NAPF

Securing the future of pensions

DWP consultation on charging: a response by the National Association of Pension Funds

November 2013

www.napf.co.uk

Executive Summary

An additional 6-9 million people will be saving in to a pension in the next few years thanks to automatic enrolment. It is critical that people are automatically enrolled into pension schemes that provide value for money. The NAPF welcomes the Government's focus on pension charging. However, we believe that pension charges must be considered in the wider context of the value for money provided to scheme members.

Charge cap:

If the Government decides to pursue a charge cap, then the NAPF believes that the option for a comply or explain charge cap of 0.75% would work best. Schemes that have higher charges but provide extra services would then be able to use value for money assessments to demonstrate the additional benefits provided to their scheme members. We feel that the Pensions Regulator, through its DC Code of Practice, is best placed to assess the value for money provided by schemes.

Transparency and disclosure of charges:

The NAPF believes that full transparency and disclosure of charges and the services they provide supports the objective of ensuring employers, trustees, governance committees and employees are aware of the costs incurred through their scheme and the value for money provided to scheme members. The NAPF-led *Pension Charges Made Clear: Joint Industry Code of Conduct* came in to full effect in September 2013 and is a product of leadership and cooperation in the industry. The NAPF believes that the Government should be supporting this Code and encouraging implementation, particularly in its very early stages.

Timings and transitional arrangement:

The NAPF is concerned about the short time (4 weeks) allocated for the consultation. Respondents to the consultation and the Government would have benefited from a more reasonable consultation period to collect evidence and to consider the Government's proposals.

The NAPF feels that the April 2014 and April 2015 implementation dates for a charges cap will be onerous and would place additional burdens on schemes, employers, providers and advisers at a time when many will be implementing automatic enrolment and preparing for the end of contracting out as a result of state pension reform. The NAPF would encourage the Government to reconsider its staging dates and provide clear information on the changes as soon as possible.

About the NAPF

The National Association of Pension Funds (NAPF) is the leading voice of workplace pension provision in the UK. We represent some 1,300 pension schemes from all parts of the economy and 400 businesses providing essential services to the pensions industry. Ten million working people currently belong to NAPF member schemes, while around 5 million pensioners are receiving valuable retirement income from those schemes. NAPF member schemes hold assets of some £900 billion, and account for over one sixth of investment in the UK stock market. Our main objective is to ensure the security and sustainability of UK pensions.

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Introduction

1. The NAPF welcomes the success of automatic enrolment, which has so far seen over 1.9 million people enrolled into a workplace pension scheme.[1] But getting people saving is just the first step in making sure they have a decent retirement income. As the vast majority of new savers are using Defined Contribution (DC) pension arrangements, the focus of industry and government needs to be on making sure the DC schemes being used for automatic enrolment are of good quality and offer value for money.

2. A key element of ensuring good outcomes for pension savers is making sure charges are reasonable. High charges can significantly erode DC pension pots. The NAPF has already been leading work by the industry to increase the transparency of charges and to make it easier for employers to pick good value schemes for their employees. The NAPF-led *Pension Charges Made Clear: Joint Industry Code of Conduct*[2] came into full effect in September 2013, and has strong support from the industry.

3. The NAPF disagrees with excessive charges being taken out of pension savings and therefore welcomes the Government's focus on charges and value for money. However, we believe that this consultation should be considered in conjunction with the other policy areas under consideration by the Government to improve DC schemes. The NAPF believes that any consultation on charges should be considered as a part of a wider focus on delivering value for money, rather than be conducted separately from it.

4. Following the Office of Fair Trading's (OFT) report[3], the Pensions Regulator (TPR) has started work to determine how to assess value for money. Furthermore, the Association of British Insurers' (ABI) has agreed to undertake an independent audit of legacy schemes to consider whether they provide value for money. The NAPF is concerned that the Government may be bringing in a cap at a time when the industry and TPR are already pursuing initiatives to increase transparency and disclosure and demonstrate value for money. The NAPF believes that the Government and wider industry should be actively involved in these initiatives to ensure successful take up and implementation.

5. To support our response, the NAPF conducted a survey of our members with DC schemes from 8-18 November, seeking views and evidence on the policy initiatives proposed in the document.[4]

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[1] The Pensions Regulator, 'Monthly Registration Report' November 2013
http://www.thepensionsregulator.gov.uk/doc-library/research-analysis.aspx#s5188

[2] NAPF, 'Pension Charges Made Clear: Joint Industry Code of Conduct',
http://www.napf.co.uk/PolicyandResearch/DocumentLibrary/0273_Pensions_charges_made_clear_code_of_Conduct.aspx

[3] OFT, 'Defined contribution workplace pension market study', September 2013.
http://www.oft.gov.uk/shared_oft/market-studies/oft1505

[4] The NAPF received responses from 83 members and these have helped shape this response.

NAPF response

6. The issue of charges has been at the top of the pension's agenda for a number of years. Concerns about the disclosure of costs and charges have been raised by the Work and Retirement Income Commission, The Pensions Regulator, the Work and Pensions Select Committee, the Minister for Pensions and the Opposition.[5]

7. Costs and charges taken out of pension pots have decreased over the past few years, from an average AMC of 0.79% in 2001 to 0.51% in 2012.[6] The OFT, in its report on the DC market study which was launched in September, noted this decrease. However, it also expressed concern about the complex nature and structure of charges due to:

   - the number of different charge structures that currently exist, especially in legacy schemes;
   - the high charges in legacy schemes;
   - the lack of switching to low charge schemes;
   - the small trust based schemes that are at risk of providing low value for money due to trustee engagement and resource constraints; and
   - the two-tier charging structure where deferred member penalties exist.

8. The NAPF has, for some years, raised these concerns with the industry and Government.

9. The NAPF agrees with the OFT that strong governance is the best way to drive good member outcomes. Strong governance consists of governing bodies with well-resourced and knowledgeable representatives who are independent of organisations with a commercial interest in the scheme. These representatives have a fiduciary duty to act in the best interests of scheme members. Many NAPF members that responded to our survey commented on the importance of governance. For example, one of our members shared the following view:

   "The priority should be on scheme governance, which would drive value."

10. The NAPF has recommended that governance should either be left in the hands of scheme trustees or should be the responsibility of employers to put in place (for example, in the form of management committees). The NAPF believes that these governing bodies should be able to demonstrate to the regulators (FCA and TPR) and the Government that they are providing value for money. They should be reviewing the charges and the services they deliver on a regular basis, alongside investment objectives and the returns provided to scheme members in the long term. Greater efficiencies through innovation, consolidation and scale will help drive down costs, and

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[5] NAPF, 'Telling people about DC pension charges: a consultation', May 2012. http://www.napf.co.uk/PolicyandResearch/DocumentLibrary/~/media/Policy/Documents/0254_Telling_people_about_DC_pension_charges.ashx

[6] OFT, 'Defined contribution workplace pension market study', September 2013, p19 (Contract and bundled trust based schemes).

will benefit scheme members. The NAPF's members set out the key features they feel determine value for money. The following quote from one our members incorporates these features:

> *"A realistic level of employer contributions; investment performance net of fees, not just level of fees; retirement service to maximise decumulation flexibility; effective administration and good customer service."*

11. The OFT in its final report on the 'DC workplace market study' considers the key elements of value for money to be:

    - charges for administration and investment management services;
    - the design and execution of the investment strategy;
    - administration of the scheme and communication to members; and
    - the governance of the scheme.

12. TPR is currently exploring how it can assess value for money as part of its DC Code of Practice and the OFT's recommendation that it establish such a framework. Therefore, the NAPF and its members, suggest that the Government use TPR's DC Code of Practice as its basis to determine value for money.

Charge cap

DWP consultation on charging: questions

- Which of the three options for a cap is the most appropriate?
- Under option 3, what conditions would you expect for schemes levying a higher charge between 0.75 per cent and 1 per cent?
- How will employers and pension providers respond to a cap on charges and what evidence is there that charges will be 'levelled-up' in response to a cap?
- What evidence is there on the link between scheme charges and scheme quality or investment returns?
- If a cap is introduced what, if any, changes should the Government consider in respect of the stakeholder charge cap?
- Are there any alternative options to capping charges that would provide protection for scheme members?
- Should transaction costs be included within a charge cap?
- Would requiring the disclosure of transaction costs to trustees and the independent governance committees to be set up for contract-based schemes help to manage any potential avoidance risks associated with a charge cap?
- Are there any specific services that may need to be excluded from the cap to avoid constraining innovation, for example, in respect of annuity broking services?

13. The NAPF believes that the third option stated in the consultation document, where schemes must comply with a cap of 0.75% or explain a higher charge, would be most appropriate if the Government aims to bring in a charge cap. The NAPF believes the comply or explain model would ensure that scheme members are not being charged excessively while allowing schemes the ability to offer additional services and innovative investment strategies where they feel this would be in the best interests of their members. The NAPF believes there should **not** be an additional cap of 1% as proposed in this option as any scheme with a charge higher than the 0.75% cap will have to demonstrate the value for money it provides.

14. The NAPF put the Government's options for a charges cap in its member survey – and 50% of NAPF members that responded to the question agreed with some form of comply or explain option. 25% agreed with a cap of 1%, 15% agreed with the 0.75% cap and 15% did not agree with any of the options put forward by the Government. Some members shared their views on how the third option of comply and explain could be applied, stating:

    "If the AMC exceeds 75bps, providers must explain what extra services are being provided. (The) AMC should be quoted as the total expenses, with all other fees paid by the provider out of the AMC. (Scheme members should not be charged extra behind the scenes)."

    "... a justification option (for investment charges) when potential future investment returns are involved would be relatively easy to demonstrate if needed."

15. The NAPF believes that a cap on charges should apply where a default fund is being used and only to charges taken out of a member's pension pot. Any charges paid by the employer should not be subject to the cap.

16. In our experience with the *Pension Charges Made Clear: Joint Industry Code of Conduct* defining what constitutes as a charge can be complicated. The Government will need to ensure that it has a consistent and clear definition in place before a cap can be implemented. The definition for the charges that the cap applies to should be consistent with that which has been included in the *Pensions Charges Made Clear: Joint Industry Code of Conduct.* The Government regulations should be flexible enough to allow for this definition to evolve with the industry and charges change over the short, medium and long term.

17. The NAPF considers TPR to be best placed, under its DC Code of Practice and the value for money assessment, to determine the value for money provided by schemes with charges higher than 0.75%. TPR's Code of Practice is expected to be reviewed to take into account the Government's response to the consultation on minimum standards, which is proposed to come into effect from April 2014. The NAPF believes that these initiatives are interlinked and any regulations should take account of all the work being undertaken by the regulators and the industry in order to minimise confusion for employers and schemes.

    "Low charges does not equate to value for money. Encourage as much focus on the outputs as on inputs."

18. It remains unclear how compliance and value for money assessments can be undertaken in contract-based schemes which are not subject to TPR's Code of Practice. The NAPF believes that the issue of adequate regulatory oversight and duties for contract-based schemes need to be addressed by the Government before it brings in a charges cap if all scheme members are to be treated equally, regardless of the structure of their scheme.

19. The NAPF believes that introducing fiduciary responsibility in all pension schemes used for automatic enrolment would ensure that scheme members' interests are looked after. DWP research shows that the average AMC for trust-based schemes is 0.09% lower than the average AMC in contract-based schemes.[7] Scale decreases costs even further. DWP research shows that where a large trust-based scheme is in place, the average charge decreases by a further 0.33%.[8] With good independent governance and scale a charge cap would become unnecessary as concerns around the lack of power on the demand side and the potential for consumer detriment through excessive charging would be addressed.

> *"In a trust, the maximum charge should be that determined by the trustees based on the specifics of that trust. In a GPP, the max charge should be determined by a mandated fiduciary (or similar) based on the specifics of the population within that GPP."*

Some concerns about the charge cap

20. The NAPF believes that the charge cap does not deal with the broader issue of providing scheme members with value for money. The NAPF Annual Surveys from 2012 and 2013 show that the average charge per member in DC schemes stood at 0.46% (0.43% for trust-based schemes and 0.48% for contract-based schemes). 10% of NAPF members that responded to the Annual Survey in 2013 had a charge that was higher than 0.75%. A significant number of NAPF members have schemes with charges well below the cap, and many of those that have higher charges are good schemes that are confident they can demonstrate the value for money they provide to their scheme members.

21. OFT evidence suggests that excessively high charges are more likely to relate to pre 2001 legacy schemes. As per the recommendations made in that report, the audit of these legacy schemes, which will be overseen by an Independent Project Board, should be the main focus for the industry and Government. New schemes are less likely to be set up at high charge levels and, where they are, they should to be able to demonstrate the value for money provided to scheme members. The Government and the regulator(s) should ensure that this value is assessed on an on-going basis given innovations in the provision and investment of DC pensions.

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[7] DWP, 'Charges in defined contribution pension schemes', November 2013 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/258652/charges-in-defined-contribution-pension-schemes.pdf

[8] Ibid.,

22. The NAPF believes that a cap on charges, without a focus on the value provided to scheme members through services, is more likely to restrict innovation and may result in scheme members being switched to low cost schemes that fail to deliver the best outcomes for these members. It could also result in the levelling up of charges to the limit at which the charge cap is set.

23. The NAPF agrees that the individuals governing schemes should be striving for the high quality services at low cost, negotiating prices and ensuring that they get a good deal for their scheme members. As discussed in our response[9] to the Government's Call for Evidence on minimum standards in DC schemes, there is strong evidence, even from the DWP's research reports on charges,[10] to show that good outcomes are most likely to be delivered where there is effective governance over large schemes; so-called Super Trusts.[11] These well governed, large schemes benefit from economies of scale and can access better performing asset classes.

24. The NAPF recently asked its members what impact they think the charge cap would have on a scheme. Many felt that their scheme would not to be affected directly by it. However, members were concerned about the wider impact of the cap if it is to be applied to both administration and investment management costs - that it could restrict the ability of providers to innovate. It has the potential to limit improvements in investment portfolios as the focus could shift to cheaper, passive, funds and there may be less ability, and incentive, to provide added value to scheme members.

    "It will push schemes to passive investment management which may not deliver the best outcome for the scheme member."

    "Schemes will focus on the cost rather than the benefit of funds. (It) will drive schemes to choose cheap funds rather than good quality funds."

25. If the cap applies to all services paid through a person's pension pot, schemes will be less likely to appoint at-retirement advice services and other supports, affecting the ability of scheme members to make informed decisions about turning their pension pot(s) in to income at retirement. Research commissioned by the NAPF shows that an annual cohort of retirees loses up to £1bn in income when they do not purchase at-retirement products suitable for their circumstances.[12]

26. The NAPF is also concerned that the proposed charge cap only applies to DC schemes and not Defined Ambition (DA) pensions, as per the Government's recent consultation on 'Reshaping

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[9] NAPF, 'Minimum quality standards in DC Pensions - NAPF response' http://www.napf.co.uk/PolicyandResearch/DocumentLibrary/0333-Minimum-quality-standards-NAPF-response.aspx

[10] DWP, 'Pensions landscape and charging', https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/193451/rrep804.pdf

[11] Super Trusts are large scale, low-cost, multi-employer, trust-based DC pension arrangements.

[12] NAPF and Pensions Institute, 'Treating DC scheme members fairly in retirement research report'. February 2012

workplace pensions for future generations'.[13] The Government explicitly states in the consultation that DA schemes will not be subject to the charge cap. The NAPF agrees that schemes offering some form of 'hard' guarantee are likely to have an AMC above the limit in any charge cap. However, we also feel that DA schemes, like DC schemes, should be required to demonstrate value for money.

27. The Government's definition of a DC plus scheme - as those only offering a 'hard' guarantee - also actively excludes DC schemes which are trying to move their members through sophisticated and targeted investment strategies, provide excellent employee/member engagement and incorporate at-retirement support. These schemes are going above and beyond the minimum requirement and are aiming to improve member outcomes, yet they would not be able to operate outside a charge cap unless a comply or explain option is in place. There is also a longer term concern that the charge cap will prevent the insurance industry from developing the types of DA products the Government would like to see, stifling the very innovation that the DA framework is seeking to enable.

Alternatives to a charge cap

28. A number of NAPF members that responded to the survey also shared their views on the possible alternatives to the charge cap, suggesting possible alternative courses of action the Government and industry could be pursuing in this area. NAPF members suggested that: good governance to support all people saving in pensions, increased disclosure and transparency of charges by pensions providers to those governing pension schemes and guidelines on what should be considered as value for money would be more beneficial than a charge cap in delivering good outcomes for scheme members

> *"(Aim for a) Governance structure which focuses on good member outcomes and allows Trustees / governance committees to determine how that is best achieved."*
>
> *"Increased governance and accountability for both trust-based and contract-based DC Plans. (There should be) guidelines on charges to ensure good member outcome but with flexibility for plan sponsors/trustees."*
>
> *"Greater transparency and explanation what charges are for will continue to drive charges down, as we have seen in past 2 years."*

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[13] DWP, 'Reshaping workplace pensions for future generations', https://www.gov.uk/government/consultations/reshaping-workplace-pensions-for-future-generations

Transaction costs

29. Transaction costs should not be included in the charge cap. Transaction costs are complex and, at present, difficult to compare. High or low transaction costs are not a good reflection of the performance of an investment manager. The NAPF believes that ensuring investment managers meet the scheme's investment objectives is a key determinant for measuring value for money in this area.

30. The NAPF-led *Pension Charges Made Clear: Joint Industry Code of Conduct* does not include transaction costs in a definition of a charge. The Government should use a single and consistent definition of what counts as a charge to eliminate confusion for those disclosing charges and those receiving the information. The *Pension Charges Made Clear: Joint Industry Code of Conduct* was developed by industry representatives and consumer groups and the NAPF believes that the definition in the Code should be used in any forthcoming regulations on charges. These regulations should include provisions to improve this definition as charges evolve in the future.

31. The NAPF believes the FCA should be undertaking work to increase the transparency and disclosure in transaction costs in a way that is meaningful to schemes and scheme members.

Public comparison of charges

32. The NAPF believes that listing all charges on a public website will not be useful and has the potential to cause consumer detriment unless those accessing the information have a good understanding of pensions and the value for money provided through their workplace pension arrangement. Scale, governance, investment strategy and services all have an impact on the charges levied on a scheme and its membership.

33. The NAPF-led *Pension Charges Made Clear: Joint Industry Code of Conduct,* through the Summary of Charges document and 'what services are included in the charge' table, seeks to provide employers with comparable information, so that they can narrow down the schemes that would meet their needs, given the services on offer.

Deferred Member Penalties

DWP consultation on charging: questions

- What would the impact be of a ban on Active Member discounts and other arrangements where deferred members pay an increased charge in qualifying schemes, would providers need to increase charges for active members and if so, by how many percentage points?
- What, if any, transitional arrangements might be needed for those schemes already set up?
- Can you provide more information about the scenario whereby employees who leave their job are converted into an individual personal pension? Does this require the member's consent and

is this practice disclosed to employers when they choose the scheme?

34. The NAPF does not support deferred member penalties where the discount for active members is cross-subsidised through higher charges levied on deferred members. The NAPF is concerned that some well-run schemes that offer good value for money have a ‘real’ active member discount, where part or all of the charge for active members is paid by the employer as one of the workplace benefits on offer. In some instances a smaller discount is offered to deferred members who have left the company as well. The NAPF believes that there should be some exemptions for employers that offer such support to their existing employees and are likely to have brought in a workplace pension scheme that offers good value for money to pension savers. An NAPF member that currently offers a ‘real’ active member discount responded to our survey on the charges consultation, stating:

“The Plan provides a significant discount to all members. The discount applied to active members of the Plan is higher than that for employees who have left the Company, i.e. on leaving the Company the discount that applies is reduced by 0.25%. The Company consulted with colleagues when this structure was initially considered and the feedback was supportive of providing a higher discount for active members...”

35. On the employer motivations for offering such ‘real’ discounts to active scheme members, another NAPF member advised:

“It was seen as good value for deferred (members), especially (seen as) good value for actives, not as penal for anybody.”

36. There is a risk that employers may stop providing all discounts if a ban is applied across the board, resulting in a decrease in the size of a person’s pension in a legitimately subsidised scheme over their working life. The Government should therefore give careful consideration to how the ban could apply in circumstances where a ‘real’ discount is being applied.

37. If the Government brings in a ban on Deferred Member Penalties, the NAPF believes that it should ensure that regulations are clear and do not have a detrimental impact on employers paying third party administration fees for active members. Otherwise, employers may stop subsidising the administrative costs for active members, increasing the overall charge paid by scheme members over their lifetime. The NAPF is also concerned that forcing an end to the ‘real’ discount from employers may increase bulk S32 pension transfers, which, in trying to lower charges for deferred members, could actually increase the costs for these members.

Consultancy charges

DWP consultation on charging: questions

- How are the existing regulations working in practice and how are services now being delivered and paid for?

- How are charges for blended funds structured, their level set and what disclosure is in place for members and employers?
- What impact would extending these regulations to qualifying schemes have on providers, employers, advisers and any other third parties, and what if any transitional arrangements would be appropriate?

38. The Government proposes to extend the ban on consultancy charges to all qualifying schemes. The NAPF has discouraged the use of consultancy charges where the service is not being provided for the benefit of the scheme member. The NAPF is concerned about an advice gap being created as medium and smaller sized employers may decide not to seek advice in a bid to reduce their business costs from automatic enrolment. The NAPF believes that a better solution would be to permit consultancy charges with the consent of the scheme's members. This would apply in circumstances where these members are paying for the support they receive through professional advisers, and not for the advice given to employers on their automatic enrolment duties.

Built-in adviser commission

DWP consultation on charging: questions

- What would be the impact of a ban on commissions in qualifying schemes and does commission present a barrier to switching?
- What evidence is there of an increase in sales of DC schemes with commission in 2012?
- How much (on average) has commission on these schemes increased the AMC in percentage points?

39. The NAPF shares the OFT's concerns about GPPs with built-in adviser commissions which increased substantially before the FCA's Retail Distribution Review came into effect at the beginning of this year. We agree that built-in adviser commissions, which are now banned, can discourage switching as advisers continue to receive payments for members automatically enrolled into a scheme and have little incentive to encourage trustees and governance committees to switch to a scheme offering better value for money. As one NAPF member advised:

> *"These should be transparent and paid outside of the scheme".*

40. The NAPF therefore agrees that built-in adviser commissions in qualifying schemes should be banned.

Disclosure and transparency

DWP consultation on charging: questions

- We would welcome views and evidence on the effectiveness of these initiatives and the extent to which the industry discloses charges upfront, in a consistent manner, to members and employers.
- Is further action required by the Government to improve disclosure and if so which of the options should be introduced? Are there any other options?
- How might the total cost of scheme membership including transaction costs be captured, what would be reasonable and practical to ask providers and investment managers to report on and to whom (members, employers and governance committees/ trustee boards)?

41. The NAPF believes that increased disclosure of costs and charges ensures that schemes can clearly demonstrate the cost for services provided to scheme members in administering and growing their pension savings. In 2011, the NAPF launched an industry initiative to support employers in selecting a scheme for automatic enrolment through increased disclosure and transparency of costs and charges. Working with consumer groups, trade associations and scheme representatives we developed a 'summary of charges' document where those industry representatives helping employers with their scheme selection would provide, in a standardised and clear format, information on the charges taken out of an employee's pension pot. The summary of charges document is accompanied by a 'what services are included in this charge' table. The provisions in the industry code came in to effect in September 2013 with the launch of the Association on British Insurers' (ABI) pension charges calculator, a tool created to compliment the code. The Code is therefore in the very initial stages of being implemented by the industry and its influence will only become apparent in the coming months. The Government needs to allow the industry time to implement the Code and assess its impact on employers and the DC pension arrangements they put in place.

42. The NAPF believes that any work undertaken by the Government in this area should be based on the Code already developed by the industry. The NAPF's Annual Survey 2013 shows 85% of respondents were aware of the Code. 33% of NAPF members (existing pension schemes) were planning to share the summary of charges documents and templates at trustee board meetings, a third were going to share this information with their employers, a quarter with employees or place this as part of scheme records. 19% felt that the Code did not apply to them and one in 10 expected not to implement the Code.

43. The NAPF can only monitor compliance with the Code by its scheme members through its Annual Survey and we would welcome Government action to encourage use of the Code by the wider industry. We believe that any regulations, and/or Government mandated standardised format for disclosure, should be developed using the industry initiatives that already exist. The NAPF would support the Government's initiatives in this area. We believe that increased disclosure should not only demonstrate the charges levied on pension pots, but also the services provided for that charge. This is important if we want to ensure that the information disclosed leads to employers,

Independent Governance Committees, Management Committees, trustees and employees making informed decisions about the value for money schemes provide.

44. The NAPF believes that those bringing in and governing schemes (employers, trustees, management committees, independent governance committees) should receive more in-depth information to help them run the scheme, while scheme members should receive information that is clear and easy to understand. Charges should be disclosed to employees in the context of the long-term expected returns on their investment and the services offered, including at-retirement advice services where this is available.

Timescales and transitional arrangements

DWP consultation on charging: questions

- Do the proposed implementation dates for a cap provide sufficient time for employers to review and put in place compliant arrangements? The dates are:
    - April 2014, for all employers staging from April 2014 onwards.
    - April 2015, for all employers who staged between October 2012 and March 2014.

45. The NAPF is concerned about the four week response time allotted to this consultation. The NAPF believes that the timeframe is too short and limits the amount of evidence and analysis the industry and the public can provide on the Government's proposal.

46. The NAPF is concerned about the timescales proposed by the Government for policy implementation, where it is suggested that the first phase of implementation begins in April 2014 for employers who have yet to reach their staging date, and April 2015 for those who have already staged. The Government still needs to provide details on what constitutes a charge and how value for money will be assessed. It then has to lay regulations for implementation on the proposed dates. The NAPF has been advised that a response to this consultation will most likely not be available until January 2014, giving the industry, regulators and Government very little time to prepare for the changes that need to be made to schemes that have been selected by employers staging on or after April 2014. In addition employers that have staged before April 2014 will only have one year to make sure they can change their scheme where required to comply or explain their charges.

47. The NAPF believes that this timetable will have an impact on employers going through automatic enrolment, including those about to start preparing for their staging date and those that have already gone through the process.

48. These changes will affect the employers that have both a DB and DC scheme (in some cases multiple schemes) as they will have to review both their DC arrangement to comply with the new automatic enrolment rules while they prepare for the end of contracting out in April 2016 and the adjustments they may need to make to their scheme rules. The NAPF's Annual Survey for

2013 shows that 62% of our members with DC pensions and who responded to the survey have a DB scheme open to future accrual and/or open to new members.

49. 1.9m people have been automatically enrolled in to a pensions scheme since October 2012[14]. A number of these employees will be members of a contract-based pension scheme. Providers may experience capacity issues where they have to re-write contracts for scheme members that have already gone through the automatic enrolment process, and as they take on new business from employers going through their staging dates. Some of these employers are already seen as commercially unattractive and would, given a capacity crunch, be served by an even smaller number of providers or master trusts.

50. The NAPF is concerned that the Government does not have transitional arrangements in place if it is considering bringing in a cap on charges from April 2014 for employers going through the automatic enrolment process. The NAPF's 'Automatic Enrolment: one year on' report shows that employers take 12-18 months to prepare for their staging date. Employers staging in the first half of the year in particular will have very little time to make any changes to their plans or the schemes they may have already secured for their employees. These employers, their advisers and even pension providers are unlikely to make relevant changes unless they see a firm decision and regulations from the Government on this.

Conclusion

> ***NAPF member:*** *"This is a much broader subject for debate than just considering introducing a charge cap. If we want DC pensions in the UK which are fit for purpose in the future we need to take a step back, learn from other countries and take into account best practice."*

51. The NAPF believes that the Government should focus on increasing the transparency and disclosure of charges so that schemes, through their trustees and governance committees, demonstrate the value for money provided to their members. The Government needs to tie in this consultation with the work it has undertaken on minimum standards and TPR's work on governance and value for money. It must also ensure that processes and a regulatory framework are in place for contract-based schemes to be subject to the same assessments as trust-based schemes.

52. Bringing in a charge cap in such a narrow timescale increases the likelihood of unintended consequences which may have a detrimental impact on the success of automatic enrolment and the Government's state pension reforms. The Government should ensure that timescales are manageable for all those affected before it drafts regulations on a cap.

[14] The Pensions Regulator, 'Automatic enrolment registration report' November 2013 http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-monthly-registration-report-2013.pdf

53. Any work undertaken on transparency should build on current industry initiatives which have been agreed to by their representatives. If the Government is going to bring in a cap on charges Defined Ambition pensions should not be excluded from the debate on value for money and charges in schemes used for automatic enrolment.

54. The NAPF recommends that the Government produce a white paper on value for money, governance, minimum standards and charges, along with any expected changes, for the industry, employers and regulators to comment on. The Government should do this before pursuing any policy initiatives in regulations and/or legislation.