Securing the future of pensions

Better Workplace Pensions: A response by the National Association of Pension Funds

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About 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.

Executive Summary

The NAPF supports Government action to reduce charges for those saving in pensions and to improve minimum quality standards in workplace pension schemes. With 6-9 million workers being automatically enrolled into workplace pension schemes it is essential that schemes are well run and deliver good value.

NAPF agrees with the areas of focus in *Better workplace pensions: further measures for savers*, but believes that in a number of key areas the speed of change is too great to ensure member interests are protected. It is essential to get the details and implementation of these important changes right. NAPF members are extremely concerned about the sheer volume of changes they are being expected to deliver over the next 12 months, especially following the announcements in the Budget.

Therefore the NAPF has a number of recommendations for how the proposals can be improved, and in some areas made less prescriptive. Our recommendations will allow trustee boards to fulfil their already clearly-defined duties in the best way for their scheme:

- The speed of implementation of the 0.75% charge cap in the same period that schemes will need to be reviewing their investment strategies, adjusting their communication strategies for members approaching retirement and implementing the new Guidance Guarantee is a major concern. The NAPF urges the Government to provide clarity on exactly what schemes are required to do and by when and to reflect on the overall timetable in the light of the scale and complexity of the work schemes are now required to undertake. In particular we recommend that schemes are given 12 months from April 2015 to explain to the Pensions Regulator (TPR) or the Financial Conduct Authority (FCA) how they are planning to comply with the charge cap (if they are not doing so already).
- The charges cap should provide sufficient flexibility to take account of new requirements that may fall on schemes. For example there are a series of new requirements falling from the revised IORP Directive that are not included in the list of member-borne deductions.
- The DWP should use *Pension Charges Made Clear: Joint industry Code of Conduct* as the basis for any new rules on the consistent disclosure of charges and services by pension schemes. In addition we urge the Government to conclude their work on the 'value for money' assessment ahead of the introduction of the charge cap.
- Charges should only 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.
- The NAPF recommends that the deadline for disclosure of all transaction costs is reconsidered and that a more realistic timetable is developed for agreeing and implementing a definition, and then requiring disclosure.
- The Government should amend its proposed AMD ban so it does not force employers to withdraw this valuable employee benefit by redefining what is classified as an AMD.

The NAPF has led calls for improved standards of governance in workplace pensions. Employees do not choose the provider of their workplace pension scheme and usually lack the knowledge and ability to scrutinise the arrangements themselves. Therefore it is essential that workplace pension schemes, especially those used for automatic enrolment, have independent governance arrangements with robust powers for ensuring the scheme acts in its members' interests. However we believe there are a number of places where the governance standards are overly prescriptive:

- The requirements for a minimum of seven trustees and a 3 year exclusion rule should both be removed.
- The NAPF agrees that master trusts should be seeking to understand their members' views, but this should be an area for best practice to develop rather than the creation of the set of hard and fast rules in engagement.

Introduction: Better Workplace Pensions

1. The NAPF supports Government action to reduce charges for those saving in pensions and to improve minimum quality standards in workplace pension schemes. With 6-9 million workers being automatically enrolled into workplace pensions schemes it is essential that schemes are well run and deliver good value. The NAPF has helped to lead the charge for improved standards in DC pension provision in a number of ways:

   - The NAPF led work to develop *Pension Charges Made Clear: Joint industry Code of Conduct* to create consistent standards for communicating charges across the industry, to help employers pick the best scheme for their staff. The Code went live in 2013 with the launch of an online charges calculator to facilitate comparisons.
   - In 2009, NAPF launched Pension Quality Mark to improve the quality of DC schemes. The standards cover contributions, governance and communications and include a charge cap on default funds, which was reduced to 0.75% per year in February 2013.
   - In 2013, new standards for master trusts were launched by Pension Quality Mark, to ensure the majority of those on trustee boards are independent and control the investments used by the scheme. Seven master trusts have now gained PQM READY status. Employers offering PQM READY master trusts will automatically qualify for PQM status provided they make sufficient contributions (at least 6% of a minimum 10% overall contribution).

2. The NAPF agrees with the Government's areas of focus in *Better workplace pensions: further measures for savers*, but believes that in a number of key areas the speed of change is too great to ensure that member interests are protected. It is essential to get the details and implementation of these important changes right in order to avoid rushed decisions, unnecessary costs, member detriment and unintended consequences. Following the announcements in the Budget, NAPF members are extremely concerned about the sheer volume and complexity of changes they are being expected to deliver over the next 12 months. Schemes are also unclear about how these new minimum standards fit with TPR's DC Code, the audit and assurance framework for master trusts, DWP's guidance on default investments, the guidance guarantee and the new IORP Directive. We urge the Government to provide clarity on exactly what schemes are required to do and by when and to reflect on the overall timetable in the light of the scale and complexity of the work schemes are now required to undertake.

3. We have a number of recommendations for how the proposals can be implemented in a way that minimises the risk to scheme members and allows trust boards to fulfill their already clearly-defined duties in the best way for their schemes. The next two sections of this paper set out NAPF's overarching response to the proposals and our recommendations for how they could be improved. The final section sets out our detailed answers to each consultation question.

Tackling unfair charges

The charge cap

4. Automatic enrolment is already driving changes in pensions which are reducing pension charges for scheme members. The Office of Fair Trading (OFT) found that charges had reduced from an average AMC of 0.79% in 2001 to 0.51% in 2012.[1] The challenge is to make sure that all workers in pension schemes benefit from these low charges. The best way of achieving that is to ensure all pension schemes have strong independent scheme governance arrangements to make sure they are good value and run in members' interests. What is good value for one group of workers may not be for another, and a scheme charging 0.75% is not necessarily providing good quality in all circumstances.

5. However, the NAPF recognises that a charge cap can play a role in preventing high charges. It is essential though that schemes are given sufficient time to implement any cap. The Government's consultation was published shortly after the Budget and gave schemes considerable extra work to do in parallel and a fixed deadline of April 2015, which may now risk detriment to scheme members.

6. Over the next eleven months schemes will need to review their default investment strategy to ensure it is appropriate for the routes into retirement opened up by the Budget. They will also need to review and adjust their communication strategy for members and make provision to fund the Guidance Guarantee, details of which appear unlikely to be available before the end of 2014. All elements will need to fit within a charge cap which itself will not be set out in detail until the end of 2014.

7. Changes in investment strategy should be considered thoroughly and therefore take time, cost money and have crucial implications for scheme members. NAPF members are reporting that, with the unprecedented levels of legislative and regulatory change their budgets for governance, advice and consultancy are already stretched to the limits. A rushed or poorly resourced investment review is unlikely to be in the long term interests of scheme members. By forcing too much change at too great a speed the Government may be unintentionally putting members at risk of poorer outcomes.

8. In this context the NAPF urges the Government to provide clarity on exactly what schemes are required to do and by when and to reflect on the overall timetable in the light of the scale and complexity of the work schemes are now required to undertake. In particular **schemes should be given 12 months from April 2015 to explain to TPR or the FCA how they are planning to comply with the charge cap**.

[1] Defined contribution workplace pensions market study, OFT, September 2013.

9. This will help those employers and schemes with the heaviest workloads to comply by April 2015, including those implementing automatic enrolment during this period or those that need to fundamentally review and adapt their investment strategy. It will also reduce the scope for member detriment by giving schemes flexibility on when to buy and sell assets; allowing them to do so more cost-effectively and at the best time for the member.

10. In terms of what is covered by the charges cap, there is no reference made to the additional requirements that will be placed on DC schemes as a result of the new IORP Directive, for example the requirement to appoint a depository. The NAPF believes that such a depository would add extra cost with little or no added value for members and the Government should continue to press the European Commission to take a more pragmatic approach to this, and many of the other requirements in the revised IORP Directive. However, the general point remains that **the charges cap should provide sufficient flexibility to take account of new requirements that may fall on schemes.**

11. There is also growing concern among NAPF members about how valuable engagement, guidance and advice can be provided to members in future, where employers or members are not able or willing to pay for this themselves. All the evidence suggests that most scheme members are not prepared to pay for advice up-front themselves. The NAPF's latest Workplace Pensions Survey, which was conducted in April this year, found that less than half (43%) of workers are willing to pay for advice, and that very few were willing to spend more than £100. Women are particularly unlikely to be willing to pay for advice: only 31% of women were prepared to pay anything for independent advice and only 4% of women were prepared to pay more than £100.

12. The Government has explicitly recognised savers' reluctance to pay for advice at the point of use in their Guidance Guarantee specification. According to the Pensions Minister the costs of providing this guidance will be paid for by schemes out of their administration and communications budget – which are usually funded by charges on all members. This implies that the guidance guarantee will be paid for by all scheme members regardless of whether they eventually make use of the service or not. This appears contradictory to the statement on page 85 of Better Workplace Pensions that "any bespoke advice services for members, such as one-to-one sessions or educational seminars, should be offered on a purely opt-in basis and should not be included in default funds. If an employee wishes to pay for advice they can choose to do so."

13. We understand the Government's desire to ensure employers and advisers do not charge members for services they do not need, but the implication is that the DWP does not believe that trustees or those charged with contract-based governance should be able to use their judgment over whether to allow their scheme's resources to be spent on any engagement, guidance or advice. For instance, schemes may want to provide educational or advice services to members approaching retirement that go beyond the scope of the guidance guarantee, but stand little chance of being taken up if paid for through an upfront payment. The NAPF believe that existing regulation of trustees and their fiduciary duty to members is already adequate to ensure that any services they procure are genuinely in members' interests. At the very least the **Government needs to review its position on what can be covered by the charges cap in light of the Guidance Guarantee requirement.**

Active Member Discounts

14. The OFT rightly identified that active member discounts (AMDs) were symptomatic of a lack of competitive pressure in the market and that they enabled providers to compete for employers' business on headline rather than actual charges. This is quite distinct from the situation where employers choose for themselves to provide a genuine subsidy to scheme administration for active members. These subsidies may be written into employment contracts and any changes would require consultation under employment law. The policy solution should focus precisely on the market problem identified by the OFT and not limit the freedom of the relatively small number of employers who wish to subsidise costs and charges for their employees. **The Government needs to reclassify what it defines as an AMD to avoid unintended consequences for a group of savers who currently receive a significant employer benefit.**

Commission and consultancy charges

15. The NAPF welcomes the Government's commitment to ban commissions and consultancy charges in automatic enrolment default arrangements. The Government is also right to recognise that for many employers this will be a significant implementation challenge as it could involve changing pension providers or entirely renegotiating terms with the existing provider. For those employers in the middle of introducing automatic enrolment that will be particularly tricky, so the April 2016 deadline is appropriate.

Transparency of charges

16. The NAPF has long led calls for greater transparency on charges. We believe that increased disclosure of costs and charges ensures that schemes can clearly demonstrate the cost of 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 so that industry representatives helping employers with their scheme selection could 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 into effect in September 2013 with the launch of the pension charges calculator, a tool created to complement the code and hosted by The Pensions Advisory Service[2].

[2] http://www.pensionsadvisoryservice.org.uk/pension-charges-calculator.

17. The NAPF believes that Government regulations in this area should be based on the Code already developed by the industry. The NAPF's Annual Survey of fund members 2013[3] indicates that 85% of respondents were aware of the Code. 33% of NAPF fund 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. Only 19% felt that the Code did not apply to them and one in 10 expected not to implement the Code. This shows that a significant part of the industry is already beginning to work to the standards set out in the Code. Rules that build upon the existing code will be easier for many to implement.

18. 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 (IGCs), management committees, trustees and employees making informed decisions about the value for money that schemes provide. **We urge the Government to conclude their work on 'value for money' assessment ahead of the introduction of the charge cap.**

19. The NAPF believes that those sponsoring and governing schemes (employers, trustees, management committees, IGCs) should receive the in-depth information required to help them run the scheme, while scheme members should receive information that is clear and easy to understand, in particular information that focuses attention on the members' benefits and what they can do to increase them. **Charges should only 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.**

Transaction charges

20. Along with the majority of respondents to the DWP's charges consultation the NAPF believes that 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 or outcomes for members. 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. Therefore we welcome the decision not to include transaction costs in the charge cap

21. The NAPF agrees that the industry, Government and the FCA need to work together to increase the transparency and disclosure in transaction costs in a way that is meaningful to schemes and scheme members, and is committed to playing its role in this work. However, as the respondents to the consultation made clear, there is currently no consistent or clear definition of transaction costs. Developing one will require time in itself and then fund managers and providers will require time to implement this definition – to change systems and gather meaningful data.

[3] NAPF Annual Survey 2013.

Therefore the Government's proposal that schemes will have to disclose all transactions costs after April 2015 appears to be unachievable. **The NAPF recommends that the deadline for disclosure of all transaction costs is reconsidered and that a more realistic timetable is developed for agreeing and implementing a definition, and then requiring disclosure.**

Minimum Quality Standards

22. The NAPF has led calls for improved standards of governance in workplace pensions. Employees do not choose the provider of their workplace pension scheme and usually lack the knowledge and ability to scrutinise the arrangements themselves. Therefore it is essential that workplace pension schemes, especially those used for automatic enrolment, have independent governance arrangements with robust powers for ensuring the scheme acts in its members' interests.

23. For too long many members of contract-based pensions schemes have not been protected by independent governance. The proposals in this paper are therefore welcome in trying to address this gap and bring greater scrutiny to contract-based schemes. The NAPF continues to believe that governance is most appropriate at employer or scheme level as this is most likely to meet the Government and the NAPF's shared objective of protecting members and securing good member outcomes by ensuring proper alignment of interest. The NAPF remains sceptical about whether provider-level governance committees will have the real independence, resources and direct powers to be able to stand up for members. The Government and the FCA will need to monitor robustly how these IGCs work in practice.

24. Master trusts are a growing and important part of the pensions landscape and provide employers implementing automatic enrolment with the option of a scheme that has the scale to provide good trust-based governance at a lower cost. The NAPF has long been supportive of better regulation of master trusts to ensure their governance is fully independent and aligned with member interests. We are very pleased to see that the core new requirements for independent trustees with the power to control and move investments, build on the standards set out in early 2013 by the NAPF's Pension Quality Mark standards for master trusts. The largest master trusts are now meetings these PQM Ready standards. However, the DWP proposals are more prescriptive than necessary in places, and we would recommend changes are made before the plans are implemented. For example, directly trying to transcribe rules that may be appropriate for advisory IGCs over to trustees who already have clear legal responsibilities will not always be appropriate or beneficial.

25. In particular the NAPF believes that:

    - **The requirement to have a minimum number of seven trustees should be removed.** It is unduly prescriptive and it is unclear why this figure has been selected. Whilst we can see some attractions in setting a minimum number of trustees to ensure a scheme is not dominated by a single trustee a lower figure such as three or five would allow greater flexibility. The higher the minimum number, the greater the risk that master trusts feel obliged to appoint trustees just to fill numbers rather than because of the skills and knowledge of each appointee. A focus on candidate competence and ensuring that their range of capabilities meets the needs of the scheme is more important than the number. A smaller board can have more muscle power and ability to drive better member outcomes than a large board.

- The DWP needs to be careful to ensure the independence requirement does not unnecessarily restrict who can be appointed to both master trusts and IGCs. The nature of the pensions industry means that in practice very large numbers of good potential candidates may have had links in recent years to businesses that have a relationship with the master trust. We would therefore recommend that **the 3-year exclusion is reduced or removed.** Trustees are very different from IGC members in that they have clear legal responsibilities to scheme members and so it is not necessary for them to have precisely the same requirements in this area. We also do not believe these requirements need to extend beyond master trusts and IGCs. If there were to apply to single employer trust-based DC schemes for example this would require radical reshaping of trustee boards and additional cost.
- The requirement for schemes to have arrangements in place to ensure that members' views are directly represented may lead to engagement with scheme members that is well-meaning, but not necessarily cost-effective or representative of member experiences. For a large master trust used by many employers, member engagement through meetings or panels may be impractical and unlikely to get representative members involved. More meaningful insights could be gained through closely monitoring member complaints and contacts, website use, responses to communications, and through online and phone surveys where appropriate. The NAPF agrees that master trusts should be seeking to understand their members' views, but this should be an area for best practice to develop rather than the creation of the set of hard and fast rules in engagement.
- Again, the requirements make no reference to the new 'fit and proper person' test in the new IORP Directive which would require all trustees to have appropriate professional qualifications. We call on the Government to work with the industry and social partners to ensure that the IORP rules will continue to permit lay trustees.

List of answers to consultation questions

Administration

1. **We would welcome views on the potential benefits of accreditation of administrators, and what role government and regulators could play in supporting this.**

   While there is certainly room for improvement in pension administration, we believe that TPR's emphasis on record-keeping has caused trustees to look at their administrative agreements more critically, and to require more stringent performance standards as the contracts have come up for renewal. As in so many areas, larger and more sophisticated schemes have been able to negotiate better deals and react to shortcomings more forcefully than smaller schemes. There is also a concern that embedding administration requirements in legislation could actually slow the pace of improvement.

   We believe that the accreditation procedure recently launched by the Pensions Administration Standards Association will be helpful to smaller schemes by driving up standards generally, and by providing a reference point for judging whether the administrator's performance is acceptable.

   We would favour allowing the recent efforts to improve administration through market mechanisms and for accreditation to bed in over further governmental intervention, at least until there has been time to see whether these mechanisms lead to better outcomes.

2. **We would also welcome suggestions of other approaches to helping trustees and Independent Governance Committees (IGCs) ensure that their scheme is being administered to a good standard.**

   As TPR's emphasis on good record-keeping and member service has taken hold, trustees and managers have exhibited increased interest in their contracts with administrators, and in monitoring performance. NAPF is providing opportunities for training and for exchange of information concerning how to improve administrative performance.

Master trusts

3. **Should master trusts have to meet the same independence standards as providers of contract-based schemes?**

   That said, as many master trusts are set up to bring business to a service provider, be it the administrator, the investment manager or a bundled provider, it is important to ensure that the commercial interests of the service provider are not allowed to supersede the interests of members and to prevent important dividing lines to be blurred. Therefore we are very pleased to see that the core new requirements for independent trustees with the power to control and move investments, build on the standards set out in early 2013 by the NAPF's Pension Quality Mark standards for master trusts. The largest master trusts are now meetings these PQM Ready standards. However, the DWP proposals are more prescriptive than necessary in places, and we would recommend changes are made before the plans are implemented, these are set out below.

Whilst it is important for IGCs to be properly independent of the provider in order to make independent recommendations it is worth being aware that these bodies, as presently conceived, have a very different purpose from that of the board of trustees of a master trust. IGCs do not have the powers of a trustee board. The trustees of master trusts will have direct control over who provides services to the scheme. IGC members, in contrast, can only recommend action, and there are further obstacles posed by the fact that group personal pension schemes take the form of individual insurance contracts subject to various consumer protection laws.

So whilst similar independence standards make sense it is important to remember the functions of these bodies remain very different.

4. We would welcome views on the proposed definition of 'independent' at Annex B.

We believe that as long as independence is required only of a majority of the members of the board/committee, the definition works reasonably well – this is the approach in the UK Corporate Governance Code. If the definition applied to all members, we believe that the requirement that the independent trustee/IGC member must not "have, or have had within the last three years, a material business relationship with the company either directly or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company" could prevent some very good candidates from being appointed to the board/committee.

For example, a partner in a law firm or actuarial consultancy that had done work for the scheme or provider would be likely to be very knowledgeable about the organisation, and as a professional could be expected to appreciate the requirements of the new role. This provision could also create difficulties for independent trustee companies that are involved in both an IGC for an insurer's contract-based arrangements and as a trustee on that same provider's master trust trustee board.

5. Should the independence requirements be applied in different ways to different models of master trust? In particular, how should the independence requirements be applied to master trusts that use an independent trustee firm to act as their corporate trustee?

We do not think the issue that arises where master trusts appoint independent trustees is so much one of independence as it is rooted in the number of trustees that are being required. It is overkill to require a master trust to hire seven trustees to administer the scheme, four of whom must meet the independence requirements. An IGC composed of seven members has some appeal, because the IGC is advisory and a broad base of viewpoints is important. In contrast, trustees have powers to act directly in pursuit of member interests. We believe that requiring this many trustees would in many instances dilute effectiveness rather than adding to the strength of the board.

We also do not support limited tenure on trustee boards and IGCs. It takes time for trustees to gain the appropriate knowledge and understanding. A long-standing, high quality trustee is a real asset for a pension scheme.

Trust-based governance

6. We would welcome views on the proposed quality standards for trust-based governance which are summarised at Annex B.

We have a number of comments on the quality standards:

- We understand that attention to the default fund is crucial, but are concerned that the emphasis on default funds may be disproportionate. All investment options offered to members should be examined periodically regarding appropriateness and performance.

- It is also important that schemes continue to assess the overall performance and suitability as well as the cost of investment options.

- It will be important that it is clear how these quality standards relate to those in TPR's DC Code to avoid confusion and minimise the compliance burden on trustees.

- For the reasons set out in our answer to question 5, we understand why a broad-based IGC would be desirable, but do not think the same considerations apply to a trustee board. There should not be a requirement for a minimum of seven trustees.

- Trustees should continue to have full flexibility over who provides services to the scheme, including any founding service provider for a master trust scheme. The requirement should also be extended to service agreements and deeds of appointment as well – trustees must be free of all unreasonable constraints on their ability to act independently.

- The requirement for schemes to have arrangements in place to ensure that members' views are directly represented may lead to engagement with scheme members that is well-meaning, but not necessarily cost-effective or representative of member experiences. For a large master trust used by many employers, member engagement through meetings or panels may be impractical and unlikely to get representative members involved. More meaningful insights would probably be gained through closely monitoring member complaints and contacts, website use, responses to communications, and through online and phone surveys where appropriate. The NAPF agrees that master trusts should be seeking to understand their members' views, but this should be an area for best practice to develop rather than the creation of hard and fast rules for engagement.

7. Are the requirements listed at paragraph 8 the right quality standards to be set in regulations for trust-based schemes?

Please see our answer to question 6 above.

8. Should trust-based schemes be required to have a chair of trustees?

Yes. It is important that there is an individual or company on the Board that takes a leadership role and has defined final responsibility. The Chair of the trustee board should also have primary responsibility for reporting on compliance with the quality standards.

9. Will the new reporting requirements help drive compliance with the standards and regulation of these?

There is a balance to be struck between complying with reporting requirements and actually delivering to the members of the scheme. If the reporting requirements are over-emphasised, trustees could be distracted by box-ticking exercises, rather than turning their attention to matters that are not specifically subject to reporting, but material to the well-being of the members.

Transparency

10. We would welcome views on how these transparency requirements could be made to work effectively in unbundled trust-based arrangements (including master trusts).

The NAPF believes that the burden of transparency requirements in such circumstances will need to fall on the shoulders of fund managers, which will need to make disclosures in a consistent basis so that they can be aggregated appropriately. We welcome moves by the IMA to seek to press its members for greater consistency in their approach to disclosure, and will look to encourage the further development of this approach. Expecting schemes to aggregate information that is reported in disparate formats and inconsistently is simply unworkable, and we would expect regulatory involvement should the investment management industry not be capable of moving towards a consistent approach through the best practice route.

11. We would welcome views on whether the transparency requirements we propose for DC schemes should, in the future, be extended to DB schemes, to enable sponsoring employers to further scrutinise the costs of such schemes.

The NAPF believes that there is real value for DB schemes, just as much as DC schemes, in understanding more clearly all the costs that they face in their investment processes. At present, many of the cost burdens on schemes are opaque or even invisible, and it would be to the benefit of the trustees and sponsors of all scheme types to have greater clarity over these burdens so that they can more fully and effectively call their service providers to account.

We would therefore welcome much greater transparency on costs from fund managers and other service providers in the investment sphere. The NAPF is keen to work with all parties to develop best practice standards for such disclosure so that there can be consistency of information, allowing greater comparability and also allowing trustees and sponsors to aggregate these costs across various service providers. The development of such best practice standards will be a necessary part of developing the culture of accountability over costs, and therefore of driving greater value for schemes over time.

The extent to which it is worthwhile to disclose these costs on to the members of DB schemes, who are not taking investment decisions themselves and whose benefits will be unaffected by them, is much more debatable. Some degree of transparency may make sense, to enable members to call to account their trustees if necessary, but the level and frequency of disclosure that is required in practice is likely to be less than in the DC environment.