that the guide captures the total effect of charges that are incurred by scheme members in the delivery of the service provided. We have identified below two options for what the Code might say to achieve this and would welcome views on the practicality and effectiveness of these options.

33. **Option 1.** Under this option, the Code would simply specify that ‘all charges borne by scheme members in the delivery of the scheme should be included in the illustrations’. This has the advantage of stating a very clear principle which is robust to change: it doesn’t matter what name is given to any cost, if it is paid out of member contributions or funds, then it counts as a charge. It would also ensure that charges are disclosed in accordance with existing regulation for the relevant sector. For investment managers, these are the FSA’s rules for collective investment. For pension providers, these are the Conduct of Business (COBS) rules, which govern the way in which pension charges are disclosed to scheme members in schemes regulated by the FSA. The possible disadvantage is that it may be felt to be open to different interpretations.

34. **Option 2.** Under this option we would create a new detailed definition. This might draw on existing sources such as the Stakeholder pension definition and the EU rules for investment funds (UCITS) but would have to be drafted in a way that worked across all types of pension provision. The advantage of this type of approach is that it could provide a specific and up-to-date definition that reduces room for misinterpretation. The disadvantages are that it does not sit well with existing regulatory requirements such as COBS rules and is not robust to change (eg future developments in the EU such as the Packaged Retail Investment Products or PRIPs directive). This approach will be explored further with industry experts during the consultation period. Meanwhile, views are welcome on both the general approach and the detail of any such definition.

35. Whichever of these options is selected, we would propose that a suitably qualified, and named, senior person in each organisation is asked to certify that the process used to arrive at the total effect of charges has been undertaken in accordance with the Code.

Question 13: What are the pros and cons and practicalities of the two options for defining what counts as a charge?
Question 14: Do you have any other suggestion on how charges could be clearly captured and defined?
Question 15: Does the proposal for senior sign off within each provider strike the right balance between giving assurance and keeping a light touch?

Consultancy Charges

36. Employers are under no obligation to engage an adviser or consultant to help them with their pension scheme choice but some will wish to do so. We understand that following the FSA’s Retail Distribution Review or RDR which will come into force on 31 December 2012, employers and advisers may agree that the fee for any such advice/consultancy may be met by one or other of (or a combination of):
    - The employer paying the fee on terms agreed with the adviser. In this case the fee should be disclosed and added to the ‘Summary of Charges’ document described at paragraph 15 above; and
    - A charge (called a ‘consultancy charge’) which comes out of the pension funds of the members. Where this is the case this should of course be disclosed and listed in the

summary of charges. But because it affects the members' pension pots it should also be shown in the pie charts that appear in the guide.

37. Since the consultancy charge will be agreed between the employer and advisor it must fall to the advisor to ensure that a version of the guide is produced which illustrates the effect on the member's pot of the consultancy fee. We propose that this should be shown as a separate slice of the pie chart labelled 'charges for consultancy/advice' or similar. (In making this proposal we have had regard to the March 2011 Report to the FSA from the Consultancy Charging Working Group.) Some insurers/Master Trusts may be willing to make software available to advisers/consultants so that they can readily produce templates that reflect an agreed consultancy fee. It would be helpful to know from respondents whether this is the case.

Question 16: Do you agree that consultancy charges should be shown on the template once they are agreed? Do consultants/advisers envisage any practical problems in doing this? Will insurers and Master Trusts be able to help advisers in doing this if necessary?

Trading costs on the portfolio of investments

38. Pension funds invest in equities, bonds and other securities which may be traded by the fund manager with the aim of maximising returns on the fund. Such trading involves transaction costs (including stamp duty on UK equities). The extent of trading varies both between fund managers and sectors. The cost of trading also varies between sectors (eg it is higher for UK equities because of the stamp duty) and asset classes. In some asset classes (eg equities) the trading costs have both explicit and implicit components; in others (such as bonds) they are implicit. Against this background, the Working Group has considered whether these trading costs should be treated as a 'charge' for the purposes of this Code. The Working Group has not reached a consensus on this so we summarise the issues below and would welcome views from respondents.

39. Underlying transaction costs on the investment portfolio are explicitly excluded from the regulatory definitions of charges set by the EU for retail investment funds (and from FSA rules about the disclosure of charges to individuals in packaged products such as pensions, and from the definition of charges for Stakeholder pensions). The cost of trading also varies amongst asset classes.

40. The issue is complicated further by the fact that there is little agreement on the best way to calculate transaction costs. Some transaction costs are explicit (eg broker commission and stamp duty). In investment funds, fund managers are required to disclose transaction costs in their annual accounts. These explicit costs could be made more accessible and there are different views in the industry about how to achieve this.

41. Other costs are implicit (eg bid-offer spread) and are more difficult to separate from investment return. Some members of the Working Group argue that transaction costs should be expressed in a single figure, capturing the effects of both explicit and implicit transaction charges.

42. With respect to the Portfolio Turnover Rate (PTR), there is still a requirement for managers to comment within the UCITS Key Investor Information Document (KIID) where trading costs are likely to be material. However, the existing definition of PTR measure was viewed as misleading and the European authorities are expected to return to the issue in order to find a better disclosure mechanism. It is also worth reiterating that contract-based pensions are effectively packaged products and operate under a different disclosure regime to UCITS funds, which nonetheless may be components within a pension. This issue of comparable disclosure is being addressed as part of European level discussions over the PRIPS (Packaged Retail Investment Products) initiative.

43. Despite the difficulties around defining and calculating transaction costs, there is widespread agreement that there is an urgent need for greater transparency around the issue of what transaction costs are and how, if at all, they can be meaningfully quantified. Some Working Group members argue that because transaction costs are a cost borne by the investor they should be communicated to them in full. They argue that high levels of trading can impact on the overall annual cost of an investment fund, but even with the current UCITS requirement, the information is not easily accessible to investors whether retail or institutional. Others point to the fact that it is whether a manager makes well-judged investment decisions that is the key determinant of outcome, and that different levels of trading activity are an inevitable part of achieving that outcome.

44. Better disclosure may allow trustees, management committees of contract-based schemes, employee benefit consultants and other advisors to monitor the underlying costs of investments more effectively and in the interest of scheme members. Good governance addresses many of the risks impacting member outcomes, including those around cost, investment decisions, and conflicts of interest. It is therefore an essential part of the solution to improving transparency around and disclosure of charges.

Question 17: How can underlying transaction costs best be disclosed? Should they be included in the definition of a charge? If so, how should they be calculated?

What services are included in the charge

45. We propose that the second page of the guide should provide summary information about the services provided. We have considered two options for how this might be done and would welcome views on the best approach. There is a third option as well, which is to make the format included in the Template voluntary, which would give providers more flexibility to describe their services in a format of their choice.

46. In **Option A** the table (included in the Template in Annex A) would be based on free text, under four key headings. This would offer flexibility for the provider to summarise the key points about their offering. However, this might make “at a glance” direct comparison of providers more difficult.

47. In **Option B** the table (also in Annex A) would outline a variety of services which may or may not be provided. Providers will then indicate with a dot which services are provided (or available at extra cost) and would be able to add a description of no more than 30 words for each item which would explain what is provided. The descriptions would have to be factual and not include any irrelevant or misleading information. Some free text would also be allowed next to each main heading.

48. We recognise that this short table cannot capture all features of a scheme. But we believe a simple high-level comparison may be a useful starting point for employers. For many, the Charges Guide will be the start of a conversation, not the end. The drawback of Option B is that simple yes/no indicators for many of the services listed do not really tell the employer a great deal since the nature of the service is the most important thing.

49. Under **Option C**, the Template would not *require* providers to use a set format to describe their services, but would recommend a format which providers could use if they wanted to. Some members of the Working Group felt it would be unusual to prescribe the way providers must describe their services, as in most industries how companies describe their goods and services is left to the discretion of the company itself. However, it is important to understand that Option C would make it very difficult to use the guide for direct comparison of providers.

Question 18: Are there any important items missing from the Option A and B tables?
Question 19: Which of the options suggested above do you prefer or do you want to suggest another approach?

Displaying the Charges Guide

50. The Code of Conduct has thus far set out a series of requirements which will ensure that the information presented to employers in the Charges Guide is comprehensive and easy to understand. It is equally important that employers are able to access this information in ways that facilitate their understanding.

51. When presenting the guide to employers, we propose that providers should:
    - Ensure the charges guide is given sufficient prominence. If presented to employers alongside other literature or information, the Charges Guide must be clearly distinguished from other material. Providers should point employers to the charges guide during the course of any face-to-face meetings or telephone discussions.
    - Display the Charges Guide in the same format and to the same production values as other primary communication. If other main information is available in paper copy, the guide should be presented to employers in paper copy as well.

52. We hope that providers who offer standard pricing nationally will display their Charges Guide prominently on their website. This would apply to those providers offering a single charging structure across the board. It is much less clear what might be put on websites in the case of providers who tailor their charges and services individually to each employer, such as insurers. Some members of the Working group would like to see them also giving more public visibility to

their charges, perhaps by putting some guides on their websites for sample schemes. Others on the Working Group doubt whether doing so would really help the market to work, as there is no sample scheme as such given that pricing is bespoke. As a result, they argue that an example Charges Guide for a sample scheme is meaningless and misleading. We would welcome views on this from employers, providers and others.

53. Those occupational schemes that are tied to a single employer are clearly in a different position from schemes which are competing in the market for business. Nevertheless, The Code is also intended to apply to them and we propose that the Charges Guide should be completed for these schemes and considered by the senior management of the company and trustees of the scheme. We believe this will encourage them to ensure they are getting good value for money from the scheme. We would welcome views from employers, pension schemes and other respondents on how this can best operate.

Question 20: Are these requirements practical for providers? Will they work for employers? Are there any other ways of presenting the guide which would ensure its prominence?
Question 21: We are interested to hear from providers of bespoke or tailored pension arrangements, and from employers and others, about whether displaying sample guides on websites would be sensible. If there are any suggestions for how this would work, we would welcome them.
Question 22: We would welcome views on how the Code of Conduct should be applied to occupational schemes which do not compete in the market.

Adopting the Code

54. We hope that all organisations offering a pension scheme to the market or providing services or advice to employers will be willing to adhere to this Code, once it has been finalised. The NAPF, ABI, and IMA are also keen to use the results from this consultation process to arrive at a workable Code which they can expect their members to support and adopt.

Changing charges over time

55. It may be the case that providers, schemes or advisers change their charging structure or their prices after employers have chosen their product. In these cases, organisations signed up to the Code must update their Summary of Charges and Charges Guide and send a new copy to their employer customers via post or email within one month of the change. This requirement aims to ensure transparency around charges throughout an employer's involvement with pensions – not just at the initial set-up stage.

Question 23: Do you think this requirement is reasonable and practicable?

Implementation

56. We want to ensure that the proposed requirements under the Code of Conduct are workable and that the great majority of providers and schemes can adopt the Code. We propose that providers should have 6 months from the publication of the final Code to adopt it. However, we understand that there is a great deal of regulatory change at the moment and that providers may need time to adjust their systems in order to adopt the Code.

57. We recognise that some elements of the Code, such as the development of web-based tools, could take a little longer to implement than others. We would therefore welcome responses from providers that indicate the timescales needed to implement various aspects of the Code.

58. We envisage that the final Code will be published in the summer and adopted by market participants between then and the turn of the year. Looking at the staging dates under automatic enrolment, this timetable will ensure that the Code is in place in advance of the introduction of automatic enrolment for small and medium employers. We feel it is particularly important to focus on the needs of small and medium employers, many of whom will have had little or no engagement with pensions prior to automatic enrolment. It is therefore important that clearer information is available to these employers as soon as possible.

Question 24: Will it be possible for providers to implement the Code of Conduct by the turn of the year? If not, which aspects will take longer and why?

Updating the Code

59. As transparency increases and more information becomes available about charging practices in the industry, it is likely that the Code will need to be updated. We propose that the Code should be reviewed by a cross-sector Steering Group which includes representatives of employers, employees, consumers, pension providers and advisers. In the first instance, we suggest that the Code will be reviewed in 2014 although changes may not be required.

Question 25: Does the suggested approach for reviewing the Code seem appropriate?

Question 26: Are the requirements under the Code of Conduct workable for all types of pension and service providers?
Question 27: Do you have any other comments on the draft Code of Conduct?

DRAFT FOR CONSULTATION

Joint Industry Code of Conduct:

Telling employers about DC pension charges

May 2012

Contents

Introduction

1. This Code of Conduct has been developed jointly by pension providers and groups representing consumers, employers and employees to help employers understand the impact of charges when choosing a pension scheme for their employees.

2. The purpose of the Code of Conduct is to:
    - provide information about charges to employers in a form they can understand, as part of good transparent practice;
    - allow more readily comparable charge and services so that employer and trustees are able to act as well informed customers; and
    - provide a basis on which charges across the industry can be monitored in the public interest.

3. The Code of Conduct outlines the requirements which organisations providing pension services and advice to employers should follow when discussing charges. These requirements should be followed in addition to any existing regulatory or legislative requirements around the disclosure of charges which may apply to trust-based schemes, contract-based providers, advisers or fund managers.

Telling employers about DC pension charges

4. The purpose of the Code of Conduct is to enable employers to make informed choices about which scheme to use for automatic enrolment. The Code does this by ensuring that charges are presented to employers in a consistent way that will help them understand the impact charges will have on the retirement incomes of their employees and that employers understand which charges they will have to pay themselves.

5. The Code's key elements are:
    - A **requirement that all charges are clearly and accurately stated in writing** to an employer before the employer makes a choice of pension scheme; and
    - A requirement to provide the employer with information in a standard format which helps employers make comparisons between schemes. The Code will require the use of the **Template included in Annex A to help with comparing:**
        - the effect of charges on the pension pots of sample employees; and
        - the services offered by the pension arrangement.

Each of these is discussed in more detail below.

Scope and application of the Code

6. The Code is intended to apply to all parties providing services to employers in setting up and administering pension schemes including:
    - Insurance companies providing contract-based pensions and Master Trusts;
    - Multi-employer trust-based schemes including NEST;
    - Fund managers;
    - Financial advisers;
    - Employee benefit consultants;
    - Other professionals providing paid advice on setting up a pension, such as accountants; and
    - Third party administrators.

7. The Code will apply to the default fund(s) used for automatic enrolment purposes.

8. What the Code cannot do in isolation is to help employers choose between different form of product proposition. If one scheme is offering a specific investment or governance approach, whether cheaper or more expensive than alternative propositions, then employers need to be aware the Code is only a tool for comparing the costs of delivery and ascertaining the nature of services included in those costs. Many factors will be involved in making a scheme decision, of which charges are an important but not overriding concern.

Requirement to state all charges in writing

9. The Code requires that all charges are clearly and accurately stated in writing before the employer makes a choice of pension scheme. All charges should be brought together in a 'summary of charges' document (the "Summary"). This will identify separately:
    - Any charges that would be payable by the employer; and
    - Charges payable from the employees' funds.

10. Given the wide variety of arrangements that may suit different employers and providers the Code does not specify a standard format for this summary of charges but the following principles must be followed:
    - The Summary must include all 'mandatory or inescapable charges' (ie those that will definitely be payable or become payable for foreseeable events such as exit, transfer, pension sharing on divorce) and should ideally also show what other charges would be payable for 'optional extras'. Where there are discrete components, such as flat rate administration fees or contribution charges, alongside management charges, these should be detailed and the why in which they are levied spelt out.
    - Where fees are payable for advice, consultancy or administration, these must be included in the summary but separately identified (see also paragraph 16 below regarding consultancy fees).

- The Summary must also include an illustrative guide ("the Charges Guide") showing the effects of charges payable from the employees' fund (see Annex A).
- The Summary and the guide should be provided to the employer as early in the process as possible so that the employer has time to reflect and consider other options.
- The Summary must specify whether charges are one-off or recurring. Where they can be accurately stated in cash terms they must be (it is recognised that some charges will be, for example, a percentage of the fund and cannot therefore be accurately stated in cash terms in advance).
- All charges must be brought together in one place ("the Summary"), whether as a stand-alone document or as a distinct section of the product/scheme material.
- The organisation making the arrangement with the employer will be responsible for ensuring the summary of charges is produced and discussed with the employer. In some cases this will be an advisor/consultant; in others it may be a pension scheme, insurer, or fund manager. Each participant in the chain should contribute accurate information on their own charges so that the summary statement is accurate.

11. The summary and the guide (see section below on the Template) should be provided as early in the process as possible so that the employer has time to reflect and consider other options.

Template guides

12. To assist comparisons between schemes the Code requires Pension Service Providers to present employers with a standardised charges guide (the "Charges Guide") describing the effects of their charges on sample scheme members. The template Charges Guide is included in Annex A. The Template has been developed to clearly and effectively demonstrate the impact that charges will have on scheme members by:
    - Providing specified examples (see below) of how charges will affect the pension pot of a notional scheme member earning £27,000 per year (national median earnings) and with total pension contributions at the automatic enrolment minimum of 8% of banded earnings; and
    - Describing what services are included in the standard charge.

13. The Charges Guide must be no longer than 2 A4 pages.

14. The wording and layouts of the Charges Guide should be adhered to except where doing so would be incorrect or misleading.

Example Scheme Members

15. The Charges Guide must include two variations of how charges will affect the notional scheme member:
    - Effect of charges at the point the member ceases to contribute; and
    - Effect of charges if the pot is not transferred but is held until State Pension Age.

16. The standard illustration should assume that the member is an active contributor for 5 years, as shown in the Template at Annex A.

17. Pension Service Providers should be willing to provide employers with bespoke examples of scheme members based on the specific demographics of their workforce. Pension Service Providers should inform employers of the availability of this option by:
    - Telling them during the course of the conversation; and
    - Including a statement in the guide informing employers that this option is available.

Calculating the effects of charges

18. When calculating the impact of charges on the pension pots of sample scheme members, Pension Service Providers must use their asset-specific SMPI assumptions for the scheme and fund they are illustrating.

What counts as a charge

19. The "charge" refers to the total effect of all charges that are paid from the funds of scheme members (including both current and past employees). [*Text to be added about treatment of trading costs in light of consultation*]

20. Where any consultancy or advisory charges are to be paid by scheme members, the consultant/adviser must take responsibility for ensuring the agreed charges are reflected in the pie-charts in the guide. This must be shown as a separate 'slice' of the pie. Employers must be made aware of the potential total effect of such charges on members' outcomes.

21. The method for calculating the effect of charges should be signed off within each organisation by a suitably qualified senior named person.

What services are included in the charge

22. The Charges Guide must contain a table summarising what services are provided and whether these are included in the service providers' standard charge. Descriptions of services must be factual and must not include any irrelevant or misleading information. [*Amend as necessary in the light of consultation*]

Displaying the Charges Guide

23. The Charges Guide must be given sufficient prominence when displayed on websites or when distributed in conjunction with other material. If presented to employers alongside other literature or information, the Charges Guide must be clearly distinguishable. During the course of any face-to-face meetings or telephone conversations, providers must point employers to the guide.

24. The Charges Guide must be presented to employers in the same format and to the same production value as other primary communications. If other main information is available in paper copy, the Charges Guide must also be presented to employers in paper copy as well.

25. Pension Service Providers may choose to incorporate unique logos or branding on the leaflet to signal that the charges refer to a particular product or pension scheme.

Changing charges over time

26. It may be the case that the structure of the charges or what is included in the charges will change after employers have entered into a contract with the service provider. In such situations, providers must update the leaflet and distribute it to its clients by:
    - Sending an updated leaflet to employers via post or email; and
    - Highlighting the change on their website.

Annex A – Template guides

How our charges affect your workers

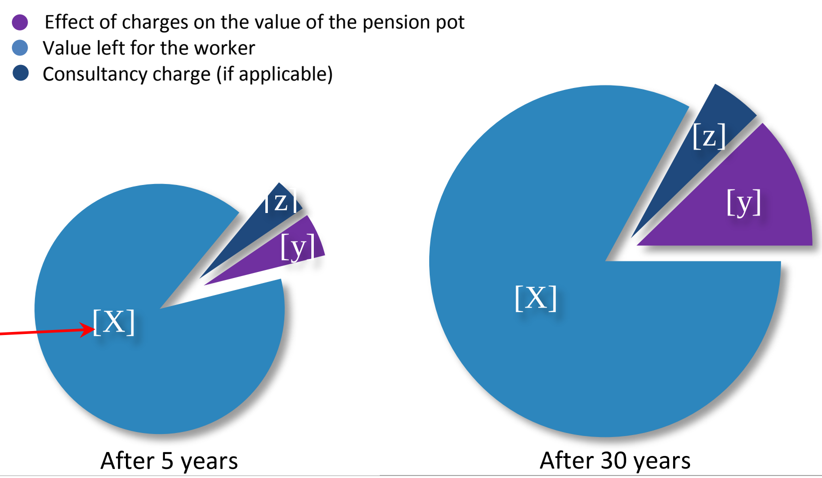
This leaflet has information about how much we charge and the services you and your workers get from us in return.

This information follows the *Pension Charges Made Clear* Code of Conduct. We have presented it in a standard way, so that you can easily compare our charges with other pension companies.

The effect of our charges on your workers
We charge workers for being members of the pension. The level and impact of the charge can depend on a number of factors, including how long the worker has been saving in a pension, whether they are still paying in to it, and how much they pay in. The charge is deducted from the worker's pension savings.

The effect of our charges on the pension plan of an employee earning £27,000 a year, with total contributions equivalent to 8% of their salary (band earnings)

These figures assume the worker pays in for 5 years, because this is the average amount of time worker pays into a workplace pension.
On the left is the pension at the time the worker stops paying in.
On the right is the same pension 25 years after the worker stopped paying in.



[We charge workers more to run their pension if they stop paying into it. This is why the effect of our charges is greater after 30 years than after 5 years.]

Pension service providers should include the exact percentages in the corresponding "slices" of the pie chart to show the effects of their charges on workers' pots

These are standard examples that other pension fund companies also use. The actual effect of charges on your workforce will depend on things like their age and their earnings. If you would like a more accurate picture of how our fees would affect your workforce, please contact us.

These figures are based on standard assumptions about things like investment growth and inflation.

How much we charge you, the employer
[*Either*] There are no charges to the employer
[*Or*] charges payable by the employer are shown separately in our Summary of Charges table

Here providers have free text to describe the unique features of their service

The services we provide {Option A version}

This section should cover information and advice to both the employer and the employee

Information and advice

Here providers should describe aspects of scheme governance, administration, compliance or implementation they will provide

Running the scheme

Providers can describe the kinds of funds they will invest employee's pensions in, and the investment governance arrangements in place.

Investing the money in an employee's plan

One-off services

One-off services include splitting a pension upon divorce or transferring the pension to another scheme. Providers should tell employers who will have to pay for these extra services.

Bullet points allow for greater comparability between schemes and/or providers

The services we provide {Option B version}

	Included in our fees	Employee has to pay extra	Employer has to pay extra	Notes
Information and advice				
Support to the employer about automatic enrolment	●			
Workplace Communications about the pension scheme				
Bespoke microsite for employees and employers	●			Website includes enquiry service, chat-board and bespoke branding
Online accounts for scheme members		●		Members can manage own account and investments if they choose
Comprehensive information for employees about their pension scheme	●			Printed information will be available upon request
Telephone help for employees	●			We operate a free phone helpline during office hours which is unique to scheme (or scheme section)
Face-to-face help for employees		●		We can visit an employee on a one-to-one basis at work, for up to one hour
Running the scheme				
Scheme-specific governance framework	●			Scheme will be run by a management committee
Scheme-specific administration team	●			
Compliance and reporting service				We will manage any automatic enrolment information requirements
Investing the money in an employee's plan				
Managing funds	●			
Investment Governance				
Providing a wider range of funds, that have additional taxes and fees		●		
One-off services				
One-off services such as splitting a pension on divorce and transfers in and out		●		
Supporting member choices at retirement			●	We can provide an annuity brokering service upon request

These are just examples of what providers might say in the Notes section to describe the unique aspects of their services.

What makes us unique? [or Why should you choose us?]

Providers will then have 200 words to describe any other service or feature they believe sets them apart from other providers

Annex B – Charges Working Group members

We are grateful to the organisations listed below who guided the development of this Code of Conduct by participating in the Working Group. Participation in the Working Group is voluntary, and does not commit Working Group members to adopting the Code of Conduct.

Accenture
Association of British Insurers (ABI)
B&CE
Confederation of British Industry (CBI)
Federation of Small Businesses (FSB)
Heineken
Investment Management Association (IMA)
Legal and General
National Association of Pension Funds (NAPF)
National Employment Savings Trust (NEST)
NOW: Pensions
Trades Union Congress (TUC)
Which?
Whitbread

Annex C – List of the consultation questions

Question 1: Those respondents who would be covered by the Code are asked to indicate any issues that could prevent them from signing up to the Code. All respondents are asked whether the coverage specified above is the right one.

Question 2: Does the remit of the Code seem appropriate?

Question 3: Do you agree with the proposal for a Summary of Charges as described above?

Question 4: Is the maximum length of two A4 pages appropriate?

Question 5: For a short document, does the Charges Guide cover the right areas and present the effect of charges in a balanced way?

Question 6: What are the pros and cons of the options for the comparators listed above? Do you have other suggestions about how comparison can be made easier?

Question 7: Are the characteristics of the sample scheme member appropriate?

Question 8: Do you agree that the standard Charges Guide should be kept as simple as possible?

Question 9: Do you agree that the Charges Guide should show the effects of charges both at the point of ceasing contributions and at the point of retirement? Does the extra sentence in the case of active member discounts help improve their visibility?

Question 10: Will providers have the capability and capacity to provide bespoke modelling at employers' request? What lead-in time is needed for the introduction of this feature?

Question 11: Will providers be able to provide bespoke modelling via non-online tools (ie paper copy) for employers without access to the internet?

Question 12: Do you agree that the technical assumptions should match those used for SMPIs?

Question 13: What are the pros and cons and practicalities of the two options for defining what counts as a charge?

Question 14: Do you have any other suggestion on how charges could be clearly captured and defined?

Question 15: Does the proposal for senior sign off within each provider strike the right balance between giving assurance and keeping a light touch?

Question 16: Do you agree that consultancy charges should be shown on the template once they are agreed? Do consultants/advisers envisage any practical problems in doing this? Will insurers and Master Trusts be able to help advisers in doing this if necessary?

Question 17: How can underlying transaction costs best be disclosed? Should they be included in the definition of a charge? If so, how should they be calculated?

Question 18: Are there any important items missing from the Option A and B tables?

Question 19: Which of the options suggested above do you prefer or do you want to suggest another approach?

Question 20: Are these requirements practical for providers? Will they work for employers? Are there any other ways of presenting the guide which would ensure its prominence?

Question 21: We are interested to hear from providers of bespoke or tailored pension arrangements, and from employers and others, about whether displaying sample guides on websites would be sensible. If there are any suggestions for how this would work, we would welcome them.

Question 22: We would welcome views on how the Code of Conduct should be applied to occupational schemes which do not compete in the market.

Question 23: Do you think this requirement is reasonable and practicable?

Question 24: Will it be possible for providers to implement the Code of Conduct by the turn of the year? If not, which aspects will take longer and why?

Question 25: Does the suggested approach for reviewing the Code seem appropriate?

Question 26: Are the requirements under the Code of Conduct workable for all types of pension and service providers?

Question 27: Do you have any other comments on the draft Code of Conduct?

NAPF

Securing the future of pensions

The National Association of Pension Funds Limited©
Cheapside House
138 Cheapside
London EC2V 6AE

Tel: 020 7601 1700
Fax: 020 7601 1799
Email: **napf@napf.co.uk**
www.napf.co.uk

May 2012

'Securing the future of pensions'