

September 2012

Telling Employers about DC Pension Charges: Research

B&CE

NAPF 
Securing the future of pensions



Content

Background	3
Objectives and methodology	3
Objectives	3
Methodology	3
Pre-task	4
Context: who we spoke to	4
Very large employers (Duty of Care / Paternalistic)	5
Medium to large employers (Business focused)	6
Small employers (Shared interest)	6
Micro employers (Survival)	7
Context: reactions towards pension reforms	8
Direct cost to the businesses	8
Administrative burden and logistical complexities	9
Potentially big opt out and lack of employee interest	9
Choosing a pension scheme	10
Features of a good pension scheme	10
Small employers	10
Large employers	10
Priority of features in a good pension scheme	12
Charging Structures	14
Awareness and understanding	14
Fairness of charging structures	15
The Charging Guide	18
Concept of a charging guide	18
How the guide is used	19
Step 1- 'Narrow it down'	20
Step 2- 'Targeted comparisons'	20
Step 3- 'Get on the phone'	20
Feedback on the Charging Guide	21
The front cover	21
Areas for discussion	24
Clarification over how to use the guide	24

Break the text down	24
Allow options of different pie chart examples	24
Display values as well as percentages	24
Introduce an online tool	25
The back page	26
The back page: Option A	26
Very text heavy and time consuming to read	27
Some of the text reads like a sales pitch	27
Doesn't offer standardisation	27
What the provider <i>doesn't</i> offer isn't mentioned	27
The back page: Option B	28
List format	29
Standardised document	29
Notes column	29
'Why should you choose us' box	29
Areas for discussion	29
Make it clearer when a service isn't include	29
Clarity about fund choices	30
Clarity about portability options	30
Include contact details for the provider	30
Include a kite mark	30

Summary	31
----------------	-----------

Awareness and understanding of pension charges	31
Interest in the charging guide	31
Feedback on proposed charging guide template	32

Appendices	34
-------------------	-----------

Appendix 1: Pre-task questionnaire	34
Appendix 2: Structure of charges	37
Appendix 3: Charging Guide Options A and B	38

1 Background

Objectives and methodology

- 1.1 With the introduction of pension reforms from October 2012, employers will have a central role to play, both in automatically enrolling their employees into a pension and in choosing a pension scheme for that purpose. Choosing a scheme in which to auto-enrol the workforce can be a daunting process for those employers not familiar with offering a pension, with decisions to be made about the structure of the scheme, the appropriate level of charges and governance, and the range of member services on offer.
- 1.2 In advance of the reforms being introduced, the NAPF established a working group, formed of organisations representing employers, consumers, and the pensions industry, to develop a Code of Conduct to make it easier for employers to understand pension charges and the services provided in return. The Code of Conduct is intended to include a standardised way for providers and advisors to present a pension scheme to employers that provides them with clear details of their charging structure and level, alongside headline information about the range of services on offer. The aim is to encourage transparency and clarity regarding scheme charges and to make it easier for employers to compare providers.
- 1.3 As part of the consultation on the Code of Conduct, and to ensure that all employers views were represented, NAPF and B&CE (a member of the working group), commissioned IFF to carry out research with employers, to explore the potential demand for clearer information around charges and to road test some practical tools to help them with their decision.

Objectives

- 1.4 Against this backdrop the objectives for this research are to:
 - Understand the awareness and understanding of pension charges amongst employers;
 - Assess the interest in a charging guide; and
 - Gather feedback on the NAPF's proposed charging guide template.
- 1.5 To address these objectives, a qualitative research approach was adopted, which involved a mixture of focus groups and in-depth interviews.

Methodology

- 1.6 Six focus groups were carried out between 27th June and 12th July 2012. Each focus group comprised four employers, from a range of sectors including – retail, health and education. They were structured by size of employer (number of employees at the organisation); all were conducted in London.

	1 – 49 Employees	50 – 249 Employees	250 – 499 Employees	500 – 999 Employees
London	2	1	2	1

1.7 In addition, a total of 14 face-to-face interviews were conducted, structured by region and size of employer. The interviews covered a range of sectors and the majority were conducted in the Midlands and North of England.

	1 – 49 Employees	50 – 249 Employees	250 – 499 Employees	500 – 999 Employees	1000+ Employees
North / Midlands	2	2	2	2	4
South	-	-	-	-	2

1.8 During recruitment respondents were screened to ensure they had some responsibility for pension decision making and / or payroll responsibilities at their organisation. The job role of respondents who qualified for the research (based on having responsibility for pensions decisions) varied by size of employer. At small companies it was typically the owner who had this responsibility for pensions and/or payroll. For medium to large companies it was generally an individual who worked in the finance or human resources department. Whilst at the largest companies it was often a pension specialist from their in-house pension team.

Pre-task

1.9 Prior to taking part in a focus group or face-to-face interview, all employers were given a pre-task questionnaire (see Appendix 1), which included questions on the following topics:

- Current pensions provision
- Attitudes to pensions
- Reactions to pension reforms

1.10 Recording responses to these questions, and the extent to which there was variation by employer size, played a key part in understanding different employer types.

Context: who we spoke to

1.11 This section explores key themes around the type of respondent we spoke to. The size of the employer, combined with their responses to the pre-task questionnaire, has enabled us to produce a flexible model of employer types (Figure 1.1). Using this we can classify employers into four broad types:

- Duty of Care / Paternalistic
- Business Focused
- Shared Interest
- Survival

1.12 These four types should be viewed as a way of understanding characteristics *generally* shared by employers of a particular size. For example, it is not being suggested that all very large employers always have a duty of care or paternalistic attitude towards their employees. Rather, that a duty of care or paternalistic attitude is *often* demonstrated by very large employers.

Figure 1.1: Employer Themes

SIZE OF EMPLOYER	KNOWLEDGE / CONFIDENCE IN PENSIONS	CURRENT PROVISION	THIRD PARTY ADVICE AND SUPPORT	ATTITUDE TOWARDS EMPLOYEES
Very Large	VERY GOOD	ALMOST ALL OFFER SOME PENSION PROVISION	IN-HOUSE PENSION TEAM OR THIRD PARTY SUPPORT	DUTY OF CARE / PATERNALISTIC <ul style="list-style-type: none"> Motivated to keep staff happy and productive Able to absorb costs of employee benefits to an extent
Large	GOOD / REASONABLE	SOME / MOST OFFER SOME PENSION PROVISION	SOME /MOST SEEK THIRD PARTY ADVICE	BUSINESS FOCUSED <ul style="list-style-type: none"> Costs to employer of particular concern Pragmatic approach, business comes first
Medium				
Small	POOR	MOST OFFER NO PENSION PROVISION	GENERALLY AD HOC	SHARED INTEREST <ul style="list-style-type: none"> Struggle to separate employer and employee roles Concern about employee welfare
Micro	VERY POOR	NO PENSION PROVISION	DO NOT SEEK THIRD PARTY ADVICE	SURVIVAL <ul style="list-style-type: none"> Very concerned about bearing the cost, what it means for the future of the business

1.13 Figure 1.1 shows how employers vary by size of business in their knowledge and confidence about pensions, current provision, use of third party advice and support, and attitude towards employees. Differences by size on these measures are particularly distinct at each end of the spectrum; amongst the micro (less than 10 employees) and very large (over 1000 employees). The latter group, as a segment, will be explored first. Medium to large employers, small employers and micro employers will then be considered. As noted previously, this is not a rigid matrix of employer types. There are exceptions and overlap between categories; not all small employers struggle to separate their employer and employee roles, similarly not all medium employers are entirely business focused.

Very large employers (Duty of Care / Paternalistic)

- 1.14 Very large employers all had some experience of setting up or running a pension scheme for their employees. In this context, their knowledge, confidence and understanding of pensions is very good. Moreover, their engagement with the pensions reforms has been accelerated by the staging dates for auto-enrolment, which are fast approaching for the largest employers.
- 1.15 All the very large employers covered in this research- with one exception - currently offer some form of pension provision. The proportion of employees enrolled in a workplace pension tended to vary by sector; often minimal in sectors with a high proportion of low paid staff and high staff turnover, such as retail and catering.
- 1.16 For the majority of the very large employers provision tended to be supported by third party advice. Many of these employers were also large enough to have an in-house pension or finance team with direct responsibility for pension provision at the organisation.
- 1.17 It was clear that most of the very large employers felt in a good position to make decisions about pensions. They not only have the knowledge, infrastructure and contacts, but they also felt better able to absorb costs, notably paying for advice so their employees can benefit. The very large employers often exhibit paternalistic sentiments which to some extent are motivated by keeping staff happy and

therefore productive. Often these employers were also cognisant of how an attractive pension scheme and wider employee benefits package can be necessary to attract the highest calibre staff to the company. In light of these attitudes and characteristics, very large employers have been segmented under the label 'Duty of Care / Paternalistic'.

'We would be conscious that the people we are targeting as part of auto-enrolment have not joined a scheme previously because they feel they can't afford it. As a company we would take up some of the costs.'
(1000+ employer)

'We have a duty of care to our employees to keep costs down, balanced obviously with costs to us as an employer.'
(1000+ employer)

Medium to large employers (Business focused)

- 1.18 Knowledge and confidence about pensions was generally good amongst medium to large employers, which reflected the fact that most had some experience of setting up and administering a pension scheme. Some also mentioned seeking third party advice on pension issues.
- 1.19 For the majority of these employers the profit made by the business and the costs / outgoings incurred by the employer were of key concern. Relative to the very large employers, there was greater need for this segment to be pragmatic in their approach. These employers felt less able to shoulder the cost of pensions or other employee benefits; the business has to come first. In this context, these employers have been labelled as 'Business Focused'.

'It's not nice, but its business and we are in a recession- the money for these pensions has to come from somewhere.'
(50 – 249 employer)

'You need to keep your costs to a minimum. There are a lot of places that are going into administration that can't afford the rising costs of being an employer.'
(250 – 499 employer)

Small employers (Shared interest)

- 1.20 Small employers tended to have poor knowledge and confidence about pensions and many do not currently offer their staff workplace pensions. Therefore it is not surprising that third party advice and support tended to be ad hoc.
- 1.21 Out of all the employer segments, this group often appeared to be the most concerned about the welfare of its employees. This was not necessarily for altruistic reasons but rather a 'blurred' distinction between themselves as an employer and themselves as an employee. These smaller employers would approach pension decisions with both an employer *and* employee mindset. Therefore in many ways this interest in employees was also an employer's self-interest, as they too would benefit from a good pension scheme. This segment has been characterised with the term 'Shared Interest' because of this blurring of employer and employee roles.

I would think in the interest of the employees that they get the best kind of pension that's out there. But also what's good for the organisation as well'
(1 – 49 employer)

'Not paying for advice would worry me because it would be my own pension scheme I'd be messing up too.'
(1 – 49 employer)

Micro employers (Survival)

- 1.22 Micro employers (those with less than 10 employees) display particularly unique characteristics. Their knowledge and confidence in pensions was very poor, in part because they lack the experience; none of the micro employers covered in this research mentioned having any existing pension provision. Thus they do not seek third party advice as it is not needed.
- 1.23 In the current economic climate many micro employers expressed unease about staying in business. Having to provide their employees with a pension was of great concern to this group. Auto-enrolment was seen as having the potential to adversely affect the survival of the business. Minimising costs to the employer of auto enrolment was of the utmost importance, even if it is through surreptitious means, lowering employee salaries or encouraging opt-out. The micro employers displaying these characteristics have been summarised with the label 'Survival'.

'It might be frowned upon but you might have to lower your employees' salaries if you offer a pension.'
(1 – 49 employer)

'It's going to be an additional cost to the employer. In these hard times we need to keep costs to a minimum.'
(1 – 49 employer)

Context: reactions towards pension reforms

1.24 This section explores the reactions towards the pension reforms and auto-enrolment. Employers were provided with a showcard to consider, 'Changes in Legislation', that listed some details of the reforms:

- A large proportion of the UK's working population isn't saving enough for a comfortable retirement. Many people aren't in a pension scheme at all. To address this, from October 2012 the Government is introducing a major reform of workplace pensions.
- From October 2012, employers must enrol all their UK job holders who are over 22 years old and who earn over £8,105 into a qualifying pension scheme. Employers must also contribute to the scheme. Job holders can opt out of the scheme, but will be automatically enrolled every three years.
- These changes will be rolled out in stages over the next 5-6 years depending on the size of businesses (starting with the very large employers).
- Employers can either use their existing pension scheme if it meets minimum requirements or they can choose another qualifying scheme. Employers that don't currently have a company pension scheme will need to set one up. All employers have until at least October 2012 to decide which pension scheme they're going to use.

1.25 Awareness of the reforms was reasonably good across employers, especially amongst the largest employers because they have the earliest staging dates. These largest employers had knowledge about the specifics – qualifying age, salaries, dates and contributions. The smaller the employer, the more general their knowledge about pensions tended to be; auto-enrolment was viewed as a more distant reality. It was only amongst micro employers that awareness for the reforms was poor.

1.26 Overall, reactions to the pension reforms were positive. There was recognition that people aren't saving for retirement, especially the young and those on low incomes, which the reforms are geared towards. The overarching sentiment was that it's something that has to be done. It will provide a framework that encourages people to save, as well as force employers to provide a basic level of care.

'I think auto-enrolment is a good thing. Many people are not aware of the burden that they will face when they retire and the sooner people start saving, the better.'
(500 – 999 employer)

1.27 Yet, employers also had a number of concerns:

Direct cost to the businesses

1.28 Smaller employers, in particular micro businesses, were anxious about the affordability of auto-enrolment. As referenced in the employer themes, very few small employers offer workplace pensions currently. Not having set up or administered a pension scheme before meant there was a real worry about the direct cost to the business, in terms of putting the infrastructure in place and having to make contributions. What it would cost in the long-run was also something of an unknown quantity.

'My heart sinks because most of our business is with the Local Authority. They are currently trying to force us into contracts to increase the amount we pay our staff, while at the same time reducing the price they want to pay us. And I cannot see how we can stay in business and make a contribution to people's pensions. So I feel very worried and very negative.'
(50 – 249 employer)

Administrative burden and logistical complexities

- 1.29 In addition to the concerns over direct costs to the business, employers were anxious about the administrative burden of auto-enrolment. This was particularly the case amongst employers with a high level of staff turnover, typically employers working in the retail and catering sectors. Employers without experience of setting up or administering a workplace pension scheme were also especially worried, generally micro and small sized employers.

Potentially big opt out and lack of employee interest

- 1.30 A significant opt out was anticipated by many employers as a distinct possibility because the reforms were seen to target low wage earners, a group arguably more concerned about their take home pay than saving for retirement. Also, if auto-enrolment is presented in a technical and confusing way, some employees may be put off from engaging with the reforms.

'I think a lot of our employed workforce will opt out – we have a young workforce with no interest in pensions, only in their commission.'
(250 – 499 employer)

- 1.31 Employers also mentioned feeling that they are being made to pay for government mistakes, during a time that is economically difficult for businesses.
- 1.32 Nevertheless, in spite of the concerns and some frustration, there was widespread recognition that the reforms are necessary. Individuals aren't saving for retirement and the current government pension provision is inadequate. It was seen to be an issue that needs to be addressed and as such, the necessity out-weighed the concerns.

'From a business perspective it is going to be extremely expensive – I think there are a lot of businesses out there that won't be able to afford it, but I'm also very aware that people are not saving for the future.'
(250 – 499 employer)

2 Choosing a pension scheme

2.1 During the depth interviews and group discussion employers were asked for their spontaneous views on what makes a good pension scheme. In turn, employers were prompted to rank pension scheme features in order of importance. Both exercises brought out variations by employer size, as well as some commonalities, which shall now be considered.

Features of a good pension scheme

2.2 Spontaneous views about what makes a good pension scheme were wide ranging. Across employers of all sizes, the following were identified as important:

- Ease of administration;
- Employee communications, such as through an online micro site and helpline; and
- Employee help and support.

2.3 The latter two features were important for two reasons – to minimise the employer burden through avoiding having to provide the support themselves, and to ensure adequate support was provided to employees as a basic level of care. This reflects the overarching view that a good pension scheme should meet both employer and employee needs. The scheme needs to be easy for employers to implement, and comprehensive for employees to use. But the balance between employer versus employee interests varied somewhat by size of employer. The discussion below considers these differences in broad terms; smaller employers relative to larger employers.

Small employers

2.4 Some smaller employers frequently (spontaneously) mentioned the following features as important to a good pension scheme:

- Portability for employees;
- Suitability for employees;
- Encourages employees to save;
- Low cost to employees; and
- Transparent in terms of being simple and easy to use.

2.5 This list reflects the fact that small employers often struggled to separate their employer role from their employee role. Less emphasis was placed on employer interests and concerns, and more emphasis on employee issues. The employer is also the employee, a potential beneficiary of the scheme, so they were governed by some degree of self-interest; an element of the ‘Shared Interest’ ethos is apparent.

2.6 It should not be inferred that large employers did not express interest in these features; rather that they were mentioned more frequently, and generally seen as more important, by smaller employers. That said, ‘low cost to employees’ was only referenced by small employers.

Large employers

2.7 Amongst large employers, the following were mentioned as key features of a good pension scheme:

- Good investment performance;
- Reputable and trustworthy provider;
- Technical transparency about the finer details of the scheme; and
- Portability for employers in terms of administration and costs.

- 2.8 Larger employers took a more informed approach, relative to small employers, when selecting features of a good pension scheme. For example, they wanted information on the business credentials of the provider, and details on what benefits the provider could offer in terms of portability. A degree of the 'duty of care / paternalistic' ethos was evident. There was an orientation towards choosing a provider that would be good for employees, notably, a trustworthy provider with good investment performance. Larger employers tended to feel that what was good for the employee was generally good for the employer as a good scheme makes for a satisfied and productive workforce. Still, there was a limit to how much employers were willing to invest to achieve this; the cost and administrative burden on the employer were also important.
- 2.9 For large employers transparency was an important feature in a pension scheme. This tended to focus on a technical transparency and being kept informed of the finer details and workings of the workplace pension scheme (for example, performance, investments, charging structures etc). This was in contrast to the smaller employers where a desire for transparency in a pension scheme focussed on clear and simple language without technical terminologies that would not be understood.
- 2.10 Portability of a pension scheme was also a component of a good pension scheme for larger employers. This portability was viewed as important in minimising the burden on an employer through the administration and indirect costs of incorporating new joiners to the company pension scheme. Portability had also been mentioned as a pension scheme feature for smaller employers, however this focussed on portability *for employees* so that it was easier for them to carry a pension scheme from one employer to another. This reflects the 'shared interest' ethos of many small employers contrasted to the occasionally 'business focussed' nature of larger employers.
- 2.11 Employers who took part in this research evidently gave much thought to the features that would be of interest to them. Yet, certain characteristics that one might have expected them to mention were overlooked, such as, scheme governance, information on contributions and information on the annuity. Employers were somewhat short-term focused when considering the most important features of a pension scheme. Greatest focus was on the administrative burden and support provided during set-up, for example, rather than on how the provider handles the annuity.

Priority of features in a good pension scheme

2.12 The ranking of the features of a good pension scheme was a difficult task for most respondents and agreement between employers was not always possible. However there were broad differences between smaller businesses and larger businesses, as illustrated by Table 2.1.

Table 2.1: Priority factors in a good pension scheme based on size of business

	Small Businesses	Large Businesses
Top Factors	<ul style="list-style-type: none"> • Direct costs to the employer 	<ul style="list-style-type: none"> • Ease of administration • Structure of charges
Important Factors	<ul style="list-style-type: none"> • Fund choices • Portability • Advice and support to employees • Ease of administration • Structure of charges 	<ul style="list-style-type: none"> • Performance • Suitability for all types of workers • Advice and support to employer and employee
Less Important Factors	<ul style="list-style-type: none"> • Suitability for all types of workers 	<ul style="list-style-type: none"> • Fund choices • Portability

2.13 Cost was a concern for both small and larger employers. But where smaller employers generally thought in terms of direct costs, larger employers were more concerned about indirect costs; ease of administration and structure of charges were seen to be vital. Relative to large employers, small businesses were more guided by a survivalist instinct. Cost was potentially of greater concern to them, as many had never set up or administered a pension scheme. Without any existing infrastructure it was felt that the potential start-up costs could be great. Some micro employers had actually expected to incur costs for signing up to a workplace pension.

2.14 Large businesses were more decisive than smaller businesses about the most (ease of administration and structure of charges) and least (fund choices and portability) important features of a pension scheme. Better knowledge, and more experience, of setting up a pension scheme arguably made them better placed to judge. Their assessment of the most important factors was also more complex because they were more informed than small businesses. Top features were indirect costs as well as scheme charges; the latter large employers would expect to negotiate. Small employers weren't even aware that this was possible.

2.15 To an extent, large employers felt more empowered. They saw themselves as a lucrative and attractive prospect for a pension provider. Therefore most wanted, and expected, to be able to choose between and negotiate with providers. Indeed, provider performance, reputation and trustworthiness were rated as important.

2.16 Employee interests were taken into account by both small and large businesses. But this manifested itself in different ways. Large businesses have a bigger and therefore more diverse workforce; hence suitability for all types of workers came high up their list of important features. It was one of the least important features for small businesses.

- 2.17 It is worth noting that fund choices and portability were rated as important by many small employers, but were low down the list for many large businesses. For small employers this reflects an interest in their employees. But it also suggests a degree of misunderstanding; fund choices were seen as very closely associated with performance. Large employers distinguished between the two, placing performance above fund choices.
- 2.18 Both the 'survival' and 'shared interest' ethos are evident in the way small businesses have ranked pension scheme features. While direct cost to the business is of great concern, so too is employee welfare, in terms of fund choices and portability of the scheme.
- 2.19 Similarly, a blend of the 'duty of care / paternalistic' and 'business focused' ethos is evident amongst large employers. A good performing scheme with a trustworthy and reputable provider is ranked highly. Most felt it was important for keeping employees happy and productive. But there is a limit; the burden on the employer needs to be reasonable, in terms of ease of administration and charging structures.

3 Charging Structures

- 3.1 One of the core objectives of the research was to explore the level of awareness and understanding of pension charges amongst employers. To this effect employers were asked the extent to which they understood the charging structures of pension schemes and their awareness and understanding of the charge structures outlined below. Each of the individual charges was presented on a showcard with a brief description of how the charge was applied (see Appendix 2).
- Annual management charges (AMCs)
 - Active member discounts (AMDs)
 - Contribution charges
 - Flat rate charges
 - Consultancy charges
- 3.2 In addition to assessing the level of awareness and understanding of each charge, the level of understanding for how the charges are applied as a package and the impact of the charging structure on an employee's pension pot was also assessed. Employers were then asked which charges they considered to be the most fair to their employees.
- 3.3 Before the charging structures were explored in detail employers were asked to consider why it was necessary for pension providers to apply charges to the schemes they offer.
- 3.4 On the whole, employers were comfortable with the concept of pension scheme charges and the reason they are necessary. However, despite acknowledging the necessity of pension scheme charges, employers felt that the structure of pension charges is not well explained nor transparent in how they are presented.

'I think any kind of education that pension companies can give to the employer to help them understand the impact of charges and how they are structured is a good piece of education. It means we can relay that immediately to employees.'
(1000+ employer)

- 3.5 For smaller employers, particularly the 'Survival' micro employers with very little experience in pensions, the structure of charges was seen as 'deliberately unclear' and there was a perception that providers were attempting to obscure certain add-on charges behind technical jargon.

Awareness and understanding

- 3.6 On the whole, awareness and knowledge of the pension scheme charges presented to employers was poor. However, awareness of AMCs was an exception as nearly all employers were familiar with this charge. Large employers were also an exception as most were aware of all charges presented.
- 3.7 Amongst micro, small and medium businesses awareness for all other charges presented was poor, particularly for AMDs and flat rate charges. Awareness and knowledge was particularly lacking among micro employers to the extent that some assumed that the charges being discussed would actually be applied to the employers as opposed to the pension scheme members.
- 3.8 Knowledge of technical terminology was lacking amongst most employers and on a number of occasions respondents were aware of the existence of a particular charge but not by its correct terminology. This lack of awareness for technical terminology also extended to some larger employers.

For example, some employers were aware of discounted charges for active members but did not know that these were referred to as Active Member Discounts.

- 3.9 When asked the extent to which employers understood the concept of how each charge worked when presented with showcard 3 (see Appendix 2), understanding was reasonably good. However, micro employers still struggled to understand the impact of an AMC, AMD and Contribution charge. Across all employers the concept of flat rate charges was the easiest to understand.

Fairness of charging structures

- 3.10 Fairness of the pension scheme charges for employees was also discussed and although this showed variations by size of employer, the most common response across all employers was that AMCs were the fairest option. The reasons given for this focussed on how as a percentage it was proportionate to the size of the member's pension pot.

'I prefer a single AMC for simplicity. That is what we have done. We look at whatever gives the greatest benefit to the whole of our employees.'
(1000+ employer)

- 3.11 The fairness of AMCs was contrasted to flat rate charges where the same charge applies to all. Most employers felt this was an unfair structure and that higher earners should not pay the same as low earners when they would be able to absorb a higher charge. Some employers (typically the larger) made reference to the huge differences in the size of members' pension pots within their workforce and where a flat rate charge would favour some more than others.

'The problem is that you have a range of people of different earnings and contributions and it is unfair to charge them all at the same rate.'
(1000+ employer)

- 3.12 Conversely, micro employers felt that flat rate charges were the fairest because they were simple and straightforward, with all employees paying the same. Micro employers saw flat rate charges as the easiest to explain to staff and the easiest to administer. However, many of the perceived benefits to flat rate charges were based on a need for simplicity rather than actual fairness to employees.

'A flat rate is much easier to sell; it is clearer to explain. But you would need to take a calculator and work out what it is costing to employ someone.'
(1- 49 employer)

- 3.13 Most employers felt that AMDs were an unfair pension charge as they penalise those on lower salaries who change jobs often. Some employers felt that it was possible an employee would be unable to maintain active payments due to circumstances out of their control and so should not end up paying higher charges than others. However, some employers did point out advantages to AMDs in that they can reward those who stay loyal to a company and reward those who work hard to maintain payments.

"Clearly it favours those who remain for a long time, and we have quite a stable workforce. This would apply to them. But then a lot of lower earners move jobs frequently, it seems very much to discriminate against those people."
(50 - 249 employer)

- 3.14 When employers were questioned on the fairness of contribution charges the majority felt that this was unfair on employees. This was often borne out of a perception that this charge would be taking money before it has a chance to grow and penalised those who pay more into a scheme. In contrast to this,

employers saw AMCs as conceptually easier to justify; these were viewed as the cost for a pension provider to look after and invest the money in the pension pot. Contribution charges felt more like providers were taking money as a direct cut from an employee's salary.

'Contribution charges mean...they are losing an investment opportunity. With an AMC you take it at the end. You let the money work for you and then take the cut.'
(1000+ employer)

"I think it is excessive to be charged a percentage to put money away."
(250-499 employer)

3.15 Across all employers there was a strong push back to consultancy charges which were felt to be an unfair charge for an employee to pay. Employers were motivated by a duty of care to their staff and in keeping things transparent it would be very difficult to justify a contribution charge to employees.

'From an employer point of view, there is a big incentive to save time. But it is hard to explain consultancy charges to the employees. It is difficult to get buy in.'
(1000+ employer)

3.16 Figure 3.1 summarises awareness, understanding, and perceived fairness across the pension scheme charges presented to employers:

Figure 3.1: Charging structure awareness, understanding and fairness

Charging structures			
	AWARENESS	UNDERSTANDING	FAIRNESS
AMC	GOOD (although terminology is not always known)	GOOD (understood less well by micros)	FAIREST CHARGE (proportionate to pot)
AMD	POOR (especially amongst micros, terminology not recognised)	GOOD (understood less well by micros)	UNFAIR (penalises low salary employees who move jobs more often)
Contribution charges	REASONABLE	GOOD (understood less well by micros)	UNFAIR (penalises employees for contributing more)
Flat rate charges	POOR	VERY GOOD	MOSTLY APPEALS TO VERY SMALL EMPLOYERS (simple and straightforward)
Consultancy charges	REASONABLE	GOOD	VERY UNFAIR (difficult to justify to employees)

3.17 Understanding of how pension scheme charges work in combination was poor across most employers, particularly the smaller employers. The impact of pension scheme charges on employees' pension pots and awareness of which combination of charges was most suitable for staff was also lacking. Micro and small employers were particularly unaware of why a structure of charges is important and can vary in its suitability for a workforce.

3.18 In summary, the lack of awareness and knowledge across employers for pension scheme charges and how they have an impact on a member's pension pot suggests a need for information to counter this lack of engagement. This coupled with concerns over a lack of clarity and transparency in how pension scheme charges are presented suggests a need for a standardised charging guide in pension provider literature. This provides strong evidence for the role of a charging guide.

4 The Charging Guide

4.1 This chapter of the report now turns to the following objectives;

- Assessing the interest in a charging guide;
- Gathering feedback on the NAPF's proposed charging guide template.

4.2 The concept of a standardised template to summarise a pension scheme charge structure was presented to employers before the prototype charging guides were shown as an example. How the charging guide was used to make a decision was observed and employers were asked to provide feedback on the usability and layout of the charging guide. Three different hypothetical pensions schemes were shown to employers, with two variations (Option A and Option B) on the layout of the charging guide reverse page. Option A of the charging guide reverse page is presented with open text boxes under standardised headings. Whereas Option B is presented in a 'dashboard' approach with bullet points indicating which services a workplace pension scheme offers. Both versions of the charging guide are presented in Appendix 3.

4.3 Across the focus groups and face to face interviews, half of all respondents were shown Option A followed by Option B, with the other half of all respondents shown Option B followed by Option A. This was to control for ordering effects in feedback on the charging guide.

4.4 Feedback is presented on the charging guide front cover, reverse page Option A, and reverse page Option B. Areas for further discussion or amends to the charging guide are also included in this chapter, based on the feedback obtained from employers.

4.5 Comment on the charging guide is presented with the aid of diagrammatic maps to clarify which features of the guide are being discussed.

Concept of a charging guide

4.6 Before employers were shown the prototype charging guides the concept of a standardised template for providers to summarise their schemes charges for employers was discussed.

4.7 On the whole, employers showed strong interest in the concept of a charging guide. This interest was strongest for micro, small and medium employers who saw it as a 'good starting point' in selecting a workplace pension provider. In contrast larger employers saw the guide as less useful because they have advisers who would provide them with information on various providers and pension scheme charges.

4.8 The overall positive reaction to the concept of the charging guide focussed on a number of benefits the charging guide was perceived to offer.

4.9 Firstly the guide was expected to encourage transparency in pension provider's literature and allow easy comparisons between schemes. By having a charging guide employers felt that it would save time in making the comparisons between schemes and provide a starting point in the process of making a decision as to which pension scheme was most suitable for their organisation. Employers have concerns over the complexity of pension schemes and how to start the process of selecting a pension provider. This was especially the case for micro employers who had minimal experience of pensions.

'It's showing you where the hidden chargers are. It's great! It's a very good concept.'
(250-499 employer)

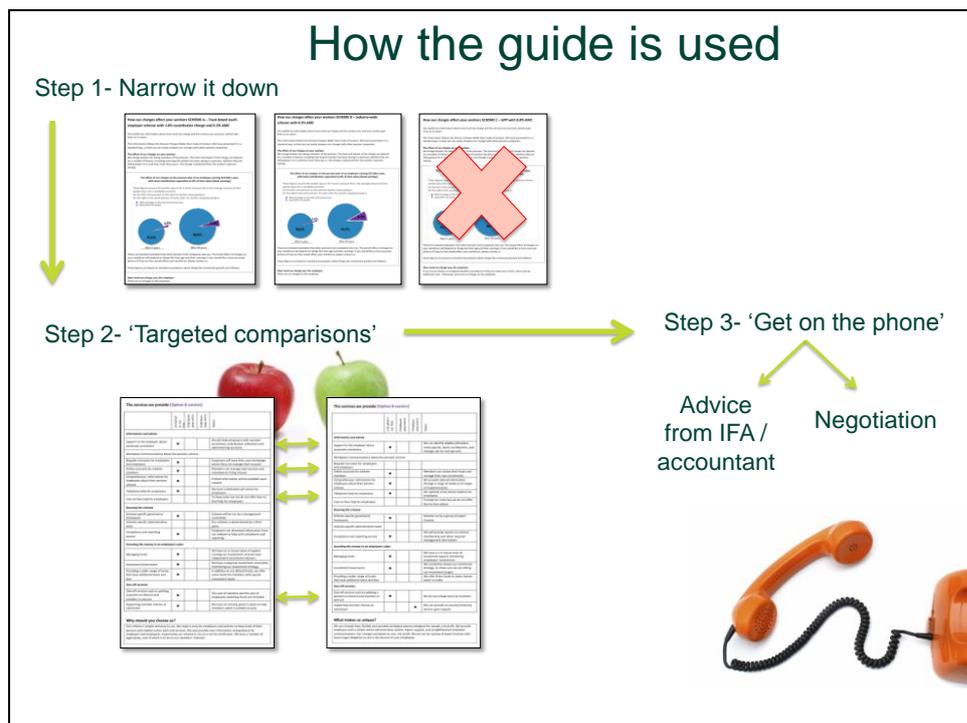
'If they can do anything to level peg the understanding then great, I'm very positive.'
(250-499 employer)

- 4.10 Some employers, typically the larger businesses, did express concerns over the concept of a charging guide.
- 4.11 One of the key concerns was a lack of take up from employers in using the guide, which in turn could lead to providers questioning the benefits in signing up to the code of practice. Other employers misunderstood the concept as a key facts document which although was not positioned as a negative by employers, may become an issue if expectations for the document are not managed.
- 4.12 An additional concern was that the interest employers expressed towards the standardisation that the charging guide would bring was in part a perception of regulation. This belief that the charging guide would be in some way subject to regulatory enforcement or part of a wider regulatory framework could lead to concerns if the voluntary nature of the charging guide was not made clear to employers.

How the guide is used

- 4.13 Once the prototype charging guides were given to employers for the three hypothetical schemes, observations were made of how the guides were used to make comparisons. Three key stages were identified as shown in figure 4.1 below (as a note, Option B of the reverse page is shown in the figure but the same process was applied for Option A).

Figure 4.1: Three step process for using the charging guide



Step 1- 'Narrow it down'

- 4.14 The first stage in using the charging guide was to compare the front covers of the guides to eliminate certain providers based on the charges they were offering. Employers were able to use the pie charts to make this decision by comparing which segment for the effect of charges was largest.
- 4.15 Some smaller employers reported that they would show the front page of the charging guide to their employees so that they could explain how they made the decision of which pension scheme they were signing their staff up to. Smaller employers also felt that this would encourage them to realise the importance of paying into a pension and providing for their future.

Step 2- 'Targeted comparisons'

- 4.16 The second stage of the comparisons that employers were making was to use the back page of the charging guide to make 'targeted comparisons' on pre-selected criteria. For example, comparing which scheme includes a microsite at no additional cost. Certain features of what services the provider offered would be ranked higher than others and trade-offs would be made based on an employer's preferences. This order of importance to employers relates back to the factors for consideration when selecting a pension scheme discussed in chapter 2.
- 4.17 As discussed when the concept of a charging guide was first presented, the perceived benefits of standardisation, time saving and easy comparisons are realised at step two of the comparison process.

'You're comparing apples with apples.'
(1-49 employer)

Step 3- 'Get on the phone'

- 4.18 By this stage most employers felt that they were able to select a provider to approach based on a perception that the provider had the best structure of charges and array of services. The final step would then be to phone an advisor to seek advice on the suitability of the scheme for their organisation. The source of this advice depended on the size of the organisation; for smaller employers this would often be their accountant, for larger employers this would often be a third party pension advisor or in-house pension expert.
- 4.19 The final stage of using the charging guide to choose a workplace pension scheme involved contacting the pension provider to negotiate on the charges. For some employers, typically the larger employers, this stage was the most important as they did not expect to be paying the amount shown on the front cover. Subsequently 'Step 1' in the comparison process was often skipped by larger employers. Smaller employers felt less comfortable with the idea of negotiation, or did not realise that this was an option open to them.
- 4.20 When employers used the charging guides to make comparisons between providers it was apparent that the front cover and back cover had different uses. The front cover was viewed by some as '*for the employees*' in that this is what the members will be paying. Whereas the back cover was viewed as '*for the employer*' where they were able to see how the pension scheme would impact directly or indirectly on the employer.
- 4.21 When benefits to the employee were weighed up against cost to the employer this often proved to be a difficult decision for the employer (as shown in the following pen portrait). Often this decision would depend on the particular employer in question and the extent to which they have paternalistic

sentiments. As discussed earlier in the report, it is often the larger employers who were able to exercise this paternalistic behaviour by absorbing higher costs in an effort to provide staff with attractive employee benefits. Smaller companies (typified in the 'Shared interests' group) are also often motivated to provide staff with high levels of care which is often due to the blurred distinction between themselves as an employer and themselves as an employee.

Figure 4.2: Pen portrait; employer Vs employee trade-off

A medium sized employer with between 250-499 staff operates a wholesale retail bakery and demonstrates the typical qualities of a 'Business focussed' company. They have a pragmatic approach to the business and saw cost as their central concern.

In light of auto-enrolment they hoped to be able to avoid most of their staff enrolling to escape the additional costs of employer contributions and administrative burden (although they did not go into detail of how they hoped to avoid staff enrolling).

"Its business- money in and money out and what you have in between. I have very little interest in pensions, other than having to write a check."

Their main motivation when selecting a pension scheme was to keep employer costs down. As a result, when asked to talk through how they would use the charging guide this employer saw the reverse page of the document as more useful than the front page.

"Employees just want to know how much they are paying in and what they should expect to get back. I would choose the pension scheme based on the bullet points, then cost to employees, and then who the provider is."

The employer did still have some motivation to select the best scheme for their staff by using the front page of the guide to compare charging structures. However, this was mostly due to concerns over the staff association questioning his decision. They expected to have to back up the choice they made when selecting a workplace pension scheme and hoped to avoid awkward questions in the future about how appropriate the scheme is to the staff.

Overall, the employer was positive about the charging guide concept and prototype charging guide templates. The dashboard layout (Option B) was seen as a far better structure than Option A.

Feedback on the Charging Guide

- 4.22 This section of the report works through the feedback obtained from employers on the charging guide, starting with the front cover of the template before moving onto Option A and Option B of the reverse side of the document.

The front cover

- 4.23 Overall, when employers were presented with the charging guide template, the front cover was well received. Employers identified a number of positive features of the document whilst also highlighting a number of areas that caused some confusion.

4.24 As a reference, the following diagram provides a 'map' to the points discussed below; each point on the map (F1-F8) is referenced in the text below:

How our charges affect your workers SCHEME C – GPP with 0.8% AMC F7

This leaflet has information about how much we charge and the services you and your workers get from us in return. F2

F1 → 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.

F5 → **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.

● Effect of charges on the value of the pension pot
● Value left for the worker

Time	Value left for the worker	Effect of charges on the value of the pension pot
After 5 years	97.7%	2.3%
After 30 years	86.3%	13.7%

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.

F3 →

F4 →

F6 →

F8 → **How much we charge you, the employer**
If you use an adviser or employee benefits consultant to help you make your choice, there may be additional costs. Otherwise, there are no charges to the employer

4.25 The front cover allowed easy comparisons of the impact of charging structures between schemes (see F1). Two sides of A4 was seen as the ideal length, as any longer than this and the guide could become overwhelming or off-putting. Conversely, any shorter than two sides of A4 and the usefulness of the guide could be compromised by not including enough information.

4.26 For some larger employers the front cover of the guide was perceived as less useful because they would expect to negotiate on the charges illustrated (see F2). They would also expect to see more of a tailored charging structure to reflect the characteristics of their organisation such as the level of staff turnover and the salary levels of their staff.

'It seems too straightforward. Most large companies will have someone like me who has a level of pension technical knowledge to explain the effect of AMCs over time.'
(1000+ employer)

'For a large company who would know this inside out and back to front, it's not as useful. I know the AMC I want from the provider, if they don't hit my level then they don't get in the door anyway.'
(1000+ employer)

- 4.27 A number of employers commented on wanting to see additional examples of salary levels for the pie charts (higher and lower earners), or different lengths of time for paying into a scheme (see **F3**). Some smaller employers also felt that by having an example of someone paying into a scheme for five years it was lacking encouragement for staff to pay into a pension scheme for longer.

'Ideally you'd want to see examples of other time scales – 10, 20 and 30 years.'
(500 – 999 employer)

- 4.28 Despite concerns over not being able to tailor the examples to the requirements of the business most employers were positive about the visual examples of the pie charts (see **F4**). They were seen as eye catching and helpful in explaining the impact of a charge on a member's pot.

'I like the font, the bolds, the headers, the frame around the graphs, the colours catch the eye.'
(1000+ employer)

'The use of the circles and the percentages actually illustrate how much money you have left after a period of time. It is simple and easy to understand.'
(250 – 499 employer)

- 4.29 However, some employers did express confusion over exactly what was being shown in the pie charts. A common misconception was that the examples were for an employee paying into a scheme for five years then paying in for thirty years. This mistake was often self-corrected once the introductory paragraphs had been re-read. Employers described missing this information in the first instance because they had been put off by the 'text heavy' and 'bland' layout of the introductory section (see **F5**). These employers had wanted greater use of colour or the text to be broken up by a bullet point approach.

- 4.30 Some employers also felt that the pie charts would benefit from monetary values rather than percentages in explaining the effect of charges on the member's pot (see **F6**). This would help some employers by 'bringing it to life' and highlighting the significance in the differences between different charging structures.

'It should be "he is contributing £X amount" rather than just showing the percentage. It would be easier if they showed the amount in pounds.'
(1 – 49 employer)

- 4.31 For smaller employers the usefulness of the front cover was lessened through the use of technical terminologies for the charging structure (see **F7**). As discussed in chapter 3 many employers were unfamiliar with the technical terminology of pension scheme charges and had very little awareness of charging structures such as contribution charges (especially where micro employers were concerned).

- 4.32 The note on 'How much we charge you, the employer' at the foot of the guide (see **F8**) was of key importance to some employers and was not immediately spotted. This was especially the case for smaller employers where this was often the single most important feature of a pension provider. As discussed in chapter 2 of the report, micro employers often assumed that there would be a direct cost to them in enrolling staff in a workplace pension scheme.

Areas for discussion

- 4.33 Whilst discussing the charging guide template a number of suggestions were made by employers to improve the usefulness of the guide. These suggestions are summarised below;

Clarification over how to use the guide

- 4.34 Employers felt that additional information to clarify how to use the charging guide could help open up the usefulness of the document when technical knowledge of pensions was lacking. This instructional information could be included in the form of a covering sheet explaining the step by step process for using the guide or via brief introductory bullet point text on the front sheet of the guide. The information would explain what the charges refer to and the impact they have on the employee's pension pot. This would be particularly useful for smaller employers.

'The key will be in the guidance documents. There would have to be one included. Not everyone has an HR person or the money to pay for advice.'
(250-499 employer)

Break the text down

- 4.35 The early sections of the guide were seen as very 'text heavy' and some employers felt that the guide would benefit from more of a bullet point approach. Employers were also interested in more colours being added to the document.

Allow options of different pie chart examples

- 4.36 Some employers who struggled to relate to the examples given on the pie charts wanted the option of tailoring the examples to their requirements, for example some employers with typically higher earners wanted pie charts to show higher salaries with more time spent paying into the scheme.
- 4.37 Other employers expressed interest in having more than one example of pie chart showing different levels of earners, for example one pie chart for low earners and another for high earners. This would allow them to assess suitability of the pension scheme across different types of employees.
- 4.38 However, a key consideration here is to not compromise the length of the document, or create extra confusion.
- 4.39 There was also interest from some employers in the option of showing the growth and then depreciation of the pension pot over time via a series of bar charts. However, this was perhaps a minority view and other employers may find this visualisation more confusing than the pie chart approach.

Display values as well as percentages

- 4.40 Another suggestion for improving the usefulness and impact of the pie charts was to include monetary values as well as the percentages. This would help employers who struggled to fully appreciate the importance of the charges on the member's pot. By seeing actual values it would help conceptualise the amount of money being lost through charges.
- 4.41 However, there is a chance that this change could cause more confusion for some employers.

Introduce an online tool

- 4.42 A number of employers across different sizes and sectors mentioned an interest in an online tool that would help to compare pension schemes by entering certain information about their business online. The information entered could include details such as size of company, average salary, and staff turnover. The output of the tool would be similar to the charging guide templates but across multiple providers and with information tailored to their exact needs. Employers describe this service as like car insurance comparison sites which were praised for being quick and easy to use. Online tools like this were seen as having become a common service offered in most sectors.
- 4.43 A key consideration here is whether the level and type of information that would be required from the business would become too complicated for an online pensions tool.

The back page

- 4.44 As discussed at the start of the chapter half of all employers would first be shown the three hypothetical workplace pension schemes with Option A on the reverse, while the other half would first be shown the three workplace pension schemes with Option B on the reverse. Once employers had been given the opportunity to consider the first reverse side option, they were asked to consider the other as an alternative.

The back page: Option A

- 4.45 The diagram below illustrates some of the points covered during employer discussions of Option A. Each reference number (A1-A3), relates to a positive or negative feature of Option A discussed by employers.

The services we provide (Option A version)

A1	<p>Information and advice</p> <p>We can help employers communicate with their employees by providing bespoke communications and descriptions about the features of the GPP. Employers can specify the style and content of the communications to mean their own needs. Communications could include booklets, websites or statements.</p> <p>We will give each employee their own bespoke online account where they can manage their funds and switch investments if they want to. We can also help with employee engagement by giving face-to-face presentations to employees in the workplace. If employers want to provide face-to-face guidance or advice for their employees, we can help arrange this.</p>
A2	<p>Running the scheme</p> <p>Our pension is very easy for employers to administer as most of our contact will be with the member directly. If employers need more information about the scheme, we can provide reports to employers or to the management committee (if an employer decides to have a management committee) about membership, contribution level, and usage of online facilities.</p>
	<p>Investing the money in an employee's plan</p> <p>Our GPP offers employees a choice of over 150 funds both from our range and other fund providers. We can work with employers to narrow down the range of funds offered to employees to help streamline choice for employees. You can also choose from a wide range of Lifestyle Profile which help deal with risk as employees approach retirement.</p> <p>We have two consultancies helping us manage investments and they can provide support to employers if they want to put an investment committee in place to monitor employees' investments.</p> <p>Remember any money invested in the plan is tied up until employees take their benefits and the value of investments can go down as well as up and is not guaranteed.</p>
A3	<p>One-off services</p> <p>Employees who want to transfer in or out of the scheme need to contact us directly. There may be a fee, but this will be paid by the employee.</p>

- 4.46 Employers who were shown Option A first generally liked it with regards to layout and content. The headings – 'Information and advice', 'Running the scheme', 'Investing the money in an employer's plan' and 'One-off services' – were seen to cover the key information (see **A1**).

- 4.47 But from a usability point of view, and as a comparative tool, there were concerns. Some of these criticisms only emerged when the second option, Option B, was added into the equation.

Very text heavy and time consuming to read

- 4.48 Some employers mentioned that information is presented in very 'text heavy' paragraphs (see **A2**), which are not user friendly. Employers have to sift through a great deal of information to find what is relevant and of interest to them. Having information set out in bullet points was cited as preferable because it would enable employers to more easily pick out information.

Some of the text reads like a sales pitch

- 4.49 Employers preferred information to be presented in a factual and neutral format. For example, the phrase '*Our pension is very easy for employers to administer*' (see **A2**) is not merely stating a fact about the provider's offering, but is suggesting that their pension scheme offers ease of administration.

Doesn't offer standardisation

- 4.50 Employers who wanted to be able to compare schemes based on pre-selected criteria were unable to easily do so with Option A because information is contained within paragraphs, which are tailored by the provider. It gives provider free reign over what they mention, making comparisons more difficult for the employer.

What the provider *doesn't* offer isn't mentioned

- 4.51 Having information set out in paragraphs was also an issue because it is not immediately clear what is and isn't included in the provider's offering. Furthermore, without any standardisation, employers aren't forced to mention what they don't offer (see **A3**).

'Option A is too wordy and doesn't read well...The auto-enrolment process is a big thing. It's difficult to break it down into the different elements and to ensure clarity over what is paid for and what is not.'
(250 – 499 employer)

- 4.52 The second option (Option B) where the back page was presented in a dashboard style was far and away the preferred choice.

The back page: Option B

4.53 The diagram below illustrates some of the points covered during employer discussions of Option B. Each reference number (B1-B8) relates to a positive or negative of Option B discussed by employers.

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				
B3 Support to the employer about automatic enrolment	●			We can provide employers with a dedicated scheme manager
Workplace communications about the pension scheme				
B2 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	●			A range of bespoke communication material is available
Telephone help for employees	●			We provide a dedicated member hotline.
B1 Face-to-face help for employees			●	We can give face-to-face presentations to employees anywhere in the UK.
Running the scheme				
Scheme-specific governance framework	●			Rigorous governance structures aided by two independent consultancies
B5 Scheme-specific administration team				We will provide employers named contacts in our administration team
Compliance and reporting service	●			We provide employers with reports that relate specifically to your employees
Investing the money in an employee's plan				
B8 Managing funds	●			Our investment platform provides a tailored range of funds as well as a bespoke default fund
Investment Governance	●			We have an investment sub-committee in place to monitor investments
B7 Providing a wider range of funds, that have additional taxes and fees	●			A wider range of funds can be made available subject to trustee approval
One-off services				
One-off services such as splitting a pension on divorce and transfers in and out		●		There are options available for employees who want to transfer
B4 Supporting member choices at retirement				
What makes us unique?				
B6	Our low cost, tax-efficient Group Personal Pension (GPP) offers employees a range of investment options and with high quality administration. It couldn't be easier for employers to set up. Our GPP gives employers the chance to offer something extra above the basic stakeholder pension, with a wider choice of funds. Also, setting up a GPP can be more cost effective for employees than individual pensions.			

4.54 While employers were largely happy with the layout and content of Option A, Option B was far preferred to Option A from a usability perspective. It was seen as much easier and quicker to navigate Option B, and in turn compare between schemes. The overarching comment was that Option B facilitates 'targeted comparisons'; employers can quickly scan down the dashboard to see whether a

desirable feature is included. They can also compare across schemes, to see what features one scheme offers relative to another.

4.55 The features of Option B that were discussed by employers are outlined below:

List format

4.56 Employers felt that the list format was easy to read and digest (see **B1**). It is possible to scroll down the list quickly, focus on areas of particular interest and see what is and isn't provided within the fees.

'What they do and don't provide is quite clear. It would cut down a lot of time in comparing providers.'
(1000+ employer)

Standardised document

4.57 The dashboard style was seen to provide the right level of standardisation by using a set list with bullet points to indicate inclusion (see **B2**). It forces providers to mark off whether they include a particular feature in their scheme or not, making it easier for the employer to compare between providers.

'I think you would be able to compare schemes based on the information here very easily...it's a simple comparative tool, very easy.'
(250 – 499 employer)

4.58 However, some employers did express confusion when a bullet point was not included for a particular service (see **B5**). This led employers to question if it was possible to get this included in the scheme on request or if it was simply not a service that was ever offered.

Notes column

4.59 Having a notes column, for providers to make additional comments about scheme features, was seen to provide the appropriate level of tailored information from the provider (see **B3**). This allowed the provider to set themselves apart whilst maintaining the standardisation of the document.

'Why should you choose us' box

4.60 The 'why should you choose us box' was liked by employers (see **B4**); it enables providers to set themselves apart within a standardised framework. Ultimately it was seen to aid employers in the decision making process.

Areas for discussion

4.61 Evidently, the fundamentals of Option B are there; it was seen as a quick and comprehensive comparison tool, far preferable to what was perceived as the 'clunky' and not particularly transparent Option A alternative. Indeed, criticisms of Option B were fairly minor. Changing this side of the guide would involve only minor tweaks. These are discussed in turn below.

Make it clearer when a service isn't include

4.62 When a service isn't included, rather than having no bullet point, employers expected a cross or an extra column to symbolise that the service isn't available (see **B5**).

Clarity about fund choices

- 4.63 For some employers the range of fund options available was vital. Therefore providers need to make clear what fund options they offer. For example, whether they offer ethical or high risk funds. The information about '*Providing a range of funds*' (see **B8**) that is included was not seen as sufficiently detailed for employers with specific requirements (for example, Sharia-compliant funds).

Clarity about portability options

- 4.64 The charging guide mentions that '*One off services such as splitting a pension on divorce and transfers in and out*' are included (see **B7**). However, this was not clear to employers what options are actually included. This was felt to be a step away from the transparency the charging guide was hoped to provide. Employers would prefer the portability of the pension scheme to be clarified. However, this should not compromise the length of the document.

Include contact details for the provider

- 4.65 Employers wanted the contact details for the provider included at the bottom of the guide for any further questions they may have (see **B6**). This would facilitate Step 3 of the charging guide uses as outlined in figure 4.1.

Include a kite mark

- 4.66 A kite mark would add reassurance that the scheme is genuine. The NAPF were felt to be an appropriate organisation.
- 4.67 However, this might encourage employers to contact the kite mark organisation to hold them accountable for any dissatisfaction. There is also the possibility that having a kite mark may add to the perception that this was a regulated service.

5 Summary

5.1 This final section brings together findings from across the research, to consider how they relate to the key research objectives:

- To what extent are employers **aware** of pension charges, and how well do they **understand** them?
- To what extent are employers **interested** in a charging guide?
- What **feedback** do employers have on the NAPF's proposed charging guide template?

Awareness and understanding of pension charges

5.2 Employers were asked to consider five types of pension charges; annual management charges (AMCs), active member discounts (AMDs), contribution charges, flat rate charges and consultancy charges.

5.3 Knowledge about how these charges work as a package was generally poor. In addition, many employers were unaware of the terminology, with one exception; most employers were aware of AMCs, although they didn't necessarily recognise it by its technical term.

5.4 Once the terminology was explained to employers in a simple and transparent way, with a showcard that explained each charge in a single bullet point (see Appendix 2), the majority of employers were capable of understanding all the charging concepts. Micro employers were the exception, most still struggled to comprehend the meaning of AMCs, AMDs and contribution charges.

5.5 Clarity about the different types of charges, and how they can have an impact on the member's pot represents a key challenge for the charging guide template. Breaking down the perception amongst some employers, that charging structures are unnecessarily complex and confusing, will be crucial to designing a user friendly charging guide template.

Interest in the charging guide

5.6 As a concept, the charging guide was very well received. However, it tended to be viewed most positively by small to medium employers.

5.7 The majority of micro employers (fewer than 10 employees) had both poor knowledge and confidence in pensions. Therefore they struggled to comprehend the charging information set out in the guide. But the inclusion of a cover sheet, 'how to use the guide', could potentially make the guide accessible to this group.

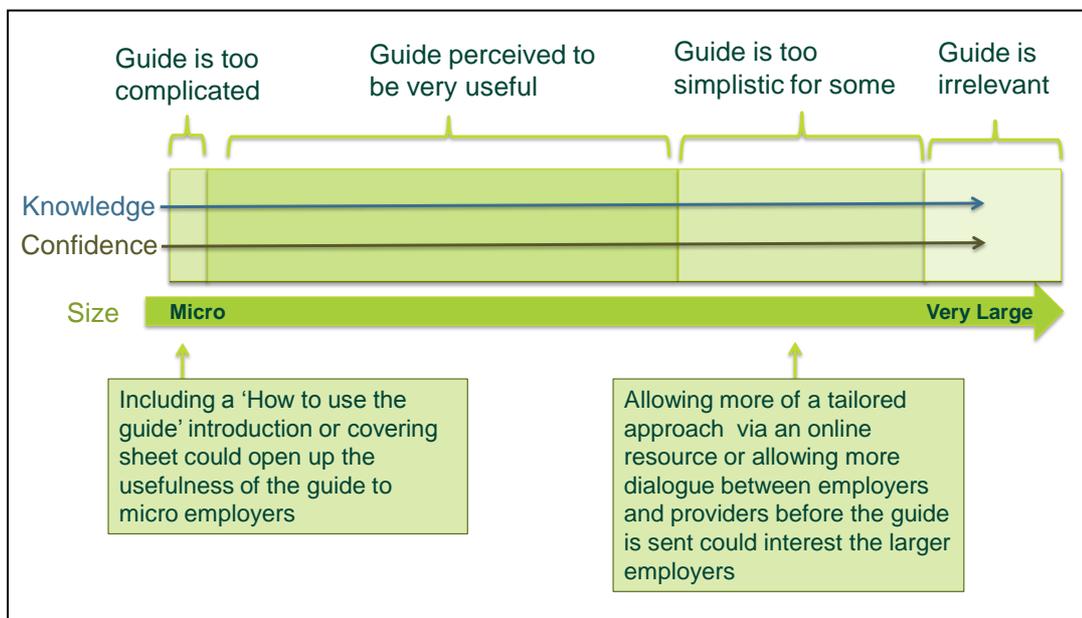
5.8 At the other end of the spectrum, the larger employers (particularly those with over 1000 employees) tended to find the guide too simplistic. For example, many felt it was lacking key information about provider reputation and performance. Moreover, many very large employers already have an in-house pension team who would collate this information.

5.9 Evidently, the core audience interested in the charging guide are small to medium employers. However, it should not be assumed that micro or very large employers were entirely disinterested in the guide; rather that greatest interest came from small through to medium employers. The guide appealed because it would facilitate easy comparison between providers, as well as encourage transparency in charging structures. The majority of these employers had reasonable, if not good, knowledge and confidence about pensions. This meant they were able to comprehend the information

presented to them. But, not being as experienced as the very large employers, they didn't find the guide too simplistic.

- 5.10 Allowing more of a tailored approach in the charging guide either through an online tool or through allowing more dialogue between employers and pension providers to produce tailored charging guide examples could open up the perceived usefulness of the charging guide to the larger employers.
- 5.11 By including a 'How to use the guide' introductory paragraph or covering sheet could also open up the usefulness of the guide to micro employers where a lack of knowledge is precluding the charging guide's intended purpose.
- 5.12 The relationship between interest in the charging guide by size of employer is summarised in figure 5.1 below. The arrows for knowledge and confidence indicate how typically larger employers will have greater knowledge of pensions or pension charges and greater confidence in making decisions with regards to workplace pensions.

Figure 5.1: Perceived level of interest in the charging guide by employer size



Feedback on proposed charging guide template

- 5.13 Overall reactions to the charging guide template were positive. Most improvements that were suggested involved minor tweaks, as opposed to major changes.
- 5.14 In terms of the front page, most employers felt that key information was included and presented effectively. But there were some recommendations, which focused on the following:
 - Include a 'how to use the guide' document;
 - Break down text heavy paragraphs;
 - Modify pie charts to include additional examples or longer time frames, for example;
 - Display monetary values as well as percentages on the pie charts; and
 - Offer an online tool for tailoring the guide.

5.15 With regards to the back page of the guide, the dashboard style of Option B was far and away the preferred option. Most employers liked the list style format with bullet points because it was quick and easy to read, and in turn compared across providers. This format was also seen to allow a suitable level of standardisation. The notes columns and 'why should you choose us' box were liked by those with an appetite for more detailed information.

5.16 Again, most suggested recommendations were fairly minor:

- Greater clarity when a service is and isn't included;
- Clarity about fund choices;
- Clarity about portability options;
- Include contact details for the provider; and
- Include a kite mark.

5.17 Making at least some of the changes to the front and back page of the guide could significantly increase the usefulness and broaden the appeal of the charging guide template.

6 Appendices

Appendix 1: Pre-task questionnaire

A Your current pension provision

A1 Do you currently offer a pension scheme to some or all of your staff?

Yes	1	
No	2	
Don't know	3	

IF NO SKIP TO SECTION B

A2 What percentage of your eligible workforce are currently members of a pension scheme offered by your organisation?

WRITE IN APPROXIMATE %

A3 What contributions do you make into your employees pension scheme?

WRITE IN %

A4 Does your organisation use any third parties or consultants for advice in relation to workplace pensions?

Yes	1	
No	2	
Don't know	3	

A5 If your organisation does currently use any third parties or consultants for advice in relation to workplace pensions, does the employer pay for this or are the costs shared by pension scheme members?

WRITE IN

B Attitudes to pensions

B1 To what extent do you agree or disagree with the following statements?

	Strongly agree	Tend to agree	Neither agree nor disagree	Tend to disagree	Strongly disagree	No opinion
I don't feel confident making decisions on pension schemes.	1	2	3	4	5	6
As an employer we have a responsibility to help individuals save for retirement.	1	2	3	4	5	6
Pensions are not a motivating benefit for my employees.	1	2	3	4	5	6
We actively encourage employees to join a pension scheme.	1	2	3	4	5	6
I would like to offer employees the best pension scheme possible, regardless of cost.	1	2	3	4	5	6
Pension arrangements need to benefit the employer as much as the employee.	1	2	3	4	5	6

C The pension reforms

As you might be aware by now, a major reform of workplace pensions will take place from October 2012. The reforms will be implemented in stages between 2012 and 2018 and will mean that all employers will have to offer a pension scheme into which all eligible employees must be automatically enrolled. Employees will be able to opt out of the scheme if they want to. Employers will have to make a minimum contribution into the scheme.

C1 To what extent do you agree or disagree with the following statements?

	Strongly agree	Tend to agree	Neither agree nor disagree	Tend to disagree	Strongly disagree	No opinion
We are likely to wait until the last minute before I think about how to comply with this legislation	1	2	3	4	5	6
We would seek external expert advice in order to understand the requirements for employers	1	2	3	4	5	6
We would try to find a way around the legislation	1	2	3	4	5	6
We would go for the easiest option to comply.	1	2	3	4	5	6

Pension scheme charges

- **Annual management charge (AMC)**
 - This covers the cost of investing and administration and is most often shown as a flat percentage of the employees pension fund. The AMC varies between different schemes and pension providers but is typically around 1%-2%
- **Active Member Discounts (AMD)**
 - Some providers offer schemes where the AMC is reduced over time for those employees who continue to contribute to their scheme, e.g. after 5 years the AMC could reduce from 1% to 0.8%, after 10 years to 0.6% etc.
- **Contribution charges**
 - Some pension providers charge a percentage of each contribution paid into the employees pension fund, i.e. whether paid by the employee themselves or paid by the employer on behalf of their employee
- **Flat rate charges**
 - In some schemes employees will pay a fixed monthly or annual fee, for example £2 a month or £20 a year, regardless of the amount they contribute or the size of their pension pot.
- **Consultancy charges**
 - Some pension providers allow employers to negotiate “consultancy charges” with their pension advisers and for these costs to be deducted from their employees’ pension pots rather than paid directly by the employer.

SHOWCARD 3

Appendix 3: Charging Guide Options A and B

The services we provide {Option A version}	
Information and advice	<p>Our scheme offers communication templates that employers can use to help administer the scheme and to make sure employers send out the right information to their employees at the right time. Employers will also receive tailored information through a range of media throughout the implementation of automatic enrolment. 12 months before your staging date employers will receive information to help them engage their work force, such as a welcome pack, and employee newsletter and presentation material. At an employers' staging date, they'll receive information about fulfilling their obligations such as notification letters, opt out forms and payslip flyers. Employees will also receive annual benefit statements and online support.</p>
Running the scheme	<p>We offer employers a special programme to help you with the implementation of automatic enrolment. We will help you take care of automatic enrolment, managing contribution collection, opt ins and opt outs, registering your scheme and communicating the changes to your workers. We'll also provide reports on the scheme to help you monitor membership.</p> <p>This scheme is run by a group of expert trustees who have a legal duty of care to the members of the scheme. We also have a team of in-house experts administering the scheme and monitoring investments.</p>
Investing the money in an employee's plan	<p>We think that pension investments need to be easy to understand, fit for purpose and cost-effective. We make investments easy to understand by giving employees a range of three funds to choose from. We have a default fund in place for those employees who do not want to choose. For those who want to learn about investments, we offer education.</p> <p>Our investments are constantly monitored by our in-house experts to make sure they are fit for purpose. We think some risk is good in investments to make sure they grow, but we also make sure to reduce risk as employees approach retirement.</p>
One-off services	<p>We do not charge extra for transfers and there are no extra costs for employers.</p>

The services we provide (Option B version)

	Included in our fees	Employee pays extra	Employer pays extra	Notes
Information and advice				
Support to the employer about automatic enrolment	●			We will help employers with member enrolment, contribution collections and administering accounts
Workplace Communications about the pension scheme				
Bespoke microsite for employees and employers	●			Employers will have their own homepage where they can manage their account
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 have a dedicated call-centre for employees.
Face-to-face help for employees				To keep costs low we do not offer face-to-face help for employees
Running the scheme				
Scheme-specific governance framework	●			Scheme will be run by a management committee
Scheme-specific administration team				Our scheme is administered by a third party
Compliance and reporting service	●			Employers can download information from our website to help with compliance and reporting
Investing the money in an employee's plan				
Managing funds	●			We have an in-house team of experts running our investments and we have independent investment advisors
Investment Governance	●			We have a separate investment committee monitoring our investment strategy.
Providing a wider range of funds, that have additional taxes and fees	●			In addition to our default funds, we offer some funds for members with special investment needs
One-off services				
One-off services such as splitting a pension on divorce and transfers in and out	●			The cost of transfers and the cost of employees switching funds are included
Supporting member choices at retirement	●			We have an annuity panel in place to help members select a suitable annuity

Why should you choose us?

Our scheme is simple and easy to use. We make it easy for employers and workers to keep track of their pension with helpful online tools and services. We also provide clear information and guidance for employers and employees. Importantly our scheme is run on a not for profit basis. We have a number of legal duties, one of which is to act in our members' interests.



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

September 2012

‘Securing the future of pensions’