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Pension Charges Survey 2016: Charges in defined contribution pension schemes

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Summary

In March 2014, the Department for Work and Pensions (DWP) published a Command Paper, which announced a comprehensive range of charges measures designed to improve the value for money of defined contribution (DC) workplace schemes, including a charge cap of 0.75 per cent on default arrangements.

In conjunction with the new charges measures, DWP commissioned the first wave of the Pension Charges Survey in 2015, and subsequently this second wave in 2016. Both were designed to capture the full range of charges that were applied to DC workplace pension schemes.

The 2015 survey focused on the year leading up to April 2015 when the charge cap was introduced. This report, covering the 2016 survey, provides comparable data covering the period after the introduction of the charges measures.

The research team worked with 14 pension providers and 237 unbundled trust-based schemes to collect charges data covering 15.1 million pension pots across 228,000 employers.

Key findings

- The charge cap had lowered charges in qualifying schemes to the level of the cap or below: as many as 98 per cent of members of qualifying contract-based schemes and 99 per cent of members of qualifying trust-based schemes now paid a maximum of 0.75 per cent.
- Among qualifying scheme members, the members of the smallest schemes, which previously charged higher than the cap, benefitted the most. For example, ongoing charges for qualifying contract-based schemes with 12 or fewer members fell by 0.2 percentage points on average.
- Non-qualifying schemes, whose charges are not subject to the cap and were already typically higher than it, had not generally brought down their charges in response. In non-qualifying contract-based schemes just 21 per cent of members paid charges within the cap; and in non-qualifying trust-based schemes 50 per cent of members paid charges within the cap – both showing little change since 2015.
- Charges for unbundled trust-based schemes, measured for the first time in the 2016 survey, were typically comparable to their equivalent bundled trust-based schemes, although a relatively small number of closed, non-qualifying schemes charged markedly higher than the average.
- ‘Legacy’ charges that were banned under the charges measures (i.e. Active Member Discounts (AMDs), consultancy charges and member-borne commission) had been eliminated from qualifying schemes, and remained extremely rare even among non-qualifying schemes.
- There was virtually no improvement in providers’ abilities to report on transaction costs compared to 2015, with many providers, unbundled scheme trustees and their fund managers awaiting further guidance from the Government.

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Finally, we would like to thank the providers and pension scheme trustees who generously gave their time to participate in this research, both in providing pension charges data and for participating in face-to-face interviews afterwards. We hope that they find in this report a true reflection of the current workplace pensions market.

The Authors

Andrew Wood, Research Director, specialises in public policy, financial and regulatory research. He has run many high-profile studies for DWP, covering different aspects of the international pensions landscape, the UK pension reforms, retirement saving and decision-making. Andrew read Modern and Medieval Languages at Fitzwilliam College, Cambridge.

Peggy Young, Associate Director, is a specialist in qualitative research techniques, in particular in the Government and financial sectors, and has conducted many interviews for DWP over the past decade focusing on pension providers and intermediaries.

Christoph Körbitz, Associate Director, is a public policy and social research specialist and has delivered studies for a range of public and third sector bodies, including DWP, the Department for Business, Innovation and Skills, HM Revenue and Customs and the National Audit Office. He has an MA in Sociology from the University of Vienna.

Chloé Ramambason, Research Consultant, has experience across the spheres of market research, social research and brand consulting, both in the public and private sector. She holds a degree in Biological and Biomedical Sciences from Pembroke College, Cambridge.

List of abbreviations

ABI	Association of British Insurers
AMD	Active Member Discount
DB	Defined Benefit
DC	Defined Contribution
DWP	Department for Work and Pensions
FCA	Financial Conduct Authority
FMEC	Fund Manager Expense Charges
IGC	Independent Governance Committee
IA	Investment Association
RDR	Retail Distribution Review
TPR	The Pensions Regulator

Glossary of terms

Active member	For **defined contribution** pension schemes this is a **member** who is currently making contributions into the scheme.
Active Member Discount (AMD)	A charging model that some **providers** may apply to members of a particular pension scheme. Under this model, **active members** of that scheme pay a lower **ongoing charge** than **deferred members**. Since April 2016 these have been banned in **qualifying DC workplace pension** schemes.
Automatic enrolment	Pension scheme enrolment legislation under which an employer enrols eligible jobholders into the **workplace pension** scheme 'automatically' – i.e. without the jobholder having actively to agree to membership. Individuals who are automatically enrolled are free to opt out, but need to take action to do so.
Bid price	The price at which a unit of an investment fund can be sold by an investor (in this case, a **pension fund member**). This price may be slightly less than the **value** of that unit due to **transaction costs**.
Bundled scheme	A pension scheme that is offered through a single pension **provider** or insurance company.
Charge cap	One of DWP's **charges measures** introduced in April 2015. The charge cap applies to **default funds** of **qualifying defined contribution schemes**. The annual cap is set at 0.75 per cent of funds under management, or an equivalent combination charge.
Charges measures	DWP's charges measures were implemented in stages from April 2015. The reforms are intended to provide greater protection for people who have been defaulted into private pension saving via automatic enrolment. They consist of a **charge cap** on **default funds** of **qualifying defined contribution schemes**, and a ban on **commission**, **consultancy charges** and **Active Member Discounts** in **qualifying DC workplace pension** schemes.
Closed scheme	A pension scheme that new members may not join, although existing members can still contribute.

Consultancy charge	A charge borne by members to cover the cost of intermediary advice given to the employer in the course of setting up and/or running a pension scheme. New consultancy charge arrangements were banned from most **qualifying** schemes used for automatic enrolment in legislation in 2013; all were banned from existing **qualifying contract-based** schemes in April 2015; and new arrangements were banned from all existing, **qualifying trust-based schemes** in April 2016.
Contract-based pension	A **defined contribution** pension owned by the individual with the contract existing between the individual and the pension **provider**. Contract-based pensions can be set up either by an employer on behalf of an individual, or by the individual themselves directly with a provider.
Contribution-based charge	Charges levied as a percentage of each contribution paid into an individual's pension pot.
Defined benefit (DB) scheme	A **workplace pension** scheme that provides benefits based on a formula involving how much a person is paid at retirement (or how much a person has been paid on average during their membership of the scheme) and the length of time they have been in the pension scheme.
Defined contribution (DC) scheme	A **trust-based** or **contract-based** pension scheme that provides pension scheme benefits based on the contributions invested, and the returns received on that investment (minus any charges incurred).
Default fund	The investment funds used within a default arrangement.
Default arrangement	The pre-assigned fund or combination of funds into which a member's contributions are invested, if no decision is made by the individual regarding which funds they wish their contributions to be invested in. In the context of this study, these arrangements are used by employers to meet their **automatic enrolment** duties. Since April 2015 default arrangements in **defined contribution qualifying schemes** have been subject to a 0.75 per cent annual **charge cap**.
Deferred member	A **member** who no longer contributes to the scheme but has not yet begun to receive retirement benefits from that scheme.
Eligible jobholder	Eligible jobholders are 'eligible' for **automatic enrolment** and are **jobholders** who are aged at least 22, but have not yet reached State Pension age, and earn above the earnings trigger for **automatic enrolment**.

Flat fee — A charge levied without reference to the funds under management or the funds contributed.

Frozen scheme — A pension scheme that new members may not join, and which existing members may no longer contribute to.

Fund manager — A person or organisation appointed to implement the investment strategy for a **pension fund**, or oversee the investments within a portfolio.

Fund Manager Expense Charges (FMECs) — Any charges that members of a particular fund type typically pay, over and above the **ongoing charge**, to cover expenses incurred by the **fund manager** of a particular fund.

Governance — The management processes that are in place to ensure that a pension scheme is well managed and **members'** interests are met, and that a scheme is invested appropriately.

Independent Governance Committee (IGC) — A body that **contract-based pension providers** are required to have as part of the Financial Conduct Authority's introduction of new rules for providers' internal **governance** and reporting. They are responsible for monitoring and reporting on the value delivered by schemes, and will have to produce an annual report detailing the costs and charges incurred in managing their pension schemes.

Initial commission — Initial commission may be charged by an **intermediary** to a **provider** for services performed during the selling or setup of a pension scheme. It is payable for an initial period only, e.g. the first one to four years of a scheme being set up. Since April 2016 commission borne by members has been banned from most **qualifying DC workplace pension** schemes.

Intermediary — An adviser, or firm of advisers, that is in a position to review products and companies in the market as the basis for recommendations to clients.

Investment manager — See **fund manager**.

Master trust — A **trust-based pension** scheme established by declaration of trust which is promoted to provide benefits to members who are staff of participating employers that need not be connected.

Member — A person who has joined a pension scheme and who is entitled to benefits under it.

Offer price	The price at which a unit of an investment fund can be purchased by an investor (in this case, a **pension fund member**). This price may be slightly less than the value of that unit due to **transaction costs**.
Ongoing charge	A charge levied on a member's **pension fund** in relation to providing that pension scheme. In this report, our definition includes any **AMDs**, **consultancy charges, initial** and **trail commission** and **flat fees** levied.
Open scheme	A pension scheme that admits new **active members**.
Pension fund	The assets that form a pension scheme.
Policy fee	A **flat fee** charged by some providers of older, non-qualifying pension schemes, in relation to providing that pension scheme. In this report, all flat fees such as this are included within the **ongoing charge**.
Provider	An organisation, often a life assurance company, **fund manager** or bank that sets up and administers a pension scheme on behalf of an individual or trust.
Qualifying pension scheme	A pension currently used by an employer to meet their **automatic enrolment** duties.
Retail Distribution Review (RDR)	The RDR was launched in June 2006 by the Financial Conduct Authority (FCA) in response to problems in the market for retail investment advice. The RDR aims to ensure that consumers are offered a **transparent and fair charging system** for the advice they receive; consumers are clear about the service they receive; advisory firms are more stable and better able to meet their liabilities; and consumers receive advice from highly respected professionals. Most RDR-related rules took effect from 31 December 2012.
Stakeholder pension	Usually a **contract-based pension** scheme, subject to government regulations, which limited charges and allowed individuals flexibility about contributions and transfers, introduced in April 2001. Provision of these ceased to be mandatory for employers after the **workplace pension reforms** were introduced.
Trail commission	A fee which may be paid by a **provider** to an **intermediary** on an ongoing basis for selling their scheme to an employer, as well as for ongoing services that the intermediary may provide to the scheme. Since April 2016 commission borne by members has been banned from most **qualifying DC workplace pension** schemes.

Transaction costs for fund entry	Charges incurred when a **member's** new contributions are used to purchase the underlying assets of a particular fund. Transaction costs associated with buying additional underlying assets may mean that the value of funds purchased can be lower than the total amount contributed. The effective reduction is expressed as a percentage of each **member** contribution.
Transaction costs for remaining Invested	Charges incurred by the **fund manager** when buying and selling the underlying assets of the fund. These are passed onto the scheme **member**, usually as a reduction in the value of investments held. The reduction is expressed as a percentage of funds under management.
Trust-based pension	A pension scheme taking the form of a trust arrangement, with a board of **trustees** governing the scheme. Benefits can be either **defined contribution** or **defined benefit**.
Trustee	An individual or company appointed to govern a **trust-based** scheme, in accordance with the provisions of the trust instrument, the legal document that sets up, governs or amends the scheme, and general provisions of trust law as well as pensions legislation, for the benefit of scheme **members**.
Unbundled scheme	A **trust-based** scheme other than a **master trust**, in which the **trustees** work with a range of different service providers including administrators, intermediaries and investment managers to administer the scheme, as opposed to engaging a single **pension provider**.
Winding up scheme	A pension scheme that admits no new members and accepts no further contributions from existing members, and which is in the process of being closed down by its **trustees**.
Workplace pension	Any pension scheme provided as part of an arrangement made for the employees of a particular employer.
Workplace pension reforms	The reforms introduced as part of the Pensions Act 2008 (and updated as part of the Pensions Act 2011): the measures include a duty on employers, starting in 2012 and on a rolling-programme basis, to automatically enrol all **eligible jobholders** into an **automatic enrolment** pension scheme.

Executive summary

This report provides the findings of a study commissioned by the Department for Work and Pensions (DWP), designed to assess the types and levels of charges across defined contribution (DC) trust-based and contract-based workplace pensions since the introduction of the Government's charges measures.

Background

In March 2014, DWP published a Command Paper, which announced a comprehensive range of charges measures designed to improve the value for money of DC workplace schemes.[1] Two of the charges measures were implemented in April 2015:

- A charge cap on the default arrangements of qualifying DC workplace pension schemes.[2] The annual cap is set at 0.75 per cent of funds under management or an equivalent combination charge.
- A ban on consultancy charges in all qualifying DC contract-based pension schemes. This followed a 2013 ban on most new consultancy charging arrangements being set up.

The remaining measures were introduced in April 2016:

- A ban on Active Member Discounts (AMDs) in qualifying DC workplace pension schemes.
- A ban on charges relating to commission in most qualifying DC workplace pension schemes and on consultancy charges in most qualifying DC trust-based pension schemes.[3]

Scope of the research

In conjunction with the new charges measures, DWP commissioned the first wave of the Pension Charges Survey in 2015,[4] and subsequently this second wave in 2016. Together the waves of the research have two over-arching objectives:

- To measure the impact of the charges measures by comparing charges prior to their implementation (April 2015), to charges in the period after they had been fully implemented (April 2016).
- To inform the 2017 government examination of the level of the charge cap and the decision on whether some or all transaction costs should be included.[5]

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1 Department for Work and Pensions. (2014). *Better workplace pensions: Further measures for savers*.

2 A qualifying scheme is a scheme which is used by an employer to meet their legal duties around automatic enrolment.

3 Exceptions are outlined in Section 1.5 of this report.

4 Wood A., Amantani L., Gooders C. and Simpson N. (2016). *Pension Charges Survey 2015: Charges in defined contribution pension schemes*.

5 The announcement of the charge cap review is available at: http://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2016-12-12/HCWS339/

The core research programme in 2016 used the same approach as in 2015, to ensure comparability. It was designed to capture the full range of charges that were applied to DC workplace pension schemes open to new members in the period after April 2016.

It focuses on charges incurred by members whose investments are not in drawdown products, and incorporates the full range of DC schemes. We asked pension providers to collect charges data using an Excel template designed by our research team, and to participate in a follow-up interview. In total, 14 pension providers participated, including eight of the top ten providers by market share. The data we have collected from providers covers 14.4 million pension pots across 228,000 employers.

In 2015, the only major type of DC pension excluded from the survey had been unbundled trust-based schemes. These are schemes where trustees, often based at a single employer, work directly with separate administrators and investment managers to administer the scheme, as opposed to using a single pension provider. In the 2016 survey, we conducted a programme of telephone and face-to-face interviews with 112 qualifying and 125 non-qualifying unbundled schemes, covering an additional 720,000 members, to plug this remaining gap in coverage.

In total therefore, the research covers 15.1 million pension pots.

Key findings

Providers' experiences in participating in the research

Of the 14 providers who participated in this research, five found completing our data template straightforward. Similar to the previous 2015 wave of this research, these were all providers of qualifying master trusts, most or all of whose fast-growing business came from the large population being automatically enrolled into a workplace pension.

Other providers found completing the template difficult for a variety of reasons:

- Given their long history of operating a variety of scheme types and associated charging regimes, many had accumulated multiple IT and data systems over time.
- Some had reached their present organisational structure via mergers between different providers.
- Some had to book the time of colleagues with the necessary expertise to be able to report on their charges, which meant that it was common for providers to involve more than one team or department in collating the data.

Where these issues arose, providers required up to ten days' worth of resource to produce the final data, although the providers who had also participated in the 2015 Pension Charges Survey found compiling the data more straightforward this time around due to familiarity with the data template.

Summary of member-borne charges within the cap

To the best of their knowledge and ability, providers were confident that they had been able to provide data for each of their DC workplace schemes that were open to new members, covering all of the types of charge that fell within the scope of the charge cap for qualifying schemes.

Trustees of qualifying unbundled schemes also found it relatively easy to provide the charges data that we requested. In total, 80 per cent were able to report upon the ongoing charge paid by the members of their schemes; although this fell to just over half (53 per cent) of trustees of non-qualifying unbundled schemes.

The charges diagram overleaf summarises the charges paid by all members (whether active or deferred) after the implementation of the charge cap.

Ongoing charges

The ongoing charge is levied by the provider in relation to administering the scheme, and is expressed as a percentage of funds under management per year (a fund-based charge). The figure we report includes any AMDs, consultancy charges, commission and flat fees levied.

Overall, the charges in qualifying schemes fell in 2016 compared to the previous year:

- Charges in qualifying schemes had been lowered to the level of the cap or below: members of qualifying contract-based schemes paid 0.54 per cent on average, with 98 per cent of members paying within the cap. Members of qualifying trust-based schemes paid 0.38 per cent on average, with 99 per cent of members paying within the cap.
- These charges had fallen since pre-April 2015, with the members of the smallest qualifying schemes benefiting the most from the introduction of the charge cap. For example, ongoing charges for qualifying contract-based schemes with 12 or fewer members fell by 0.2 percentage points on average.[6]
- Master trusts are the only qualifying scheme type showing no change at all, because they were already compliant with the cap before April 2015, and had not typically changed their charging structures or levels since then.

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6 In this report we report 'like-for-like' change, which measures change only among the majority of providers that participated in both years' studies. This means we can be sure that any changes shown by such figures are not a result of differences in coverage of providers between the two waves.

Summary of the charges paid by members of qualifying and non-qualifying DC pension schemes.

	QUALIFYING SCHEMES			NON-QUALIFYING SCHEMES		
	CONTRACT-BASED	MASTER TRUST	TRUST-BASED	CONTRACT-BASED	MASTER TRUST	TRUST-BASED
Ongoing charge 14 228K 14.4M	8 4.3M 0.54% 1-5 0.72%, 6-11 0.69%, 12-99 0.65%, 100-999 0.56%, 1,000+ 0.45% 98%	10 6.3M 0.48% 100%	10 0.7M 0.38% 0.42% 1-5 0.72%, 6-11 0.66%, 12-99 0.61%, 100-999 0.44%, 1,000+ 0.37% 99% 96%	9 2.7M 0.86% 1-5 0.94%, 6-11 0.92%, 12-99 0.88%, 100-999 0.78%, 1,000+ 0.86% 21%	4 44K 0.65% 53%	7 0.4 M 0.70% 0.72% 1-5 0.92%, 6-11 0.92%, 12-99 0.87%, 100-999 0.66%, 1,000+ 0.61% 50% 71%
AMDs *(calculated as % of fund)*	n/a	n/a	n/a	1 10K 0.20% 0.35% 0.49%	n/a	n/a
Consultancy Charges *(calculated as % of fund)*	n/a	n/a	n/a	1 1K 0% 0.58% 1%	n/a	n/a
Initial commission *(calculated as % of contribution)*	n/a	n/a	n/a	1 1K unknown %	n/a	n/a
Policy fee *(flat rate)*	n/a	n/a	n/a	3 36K £14 pa £20 pa £31 pa	3 1K £15 pa	3 11K £9 pa £22 pa £31pa

Bundled scheme data:

Number of providers levying charge

Number of employers to whom charge applied

Number of members paying charge

Typical minimum · Average · Typical maximum

Percentage of members whose ongoing charge was within the 0.75% cap

Unbundled scheme data

- Average figures marked by 'A' show the mean charge paid across all members. Even among qualifying schemes, a small proportion of members did not pay within the cap, because members of qualifying schemes who became inactive before 5 April 2015 are not subject to the cap (See Section 3.2.3).
- For contract-based and trust-based schemes, the average ongoing charge is further broken down by employer size.
- The figures in mauve denote unbundled trust-based schemes. These schemes' charges are not broken down by size because the limited population means that observations within each size category are too few.
- Consultancy charges, initial commission and flat fees levied, as well as any AMDs that were applied, are included within the ongoing charge figures and also itemised separately. Where contribution charges or flat rate charges were used as a combination charge structure across all the members of a master trust, these are incorporated into the ongoing charge but not presented separately.

Non-qualifying schemes, whose charges are not subject to the cap and were already typically higher than it, had not generally brought down their charges in response. Non-qualifying schemes were typically older and sold in a less competitive and less heavily regulated environment:

- In non-qualifying contract-based schemes just 21 per cent of members paid charges within the cap; and in non-qualifying trust-based schemes 50 per cent of members paid within the cap – both showing little change since 2015.
- The average charge paid by non-qualifying contract-based scheme members was 0.86 per cent; and for members of non-qualifying trust-based schemes the average charge was 0.70 per cent. In both scheme types this charge rose to higher than 0.90 per cent in the smallest schemes.
- There was, however, a reduction in the number of non-qualifying scheme members paying the very highest levels of charge. Before April 2015, ten per cent of members of non-qualifying contract-based schemes had paid an ongoing charge of above one per cent. In 2016, fewer than one per cent of members paid such high charges, potentially as a result of Financial Conduct Authority (FCA) and Independent Project Board recommendations that schemes charging such high amounts should assess what actions they will take to improve outcomes for savers.[7]

Charges for unbundled trust-based schemes, measured for the first time in the 2016 survey, were typically comparable to their equivalent bundled trust-based schemes. The only exception was a relatively small number of closed, frozen and winding up unbundled schemes: in 18 per cent of such schemes, members faced an ongoing charge of more than one per cent. Some trustees of frozen and winding up schemes in particular explained to us that these were very old schemes set up in the 1990s or earlier that were intended for closure.

The impact of the ban on legacy charges

‘Legacy’ charges that were banned under the charges measures (i.e. AMDs, consultancy charges and member-borne commission) had been eliminated from qualifying schemes by April 2016, and remained extremely rare even among non-qualifying schemes (where the charges measures did not apply):

- **AMDs:** Some pension providers gave discounts to members who were currently paying into a pension scheme, at the expense of members who were not. These were most often known as AMDs. The removal of the AMD was the only charges measure (apart from the cap itself) that any providers reported having a significant impact on their business. In 2015, four of the 12 providers had used AMDs during the research period for qualifying contract-based schemes; all had now ceased, except one who kept them for a small number of non-qualifying schemes only. Two of these providers mentioned that they had lost revenue due to their lowering the charge for deferred members. Another provider indicated that the impact was not just financial, but also affected their internal resources adversely over that period.

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7 Independent Project Board. (2014). *Defined Contribution workplace pensions: The audit of charges and benefits in legacy schemes*. Industry progress in lowering charges was reported on in DWP and FCA. (2016). *Remedying poor value legacy workplace pension schemes: findings from the joint review of industry progress against the independent project board recommendations*.

- **Consultancy charges:** Consultancy charges were occasionally borne by members to cover the cost of intermediary advice given to the employer. Even in 2015, before the ban, only three providers used consultancy charges, and only for a small minority of members. By April 2016 only one provider still used them, for non-qualifying contract-based schemes only, and affecting around 1,000 members – a number that was said to be diminishing.
- **Initial commission:** Initial commission was in some cases charged by an intermediary to a provider for services performed during the selling or setup of the pension scheme. It was payable for an initial period only, sometimes charged to members via a deduction in their contributions. Only one provider passed on initial commission to members in 2016, down from three in 2015. This affected around 40 employers with non-qualifying contract-based schemes only, which in turn impacted upon 1,300 members.
- **Trail commission:** Trail commission was sometimes paid by the provider to the intermediary annually for selling their scheme to an employer, as well as for ongoing services. In 2015, four providers had used trail commission in conjunction with qualifying contract-based schemes, affecting as many as ten to 20 per cent of such employers. In comparison, in 2016 only one provider still paid trail commission for qualifying schemes (contract- and trust-based) for contractual reasons. Due to the ban on member-borne commission this provider therefore needed to absorb that cost, since it could no longer be passed onto members.

Fund Manager Expense Charges (FMECs)

FMECs are charges that members investing in a particular fund may pay, over and above the ongoing charge, for example to reflect additional expenses incurred by the fund manager. We asked providers to tell us what proportion of members' assets were invested in funds attracting FMECs. Nine of the 14 providers were able to provide this data.

The large majority of all members' assets (71 per cent) were invested in funds attracting an FMEC of 0.01 per cent or less. Providers confirmed that their default arrangements now primarily used such funds. Beyond this, FMECs were typically low with only four per cent of funds under management attracting FMECs above 0.2 per cent. This picture had changed little since 2015.

Transaction costs

Members' contributions are generally subject to transaction costs, which are the costs of purchasing and dealing with the additional underlying assets by the fund. In 2015, providers had struggled to provide us with data on transaction costs, and by 2016 there had been virtually no improvement in providers' abilities to report on these.

The data that providers could give us covering transaction costs for fund entry (i.e. buying units of the fund) was limited:

- Two were unable to say whether or not transaction costs for fund entry applied at all.
- Six confirmed that transaction costs for fund entry did apply to members invested in their default arrangements but were unable to provide data. A few indicated that they were investigating these costs and that they expected to be able to provide more information on them in the future. A number of these providers had also indicated the same thing to us in 2015, however.

- Four providers reported that transaction costs for fund entry do not apply to their default arrangements.
- Two were able to provide at least indicative data on how the costs apply to their schemes: transaction costs for fund entry typically led to a reduction of between 0.05 per cent and 0.40 per cent of each contribution.

Members may also be subject to costs resulting from the transactions made by fund managers while their assets remain invested in the pension. Only four providers could estimate the level of these transaction costs. Typically they ranged between zero per cent and 0.5 per cent of all members' total funds invested per annum, although one said that transaction costs could exceptionally increase to above one per cent in cases where there are property funds involved in the pension fund investment.

Neither type of transaction cost is currently included within the charge cap. Providers faced several challenges in providing the data:

- Providers needed to aggregate data of different types, from multiple funds, and from different fund managers, and this had been a significant challenge.
- In some cases, the fund managers were unable, or refused, to provide the data.
- Some providers explained that even when different fund managers did report on transaction costs, they would use different reporting periods and formats, making the data hard to reconcile.
- For some, the FCA's ongoing consultation provided a disincentive to look into providing these costs until the approach was finally agreed; they intended to wait and see what was agreed before committing any resources to it.[8]

Trustees are responsible for monitoring their unbundled scheme transaction costs in the same way that providers of contract-based schemes are. Similar to the providers, however, most trustees could not report upon transaction costs, and were unclear about how to compile this information. In fact, some trustees admitted they were not clear what transaction costs were.

Only a small number of trustees of qualifying schemes were able to clearly indicate that they understood transaction costs. This was most often the result of their internal governance and monitoring of the scheme. Trustees expressed similar concerns as providers about the difficulties they encountered when trying to measure transaction costs, including problems with obtaining information from third parties, and from fund managers in particular.

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8 In October 2016, the FCA published proposed rules and guidance aimed at standardising the disclosure of the transaction costs incurred by pension investments, to gather evidence on how information on transaction costs could be reported in a standardised and comparable manner. That consultation closed in January 2017 and the FCA intends to publish feedback on responses and issue a Policy Statement later in 2017. See FCA (2016). *Transaction cost disclosure in workplace pensions*.

The impact of the charges measures on the pension landscape

Ensuring compliance with the cap had, unsurprisingly, been easier for providers whose charges were below the cap already. The biggest challenges had been faced by those providers who had a more complex fund structure and complicated default arrangements to bring below the cap: indeed, a minority of providers indicated that complying with the cap had substantially affected their revenue. Such providers also expressed concerns about the impacts that any possible further reduction in the level of the cap might have. They referred not just to the impact of the lower charge itself, but also to the disruption that further changes might cause if they needed to revise their schemes and systems again.

Overall, however, most providers acknowledged that the downward pressure on charges was part and parcel of the industry and current regulatory environment, and so would be likely to continue to some degree. This would require them to operate ever more efficiently, particularly those providers who had older, legacy IT systems, or had been formed through the mergers of multiple companies in the past.

While the need for greater provider efficiency had also been acknowledged in the 2015 research, in 2016 there was a greater emphasis on the need to drive better deals from the fund managers themselves, perhaps because fund management was seen as an area that drove much of the remaining cost to members.

Similar to 2015, some predicted that only schemes with sufficient scale might now be able to continue to operate, with master trusts expected to be increasingly appealing, although others felt that the master trust market was in fact now saturated, that some master trusts could struggle, and that this could lead to consolidation.

Providers were often concerned about the potential inclusion of transaction costs within the cap. While most welcomed industry-wide clarity in being able to report on transaction costs, capping them could, in the view of some, prevent fund managers from providing the best outcomes possible for members. A minority of trustees of unbundled schemes, who pursued relatively active investment strategies, were also concerned that the inclusion of transaction costs could restrict the number of transactions that they could make.

Finally, reflecting upon the amount of recent change in the workplace pensions industry, trustees of unbundled schemes as well as providers indicated a desire for a level of stability in legislation going forward, which would allow time for schemes to adjust and let the recent changes bed in.

1 Introduction

This report provides the findings of a study commissioned by the Department for Work and Pensions (DWP), designed to assess the types and levels of charges across defined contribution (DC) trust-based and contract-based workplace pensions after the introduction of the Government's charges measures.

This chapter introduces the relevant policy background and the objectives of the research, as well as describing the methodological approach taken.

1.1 Policy background

The number of workers who had been automatically enrolled into a workplace pension scheme passed the seven million mark in November 2016[9] and continues to rise. By 2018, ten million workers are estimated to be newly saving or saving more as a result of automatic enrolment.

As a result, there will be an estimated £17 billion extra per year being saved into workplace pensions by 2019/20.[10] While it is always important for pension schemes to deliver good value for money, this is especially important for automatically enrolled members, who may not have made a conscious choice to pay into a pension.

The impact of charges upon members' pension pots can be considerable. For example, a 0.5 per cent ongoing charge over an employee's working life can reduce the overall value of a member's retirement savings by around 11 per cent; whereas a one per cent ongoing charge can reduce retirement savings by around 21 per cent.[11]

With previous research concluding that competition alone could not drive value for money for all savers, DWP published the Command Paper, *Better workplace pensions: Further measures for savers* in March 2014.[12] It announced a comprehensive range of measures to improve the value for money of DC workplace schemes to be brought in over 2015 and 2016. These measures are explained further in Section 1.5 of this report.

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9 The Pensions Regulator. (TPR) (2017). *Monthly Compliance Report*.

10 Department for Work and Pensions. (2016). *Workplace pensions: Update of analysis on Automatic Enrolment*.

11 Office of Fair Trading. (2014). *Defined Contribution workplace pension market study*.

12 Department for Work and Pensions. (2014). *Better workplace pensions: Further measures for savers*.

1.2 Research objectives

In conjunction with the new charges measures, DWP commissioned the first wave of the Pension Charges Survey in 2015,[13] and subsequently this second wave in 2016. Together the two waves have two over-arching objectives:

- To measure the impact of the charges measures by comparing charges in the year leading up to their implementation (April 2015), to charges in the period after they had been fully implemented (April 2016).
- To inform the 2017 government examination of the level of the charge cap and the decision on whether some or all transaction costs should be included.[14]

The survey was designed to capture the full range of charges that were applied to DC workplace pension schemes that were open to new members in the period after April 2016. It focuses on charges incurred by members whose investments are not in drawdown products, and incorporates the full range of DC schemes.

It was also crucial for this project to distinguish between qualifying schemes – i.e. those that can be used for automatic enrolment and so fall within the scope of the new charges measures – and non-qualifying schemes, which do not.

In 2015, the only major type of DC pension excluded from the survey were unbundled trust-based schemes. These are schemes where trustees, often based at a single employer, work directly with separate administrators and investment managers to administer the scheme, as opposed to with a single pension provider. In the 2016 survey, we conducted a programme of telephone and face-to-face interviews with both qualifying and non-qualifying unbundled schemes, to plug this remaining gap in coverage.

As well as reporting on charging levels and structures themselves, the research was also designed to explore the feasibility of providers' and trustees' reporting different types of charges data on a standardised basis. In particular, transaction costs, which are currently excluded from the charge cap, were known to be difficult for providers to measure accurately and consistently. The research therefore examined the ability of providers and trustees to report transaction costs using a single, consistent template.

1.3 Research methodology

The research consisted of two separate elements, as outlined in Figure 1.1.

- The collection of charges data from providers, via an Excel template, followed by an in-depth interview. The same approach was taken as the 2015 survey, to ensure comparability.
- Telephone interviews with unbundled trust-based schemes, in which we collected information about each individual scheme's charges. This was followed by in-depth interviews with a representative selection of these schemes.

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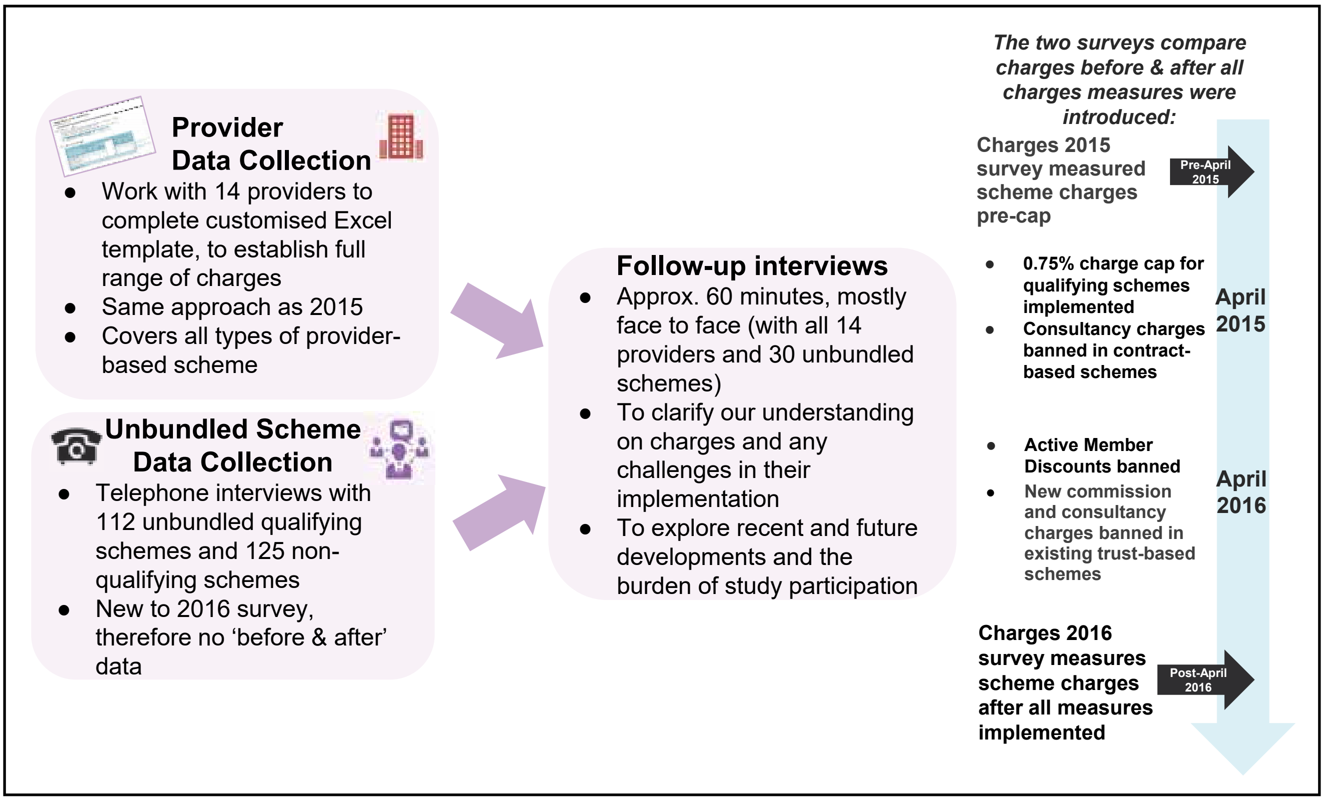
13 Wood *et al*. (2016).

14 The announcement of the charge cap review is available at: http://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2016-12-12/HCWS339/

Figure 1.1 The research approach in summary



1.3.1 Designing an appropriate data collection template for providers and trustees

Before we conducted the original 2015 Pension Charges Survey, a programme of desk research allowed us build upon previous charges work and design an appropriate data collection template. Both the 2015 and 2016 study cover the same range of charges, and so both build on this range of valuable sources.

The sources we consulted included:

- Two previous waves of research commissioned by DWP in 2011 and 2013, and conducted by Breaking Blue (then RS Consulting), into the range of pension scheme charges used by DC workplace pension schemes.[15]
- The Office of Fair Trading's (OFT*) Defined Contribution workplace pension market study*, which also assessed charging levels across DC workplace pensions.[16]

15 Wood A., Amantani L., McDougall D. and Baker N. (2014). *Landscape and Charges Survey 2013: Charges and quality in Defined Contribution pension schemes*, and Wood A., Wintersgill D. and Baker N. (2012). *Pension landscape and charging: Quantitative and qualitative research with employers and pension providers*.

16 Office of Fair Trading. (2014). *Defined contribution workplace pension market study*.

- The Independent Project Board's Legacy Audit of DC workplace pensions, which examined charges, including transaction costs, of schemes set up before 2001.[17]
- The Association of British Insurers' (ABI) transparency initiative, *Agreement on the Disclosure of Pension Charges and Costs.*[18]
- The Investment Association (IA) industry guidance on *Enhanced disclosure of fund charges and costs.*[19]

After discussions with DWP, Breaking Blue developed a standard data collection template in Excel, asking all providers to provide data in the same format. This data template also included briefing notes and was accompanied by a fact sheet, which together provided guidance as to how to complete the data template. The data template, introductory letter and fact sheet can be found in Appendix A (A.1 to A.3).

A corresponding questionnaire template for unbundled schemes, designed to collect the equivalent information to the provider interviews, was designed for the 2016 survey. Along with the introductory letter and fact sheet for unbundled schemes, it can be found in Appendix B (B.1 to B.3).

1.3.2 Data collection with pension providers

We approached all of the major pension providers asking them to participate, anonymously, in the study.[20] We prioritised providers with a large market share, in order to ensure as wide a representation of the current market as possible, as well as inviting master trust providers who had complied with the master trust assurance framework.[21]

In total, 14 providers confirmed to us that they were willing to participate in the research study. A minority of providers declined to participate, sometimes explaining that collecting this data would be too onerous or unfeasible within the suggested research timeframe, which coincided with the implementation of several other committed projects and their meeting regulatory requirements.

The Breaking Blue research team continued to liaise with each of the 14 providers as they began to collect data and fill in the template, answering any potential questions that arose to ensure that the template was completed as accurately as possible, and in a comparable way across all providers. Where providers indicated that they could not complete certain parts of the template, we worked with them where possible to either reach a solution, or understand why the data could not be provided.

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17 Independent Project Board. (2014). *Defined contribution workplace pensions: The audit of charges and benefits in legacy schemes*.

18 The Association of British Insurers. (2013). *Agreement on the Disclosure of Pension Charges and Costs*.

19 Investment Association. (2012). *Enhanced disclosure of fund charges and costs*.

20 An invitation letter from DWP and Breaking Blue was sent to each provider, explaining the nature and purpose of the research, and providing contact details for a member of the Breaking Blue team. The invitation letter can be found in Appendix A.

21 Details of the master trust assurance framework are available on TPR's website at: http://www.thepensionsregulator.gov.uk/trustees/master-trust-assurance.aspx.

When each provider returned the completed data template, it was checked by a member of the Breaking Blue team, and where data appeared to be missing or unclear, the researcher worked with the provider to see if they could complete the data or explain why. While we are confident that the data given to us by providers is a true reflection of the market, the results presented in this report rely on the assumption that providers were able to submit accurate data.

1.3.3 Measuring provider scheme charges

We asked providers to complete the template with data for the DC workplace pension schemes that they currently offered to new members, and to break down the data according to the following scheme characteristics:

- Qualifying (being used by employers to meet their automatic enrolment duties, and so subject to the new charges measures) versus non-qualifying schemes.
- Trust-based schemes, master trusts and contract-based schemes.
- Scheme size.
- Principal charging structure (see Section 1.4 for more details of charging structures).

Where different schemes had different charging structures, we created a single equivalent percentage charge, to allow charges to be compared across schemes and providers on a like-for-like basis.

1.3.4 Comparing charges between the 2015 and 2016 surveys

All charges pertained to the period immediately after April 2016, after the charges measures had all been introduced. This compares to the previous benchmark wave, which measured charges in the year leading up to April 2015, before the measures began to be introduced.

The 14 providers included in the study represent a similar proportion of the market to the 2015 study, both covering eight of the top ten providers. The number of pension pots covered has increased from 9.4 million to 14.4 million, in large part due to automatic enrolment. Alongside this, some members who were previously in a non-qualifying scheme because their employer had not yet begun automatic enrolment, were now in a qualifying scheme.[22]

However, it is also important to note that one top ten provider that participated in 2015 was unable to participate in 2016; and conversely a top ten provider that could not participate in 2015 has done so in 2016. Therefore, we should not compare individual numbers in the 2015 report directly to this year’s report, because any change could be, at least in part, down to the slight difference in provider coverage.

22 The provider data covers fewer than 14.4 million individuals, since some individuals will hold multiple pension pots across different providers. Where we report figures in relation to ‘members’ throughout this report, these figures refer to pension pots. Appendix C includes a breakdown of how many members’ pension pots were covered by the study.

In this report therefore, where we do report specifically upon **changes** to charge levels (specifically in Section 3.2.2), this is based only upon the providers that participated in both years' studies. This means we can be sure that any changes shown by such figures are not a result of differences in coverage of providers between the two waves.

1.3.5 Data collection with unbundled trust-based schemes

In the 2016 Pension Charges Survey we conducted quantitative research with trustees of unbundled trust-based DC schemes.[23] These schemes, which are not administered by a single provider, were the only major private sector DC workplace scheme type not included in the 2015 Pension Charges Survey.

Unbundled schemes represent a relatively small proportion of the DC schemes in the UK, although they can be very large. As a result, the most appropriate approach to collecting these schemes' charges was via 10-12 minute quantitative telephone interviews, designed to provide comparable data to the provider interviews. The interviews were conducted by Critical Research.

The sample of unbundled schemes was provided by The Pensions Regulator (TPR), which holds details of all the UK's unbundled schemes. In total, 912 schemes were provided, of which 216 were identified as qualifying schemes, used for automatic enrolment and therefore subject to the charges measures. These gave us comparable data to the qualifying trust-based schemes operated by providers. Given the very limited population, particular screening effort was placed upon this group, with a view to achieving as many interviews as possible. In total, 112 interviews with qualifying trust-based schemes were achieved, as shown in Table 1.1.

We also interviewed 125 non-qualifying unbundled schemes, not used for automatic enrolment and therefore not subject to the charges measures. The breakdown of these interviews is also shown in Table 1.1. There were three separate types of non-qualifying scheme:

- **Open:** non-qualifying schemes that new members are eligible to join.
- **Closed:** non-qualifying schemes that were closed to new members, although existing members could contribute.
- **Frozen/winding up:** non-qualifying schemes that even existing members could no longer contribute to. In the case of winding up schemes, the trustees of the scheme were also in the process of closing the scheme down.

Among the 125 non-qualifying schemes, we interviewed a roughly even number of open, closed and frozen/winding up schemes. This meant that the profile of our non-qualifying unbundled schemes was slightly different to the non-qualifying schemes reported to us by providers, in that the provider survey only covered schemes that were open to new members.[24]

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23 Or with another scheme representative, such as the Pensions Manager, if this was preferred by the scheme in question.

24 For non-qualifying unbundled schemes, we will therefore provide breakdowns for open, closed and frozen/winding up schemes, where sample size allows.

Table 1.1 The coverage of unbundled, trust-based schemes

	Sample provided		Interviews achieved	
	Schemes	**Members**	**Schemes**	**Members**
Qualifying	216	912,017	112	588,303
Non-qualifying, open	21	11,306	41	94,844
Non-qualifying, closed	35	5,678	43	31,430
Non-qualifying, frozen/winding up	68	17,141	41	5,274
Unknown[25]	572	179,291	–	–
Total	912	1,125,523	237	719,851

As Table 1.1 also shows, there are many more members of qualifying unbundled schemes, than non-qualifying unbundled schemes. Of the estimated 1.1 million members of unbundled schemes in the UK, around 900,000 of these are in qualifying schemes, and our interviews covered around 600,000 of these members. This is because some of the largest private sector schemes in the UK are qualifying unbundled schemes. Non-qualifying schemes, on the other hand, tended to be far smaller on average, with around 200,000 members of these schemes.

The results we present in this report are intended to be representative of all of the qualifying and non-qualifying unbundled schemes interviewed. The small number of schemes in the UK, and the relatively high proportion of these that we interviewed, meant that weighting of the results was not required.[26]

If we add the approximately 720,000 pension pots covered by the trustee survey to the 14.4 million pension pots covered by the provider survey, the research covers 15.1 million pension pots in total.[27]

1.3.6 Follow-up interviews with providers and trustees

On completion of the template or interview, a researcher at Breaking Blue arranged an in-depth interview with each provider, as well as with a representative selection of unbundled schemes (15 qualifying and 15 non-qualifying).

Interviews typically lasted up to one hour and were conducted face-to-face with one or more representatives of the provider or scheme: in the case of the providers, this typically included one person who had been directly involved with drawing down and analysing the data, as well as a senior representative with responsibility for the provider's DC pensions policy or charges.

25 A sizeable proportion of the unbundled, trust-based schemes that were classified as 'unknown' proved to be non-qualifying schemes. As a result, the actual number of non-qualifying schemes achieved is higher than originally noted in the sample.

26 We did not in any case set quotas or stratify the sample (e.g. by open, closed and frozen schemes), other than at the level of qualifying versus non-qualifying schemes. Results for these two sub-groups are always reported separately. Other sample characteristics fell out naturally.

27 Appendix C includes a full breakdown of how many members' pension pots were covered by the study.

The aim was to finalise our understanding of their completed template and the impact of the charge measures on their business and the industry, examining to what extent their charging approach has changed since 2015, including views on any wider impacts of the charges measures.

The discussion guide for providers can be found at Appendix A (A.4); and the discussion guide for unbundled schemes at Appendix B (B.4).

1.4 Charges covered by the research

We asked providers to complete the template in Appendix A (A.3) with data covering the full range of charges attracted by all of their DC workplace pension schemes that were open to new members.

Similarly we asked trustees as part of the questionnaire that appears in Appendix B (B.3) of this report, to report on their own scheme's charges. The same range of charges were covered as the provider interviews, with some exceptions,[28] as we outline below.

In this section we provide a definition of each of the types of charge for which we requested data.

1.4.1 Ongoing charge

The ongoing charge is levied by the provider in relation to administering the scheme, which we have expressed as a percentage of funds under management per year (a fund-based charge). The level and range of ongoing charges paid by members are explored in Section 3.2 of the report.

The ongoing charge includes all of the following types of charge (all of which fall within the government's charge cap for default arrangements in qualifying schemes):

- Fund-based charges levied as a percentage of the funds under management.[29]
- Contribution-based charges levied as a percentage of contributions, or flat fees levied irrespective of contributions or funds under management. We converted these into an equivalent fund-based charge.[30]
- Active Member Discounts (AMDs), which are given to members who are currently paying into a scheme, at the expense of members who have paid in previously but who have stopped doing so. We separately asked providers and trustees to state the level of discount that applied where these were used: see Section 3.4 for details of this.
- Consultancy charges and commission, for master trusts, bundled trust-based schemes and contract-based schemes only.

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28 Specifically, commission and consultancy charges were not included in the trustee interviews.

29 This is frequently referred to as the annual management charge or total expense ratio by providers, although the range of charges which are capped for members of the default fund are broader than both of these.

30 The conversion tables published in DWP. (2014). *Better workplace pensions: Further measures for savers,* were used for this purpose.

We have excluded Fund Manager Expense Charges from the ongoing charge, because they often apply to members that actively choose a fund that requires more active management, which means they often do not apply to members in the default arrangement. Where the member has actively chosen the fund, the charge cap generally does not apply. Transaction costs are also excluded as these do not fall within the cap.

1.4.2 Contribution-based charges

Contribution-based charges are any member charges that are levied as a percentage of each member contribution. In the research we found two types that fall within the charge cap:

- Those used in combination charging structures,[31] where the ongoing charge was split into a fund-based charge, plus a contribution charge (see Section 3.3).
- A very small number of cases where initial commission was levied by an intermediary and the cost was passed onto members via a contribution charge. Initial commission may be charged by an intermediary to a provider for services performed during the selling or setup of the pension scheme. It is payable for an initial period only, e.g. the first one to four years of a scheme being set up (see Section 3.6.1).

We have converted all contribution-based charges into an equivalent fund-based charge and included them as part of the ongoing charge.

1.4.3 Flat fees

Flat fees are charges levied without reference to the funds under management or the funds contributed. In the research we found two types that fall within the charge cap:

- Those used in combination charging structures, where the ongoing charge was split into a fund-based charge, plus a flat fee (see Section 3.3).
- A very small number of older schemes that levied a fixed annual policy fee, in addition to the ongoing charge (see Section 3.7).

1.4.4 Consultancy charge

A consultancy charge is borne by a member to cover the cost of intermediary advice given to the employer in the course of setting up and/or running the scheme. These charges are facilitated by pension providers themselves and so not relevant to unbundled schemes.

In the few cases that they were levied they have been included as part of the ongoing charge. See Section 3.5.

1.4.5 Trail commission

Trail commission may be paid by the provider to the intermediary on an ongoing basis, usually annually, for selling their scheme to an employer, as well as for ongoing services that the intermediary may provide to the scheme. As such, they are relevant to provider schemes, rather than unbundled schemes.

[31] A ‘combination charging structure’ refers to the use of a fund-based charge plus either a contribution-based charge or a flat fee.

Although the cost is not passed onto members as an explicit charge, it may be borne by members through a higher ongoing charge.[32] We can only report on the number of employers for whom trail commission was facilitated, but not the level of commission. See Section 3.6.2.

1.4.6 Fund Manager Expense Charges

Fund Manager Expense Charges (FMECs) are any charges that members of a particular fund typically paid, over and above the ongoing charge, to cover expenses incurred by the fund manager of a particular fund.

They are usually levied when a member actively chooses a fund that requires more active management, with a view to achieving higher returns, and not to members in default arrangements. In these cases the charge cap does not apply. In cases where FMECs do apply to members invested in a default arrangement, the charge cap will now apply, although this research did not distinguish between FMECs paid by each of these two groups of member. See Section 4.1.

Although FMECs are relevant to members of all types of scheme, our previous research had shown that trustees did not hold data on the range of FMECs applicable to each of their members' fund choices, and so the trustee survey did not examine these.

1.4.7 Transaction costs for fund entry

Transaction costs for fund entry are incurred when a member's new contributions are used to purchase the underlying assets of a particular fund. Transaction costs associated with buying additional underlying assets or selling excess underlying assets may mean that the asset value of funds purchased can be lower than the total amount paid. The effective reduction is expressed as a percentage of each member contribution.

Transaction costs for fund entry are not currently included within the charge cap (see Section 4.2.1).

1.4.8 Transaction costs for remaining invested

Transaction costs for remaining invested are incurred by the fund manager when buying and selling the underlying assets of the fund, and are passed onto the scheme member, usually as a reduction in the value of investments held. The reduction is expressed as a percentage of funds under management.

Transaction costs for remaining invested are not currently included within the charge cap (see Section 4.2.2).

1.4.9 Fees paid by employers

Employers may also choose to pay a fee to reduce the charges paid by their employees, or they may be subject to compulsory provider administration fees. These charges are covered in Section 4.3.

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[32] As reported in Wood *et al*. (2014), where a commission-based adviser was used, this led to an average increase in the charge paid by members of trust-based schemes of 0.4 percentage points; and in contract-based schemes of just under 0.2 percentage points.

In the case of unbundled schemes, a wider range of employer fees is applicable, depending on the range of services required to operate the scheme, the costs of some of which may be passed onto the member. These are covered in Section 4.4.

1.5 The charges measures

The Government's charges measures were implemented in stages starting from April 2015. The reforms are intended to provide greater protection for people who have been defaulted into private pension saving.

Two reforms were introduced in April 2015:

- A charge cap on the default arrangements of qualifying DC workplace pension schemes. The annual cap is set at 0.75 per cent of funds under management or an equivalent combination charge. It applies to all ongoing charges, and therefore excludes transaction costs.
- A ban on consultancy charges in all qualifying DC contract-based schemes. This follows 2013 legislation which banned most consultancy charge agreements from being set up.

Further reforms were introduced in April 2016. These prevented providers from levying charges that could be particularly inappropriate for people automatically enrolled into their employer's scheme:

- Some providers previously gave AMDs to members who were paying into a scheme, at the expense of members who had paid in previously but stopped doing so. The latter group could include people who were automatically enrolled but who had ceased employment with that employer. To avoid penalising members who chose to stop paying into an employer's scheme, and who might have been unaware of this financial penalty, AMDs were banned in qualifying DC workplace pension schemes from April 2016.
- Consultancy charge agreements were banned in qualifying DC trust-based schemes from April 2016, with a small number of exceptions.[33]
- Member-borne commission in qualifying schemes was banned from April 2016, apart from in older qualifying trust-based schemes with commission arrangements set up before April 2016. The Government intends banning member-borne commission in these schemes in October 2017.[34]

DWP and the Financial Conduct Authority (FCA) also introduced new rules for trustees' and providers' internal governance and reporting, which are intended to improve the transparency and disclosure of pension scheme charges.

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[33] Rare exceptions are 1) Automatic enrolment trust-based schemes, where the adviser and provider are not connected, and the agreement was set up before 10 May 2013; and 2) Qualifying trust-based schemes where the adviser and provider are vertically-integrated, and the agreement was set up prior to 6 April 2016.

[34] A further type of rare exception consists of older non-qualifying contract-based schemes where there was an agreement between adviser and provider set up before 31 December 2012.

Providers of contract-based schemes are required to have an Independent Governance Committee (IGC), responsible for monitoring the value delivered by these schemes including costs and charges. IGCs have to produce an annual report detailing the costs and charges incurred in managing their pension schemes. Trustees of trust-based schemes have a similar requirement to consider and report on costs and charges, via an annual Chair's Statement.

In October 2016, the FCA published proposed rules and guidance aimed at standardising the disclosure of the transaction costs incurred by pension investments.[35] That consultation closed in January 2017 and the FCA intends to publish feedback on responses and issue a Policy Statement later in 2017.

35 FCA. (2016). *Transaction cost disclosure in workplace pensions*.

2 Experiences of providers in reporting charges

The focus of this chapter is the range of experiences of different providers as they completed the data template we gave them, which requested breakdowns of their defined contribution (DC) pension charges for workplace schemes open to new members. Alongside this we consider the experiences of trustees of unbundled schemes.

Although we gave the same data template to all of the providers who participated in the study, some found completing it considerably more challenging than others. This chapter will explore those challenges and why and to what extent they impacted on their ability to provide the data, including the impact of having completed the survey before (in Section 2.1).

In Section 2.2, we will look at the experience of those providers who found it easy to complete the data template, and why this was; in Sections 2.3 and 2.4 we will then contrast these providers with those providers who had minor, and major difficulties compiling the data, and what the barriers were.

Section 2.5 summarises the charge elements that were more or less easy to collect; while Section 2.6 examines trustees' experiences.

2.1 The impact of previous reporting requirements

For those providers who participated in the 2015 Pension Charges Survey, compiling the data was made more straightforward by their being relatively familiar with the data template. In addition, some were able to repeat, or indeed enhance, their previous data collection methods or refer back to their previous submission to validate the new data.

Surprisingly though, this did not impact significantly upon the total time it took providers to complete data collection. Particularly for the larger providers with legacy schemes, who sometimes had to book out a substantial amount of time to access the data, the total time taken by providers, which we report upon in the following sections, was only slightly lower in average than in the 2015 survey.

2.2 Providers who found completing the data template relatively easy

Of the 14 providers who participated in this research, five found completing the data template straightforward and considerably less onerous than the others. Much like the previous 2015 wave of this research, these were all providers of qualifying master trusts, most or all of whose fast-growing business came from the large populations being automatically enrolled into a workplace pension.

These providers were the first to complete the data template, typically returning it with most or all of the data completed within a few weeks. This group of providers only raised a small number of queries with us regarding how to complete the data and, in the case of the master trusts that completed the template for the first time in 2016, how we would use the data. Some estimated that it had taken them as little as a couple of hours to complete the template on average, and typically just one or two people were responsible for completing the data.

> *'It didn't take up too much of our time. It was quite straightforward to get all the data. If you take into consideration my time and my team's time, maybe three hours.'*
>
> (Provider)

There were several reasons why these providers found it relatively easy to provide data on their charges:

- They usually only offered one (or occasionally two) types of scheme, which greatly simplified they data they had to provide.
- The digital systems that support the provider schemes had been set up in recent years and were therefore relatively modern and efficient.
- None had gone through the process of merging their business with another organisation.

As a result the data we needed tended to be stored in a common, accessible format, and in a way that was easily interrogated.

> *'The data for your survey was very simple and a great deal shorter than some of the other due diligence papers I need to provide to prospective customers.'*
>
> (Provider)

2.3 Providers who had minor difficulties completing the data template

Three of the 14 providers reported having minor difficulties completing the data template. Two were 'traditional' pension providers, primarily insurance companies, who had been operating for longer than the master trusts that had been set up specifically for automatic enrolment; both providers had two or more different types of scheme, each of which often had a slightly different charging structure. That said, there was also one master trust in this group.

Notwithstanding the variety and complexity of different schemes and charges, the providers were able to give us data with relative ease. This was due to their having relatively streamlined and automated data systems, and also in part because they had already worked on similar data requests from government and other groups in the past. Most stressed, however, that even where the relevant data was held on their systems, manipulating it was not straightforward:

> *'I've got various data sets that have a lot of data, a lot of information in them and I just had to collate the data. It was nothing very complicated, but it's just a matter of adding up the correct numbers from the right columns and excluding the members and schemes that were out of scope.'*
>
> (Provider)

Each provider in this group had one or two queries about the data, and many needed occasional conference calls with us to explain requirements and/or to discuss anomalies. The time effort for this group of providers typically comprised one or two days for putting all the data together; they tended to return the completed data template after four to six weeks. That said, the process tended to be more of an organisational effort, with multiple people being involved in data collection.

There were also minor omissions in the data returned: for example, most could not provide anything but general information on transaction costs, because the information was not held on their systems – the types of data that they were not able to provide in full are discussed in Section 2.5.

2.4 Providers who had major difficulties completing the data template

Six of the 14 providers who participated in this study found it particularly onerous to provide the data that we requested. They tended to comment on the substantial total number of days' resource spent on data collection – between eight and ten days – and the fact that often multiple teams and departments had to be mobilised for this effort. It took them between four to eight weeks to return the completed template, and four of the six providers in this category asked for an extension of the original deadline in order to comply with the requirements.

In addition, two further providers declined to participate in the study, with one of them explaining that they did not have the capacity to deal with this request given other regulatory and client related data requests.

> *'We've discussed the request at a senior level and how we could support the research that you are carrying out. There are major considerations for* [us] *in being able to provide the data at this moment in time and we've had to weigh this request up against other developments and deliveries for our regulator and clients that we currently have in progress or already committed to start. We've reached the conclusion that regrettably we will not be able to help with this research as we just do not have the capacity to take this on at what is a very busy time for us.'*
>
> (Provider (non-participating))

All of the providers in this group shared similar issues, which fell into two categories:

- challenges relating to the provider's systems (see Section 2.4.1); and
- challenges relating to resourcing the completion of the template (see Section 2.4.2).

Faced with these difficulties, providers sometimes left gaps in their data or ended up using estimates as a workaround for older schemes. The Breaking Blue research team worked closely with the providers to ensure that the burden of participation was manageable. If it was not possible to get any data for certain fields, we then discussed the reasons for this at the subsequent in-depth interview.

> *'We don't have some of the levels of granularity that were being requested so we just had to make a call to say "There is no way we can get that".'*
>
> (Provider)

2.4.1 Challenges relating to the provider's systems

Providers in this group tended to be traditional providers who had often reached their present organisational structure via mergers between different providers. Given their long history of operating a variety of scheme types and associated charging regimes, many had accumulated multiple IT and data systems over time. There were multiple layers of complexity resulting from a large number of scheme types, legacy and new IT infrastructure, and data being stored in different places.

In practice, this led to the providers on our study having to manually pull the data together from multiple data systems, and then map it onto our template.

> *'We didn't have an easy solution to put straight into a format that would easily fit into what you'd asked for; but you know, it could be done … so it was quite manual to analyse the data and put it into the template.'*
>
> (Provider)

The range of charges paid by a member depended not only on whether they were in a contract- or trust-based scheme, but also on when the scheme was set up. This was because schemes set up before 2001 when the stakeholder charge cap was introduced were often subject to a wider and more complicated range of charges. This meant that these providers had to work with a larger number of variables than the newer master trusts did, making data collection reportedly more onerous for them.

2.4.2 Challenges relating to resourcing the completion of the template

The providers in this group typically had to book the time of colleagues with the necessary expertise to be able to report on their charges. Since they already knew that a considerable amount of time would be required, these tasks needed to be recognised and accounted for in a formal way, rather than simply absorbed into the normal working day. It was common for providers to involve more than one team or department in collating this data.

> *'Collating the information and putting it in and getting the data that was sucked out, it was about 10 working days.'*
>
> (Provider)

2.5 Items that were most difficult for providers to compile

While some providers reported greater difficulties in collating their charges data than others, there were certain types of data that all providers found it more complex to compile, and typically, they described similar barriers to compiling these.

The data items that all providers were able to collate and return included data related to ongoing charges, such as any Active Member Discounts (AMDs), contribution charges and flat fees, commission and consultancy charges. This meant that providers could break down the vast majority of the charges that now formed part of the charge cap, or were banned in qualifying schemes.[36] In some cases, it was precisely the fact that they were required to measure these charges to stay within the cap that ensured that they could be reported to us.

For some providers it was difficult to break down the data by employer size, as they did not hold information in this format. Some of them therefore took more time to complete this section. Furthermore, qualifying master trust providers typically made no attempt to do this, because employer size has no impact upon the ongoing charge paid by members of these schemes: members within the default arrangement typically paid the same rate, irrespective of the employer size.

> *'We cannot break down our members by employer size very easily, as we don't hold that information in an easy-to-access way.'*
>
> (Provider)

In a small minority of cases, providers applied contribution charges or flat fees only to a tiny proportion of members (typically fewer than 100 members in total, representing less than one per cent of their total membership). This sometimes made the collation of this data more difficult, as providers did not always store non-standard charging data on older schemes in a readily accessible system. Since it would have required a disproportionate effort to provide the charges for these outliers, they were in some cases excluded. Their absence is unlikely to have had an impact on the overall ongoing charge levels, although it is useful to bear in mind while reading this report that a small number of rarer, legacy charges also exist.

2.5.1 Providing Fund Manager Expense Charge data for funds used in default arrangements

FMECs are any charges that members of a particular fund typically paid, over and above the ongoing charge, to cover expenses incurred by the fund manager of a particular fund. Since it is possible for members to have their pot invested in multiple funds, we requested data to be broken down as a proportion of the total value of the assets invested in a particular fund.

Most providers were able to produce data on FMECs, covering the majority of all members' funds. But some providers could not, typically because the relevant data was held by external fund managers: the same providers had reported these issues in the previous wave of the survey as well, reporting that it was challenging for them to liaise with an external party and persuade them of the importance of setting up a process to collect this data within the time constraints.

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36 With the exception of Fund Manager Expense Charges (FMECs) within default arrangements – see Section 2.5.1.

We also asked providers to indicate which of the FMECs pertained to funds that were typically used by employers and/or their advisers within default arrangements. However, these breakdowns could not readily be reported by the majority of providers. This means that we cannot distinguish between FMECs paid by members in the default fund, as opposed to members who have chosen different investments.

> *'We had a bit of a challenge internally to rationalise that fund list and also rationalise some of our pricing in the fund list.'*
>
> (Provider)

The challenges of providing FMECs, whether for the default or at all, essentially related to the complexity of members being invested in multiple different funds:

- Default arrangements were often made up of multiple investment funds, leaving the provider with a large number of different combinations that qualified as default strategies.
- Providers often found it very difficult to identify a default fund in pre-automatic enrolment schemes, because they had not been required to nominate a default arrangement before this.
- Some providers also offered bespoke default arrangements designed by trustees of schemes, leading to more variation than simply using off-the-shelf, standard funds. These tailored default arrangements again often consisted of multiple funds, meaning the data for each of the underlying funds would have had to be collected and itemised separately, requiring more time and effort from the provider.

2.5.2 Providing data on transaction costs

Providers consistently found it most difficult to provide data on transaction costs, whether for fund entry or remaining invested. Few providers could provide only limited data on transaction costs, which we outline in Section 4.2.

A significant barrier to collecting this data, as with FMECs, was that the providers themselves did not hold the data: it was held by fund managers, most of whom operated externally to the provider. Providers felt that fund managers could not be made to provide the data, although large master trusts appear to have more 'clout' in this matter.

> *'Fund managers are starting to provide us with an increased volume of information in this space, but there is still an awfully long way to go across the industry in terms of standardising how we might display it, and as such we are not really in a position to provide something that would be meaningful or useful to you at this stage.'*
>
> (Provider)

Overall, this represents very limited progress since the previous wave of the survey. Indeed, several providers who had told us in 2015 that they hoped to be able to report upon transaction costs in the near future could still not do so by the time of the 2016 survey. The reasoning that some gave was that they were waiting for the Government to disclose their planned regime: this had led to very little progress since last survey.[37]

Reporting on transaction costs led to a range of unique issues, which are explored in more depth in Section 4.2 of this report.

2.6 The experiences of trustees of unbundled schemes

Overall, trustees found it relatively easy to provide the charges data that we requested, although their task was easier than that of the providers: trustees were only giving us data on their own scheme. Even then, there were some information gaps in the information they could provide us with.

2.6.1 Provision of data on the ongoing charge for unbundled schemes

As we would expect, a clear majority (80 per cent) of trustees representing qualifying schemes were able to report upon the ongoing charge paid by the members of their schemes. Where trustees could provide this data, this was usually thanks to a close, active relationship with their scheme administrator, who regularly provided them with the necessary information. Less often it was the scheme auditors or the investment managers who provided them with the information requested.

> *'I would say the investment adviser is critical. The administrator is critical. We also have a platform provider where the funds live and we have legal advice.'*
>
> (Qualifying unbundled scheme)

In some cases an investment adviser or consultant provided the information, alongside a value assessment of their scheme relative to the rest of the market.

Overall most of the trustees we interviewed from qualifying unbundled schemes were active in their approach to running and monitoring their schemes on behalf of members, in part because of the requirement to report charges to members and to ensure that their schemes were compliant with the charge cap, as well as to automatically enrol new members.

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37 In October 2016 the Financial Conduct Authority (FCA) published proposed rules and guidance aimed at standardising the disclosure of the transaction costs incurred by pension investments, to gather evidence on how information on transaction costs could be reported in a standardised and comparable manner. That consultation closed in January 2017 and the FCA intends to publish feedback on responses and issue a Policy Statement later in 2017. See FCA. (2016). *Transaction cost disclosure in workplace pensions*.

Among non-qualifying schemes, however, the picture was often different. Awareness of the level of charge paid by members was only just over half (53 per cent) of trustees. In our follow-up interviews, the reasons given for the lack of knowledge were often vague. Some trustees did not know that members paid any charges at all,[38] whereas others said that it was difficult to obtain the information – either because they could not get it from their administrators or fund managers, or because they did not know where to look for it.

Knowledge was even lower among non-qualifying schemes that were closed, frozen or winding up. Whereas among open non-qualifying schemes 64 per cent could tell us the ongoing charge, only 47 per cent of closed, frozen or winding up schemes could do so, suggesting that the degree of monitoring of charges undertaken for these inactive schemes was far lower. As we will show in Section 3.2.3, members of these schemes often faced higher charges than those of other schemes.

2.6.2 Provision of data on other charge types, including transaction costs

Where trustees could report upon the ongoing charges that their members faced, they could also typically report upon the individual elements of the charge, such as contribution or flat rate charges. All confirmed that AMDs did not apply to their schemes.

Similar to the providers, however, most trustees could not report on transaction costs, and were unclear about how to compile this information.

> *‘It’s just that some of the transaction costs are not things that are routinely tracked in the way in which, perhaps, the government thought they might be.’*
>
> (Qualifying unbundled scheme)

While around two in five (39 per cent) of qualifying schemes and around one in five (19 per cent) of non-qualifying schemes made an initial estimate of transaction costs when we asked them, many subsequently conceded that they had confused these with the ongoing charge. Indeed some trustees did not understand clearly what was even meant by transaction costs: we explore this issue in more detail in Section 4.2.3.

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38 It is technically possible for a sponsoring employer to cover all of their members’ charges, although this practice is extremely rare.

3 Member-borne charges within the cap

Chapters 3 and 4 examine the level and range of charges levied by the defined contribution (DC) workplace pension schemes open to new members covered by this research, at the point after the charges measures had been fully implemented in April 2016.

This chapter focuses on the charges that now fall within the Government's annual charge cap for qualifying schemes:

- Section 3.1 provides a one-page overview of the average, maximum and minimum member-borne charges that fall within the charge cap.
- Section 3.2 focuses on the total ongoing charge, how it varies between members of different schemes, and how this has changed since before the charge cap was implemented (April 2015).
- Section 3.3 describes how combination charging structures are used by some providers.
- Section 3.4 discusses the use of Active Member Discounts (AMDs).
- Section 3.5 examines consultancy charges, where these are used.
- Section 3.6 examines the use of commission.
- Finally, Section 3.7 summarises how flat fees are used by a few providers.

3.1 Summary of member-borne charges within the cap

To the best of their knowledge and ability, all of the providers were confident that they could provide data for each of their DC workplace schemes that were open to new members, covering all of the charges within the cap. There were some exceptions, as we outlined in Section 2.5, primarily relating to cases where a charge only applied to an extremely small proportion of members. Most of the trustees of unbundled schemes could also provide these details.[39]

We can therefore be confident that the data summarised in Figure 3.1 represents a good snapshot of the charges paid by members in the year following on from the implementation of the charge cap in April 2015. In total it covers 14.4 million pension pots across schemes managed by the 14 providers, and a further 720,000 pension pots across 237 unbundled schemes.[40]

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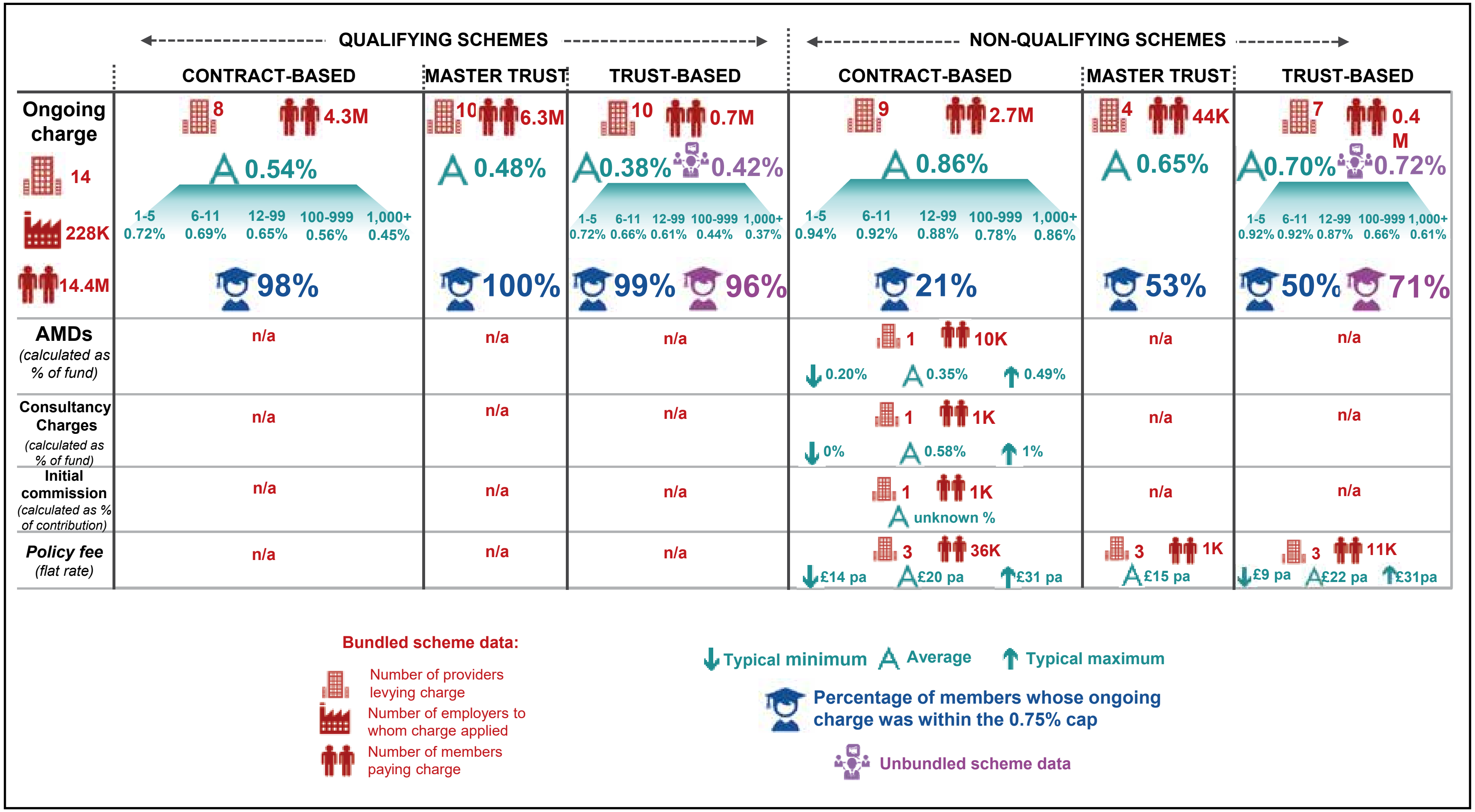
39 See Section 2.6.1 for more details on the proportion of unbundled schemes that could provide this information.

40 The data covers fewer than 15.1 million individuals, since some individuals will hold multiple pension pots across different providers. Where we report figures in relation to 'members' throughout this report, these figures refer in fact to pension pots. Appendix C includes a breakdown of how many members' pension pots were covered by the study.

Figure 3.1 Summary of the charges paid by all members of qualifying and non-qualifying DC pension schemes



Interpreting the data in Figure 3.1:

- The average figures marked by ‘A’ in Figure 3.1 show the mean charge paid across all members. In other words, the average ongoing charge paid by all members of contract-based qualifying schemes was 0.54 per cent, although it should be acknowledged that if an individual holds two or more separate workplace pensions they will be double-counted (or more).
- Within each scheme type, the average ongoing charge is further broken down by scheme size, which for contract-based and trust-based schemes is typically related to employer size. We do not give employer size breakdowns for the master trusts, in part because they did not usually set their charges according to employer size, but also because some of the largest master trusts could not supply this data.
- The figures in mauve denote unbundled trust-based schemes. These schemes’ charges are **not** broken down by size because the limited population means that observations within each size category are too few. In Section 3.2.3, however, we do further break down the non-qualifying unbundled scheme charges according to scheme status (i.e. whether schemes are open to new members or not).
- Any AMDs, consultancy charges, commission and flat rate fees levied are already included within the total ongoing charge figures, and they are typically itemised separately. Trail commission, while included in the total ongoing charge figures, could not be itemised separately by providers.
- Where contribution charges or flat rate charges were used in a combination charging structure across all the members of a master trust, these are incorporated into the ongoing charge but not presented separately.
- The table also shows how many providers levied each type of charge. Ongoing charges applied to all members of all schemes, and so the number of providers levying an ongoing charge equates to the number of providers that used that scheme type at all. In total 14 providers participated, most of whom offered more than one different type of pension, whether contract-based, trust-based or master trust[41].

3.2 Ongoing charges

The ongoing charge is levied by the provider in relation to administering the scheme, and is expressed as a percentage of funds under management per year (a fund-based charge). The figure we report includes any AMDs, consultancy charges, commission and flat fees levied. The 14 providers included in this study provided information on the level of ongoing charges incurred by 14.4 million pension pots across 228,000 employers. The 237 unbundled schemes cover a further 720,000 pension pots.

41 Some newer master trusts that were set up specifically for automatic enrolment only offered this single type of scheme.

3.2.1 The primary drivers of the ongoing charge

The findings of the 2016 survey continue to demonstrate the same three primary drivers of member charges as we discovered in the 2015 survey:

- **Qualifying status:** Whether a scheme is qualifying (i.e. used for automatic enrolment and so now subject to the charge measures) or not. Members of qualifying schemes pay considerably less.
- **Scheme size:** In both years charges were lowest for the largest schemes and highest for the smallest schemes within each scheme type.
- **Scheme type:** members of trust-based schemes faced lower charges on average than members of contract-based schemes.

Table 3.1 Average ongoing charge (as a percentage of funds under management) paid by members of each scheme type, by scheme size

Scheme size	Qualifying schemes (mean ongoing charge)				Non-qualifying schemes (mean ongoing charge)			
	Contract-based	Master trust	Trust-based	Unbundled trust-based	Contract-based	Master trust	Trust-based	Unbundled trust-based
Total	**0.54**	**0.48**	**0.38**	**0.42**	**0.86**	**0.65**	**0.70**	**0.72**
1-5	0.72	-	0.72	-	0.94	-	0.92	-
6-11	0.69	-	0.66	-	0.92	-	0.92	-
12-99	0.65	-	0.61	-	0.88	-	0.87	-
100-999	0.56	-	0.44	-	0.78	-	0.66	-
1,000+	0.45	-	0.37	-	0.86	-	0.61	-

Table 3.1 summarises the average charges paid by members of each scheme type, both qualifying and non-qualifying, with further breakdowns by size where relevant. The data confirms our conclusions about the key drivers of charge. To examine this further:

- **Qualifying status:** Members of non-qualifying schemes paid higher charges on average than members of qualifying schemes. For example, members of qualifying contract-based schemes paid 0.32 percentage points less per annum than members of non-qualifying contract-based schemes. Non-qualifying schemes were typically older and sold in a less competitive and less heavily regulated environment. As a result they tended to incur higher charges than those set up more recently during the era of automatic enrolment.
- **Scheme size:** Members of contract- and trust-based schemes at smaller employers paid higher charges. Master trusts were different, since a single scheme covered multiple employers, and these did not usually set their charges according to employer size. Providers tended to incur fixed costs each time they sold a scheme to a new employer. The more members there were in a particular employer's pension scheme, the more potential revenue the provider could receive in ongoing charges to offset these fixed costs. Members of larger schemes therefore paid lower fees, due to these economies of scale. Some larger employers were also reportedly able to leverage the volume of business they would be bringing to the provider, and so negotiate lower charges.

- **Scheme type:** Members of contract-based schemes paid higher charges than members of master trusts and other trust-based schemes (including unbundled schemes) with the same qualifying or non-qualifying status. This difference was most evident in the largest size categories, which may be because trust-based scheme trustees are more successful in negotiating lower charges than employers with contract-based schemes.

In the case of unbundled, non-qualifying schemes, whether a scheme was open to new members or not also impacted the level of charge: we examine this in Section 3.2.3 in more detail.

3.2.2 Change in the ongoing charge over time

Care should be taken in comparing the figures in the previous 2015 charges report with those of this study, because the providers included in the 2016 survey, while largely comparable, do differ slightly.

The 14 providers included in the study represent a similar proportion of the market to the 2015 study, both covering eight of the top ten providers. The number of members has also increased from 9.4 million to 14.4 million members, in large part due to automatic enrolment. However, one top ten provider that participated in 2015 was unable to participate in 2016; and conversely a top ten provider that could not participate in 2015 has done so in 2016.

It is, however, possible to report upon ‘like-for-like’ change, which measures the change only among the providers that participated in both years’ studies. Such figures also exclude charges for unbundled schemes, which were not included in the 2015 study. This means we can be sure that any changes shown by such figures are not a result of differences in coverage of providers between the two waves. Table 3.2 does this.

Table 3.2 Like-for-like change in the average ongoing charge pre-April 2015 to post-April 2016

Scheme size	Qualifying schemes (change in mean ongoing charge)			Non-qualifying schemes (change in mean ongoing charge)		
	Contract-based	Master trust	Trust-based	Contract-based	Master trust	Trust-based
Total	**-0.07%**	**(No change)**	**-0.09%**	**-0.02%**	**-0.05%**	**-0.03%**
1-5	-0.20%	-	-0.18%	+0.01%	-	+0.01%
6-11	-0.20%	-	-0.17%	+0.01%	-	+0.01%
12-99	-0.16%	-	+0.05%	+0.02%	-	+0.05%
100-999	-0.07%	-	-0.14%	-0.03%	-	-0.04%
1,000+	-0.03%	-	-0.09%	-0.07%	-	-0.05%
Percentage of members within cap	+21ppt	(No change)	+11ppt	(No change)	-1ppt	+1ppt

Qualifying contract-based and trust-based scheme charges have fallen across the board in almost all size categories, with the members of the smallest qualifying schemes benefiting the most from the introduction of the charge cap. For example, ongoing charges for qualifying contract-based schemes with 12 or fewer members fell by 0.2 percentage points on average. It is particularly noticeable that the proportion of members of qualifying contract-based schemes paying charges within the cap has increased by 21 percentage points.

Qualifying master trusts are the main exception because these were already compliant with the cap before April 2015, and have not typically changed their charging structures or levels since then.

Conversely, non-qualifying contract-based and trust-based scheme charges did not fall at the same rate. Indeed, charges within the smaller non-qualifying schemes with less than 100 members had risen fractionally and remained above the cap.

3.2.3 The distribution of different charging levels across members

Table 3.3 shows the proportion of members paying different levels of ongoing charge, across each of the different scheme types.

Table 3.3 Percentage of members of each scheme type that paid each level of charge (percentage of funds under management)

Charge level	Qualifying schemes (column percentages)				Non-qualifying schemes (column percentages)				
	Contract-based	Master trust	Trust-based	Unbund-led	Contract-based	Master trust	Trust-based	Unbundled	
								Open	Closed/ Frozen/ W.U.
Total number of members	**4.3M**	**6.3M**	**0.7M**	**0.6M**	**2.7M**	**44K**	**0.4M**	**41**	**0.1M**
>1.25%	-	-	-	-	<0.5	-	-	8	15
>1.0% – 1.25%	1	-	-	1	<0.5	-	3	4	3
>0.75% – 1.0%	<0.5	-	1	2	79	47	47	8	18
>0.5% – 0.75%	57	3	15	32	13	6	22	27	23
>0.25% – 0.5%	30	97	70	38	8	47	22	42	25
0% – 0.25%	11	-	15	26	-	-	6	12	18
Average charge	0.54%	0.48%	0.38%	0.42%	0.86%	0.65%	0.70%	0.59%	0.80%
Percentage within the cap	98	100	99	96	21	53	50	81	66

Among qualifying schemes in 2016, only a small proportion paid above the cap. In total, four providers charged a small minority of members higher than the cap: this affected two per cent of members of qualifying contract-based schemes and one per cent of members of qualifying trust-based schemes. The reason for this was a rule within the charge measures stating that members of qualifying schemes who became inactive before 5 April 2015 are not subject to the cap.[42]

[42] Members who made a contribution to the default arrangement on or after 6 April 2015 are protected by the cap. For details, see the explanatory memorandum to the Occupational Pension Schemes (Charges and Governance) Regulations 2015, Section 7.18, available at: http://www.legislation.gov.uk/ukdsi/2015/9780111128329/pdfs/ukdsiem_9780111128329_en.pdf

> *'When the cap came in it applied to everyone who was still paying into the scheme at that point. So if you'd left your company in March 2015 the cap wouldn't apply to you. But as long as you were active when the cap came in, then the cap would apply to you in that scheme forever.'*
>
> (Provider)

Furthermore, very few members paid the very highest levels of charge in 2016. Before April 2015, ten per cent of members of non-qualifying contract-based schemes had paid an ongoing charge of above one per cent. Fewer than one per cent of members now paid such high charges, with most having moved into the 0.75 per cent to one per cent range. While providers themselves did not confirm their reasons for this, it is likely it is a result of the Financial Conduct Authority (FCA) and Independent Project Board recommendations that schemes charging the highest amounts should, by June 2015, assess what actions could be taken to improve outcomes for savers.[43]

It is also notable in Table 3.3 that the relatively small number of closed, frozen and winding up unbundled schemes could face high charges, with 18 per cent of such schemes paying more than a one per cent charge. Some trustees of frozen and winding up schemes in particular explained to us that these were 'legacy' schemes that were intended for closure. In some cases these schemes had few members, who were either no longer reachable or who had ignored communications from their employer about better value schemes that were available.

> *'This is an old historical legacy system … It is closed. In all fairness, members now have the option of another scheme, which the company actually pays more money into, hence the reason why we've only got 100 members … We've emailed all 100 people … It's pure complacency … We don't understand why these 100 members haven't moved. They're being offered quite a good deal in the new scheme but they're not going, which is a bit of a shame really.'*
>
> (Non-qualifying unbundled scheme)

The Government has recognised the challenges faced by such employers in attempting to move members to better value schemes. In December 2016 a call for evidence was published, aimed at making it easier to move members of DC trust-based schemes to better schemes without member consent.[44]

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43 Independent Project Board. (2014). *Defined Contribution workplace pensions: The audit of charges and benefits in legacy schemes*. Industry progress in lowering charges was reported on in DWP and FCA. (2016). *Remedying poor value legacy workplace pension schemes: findings from the joint review of industry progress against the independent project board recommendations*.

44 DWP. (2016). *Bulk transfers of defined contribution pensions without member consent*.

3.3 Combination charging structures

A small number of providers used a combination charging structure for all members. This consists of a fund-based charge, plus either a contribution charge or a flat fee. In order to be able to compare these combination charges to other providers' fund-based ongoing charges, we have converted these into a fund-based charge in all of the figures shown throughout this report, in order that they can be compared to the single fund-based charge used by most providers.[45]

3.4 Active Member Discounts

Pension providers may give discounts to members who are currently paying into a pension scheme. These are known as AMDs. As a result, active members pay a lower ongoing charge than deferred members (i.e. members who are not currently paying in). AMDs were banned in qualifying DC workplace pension schemes from April 2016 onwards as part of the charges measures.

In 2015, four of the 12 providers had used AMDs during the research period for qualifying contract-based schemes. In comparison in 2016, only one provider reported regularly using AMDs, and only on non-qualifying contract-based schemes. These schemes had under 10,000 members in total, with an average discount of 0.35 per cent, though this varied from a minimum of 0.20 per cent to a maximum of 0.49 per cent. No unbundled trust-based schemes used AMDs.

Providers justified their initial decision to use AMDs as one that had been borne out of competitive pressure: AMDs had been necessary for them to win business from attractive clients. The removal of the AMD was the only charges measure (apart from the cap itself) that any providers reported having a significant impact on their business. Two providers mentioned that they had lost revenue due to their lowering the charge for deferred members. One provider indicated that this had a major impact, both financially and in terms of their internal resources required to both implement and then eliminate it.

Another provider had found the administrative process of removing AMDs complex, because in many cases deferred members paid higher fees for a range of reasons, which meant that there was no simple way to remove AMDs. As such this process took considerable effort, and in turn this impacted on internal resources.

> *'There was a lot of work involved in that … to identify the schemes, decide what the appropriate level of ongoing charge was going to be in future … We had to look at schemes on an individual basis.'*
>
> (Provider)

[45] The conversion tables published in Department for Work and Pensions (2014). *Better workplace pensions: Further measures for savers*, were used for this purpose.

3.5 Consultancy charges

Consultancy charges are borne by the member to cover the cost of intermediary advice given to the employer in the course of setting up and/or running the scheme. They were introduced in January 2013 as an alternative means of intermediary remuneration following the Retail Distribution Review ban on commission arrangements in contract-based schemes from 31 December 2012. The Department for Work and Pensions (DWP) subsequently introduced regulations banning new consultancy charges in automatic enrolment pension schemes from May 2013. The FCA introduced rules in April 2015 that banned any remaining consultancy charges in qualifying DC contract-based pension schemes. DWP ensured that the regulations to ban new member-borne commission arrangements in trust-based schemes used for automatic enrolment from April 2016 also prevented consultancy charges from this date, with a small number of exceptions (which it intends to ban in October 2017).[46]

Only one provider still used consultancy charges in 2016, down from three in 2015, for non-qualifying contract-based schemes only. This charge averaged 0.58 per cent, although it could vary between just over zero and one per cent. The charge was levied on about 100 employers which in turn affected around 1,000 members – and the number was said to be diminishing.

> *'Our population of schemes with consultancy charging is diminishing month on month and as and when an employer gets to their staging date the consultancy charge stops on their scheme.'*
>
> (Provider)

3.6 Commission

There were two types of commission that providers reported passing onto members: initial commission and trail commission. Both types of commission were facilitated by pension providers themselves and so were not relevant to unbundled schemes. New member-borne commission arrangements in qualifying schemes were banned from April 2016, apart from arrangements in older qualifying trust-based schemes set up before April 2016. The Government intends banning member-borne commission in these schemes in October 2017.[47]

3.6.1 Initial commission

Initial commission may be charged by an intermediary to a provider for services performed during the selling or setup of the pension scheme. It is payable for an initial period only, e.g. the first one to four years of a scheme being set up. In some cases, initial commission was charged to members via a deduction in their contributions.

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46 Rare exceptions are: 1) Automatic enrolment trust-based schemes, where the adviser and provider are not connected, and the agreement was set up before 10 May 2013; and 2) Qualifying trust-based schemes where the adviser and provider are vertically-integrated, and the agreement was set up prior to April 2016.

47 A further type of rare exception consists of older non-qualifying contract-based schemes where there was an agreement between adviser and provider set up before 31 December 2012.

Only one provider passed on initial commission to members in 2016, down from three providers in 2015. This charge was levied on non-qualifying contract-based schemes only and affected around 40 employers, which in turn impacted on 1,300 members. However the provider in question was unable to estimate the impact this had on the total charge incurred by the schemes. In 2015, the typical impact of initial commission had been between one and five per cent of each member contribution for an initial period; we might speculate that in 2016 the range was similar.

For most providers initial commission was seen as a legacy from historical, less competitive charging structures, and no longer relevant, even for non-qualifying schemes.

> *'They only apply to certain schemes, and this is specifically older contracts … we haven't actively sold any schemes with this kind of charging basis for 15 years …'*
>
> (Provider)

3.6.2 Trail commission

Trail commission may be paid by the provider to the intermediary annually for selling their scheme to an employer, as well as for ongoing services that the intermediary may provide to the scheme. Trail commission is not treated by providers as a separate charge, although previous studies had shown that members of commission-based schemes did tend to pay higher ongoing charges.[48]

We have therefore only attempted to report the number of employers affected by trail commission and not the level of commission they paid.

Table 3.4 The prevalence of trail commission, by scheme type

Charge level	Qualifying schemes			Non-qualifying schemes		
	Contract-based	Master trust	Trust-based	Contract-based	Master trust	Trust-based
Number of providers who paid trail commission	1 of 8	0 of 10	1 of 10	4 of 9	0 of 4	2 of 7
Number of employers using trail commission-based schemes	984	-	6	2,596	-	753
Percentage of employers using trail commission-based schemes	2%	-	1%	8%	-	5%

48 As reported in Wood *et al*. (2014), where a commission-based adviser was used, this led to an average increase in the charge paid by members of trust-based schemes of 0.4 percentage points; and in contract-based schemes of just under 0.2 percentage points.

The prevalence of trail commission among the providers is shown in Table 3.4. In 2015, typically between ten and 20 per cent of employers with qualifying contract-based schemes had used trail commission. This percentage was lower for qualifying trust-based schemes, and master trusts did not facilitate trail commission at all. In comparison, in 2016 only one provider still paid trail commission for qualifying schemes (contract- and trust-based) for contractual reasons. Due to the ban on member-borne commission this provider therefore needed to absorb the cost, since it could no longer be passed onto members.

> *'We were stuck in a situation where contractually we had agreed to set up terms and pay commission to an adviser and set that in good faith but we are also restricted in what we can charge the members, and therefore we found ourselves in a situation for a year where we had to stop charging the members for commission. That has had a significant impact into the millions and probably tens of millions that we have had to absorb as a cost as a result.'*
>
> (Provider)

While this charge has effectively been eliminated from qualifying schemes, it still persists in some non-qualifying schemes.

3.7 Flat fees

Flat fees are additional charges levied without reference to the funds under management or the funds contributed.

We encountered two types of flat fee. Flat fees could be used as part of a combination charging structure for all members. This was discussed in Section 3.3. In this section we focus on three other providers who levied a flat fee as an additional charge upon a small number of members of older schemes (sometimes referred to as a policy fee). This 'policy fee' typically was not said to cover any costs or additional services in particular, other than provider administrative costs, or in some cases to bring the level of other charges down.

> *'Where we do that, it's in order to bring down the ongoing investment and service charge and the management charge.'*
>
> (Provider)

Just under 50,000 members of non-qualifying schemes paid the fee, only slightly down from 57,000 in 2015. The fee typically ranged from £14 to £22 per annum, although the largest fee of £31 per annum was charged to non-qualifying contract-based schemes.

Even before the charges measures these charges were rare, with several providers having removed them even from non-qualifying schemes.

> *'We looked at these charges and then reflected on the actual experience of some of these schemes and the fact that they could have a disproportionate impact on customers who are no longer contributing … And therefore we felt it was appropriate to stop that charge.'*
>
> (Provider)

4 Other member- and employer-borne charges

This chapter explores the prevalence and level of charges that typically fall outside the scope of the annual charge cap introduced in April 2015.

Section 4.1 discusses Fund Manager Expense Charges (FMECs) that members selecting a particular investment fund typically paid, over and above the ongoing charge, to cover expenses incurred by the fund manager.

In Section 4.2, we examine transaction costs: these are incurred when the member invests in an underlying fund, as well as when the fund manager buys and sells the underlying assets of the fund. The costs are passed onto the scheme member, usually as a reduction in the value of investments held.

Finally, Section 4.3 examines fees paid by employers to providers, and Section 4.4 looks at fees paid by employers using unbundled trust-based schemes for the services they use.

4.1 Fund Manager Expense Charges

FMECs are charges that members investing in a particular fund may pay, over and above the ongoing charge, for example to reflect additional expenses incurred by the fund manager. Only certain fund choices incur FMECs: they often apply to members that actively choose a fund that requires more active management, which means they often do not apply to members in the default arrangement. Where the member has actively chosen the fund, the charge cap generally does not apply.

Under automatic enrolment, however, it is also possible for an employer, intermediary or trustees to select a default arrangement that does include funds incurring FMECs, although this was reportedly rare. In such cases, the default fund charge cap does apply. This did lead to reporting challenges for providers, however, as typically they were not readily able to identify which of their funds were used within default arrangements and which were self-selected.[49] We are therefore unable to state in this report what proportion of FMECs fell within the charge cap.

Any given member may be invested in multiple funds, each attracting different levels of FMEC. We therefore asked providers to tell us what proportion of members' assets were invested in funds attracting each level of FMEC. Nine of the 14 providers were able to provide this data, with no specific characteristics distinguishing those that could from those that could not. As a result, our dataset for FMECs is around 87 per cent complete (covering 12.5 million of the total 14.4 million members in the provider research). Although FMECs are relevant to members of all types of scheme, our previous research had shown that trustees did not hold data on the range of FMECs applicable to each of their members' fund choices, and so the trustee survey did not examine these.

[49] Section 2.4.1 explores the reasons for this.

Of the nine providers who could supply data, three qualifying master trusts confirmed that they did not offer any fund choices to which FMECs applied. The remainder did offer certain funds that incurred FMECs. The proportion of members' assets, across all nine providers, incurring different levels of FMEC is shown in Table 4.1.

Table 4.1 The percentage of members' assets invested in funds attracting additional FMECs, across nine of the 14 providers in the study

Level of FMEC	0%	>0-0.01%	>0.01-0.10%	>0.10-0.20%	>0.20%
Percentage of all members' assets invested	70%	1%	17%	8%	4%

Seventy per cent of the assets belonging to the 12.5 million members were invested in funds that did not attract FMECs. A further 17 per cent of members' assets were invested in funds attracting an FMEC of between 0.01 per cent and 0.1 per cent. Typically, then, the impact of FMECs was relatively low compared to the ongoing charge: only four per cent of funds under management attracted FMECs above 0.2 per cent.

We cannot conclude from Table 4.1 that 70 per cent of **members** paid no FMECs. The majority of the pots of automatically enrolled members, and indeed of most pension savers in a default fund, are relatively small, and are likely to be included among the 70 per cent of assets under management that attracted no additional FMECs. In contrast, the minority of individuals with very large pension pots are more likely to self-select more actively managed, higher-charging funds.

Providers also confirmed that they primarily intended to use funds with zero or very low FMECs within default arrangements. Because they must now comply with the 0.75 per cent annual charge cap, they wanted to avoid the risk of either having to subsidise these by absorbing the FMEC themselves, or alternatively, of breaching the cap.

> *'There are two elements to this. Firstly all of those funds are passive funds. They are all passive portfolios, so there is no active manager there, which is where a lot of the additional expenses tend to accumulate, and secondly our [*ongoing charge*] encompasses everything. So even if there was an additional expense levied by the fund manager, we would essentially eat that within the charge that we applied to member's accounts.'*
>
> (Provider)

In the 2015 survey the picture was similar: the large majority of all members' assets (74 per cent) were invested in funds attracting an FMEC of 0.01 per cent or less; and only three per cent of funds under management attracted FMECs above 0.2 per cent.

4.2 Transaction costs

Transaction costs are incurred when a fund manager buys or sells the underlying assets of an investment fund. In this research we identified two broad types:

- When members make payments into their pension, or when they withdraw funds, the fund manager may create or cancel units within a particular fund. Transaction costs incurred for fund entry are discussed in Section 4.2.1.[50]
- Many types of fund incur frequent costs while assets remain invested, because underlying assets may be purchased or sold on an ongoing basis by the fund manager. Transaction costs incurred while a member remains invested in a fund are discussed in Section 4.2.2.

Transaction costs are excluded from the charge cap introduced in April 2015, but their inclusion remains under consideration. In October 2016 the Financial Conduct Authority (FCA) published proposed rules and guidance aimed at standardising the disclosure of the transaction costs incurred by pension investments,[51] to gather evidence on how information on transaction costs could be reported in a standardised and comparable manner. That consultation closed in January 2017 and the FCA intends to publish feedback on responses and issue a Policy Statement later in 2017.

4.2.1 Transaction costs for fund entry

Members' contributions will generally be subject to transaction costs, which are the costs of purchasing any additional underlying assets by the fund. The price that members have to pay to purchase one unit of a fund (the 'offer price') could be slightly more than the actual value of that unit.

For example, if the offer price for one share is 100p, and the value of that share is 99p, then the member would need to pay £100 to receive units with a value of £99. The transaction costs for fund entry in this case are one per cent of each contribution paid by the member.

> *'Essentially when a member buys into the fund we increase the unit price by 40 basis points, and the price that the member pays to buy into the fund is 40 basis points higher than the value of the assets. That then pays for the costs of purchasing new assets in the fund.'*
>
> (Provider)

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50 We did not ask providers about transaction costs for fund exit, because this research focuses on members that are saving into a pension, as opposed to members withdrawing funds at retirement or other circumstances.

51 FCA. (2016). *Transaction cost disclosure in workplace pensions*.

Some funds work slightly differently, in that they use a single buying and selling price on any given day. But transaction costs are nevertheless incurred: the offer price is adjusted upwards if there is more money flowing into than out of the fund on any given day, and downwards if the reverse is the case. This means transaction costs are not straightforward to measure, because over any given time period the impact upon a member's funds is unpredictable.

> *'It's purely down to cash flows as to what would potentially swing that. Now, we don't necessarily have control over that … It's not only our assets that are influencing what that underlying fund is going to be priced at; there could be other providers that are investing into that same fund that could swing the price.'*
>
> (Provider)

The data that could be provided on transaction costs for fund entry was limited, and did not depend upon the type of provider. Of the 14 providers:

- Two providers were unable to say whether or not transaction costs for fund entry applied at all.
- Six confirmed that transaction costs for fund entry did apply to members invested in their default arrangements but were unable to provide data. A few indicated that they were investigating these costs and that they expected to be able to provide more information on them in the future. A number of these providers had also indicated the same thing to us in 2015, however.
- Four providers reported that transaction costs for fund entry do not apply to their default arrangements at all; the way their funds were purchased and managed meant that the price did not swing below the value of the investment and, in turn, there was no cost to pass onto the member.

> *'We have a swinging single price fund. Because we take so much money in every day, every single day the positive swing factor applies, so it never swings the other way, so we never have to apply a negative swing factor.'*
>
> (Provider)

- Two were able to provide at least indicative data on how the costs apply to their schemes: transaction costs for fund entry typically led to a reduction of between 0.05 per cent and 0.40 per cent of each contribution. In one case the provider was prevented from providing full data by the complexity of the charges, and by the fund managers being unable to provide details.

> *'Where we have not provided the data, it is not readily available due to the fact that we are not able to obtain the indicative spread between the underlying prices without requesting this from the managers, which is not feasible.'*
>
> (Provider)

Providers faced two related barriers which prevented them from providing details of the transaction costs for fund entry which apply to their schemes. Similar to 2015, the principal barrier experienced was that data on these costs was held by external fund managers, from whom it could be difficult to get information.

'I am completely dependent on third parties because this is a charge that feeds through from the third party manager that we link into. So I would need that third party to send me the data.'

(Provider)

In some cases, the fund managers were unable, or refused, to provide the data.

'All our funds under platform are swinging single price funds and at present that level of granularity in terms of what the implicit swing was is not provided on a regular ongoing basis by managers.'

(Provider)

As in 2015, some providers explained that even when different fund managers did report on transaction costs, they would use different reporting periods and formats, making the data hard to reconcile.

'The information we get from fund managers across the fund manager range are not necessarily consistent in the way they are presented or constructed.'

(Provider)

One provider felt that the very small impact that these costs have on their funds did not justify the amount of effort that would have to go into providing them.

More providers than in 2015, however, indicated that they were proactively looking into being able to report upon these costs. This was primarily motivated by ongoing consultations and anticipated regulatory activity in this area.

'We are looking at different ways of delivering fund information to customers over time as well. Whilst overall we believe that the industry is deficient in this area … we also know that we need to do some work on our end in order to deal with that, and that is in hand. So I think over time we'll be in a better place to deal with some of this stuff.'

(Provider)

A small number of providers welcomed moves towards greater transparency and standardisation in this area from the Department for Work and Pensions (DWP) and others.

'The whole definition of different terms is still settling down and through DWP and a number of other players these charges that have been hidden will be pulled into the light, and that is a good thing.'

(Provider)

4.2.2 Transaction costs for remaining invested

Members can also be subject to costs resulting from the transactions made by fund managers while their assets remain invested in the pension (holding the units of the fund). Underlying assets may be bought or sold on an ongoing basis by the fund manager as investment decisions are taken, and those units are subject to transaction costs in the same way as new contributions are. They are usually deducted from members' pension funds directly.

Transaction costs for remaining invested can include the following:

- Commission paid to a broker when a transaction is carried out.
- Bid-offer spreads – the difference between the price received when a security is sold (the bid price) and the price paid when it is bought (the offer price).
- Bank transaction charges.
- Foreign exchange fees associated with the transaction.
- Any local taxes (including UK stamp duty).
- Additional costs involved with buying or selling property, if this is to be included in a particular investment fund.

The number of transactions carried out in a given year will vary depending on market conditions, the rate at which assets are changed within the fund – which itself may depend on whether it is a passive or active fund – and the judgements the fund manager makes. As a consequence, transaction costs for remaining invested cannot be predicted in advance, since a fund manager cannot know what trades will be conducted in advance. They are, by definition, backward looking, and may not accurately reflect future costs.

Other factors can cause these costs to vary:

- The country in which the fund was invested in, because taxes and exchange fees differ between markets.
- The nature of the fund. For example, property funds tend to face additional property transaction costs.

We gave providers a hypothetical situation against which to measure transaction costs, to allow consistent measurement. The scenario is described in the box below.

- Please describe the transaction costs incurred by the fund manager in buying and selling the underlying assets of the fund, that were passed onto the scheme member, in the year prior to the reporting date.
- Assume the member had net assets of £10,000 already invested at the start of the period; the member made no further contributions to the fund; and the value of the underlying investments did not change over the period.
- Please express the total deductions as a percentage of the net asset value over the reporting period. If accurate figures cannot be provided, please provide an estimate.

We also asked providers to break down their transaction costs between broker commission; stamp duty; other fees or taxes; and other deductions due to the difference between the buying and selling price of units.

Two qualifying master trusts were able to provide data on the transaction costs that their 5.3 million members incurred for remaining invested, albeit without providing the breakdowns we proposed:

- One estimated that the transaction costs for the given scenario ranged between zero per cent and 0.25 per cent of all members' total funds invested per annum.
- The other also provided a similar typical range, but said that transaction costs could exceptionally increase to above one per cent in cases where there are property funds involved in the pension fund investment.

Two further providers, with no specific features in common, were able to estimate only 'typical' transaction costs, for a range of funds: they could not estimate the proportion of assets attracting different levels of transaction cost. They provided data on a range of funds, as shown in Table 4.2 below. In this case, the majority of the providers' investment funds attracted transaction costs of 0.5 per cent or less.

Table 4.2 Approximate number of two providers' investment funds attracting transaction costs for remaining invested

Level of transaction cost (% of funds per annum)	**>0-0.25%**	**>0.25-0.50%**	**>0.50-0.75%**	**>0.75%**
Approximate number of investment funds attracting that level of transaction cost	44	22	7	8

Similar to 2015, the five providers who provided data on transaction costs for remaining invested often stressed that they had needed to aggregate data of different types, from multiple funds, and from different fund managers, and this had been a significant challenge.

> *'I think in general getting transaction cost data across the industry has been problematic. For a lot of it you're relying on external fund managers to provide information and I don't think they're compelled to provide that information. It's made up of a whole load of different building blocks and different funds which each have their own transaction costs. So I think generally it's not something that the industry to date has really managed to get a handle on.'*
>
> (Provider)

Most providers could not provide transaction cost data at all. The reasons given were the same:

- Obtaining information from third parties was often difficult.
- When information was provided from different sources, if was often difficult to reconcile.

Similar to transaction costs for fund entry, more providers mentioned that they were looking into transaction costs for remaining invested in 2016 than had done so in 2015. The FCA consultation had increased its urgency and encouraged providers to undertake work in anticipation of future requirements.

'There were lots of open questions and nobody was wanting to do anything until the Regulator gave them an indication of what is required. So now that the Regulator has come forward and given that, the hope is that everyone will know what they are working to and what they need to actually provide as a result of this.'

(Provider)

For a small number of the providers who were not able to report on transaction costs for remaining invested, the ongoing consultative and regulatory activity provided a disincentive to look into transaction costs for remaining invested; they stated that they were waiting to see what is agreed before committing any resources to it.

'The issue is that transaction costs are still being defined and still being looked at. It is a kind of dangerous area to get too far into at this stage given that you have to be a little bit careful with transaction costs.'

(Provider)

4.2.3 Transaction costs in unbundled trust-based schemes

Trustees are responsible for monitoring their members' unbundled scheme transaction costs in the same way that providers of contract-based schemes are. We therefore asked trustees about these. Similar to the providers however, most trustees could not report on transaction costs, and were unclear about how to compile this information.

While almost two in five (39 per cent) of qualifying schemes and almost one in five (19 per cent) of non-qualifying schemes made an initial estimate of transaction costs when we asked them, many subsequently conceded that they had confused these with the ongoing charge. Where we interviewed trustees in depth subsequently, they often quickly revealed that they had not understood what transaction costs were, as the following exchange with a qualifying unbundled scheme trustee demonstrates:

Interviewer: 'You said that you do attempt to measure transaction costs. Is that right?'

Trustee: 'Yes.'

Interviewer: 'What is it that you do?'

Trustee: 'We ask our investment advisers to provide us with some advice and information surrounding the charges including benchmarking. We would expect them to do that on a regular basis.'

Interviewer: 'What do you ask them to do specifically regarding transaction costs?'

Trustee: 'I am not sure what you mean by transaction costs.'

Only a small number of trustees of qualifying schemes were able to clearly indicate that they understood transaction costs. This was being most often the result of ongoing work resulting from their internal governance and monitoring of the scheme.

*'We need to make sure that our 0.4 per cent is a true and accurate [*ongoing charge*] and there are no hidden costs somewhere along the line that affect the members. The measurement of those was done in line with discussions we have with the investment managers to ensure that the transaction costs they are passing onto us are fair.'*

(Qualifying unbundled scheme)

A very small number of trustees, again of qualifying schemes, said that their schemes would be monitoring transaction costs more closely in the future. This was the result of their awareness of forthcoming further regulatory activity in this area or enhancements to internal monitoring and governance in order to get the best returns for members.

> *'We are starting to think about that because there have been comments from the regulator that have actually been looked at, so we are obviously trying to comply with that.'*
>
> (Qualifying unbundled scheme)

Trustees expressed similar concerns to providers about the difficulties they encountered when trying to measure transaction costs, including problems with obtaining information from third parties, and fund managers in particular.

> *'A lot of these fund managers won't give you it. They won't give you the information. I think a lot of schemes are in the same boat with that.'*
>
> (Non-qualifying unbundled scheme)

The relationship between complexity and standardisation was a key issue for some unbundled schemes, again preventing disclosure of transaction costs.

> *'We asked the question on more than one occasion, but the reply received was that there were no industry standards for doing so and they weren't required by regulation to reveal that information. We made the attempt but we have been unsuccessful. It must be the same for the great majority of schemes.'*
>
> (Qualifying unbundled scheme)

Again in accordance with providers' views, trustees sometimes described transaction costs as too complex to report. This was primarily due to the number of different components that can combine to generate transaction costs.

> *'I know a lot of the fund managers have said actually a lot of this transaction information can't be provided because it's just all rolled up. Because they are passive tracker funds, they are pooled funds, and it is all done at a very high level, so it is actually impossible to break it down.'*
>
> (Qualifying unbundled scheme)

It was extremely rare for trustees to recall instances where a member had made an enquiry about transaction costs, although this should not be surprising given that trustees are not required to publish this information, where it is available, or even to tell members that it exists. Some were even of the view that members would not be interested in transaction costs even if they did know about them, although there is no evidence to prove or disprove this assertion.

> *'It's how much interest individuals would have in it. It's just complicating something. It's like buying a new car. Well, I know what the cost of the car is but I don't really care how much the wheel nuts cost or the oil costs to put in. I just know what the cost of the car is.'*
>
> (Qualifying unbundled scheme)

Finally, trustees occasionally even questioned the value of measuring transaction costs if it could focus attention solely on charges, rather than outcomes.

> *'In terms of splitting all that down, why would we? At the end of the day, it's one number. If we are reviewing the investment advisers then we just look at that one number compared to what other investment managers charge. We don't need to go into all the detail … The transaction costs don't matter if the outcomes are good.'*
>
> (Qualifying unbundled scheme)

4.3 Fees paid by employers to providers

Employers may also pay a fee to reduce the charges paid by their employees. These charging arrangements cover scenarios where the employer opts to pay some or all of their current employees' charges, but the members' pots face the same level of charges regardless of whether they are contributing. These will continue to be permitted under the Government's charges measures.

There were few instances of employers paying this type of fee, as shown in Table 4.3 below. Only 32 employers paid such a fee over the reporting period, typically in the range of £22 to £32 per member.

Table 4.3 Number of employers paying a fee to reduce their members' ongoing charges, by scheme type

Charge level	Qualifying schemes			Non-qualifying schemes		
	Contract-based	Master trust	Trust-based	Contract-based	Master trust	Trust-based
Number of providers who reported that any employers paid fee	2 of 8	0 of 10	2 of 10	2 of 9	0 of 4	2 of 7
Number of employers paying fee	11	0	13	3	0	5
Percentage of employers paying fee	<0.5%	-	2%	<0.5%	-	<0.5%
Average fee paid per member per year *	£32	-	£30	£22	-	£23

* Caution: bases are low and estimates are indicative.

In addition, three providers apply compulsory administrative fees to certain smaller employers using automatic enrolment, if they believe that the members' ongoing charge is unlikely to cover their costs. These either take the form of one-off setup fees; or an annual administration charge. These charges may vary depending on whether the employer approaches them via an intermediary or not, since the former are expected to be less work for the provider.

4.4 Fees paid by employers operating unbundled trust-based schemes

The trustees of an unbundled scheme work with a range of different administrators and intermediaries to administer the scheme, as opposed to engaging a single pension provider. As a result they use a wide range of different services, as opposed to a single pension provider. The cost of these may be covered by the sponsoring employer, the members, or both.

Of the services used, most were paid for by the employer, although some were paid in full or in part by members, as Table 4.4 shows. In particular, members paid for fund managers in full or in part more than half of the time, and for administrators just over 20 per cent of the time. Where this was the case, the costs are included in the ongoing charge figures that we have reported in this report.

Table 4.4 Percentage of unbundled schemes where the cost of each service, where used, is covered by the employer in full

Services	Qualifying schemes (column percentages)	Non-qualifying schemes (column percentages)
Auditors/Accountants	92%	95%
Advisers or investment consultants	91%	88%
Third party administrators	78%	76%
Solicitors/Legal advisers	90%	93%
Fund managers	49%	42%
Professional/Independent trustees	85%	87%
Other	90%	90%

5 Preparing for the charges measures

This final chapter explores providers' and trustees' views as to the impact that the new charges measures have had so far, and are expected to have, on the workplace pension landscape.

Section 5.1 looks back on the approaches that providers and trustees took to complying with the new rules introduced between April 2015 and April 2016. Section 5.2 then examines views on how charges data might be collected and reported upon in the future, and finally, in Section 5.3 we consider views about the potential long-term impact of the new measures on the workplace pensions market as a whole.

5.1 Responses to the charge cap and other measures

While the charges measures encompassed a range of different regulations, as we outlined in Section 1.5 of this report, the charge cap on qualifying schemes was the most significant. Charges for default arrangements were capped at 0.75 per cent per annum from April 2015 onwards. Whether or not this had a practical or financial impact on an individual provider depended on their individual business model. Naturally, ensuring compliance was easier for providers whose charges were below the cap already. The biggest challenges were faced by those providers who had a more complex fund structure and complicated default arrangements to bring below the cap.

While several providers had no issues complying with the cap, others reported that it had affected them in a negative way, and indeed a minority of providers indicated that complying with the cap had substantially affected their revenue. Others commented on how it had also impacted the availability of internal resource during the period that the changes were implemented.

> *'It has taken up quite a lot of resource to make all the changes to comply, and of course it has impacted our revenues because we have reduced charges …'*
>
> (Provider)

The precise approaches taken to ensure compliance varied by provider and again depended on their business model and the structure of their funds and schemes. They included:

- Removing certain administration charges and applying a flat rate reduction to all schemes.
- Applying a flat rate reduction only to schemes with charges above 0.75 per cent.
- Reviewing and repricing each scheme individually.
- Removing property from default funds, due to its higher Fund Management Expense Charges (FMECs).

'The way that we tackle this is by ensuring that there is a sufficient buffer right from the word go that is built into these strategies, and that there is an appropriate selection of funds.'

(Provider)

Some providers expressed concerns about the impacts that any possible further reduction in the level of the cap might have. They referred not just to the impact of the lower charge itself, but also to the disruption that further changes might cause if they needed to revise their schemes and systems again.

Trustees of qualifying unbundled schemes typically had few issues in complying with the cap: indeed almost all said that their schemes were already compliant and that they did not need to reduce their costs to comply.[52] Trustees had ensured that their scheme was compliant as part of their ongoing due diligence processes, carried out in conjunction with their investment consultant, administrators and fund managers.

Similarly, qualifying master trusts also had very little to do to bring their charges into line, as their pricing at the time of setting up was already below the 0.75 per cent cap. This meant that little if any action was required in order to stay compliant. However, for some the cap still represented a challenge from a financial viewpoint.

'The charge cap is pretty tight when you consider all the things that you have to do and will need to do even more of. So we accept it is a fact of life. It's hardly generous.'

(Provider)

Trustees of unbundled schemes, even more than providers, were keen to point out that investment performance is just as important, or even more important, than the level of charge. This is perhaps unsurprising, given the fact that unbundled schemes were often set up in order to give trustees more control over the investment strategy.

'Our [x] per cent charge is just one element of it – you have to look at it in conjunction with the investment returns, the profile of your membership and so on. The performance of the investments will probably outweigh the difference between a 0.6 per cent charge vs. a 0.55 per cent charge.'

(Qualifying unbundled scheme)

5.1.1 Providers who chose to lower charges below the cap

Several providers were already comfortably below the cap prior to its introduction and so did not have to make changes to comply. But others had chosen to lower charges further than was required by the cap, and this sometimes benefited non-qualifying schemes, too.

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52 Since 2016 was the first year in which unbundled schemes have been included in this research, we do not have research data to confirm that qualifying scheme charges were already below the cap, but it is notable that qualifying unbundled schemes are typically very large. More than half of those in the study had 500 members or more. If we assume that they share similar characteristics to the trust-based schemes offered by providers, which also tended to charge well below the cap even before it was introduced, the trustees' assertions that little effort was required to comply with the cap appear realistic.

- A small number of providers took this approach simply because their platform would not allow them to reprice their schemes individually: they were unable to treat qualifying and non-qualifying schemes differently and so the cap was applied to all their schemes.

  *'We dropped the admin charge down to below 75 basis points [*0.75%*] but that also had the effect of dropping the charge for every fund available to the scheme … it just knocked five basis points off the charge for everybody.'*

  (Provider)

- Others re-priced all of their schemes based on their expected profitability, with larger schemes facing charges potentially well under the cap, while the smallest were likely to face charges of 0.75 per cent.

  'What we haven't done is just go to a default of 0.75 per cent for every scheme. What we have done is looked at the merits of that scheme … and then we have priced each scheme individually based on what we think is appropriate.'

  (Provider)

- Some providers had lowered very high member charges that were previously greater than one per cent in non-qualifying schemes, partly in response to the findings of the Financial Conduct Authority (FCA) and Independent Project Board Legacy Audit. Section 3.2.3 explains this in more detail.
- Some had set up automated systems to make sure that their schemes did not breach the cap, although one provider who had intended to put in place such a system in 2015 had subsequently not done so, and was instead monitoring the situation manually.

5.1.2 Responses to other charges measures

Consultancy charges were banned by the FCA in qualifying contract-based pension schemes from April 2015. New member-borne commission was banned by the Government from April 2016 in qualifying defined contribution (DC) workplace pension schemes. Almost all providers levying charges for commission and consultancy had already removed them before the respective bans.

In contrast, four providers had used Active Member Discounts (AMDs) in qualifying schemes before the ban, which was introduced in April 2016. AMDs allowed members paying into a scheme to pay a lower ongoing charge than those who were not. The removal of the AMD was the only charges measure (apart from the cap) that any providers reported having a significant impact on their business.

Two of these providers mentioned that they had lost revenue due to their lowering the charge for deferred members. One provider indicated that this had a major impact, both financially and upon their internal resources.

> *'There was a lot of work involved in that … to identify the schemes, decide what the appropriate level of ongoing charge was going to be in future … We had to look at schemes on an individual basis.'*
>
> (Provider)

Another found the administrative process of removing AMDs complex, because in many cases deferred members paid higher fees for a range of reasons, which meant that there was no simple way to remove AMDs. The process therefore took considerable effort.

> *'It's difficult to disentangle what part of the lower price is down to being active … it's all mixed up, so it becomes quite difficult to boil it down to what's the typical discount that people are getting.'*
>
> (Provider)

5.2 Collecting data on charges in the future

Similar to the 2015 Pension Charges Survey, the research team asked all participating providers to reflect on their experience of completing the data collection exercise for this study, and share their perceptions of how easy it would be to complete a similar exercise in the future.

Most providers, and especially those who had submitted their data twice (in 2015 and 2016), expected future data collection requests to be easier. The fact that the banned charges have been removed from their books also contributed to this expectation, as it was expected to simplify and reduce the scale of the task in the future.

> *'I think the next time it will probably be very similar to doing it this time. The gains obviously come from the thinking and the work we did the first time around, and then the slightly easier position for each year thereafter.'*
>
> (Provider)

Some providers had implemented systems to produce the data required for this research automatically, but most had still dealt with it manually. There was a view that keeping the reporting format the same would be crucial to minimise the reporting burden in the future. Some requested that we provide several months' early warning of the data request in future years.

Finally, some said that they expected that ongoing and future regulation could help to make reporting easier, as the information asked for would be more readily available, and would be standardised. In particular, as we discussed in Section 4.2, some suggested that transaction costs could be provided more easily next time – even though many had also predicted this in 2015.

> *'I think certainly next year, given the work that the FCA and the Investment Association are doing on transaction costs, anyone filling in this template would have a much, much easier job.'*
>
> (Provider)

> *'I would think this time next year, not only will we have greater granularity of information on costs but I think we would also have estimates and measurements of implicit costs, which are by their very nature more difficult to measure.'*
>
> (Provider)

5.3 The impact of the charges measures on the pensions landscape

To conclude, we asked providers and trustees of unbundled schemes for their views on how the charges measures might impact the workplace pensions landscape more generally over the next few years.

Providers typically felt that the downward pressure on charges was part and parcel of the industry and current regulatory environment, and so would be likely to continue to some degree, even if there were no further formal changes to the level of the cap. This would require them to operate ever more efficiently, particularly those providers that we identified in Section 2.4 of this report, who had older, legacy IT systems, or had been formed through the mergers of multiple companies in the past.

While the need for greater provider efficiency had also been an overriding sentiment in the 2015 research, in 2016 there was also renewed emphasis on the need to drive better deals from the fund managers themselves, perhaps because this was seen as an area that accounted for a large part of the remaining cost to members.

> *'The market is driving charges ever lower, so the way you can respond to that is through increasing efficiency, driving better deals through fund management or stripping out costs from propositions.'*
>
> (Provider)

Related to this, some providers predicted an increase in the use of passively managed funds, which typically have lower charges, as a means of ensuring that default funds remain below the charge cap.

> *'What we have seen post the introduction of the charge cap is that a lot of clients have moved from using some of these very expensive funds … replacing them with cheaper passive options, so they could get well within the cap.'*
>
> (Provider)

Similar to 2015, some predicted that only schemes with sufficient scale might now be able to continue to operate, with master trusts expected to be increasingly appealing, due to the size and governance arrangements that they can offer.

> *'We are seeing more master trust business … [*employers*] see the value in having the trustees in place and having a greater amount of governance than perhaps an IGC.'*
>
> (Provider)

Conversely, however, some providers felt that the master trust market was now saturated, that some could struggle and this could lead to consolidation. One master trust pointed out that a particular issue was the very low volume of contributions made so far by automatically enrolled members, leading to lower per-member revenue, in the short term at least.

> *'I think if you look across the market you'll not find a single master trust that's making money out of auto-enrolment, and nor will they for several years. That makes it quite an interesting investor proposition and deemed relatively high risk, and that impacts the way in which we have to run ourselves and grow as quickly as we can, so as to achieve the break-even point, beyond which we hope to become profitable.'*
>
> (Provider)

While most trustees held the view that the charges measures were generally well regarded, some worried that their flexibility could be challenged and even be penalised as a result of the charges. This could mean that the increased administrative burden associated with running an unbundled scheme becomes untenable. This led a minority to point out that their trustee boards had already considered their status as an unbundled workplace pension scheme. Serious consideration was being given to closing their existing scheme and moving to a master trust or contract-based scheme to simplify operations and reduce costs.

> *'We might at some stage look at a bigger review of how the scheme is set up. It's currently a trust-based scheme and I've had a conversation or two with our finance director, and one thing we might look at is should it stay like that, or should we look to a* [contract-based scheme] *or even a master trust, just to reduce some of the governance costs that we have.'*
>
> (Qualifying unbundled scheme)

Although trustees did not typically have a good grasp of transaction costs, concern was expressed over the potential inclusion of transaction costs within the charge cap in the future, which they suggested might prove detrimental to members. Trustees of unbundled schemes often pursued relatively active investment strategies, and there were concerns that the freedom to do this could be limited if there was to be any restriction on the level of transactions as a result. Some suggested that this could de-incentivise trustees from focusing on the performance of funds and instead favour passive funds, which, in their view, could lead to lower performance.

To a lesser degree this was also a concern for some providers, who expressed concerns about the effect that regulating transaction costs might have on their ability to get the best returns for people who are invested with them. While they would welcome industry-wide improvements in being able to report on transaction costs, capping them could in their view prevent them from providing the best outcomes possible for members.

> *'If you try to start capping transaction costs at a certain level then you get to a situation where if there's a fund which is having problems because of a market fluctuation, and the fund manager's unable to actually make any transactions because there's been a cap imposed, and he's not allowed to do any further transactions – then actually the fund is suffering badly.'*
>
> (Provider)

Finally, reflecting upon the amount of recent change in the workplace pensions industry, trustees of unbundled schemes as well as providers indicated a desire for a level of stability in legislation going forward, which would allow time for schemes to adjust and let the recent changes bed in.

‘It would be good if there was a period of stability in terms of no changes being introduced in legislation, because before you bed in certain changes there’s always something on the horizon, and new things are announced, and there’s no stopping the complex legislation coming through …’

(Qualifying unbundled scheme)

Appendix A
Materials used in conducting the survey with providers

A.1 Invitation letter to providers

Private Pensions Policy and Analysis
1st Floor, Caxton House
Tothill Street
London SW1H 9NA

[DATE]

[PROVIDER NAME]

Pension scheme charges research 2016

I am writing to ask for your help with a research study that the Department for Work and Pensions (DWP) has commissioned, designed to measure pension scheme charges.

Following the introduction of new charges measures from April last year, DWP commissioned the 2015 Charges Survey, in which you may have participated. The full report of findings can be found at:

https://www.gov.uk/government/publications/pension-charges-survey-2015-charges-in-defined-contribution-pension-schemes

The 2016 Charges Survey builds on the previous study and is designed to replicate the approach as far as possible: it will collect information on both administration charges and transaction costs across defined contribution (DC) trust-based and contract-based workplace pension arrangements. This will enable us to assess how effective the charge control measures have been so far in improving outcomes for savers. While taking part in the research is voluntary, your participation will also help to shape the development of increased disclosure requirements, including how this information might be collected in the future.

The research is being conducted on DWP’s behalf by Breaking Blue (previously RS Consulting), who also conducted the 2015 survey. Any data collected by Breaking Blue will be passed to DWP anonymously and results from the study will only be published in aggregated format.

A researcher from Breaking Blue will be in touch with you shortly with details about what your participation would involve and to answer any questions you may have. If you do not want to take part please let Breaking Blue know by [DATE]. You can contact [RESEARCHER] at Breaking Blue on [CONTACT DETAILS].

Yours sincerely,

A.2 Provider information sheet

BREAKING BLUE

Pension scheme charges research 2016: Fact sheet

Department for Work & Pensions

What is the research about?

The research was commissioned to measure Defined Contribution (DC) workplace pension scheme charges.

Building on the 2015 research with pension providers that Breaking Blue (then RS Consulting) conducted, it will continue to assess the effectiveness of the new governance and charges measures.

The research will be conducted in the strictest confidence: no information identifying you, your company or any individual schemes will be published or passed on to DWP.

And what will it entail?

We have designed a data collection template in Excel, which requests a breakdown of the different charges and transaction costs paid by members invested in workplace DC pensions, with a particular emphasis on default funds.

We have designed the template carefully, to make it comprehensive, unambiguous and as straightforward to complete as possible. If you participated in 2015, it follows the same format, which itself built on work done by the ABI, IMA and the Independent Project Board's legacy audit of pension schemes.

What schemes are within the scope of the research?

Any schemes that fulfil **all** of the following criteria:

- Workplace pensions *i.e. sold through an employer*
- DC
- Currently open to new members

Defined Benefit and hybrid schemes are excluded.

What charges are within the scope of the research?

We have defined four groups of charges that we would like to measure:

Group 1: Ongoing charges: member-borne deductions relating to scheme and investment administration. *Including in particular:*

- The impact of any active member discounts (AMDs) or consultancy charges
- Any other scheme-level contribution or flat rate charges

Group 2: Additional fund manager expense charges (FMECs)

- Any additional charges levied by the fund manager of a particular fund, over and above the Group 1 charges

Group 3: Fund-level entry and exit charges

- Transaction charges levied each time a member makes a contribution or transfer into/ out of an investment fund, as a result of the costs incurred in investing in the underlying assets

Group 4: Ongoing portfolio transaction costs

- The costs that were incurred by the fund manager in buying and selling the underlying assets of a particular investment fund
- If precise figures cannot be obtained, an estimate can be provided

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Pension scheme charges research 2016: Page 2

Department for Work & Pensions

What if you can't provide the data in the format needed?

Part of the aim of the exercise is to understand the feasibility for providers of reporting on the different types of charge. If you have difficulties in presenting data in the format we have requested, we will be happy to work with you to identify alternative, more feasible approaches.

Certain questions in the spreadsheet are hidden, and only appear depending on the answers to previous questions: a full version of the template is provided separately as a PDF.

And afterwards?

We would be keen to interview you after the data collection is complete, to discuss topics such as:

- How you found the process of data collection – what was feasible or not, and what might be the implications for reporting the different types of charge in the future?
- Any other member-specific variations to charges that could not be captured in the template, e.g. large fund discounts. What other factors influence the level of charge?
- Any recent changes to charging structures
- The benefits of the particular schemes to members (e.g. with profits; life insurance), particularly where higher charges are levied as a result

What is the deadline?

We hope to complete data collection by <DATE>, with the interviews also conducted around that time, and I will be in touch with you to discuss the feasibility of this.

Confidentiality

Any information you provide will be held in the strictest confidence and will be handled securely throughout the study in line with the requirements of the Data Protection Act (2008). The information you provide will be used only for research purposes, and for the purpose of analysis and reporting we will merge together information collected from all providers in aggregate form.

No information identifying you, your company or any individual schemes will be reported or passed to the DWP or any other organisation, unless you specifically request that we pass back information or feedback to DWP in your name.

The 2015 charges study

Last year's charges research report can be found on GOV.UK by clicking on the following link:

Pension charges survey 2015: charges in defined contribution pension schemes

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We would like to thank you once again for your interest in the charges research 2016.

A.3 Data collection template

Pension scheme charges research 2016

Data collection template

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Part A: The reporting date

Throughout this template, we request that you report the pension scheme charges that applied at a specific point in time, on or after 1 April 2016.

By default, we have selected 1 April 2016.

It may be more convenient for you to choose an alternative reporting date: if so, please amend the date below, or feel free to discuss with us.

1a. Enter your chosen reporting date	*1-Apr-16*

Part B: Your in-scope schemes

2. How many employers, and how many members, were covered by each of your in-scope schemes on the reporting date?

	Qualifying scheme types:				Non-qualifying scheme types:			
	Contract-based	Master trust	Other trust-based		Contract-based	Master trust	Other trust-based	
Total number of employers using schemes of this type	0	0	0		0	0	0	In total, your in-scope schemes cover 0 employers
Number of members (active & deferred) using schemes of this type	0	0	0		0	0	0	In total, your in-scope schemes have 0 members

Any other notes	

Key definitions

Reporting date	The date for which pension scheme charges should be reported.
In-scope schemes:	DC workplace pensions, currently open to new members.
Qualifying schemes:	Pensions currently used by employers to meet automatic enrolment duties.
Non-qualifying schemes:	Pensions not currently used by employers to meet automatic enrolment duties.
Members:	Current active and deferred members of your in-scope schemes. *If possible, please focus throughout ONLY on members invested in the default fund. If you cannot make this distinction, and wish instead to focus upon all scheme members, please confirm this in the notes field.*
Default fund:	The investment funds used as default options within your in-scope schemes, or which are commonly designated by employers and their intermediaries as default funds.

Pension scheme charges research 2016

Data collection template

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Part C: Group 1 Annual Ongoing charges

Of all the members listed in Part B above, please show how many fell into each charging band. The totals should be annualised, and broken down by employer size.
Ongoing charges include member-borne deductions relating to scheme and investment administration paid to the pension provider or another third party.
Please include any higher charges that members not benefitting from Active Member Discounts (AMDs) are paying, as well as any member-borne consultancy charges.
Please exclude from Part C any investment fund-specific charges, and any charges not levied as a percentage of funds under management (FUM): these are covered in later sections.

Table for Qualifying contract-based schemes will appear here, if relevant

3a. Enter the lowest charge to any member	**0.00%**
3b. Enter the highest charge to any member	**0.00%**

3c. Within each size category, how many of the 0 members fell into each charging band?					
	1st quartile	2nd quartile	3rd quartile	4th quartile	Paid highest rate (0%)
Employer size category	0% - <0%	0% - <0%	0% - <0%	0% - <0%	
1-5 members	**0**	**0**	**0**	**0**	**0**
6-11 members	**0**	**0**	**0**	**0**	**0**
12-99 members	**0**	**0**	**0**	**0**	**0**
100-999 members	**0**	**0**	**0**	**0**	**0**
1,000+ members	**0**	**0**	**0**	**0**	**0**
Total members: 0	**0**	**0**	**0**	**0**	**0**

Table for Non-qualifying contract-based schemes will appear here, if relevant

3a. Enter the lowest charge to any member	**0.00%**
3b. Enter the highest charge to any member	**0.00%**

3c. Within each size category, how many of the 0 members fell into each charging band?					
	1st quartile	2nd quartile	3rd quartile	4th quartile	Paid highest rate (0%)
Employer size category	0% - <0%	0% - <0%	0% - <0%	0% - <0%	
1-5 members	**0**	**0**	**0**	**0**	**0**
6-11 members	**0**	**0**	**0**	**0**	**0**
12-99 members	**0**	**0**	**0**	**0**	**0**
100-999 members	**0**	**0**	**0**	**0**	**0**
1,000+ members	**0**	**0**	**0**	**0**	**0**
Total members: 0	**0**	**0**	**0**	**0**	**0**

Table for Qualifying master trusts will appear here, if relevant

3a. Enter the lowest charge to any member	**0.00%**
3b. Enter the highest charge to any member	**0.00%**

3c. Within each size category, how many of the 0 members fell into each charging band?					
	1st quartile	2nd quartile	3rd quartile	4th quartile	Paid highest rate (0%)
Employer size category	0% - <0%	0% - <0%	0% - <0%	0% - <0%	
1-5 members	**0**	**0**	**0**	**0**	**0**
6-11 members	**0**	**0**	**0**	**0**	**0**
12-99 members	**0**	**0**	**0**	**0**	**0**
100-999 members	**0**	**0**	**0**	**0**	**0**
1,000+ members	**0**	**0**	**0**	**0**	**0**
Total members: 0	**0**	**0**	**0**	**0**	**0**

Table for Non-qualifying master trusts will appear here, if relevant

3a. Enter the lowest charge to any member	**0.00%**
3b. Enter the highest charge to any member	**0.00%**

3c. Within each size category, how many of the 0 members fell into each charging band?					
	1st quartile	2nd quartile	3rd quartile	4th quartile	Paid highest rate (0%)
Employer size category	0% - <0%	0% - <0%	0% - <0%	0% - <0%	
1-5 members	**0**	**0**	**0**	**0**	**0**
6-11 members	**0**	**0**	**0**	**0**	**0**
12-99 members	**0**	**0**	**0**	**0**	**0**
100-999 members	**0**	**0**	**0**	**0**	**0**
1,000+ members	**0**	**0**	**0**	**0**	**0**
Total members: 0	**0**	**0**	**0**	**0**	**0**

Pension scheme charges research 2016

Data collection template

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Table for Other qualifying trust-based schemes will appear here, if relevant

3a. Enter the lowest charge to any member	0.00%
3b. Enter the highest charge to any member	0.00%

3c. Within each size category, how many of the 0 members fell into each charging band?

Employer size category	1st quartile 0% - <0%	2nd quartile 0% - <0%	3rd quartile 0% - <0%	4th quartile 0% - <0%	Paid highest rate (0%)
1-5 members	0	0	0	0	0
6-11 members	0	0	0	0	0
12-99 members	0	0	0	0	0
100-999 members	0	0	0	0	0
1,000+ members	0	0	0	0	0
Total members: 0	0	0	0	0	0

Table for Other non-qualifying trust-based schemes will appear here, if relevant

3a. Enter the lowest charge to any member	0.00%
3b. Enter the highest charge to any member	0.00%

3c. Within each size category, how many of the 0 members fell into each charging band?

Employer size category	1st quartile 0% - <0%	2nd quartile 0% - <0%	3rd quartile 0% - <0%	4th quartile 0% - <0%	Paid highest rate (0%)
1-5 members	0	0	0	0	0
6-11 members	0	0	0	0	0
12-99 members	0	0	0	0	0
100-999 members	0	0	0	0	0
1,000+ members	0	0	0	0	0
Total members: 0	0	0	0	0	0

Any other notes	

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Part D: Active member discounts (AMDs)

4. On the reporting date did active member discounts (AMDs) apply to any of your in-scope schemes?

Select from dropdown

Please indicate where AMDs applied (N.B. the charge breakdowns in Q3 should already include these)

	N/A	N/A	N/A	N/A	N/A	N/A
Of the employers using these schemes, how many used AMDs?	0	0	0	0	0	0
How many members were in schemes where AMDs applied?	0	0	0	0	0	0
Enter the typical minimum discount* applied to the ongoing charge	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Average discount* applied to the ongoing charge, across all employers where an AMD is used	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Typical maximum discount* applied to the ongoing charge	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

** Discount = difference between active and deferred members' ongoing charges*

Any other notes

Pension scheme charges research 2016

Data collection template

Part E: Consultancy charges

5. On the reporting date did you facilitate the payment of consultancy charging on any in-scope schemes?

Select from dropdown

Please indicate where consultancy charges applied (N.B. the charge breakdowns in Q3 should already include these)

	N/A	N/A	N/A	N/A	N/A	N/A
Of the employers using these schemes, to how many did consultancy charges apply?	**0**	**0**	**0**	**0**	**0**	**0**
Of the members of these schemes, to how many did consultancy charges apply?	**0**	**0**	**0**	**0**	**0**	**0**
Enter the typical minimum impact upon ongoing charge*	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Average impact upon ongoing charge, across all employers where an AMD was used*	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Typical maximum impact upon ongoing charge*	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**

** Impact upon ongoing charge = Effective increase due to consultancy charge, expressed as a percentage of FUM*

Any other notes

Pension scheme charges research 2016

Data collection template

Part F: Contribution charges

6. Did scheme-level contribution-based charges apply to any of your in-scope schemes on the reporting date?

Contribution-based charges = any scheme-level charges levied as a percentage of funds paid in by the member

Select from dropdown

Please indicate where contribution charges applied, over and above the ongoing charges given in Q3						
	N/A	N/A	N/A	N/A	N/A	N/A
Of the employers using these schemes, to how many did contribution-based charges apply?	0	0	0	0	0	0
How many members were in schemes where contribution-based charges applied?	0	0	0	0	0	0
Enter the typical minimum charge*	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Average charge*	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Typical maximum charge*	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

** as a percentage of each contribution made by members*

Any other notes

Pension scheme charges research 2016

Data collection template

Part G: Flat rate member charges

7. Did flat rate member charges apply to any of your in-scope schemes on the reporting date?

Flat rate member charges = any scheme-level charges levied without reference to the funds under management or the funds contributed

Select from dropdown

Please indicate where flat rate member charges applied, over and above the ongoing charges given in Q3

	N/A	N/A	N/A	N/A	N/A	N/A
Of the employers using these schemes, to how many did flat rate member charges apply?	0	0	0	0	0	0
How many members were in schemes where flat rate member charges applied?	0	0	0	0	0	0
Enter the typical minimum charge **per year (£)**	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
Average charge **per year (£)**	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
Typical maximum charge **per year (£)**	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00

Any other notes

Pension scheme charges research 2016

Data collection template

Part H: Other scheme-level fees

Have any employers with in-scope schemes paid any of the following?

8a. An initial one-off setup fee when setting up the scheme (even if this was before the reporting date)	*Select from dropdown*
8b. A fee to reduce members' own charges	*Select from dropdown*
8c. Any other on-going fees	*Select from dropdown*

N.B. This refers to charging arrangements that were not banned in April 2016 as an AMD: the employer opts to pay some or all of the current employees' charges, and the member's pot faces the same level of charges regardless of whether they are contributing

Please complete the relevant sections of the table (non-applicable cells are greyed-out).						
	N/A	N/A	N/A	N/A	N/A	N/A
Of the employers using these schemes, how many paid an initial one-off setup fee?	**0**	**0**	**0**	**0**	**0**	**0**
What was the average one-off setup fee? **(£)**	**£0.00**	**£0.00**	**£0.00**	**£0.00**	**£0.00**	**£0.00**
Of the employers using these schemes, how many paid a fee to reduce members' own charges?	**0**	**0**	**0**	**0**	**0**	**0**
What was the average fee **per year** to reduce member charges**? (£)**	**£0.00**	**£0.00**	**£0.00**	**£0.00**	**£0.00**	**£0.00**
Of the employers using these schemes, how many paid any other ongoing fees?	**0**	**0**	**0**	**0**	**0**	**0**
What was the average in other on-going fees **per year? (£)**	**£0.00**	**£0.00**	**£0.00**	**£0.00**	**£0.00**	**£0.00**

Any other notes	

9. On the reporting date were any other scheme-level charges, not already captured, applicable to any in-scope schemes?

Select from dropdown

9b. Please describe the circumstances under which the fee was levied; the basis, level and frequency of charging *Please describe in the box next to the relevant scheme type*	
N/A	
N/A	
N/A	
N/A	
N/A	
N/A	

Pension scheme charges research 2016

Data collection template

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10. Was trail commission paid to any intermediaries for the sale of any of the in-scope schemes?

Select from dropdown

Please indicate the number of in-scope employers on whose behalf you have paid commission						
	N/A	N/A	N/A	N/A	N/A	N/A
For how many in-scope employers have you paid trail commission?	0	0	0	0	0	0

Part I: Default funds used

11. Please enter the names of the investment funds used as default options within the qualifying schemes.
Please attempt to include funds that account for at least 80% of all your in-scope schemes' employers, members and funds invested, including funds typically used for members in the latter stages of the lifestyling process.
If you use target date funds, please select 5 different target-date funds, covering members that are 1, 4, 8, 20 and 40 years before their stated retirement age.
Please also tell us how many in-scope members, and the value of in-scope members' funds, that are invested within each fund.

#	*Fund name*	*If you offer lifestyling, is this fund used in the de-risking phase?*	*How many in-scope employers have any members invested in this fund?*	*How many in-scope employers nominate this fund as a default option?*	*How many in-scope members are invested in this fund?*	*What is the total value of in-scope members' funds invested in this fund?*
1	(Please enter)	*Select from dropdown*	0	0	0	£0
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						
	% of employers and members covered by table (calculated automatically):		N/A		N/A	

Please enter the percentage of all in-scope members' funds covered by the table above: 0%

Any other notes

Pension scheme charges research 2016

Data collection template

Department for Work & Pensions

BREAKING BLUE

Part J: Group 2 Additional fund manager expense charges (FMECs)

12. Please enter any additional fund manager expense charges (FMECs) that members of this fund typically paid on the reporting date, over and above the Group 1 scheme administration charges already identified.
Please only include FMECs that were charged as a percentage of FUM, on an annualised basis.
If all FMECs for that fund were bundled within the ongoing charge, enter 0.

#	Fund name (from previous table - do not complete)	12. Enter % of FUM typically charged (annualised)	13a. Do performance fees ever apply to this fund?	13b. Please describe the circumstances under which the performance fee is levied; the basis, level and frequency of charging	13c. Enter % of FUM charged in performance fees (annualised)
1	-	0.00%	Select from dropdown	(Please enter)	0.00%
2	-				
3	-				
4	-				
5	-				
6	-				
7	-				
8	-				
9	-				
10	-				
11	-				
12	-				
13	-				
14	-				
15	-				
16	-				
17	-				
18	-				
19	-				
20	-				

13. Do performance fees ever apply to any of the funds above? *Please complete the additional columns above, covering performance fees*

Select from dropdown

Any other notes	

Part K: Inclusion of charges within scope of the default fund charge cap

The second worksheet of this spreadsheet gives a fuller breakdown of the charges that are in scope of the government's default fund charge cap (as well as those that are excluded).
14. Can you confirm that the charges you have provided in Parts B-J above include all of the in-scope charges?

Select from dropdown

Please provide details of which in-scope charges could not be provided in Parts B-J	

Pension scheme charges research 2016

Data collection template

Department for Work & Pensions

BREAKING BLUE

Part L: Group 3 Fund-level entry/exit charges

15. Please enter the minimum, average and maximum fund-level entry/exit charges that applied in the year prior to the reporting date.
In dual-priced funds this may have been incorporated into the bid-offer spread; in single-priced funds an adjustment to the fund price may have applied on any given day ('swinging single pricing').
In the case of swinging single pricing, we ask you to provide the average positive swing from the net asset value (NAV) on days of net inflows; the average negative swing on days of net outflows; and the number of days that each applied.
For all other pricing approaches, please enter the percentage difference between the cash inflow and the NAV.
Example: Average bid price: 99p; Average NAV: 100p; In this case, the average charge should be entered as 1%. (Do not enter the total spread i.e. the total difference between the bid and offer prices)

			Dual-priced/ other fund	Swinging single-priced fund				
#	Fund name (from previous table - do not complete)	Does the fund use swinging single pricing; dual pricing; or something else	Average charge that applied	Number of days that negative swing applied	Average negative swing factor	Number of days that postive swing applied	Average postive swing factor	If you cannot calculate entry/exit charges according to the approach described, please explain.
1	-	Select from dropdown	0.000%	0	0.000%	0	0.000%	
2	-	Select from dropdown						
3	-	Select from dropdown						
4	-	Select from dropdown						
5	-	Select from dropdown						
6	-	Select from dropdown						
7	-	Select from dropdown						
8	-	Select from dropdown						
9	-	Select from dropdown						
10	-	Select from dropdown						
11	-	Select from dropdown						
12	-	Select from dropdown						
13	-	Select from dropdown						
14	-	Select from dropdown						
15	-	Select from dropdown						
16	-	Select from dropdown						
17	-	Select from dropdown						
18	-	Select from dropdown						
19	-	Select from dropdown						
20	-	Select from dropdown						

Any other notes	

Pension scheme charges research 2016

Data collection template

Part M: Group 4 Ongoing portfolio transaction costs (PTCs)

16. Please describe the transaction costs incurred by the fund manager in buying and selling the underlying assets of the fund, that were passed onto the scheme member, in the year prior to the reporting date.
Assume the member had net assets of £10,000 already invested at the start of the period; the member made no further contributions to the fund; and the value of the underlying investments did not change over the period.
Please express the total deductions as a <u>percentage of the NAV over the reporting period.</u> If accurate figures cannot be provided, please provide an estimate.
Please avoid double counting: e.g. if broker commission or other breakdowns cannot be separated from the dealing spread, enter only the deductions due to the average dealing spread and leave the broker commission as zero.
If no breakdowns can be provided, please simply provide the total portfolio transaction costs as a percentage of the NAV over the reporting period in the final column.

#	*Fund name (from previous table - do not complete)*	*Broker commission*	*Stamp duty*	*Any other fees/ taxes*	*Other deductions due to average dealing spread*	Total portfolio transaction costs (% of NAV)
1	-	0.000%	0.000%	0.000%	0.000%	0.000%
2	-					
3	-					
4	-					
5	-					
6	-					
7	-					
8	-					
9	-					
10	-					
11	-					
12	-					
13	-					
14	-					
15	-					
16	-					
17	-					
18	-					
19	-					
20	-					

Any other notes: Please note in particular if estimates have been provided	

A.4 Follow-up interview discussion guide

Introduction (5 minutes)

Pre-interview checklist

- This discussion guide: cross out any non-applicable questions beforehand.
- Provider's completed template. Highlight beforehand any:
  - gaps or omissions;
  - inconsistencies;
  - particularly high/low/unusual charges, or charges that vary significantly; and
  - places where explanatory notes were given.
- Additional clean copy of their completed template, to give to respondent.
- Encrypted voice recorder.

Interviewer introduction

My name is .... from Breaking Blue. Thanks again for all the work you've put into this study.

Reiterate agenda:

- How you found the process of data collection.
- Your charges as outlined in the template.
- Any additional services or benefits that particular schemes offer, particularly where charges are higher.
- The extent to which charges might have changed in the last 12 months, particularly in relation to the April 2016 ban on Active Member Discounts and member-borne commission.

Confidentiality: I can assure you that anything you tell me will be treated in confidence by the Breaking Blue project team. It will not be attributed to you, or your organisation, either in our presentations or in the final project report which will be published by DWP.

Ask for permission to record for our analysis purposes. The recording will not be passed onto any third party and will be destroyed after the project finishes.

Before we start our discussion, do you have any questions?

Overview of the task

- Could I first of all re-confirm your job title(s)? And could you summarise your role(s) within your organisation? If not mentioned – How long have you been in this role/with [PROVIDER]?
- We'll look at the details of the template in a second. But overall, how did you find the process of collecting the data?
- Who actually did the data collection work? [*job titles*]

- How long did it take in total?
- What did it involve on a practical level?
- *If participated last year:* Did you follow the template you used year?
- Was it data that you already held, or did you need to set up systems to be able to produce it?

Take out completed template and give copy to respondent if necessary.

- Let's have a look at the template.

Reporting period

The reporting date you used was __________.

- Is that correct?
- Why did you select that date? [***N.B. Default date we set was 1 April 2016***]
- Was this the most straightforward date for you to report on?

Part B – Your in-scope schemes (5 minutes)

Summarise scheme types covered, and how many employers covered by each.

- Does this cover all of your in-scope schemes, or were there any schemes you couldn't provide data for?
- If not: Which schemes? Covering how many employers and members? Why could you not provide data?

Part C – Ongoing charges (10-20 minutes for all of Sections C to H)

- How did you find the process of collecting the data on ongoing charges?
  - Were any elements particularly difficult or problematic? Why was this?
  - Ask about any gaps/inconsistencies/explanatory notes, as relevant.

Ask providers with more than one scheme type:

- Do the charges differ between your different schemes?
  - Obtain full details: Why/why not? How does this work?
  - Are there any additional services that certain schemes provide that account for the difference in cost? What are these?

Ask providers with both contract-based AND trust-based/master trusts:

- Is there a difference in charges between contract-based and trust-based schemes?
- Why is this?

Ask all, unless all members charged the same:

- What kinds of factors cause the ongoing charge to vary for members? Why?
- **Probe as necessary on:** employer size; member fund size; any other factors?
  If so: How do these impact the ongoing charges?

Ask all:

- How do you calculate the ongoing charges: is this based on evidence, for example of service or product design and delivery costs, business administration costs, profit margins, or anything else?
- Overall, does this give a comprehensive picture of your ongoing charges, or is there any other information that you think is important, which didn't fit into the template?

Part D – Active Member Discounts

You did [not] use Active Member Discounts over the reporting period.

- (*If not used*) Have you ever used Active Member Discounts? – ***If never used, skip to Part E.***
  - (If used previously but not now): When did you stop?
- Can you describe your approach to preparing for the ban on Active Member Discounts in qualifying schemes in April 2016?
- What were the different levels of discount applied?
- What did the level of discount depend on?
- Has the ban on Active Member Discounts impacted on you? How?

Ask rest of section only if provider changed charges as a result of ban. Otherwise skip to Part E.

- What did you do in practice to remove the Active Member Discounts? Have you raised charges for active members, lowered them for deferred members, or used a mid-point?
- Will it vary from scheme to scheme? If so: how?

Part E – Consultancy charges and commission

You did [not] facilitate consultancy charging over the reporting period.

- (*If not used*) Have you ever used consultancy charging? – ***If never used, skip to Part F.***
  - (*If used previously but not now*): When did you stop?
- Under what circumstances did/do you use consultancy charges?
- Can you describe your approach to preparing for the ban on these charges in trust-based schemes in April 2016?
- How were/are consultancy charges typically structured? (percentage of funds under management? percentage of contributions? Monetary amount?)
- Did/does anything else impact the level of consultancy charge? e.g. Employees in larger or particular types of organisations pay more?

- Has the ban on consultancy charges impacted on you?
- And has the 2016 ban on member-borne commission impacted on you?
- *If not clear:* Have you ever paid commission to an intermediary that is ultimately passed onto a member?
- *If yes:* When did you stop?

Part F – Contribution charges

You [do/don't] use contribution charges.

If not used skip to Part G.

Ask remaining questions as relevant.

- Just to confirm, do the contribution charges apply to [all members of all your schemes/only certain schemes/members]?
- If not all, obtain full details: How does this work?
- And to confirm, the contribution charges are levied in addition to the basic ongoing charges in Part C of the template? [*Interviewer: Be clear on how this works*].
- What would you say are the advantages of this approach from your point of view?
- And the disadvantages?
- What would you say are the advantages of this approach to *members*?
- And the disadvantages?
- Can you see contribution charges becoming more frequent in the future, for your own schemes?
- How did you find the process of collecting the data on contribution charges?

Ask about any gaps/inconsistencies/explanatory notes, as relevant

- How do you calculate these charges? Is this based on evidence, for example of service or product design and delivery costs, business administration costs, profit margins, or anything else?
- Is there any other information that you think is important, that didn't fit into this part of the template?

Part G – Flat rate member charges

You [do/don't] use flat rate member charges.

If not used, skip to Part H.

Ask remaining questions as relevant.

- Just to confirm, do the flat rate charges apply to [all members of all your schemes/only certain schemes/members]?
- If not all, obtain full details: How does this work?

- *If not clear already:* Is there a minimum fund size, below which the flat fee doesn't apply or is reduced?
- And to confirm, the flat rate charges are levied in addition to the basic ongoing charges in Part C of the template? [*Interviewer: Be clear on how this works*]
- What would you say are the advantages of this approach from your point of view?
- And the disadvantages?
- What would you say are the advantages of this approach to members?
- And the disadvantages?
- Can you see flat rate charges becoming more frequent in the future, for your own schemes?
- How did you find the process of collecting the data on flat rate charges?
- Ask about any gaps/inconsistencies/explanatory notes, as relevant.
- How do you calculate these charges? Is this based on evidence, for example of service or product design and delivery costs, business administration costs, profit margins, or anything else?
- Is there any other information that you think is important, that didn't fit into this part of the template?

Part H – Other scheme-level fees

Discuss any charges levied in this section. If none, skip to Part I.
For each of the charges in Section H of the template that apply, ask:

- How the charges work: who pays them and how they are levied.
- Why this approach is taken: advantages for provider and members.
- Any gaps/inconsistencies/explanatory notes, as relevant.

Part I – Default funds used (5 minutes for Parts I and J)

- Let's have a look at the different funds that members are invested in. Was it straightforward or difficult to provide this data?
- *If difficult:* Why was this?

Check summary row of table: if fewer than 80% of employers/members/funds covered:

- You weren't able to cover all of your [employers/members/funds] in the table. Why was that?
- Are any particular groups of members excluded from the table?

Focus on fund/funds most commonly used:

- Why is such a large percentage of members invested in this fund/these funds?
- What are the characteristics of the fund(s)?

Part J: Additional fund manager expense charges

FMECs

[Some/none] of these funds attract additional fund manager charges or performance fees.

If none skip to Part K.

Focus on funds with additional FMECs:

- Why does _______________ fund attract Fund Manager Expense Charges?
- What additional services does this cover?
- How do you calculate these charges? Is this based on evidence, for example of service or product design and delivery costs, business administration costs, profit margins, or anything else?

Performance fees

Focus on funds with performance fees:

- Why does _______________ fund attract performance fees?
- How do these work exactly?

Part K – Charges within scope of the default fund cap (5-10 MINUTES)

Part K of the template asked you to confirm that the charges you provided in Parts B-J include all of the charges that are in scope of the 0.75% default fund charging cap.

I see you were/weren't able to include all of these

- *If not able:* Which charges weren't you able to include? Why was this?

Response to the cap

- How has [*PROVIDER*] responded to the charge cap – firstly overall, but then also specifically in the last 12 months [since I last spoke to you]?
- *If not clear:* What actions have you taken to ensure you are compliant with the cap?
- Has your default investment strategy changed to meet the cap, and if so, how?
- Have you considered making any other changes to your overall charging structure, due to the cap?

General views on the charge cap

- What are your views on the charge cap and the other charges measures?
- To what degree have the measures benefited your members?
- What impact have the measures had on you, as a provider?

Part L – Fund-level entry/exit charges (5-10 minutes)

Point respondent to the bottom part of Worksheet 2: charges excluded from the default fund charge cap.

- And what about the second part of this list: in other words, transaction costs, which are excluded from the default fund charge cap. Were you able to provide that information in Sections L and M of the template?
- Why/why not? How easy did you find it to provide that information?
- And what about the entry and exit charges specifically? Were you able to complete this section?

Ask only those unable to complete:

- Why were you unable to complete the section?

Obtain full details and ask as necessary:

- If you had more time, could you have completed it?
- Is there anything we could do to redesign the template to make the information easier to provide?

Ask rest of Section L to those able to complete. Otherwise go to Section M.

- How did you put the data together?
- Who was involved?
- Is it an estimate, or are you confident that the data is accurate?
- Were any elements particularly difficult or problematic? Why was this?
- Could you talk me through the entry and exit charges that apply?
- What kinds of factors cause the entry and exit charges to vary between funds? Why?
- Is there any other information that you think is important, which didn't fit into the template?

Part M – Ongoing portfolio transaction costs (5 minutes)

- And the final section of the template covers ongoing portfolio transaction costs. Were you able to complete this section?

Ask only those unable to complete:

- Why were you unable to complete the section?

Obtain full details and ask as necessary:

- If you had more time, could you have completed it?
- Is there anything we could do to redesign the template to make the information easier to provide?

Ask rest of Section M to those able to complete. Otherwise go to Section Z.

- How did you put the data together?
- Who was involved?

- Is it an estimate, or are you confident that the data is accurate?
- Were any elements particularly difficult or problematic? Why was this?
- Could you talk me through the portfolio transaction costs that apply?
- What kinds of factors cause the portfolio transaction costs to vary between funds? Why?
- Is there any other information that you think is important, that didn't fit into the template?

Part Z – Recent and future developments (10 minutes)

Additional comments

- Thanks again for completing this template, and for all of your help today.
- Just to round off, to what extent do you expect to see charges change ***further*** as a result of the charges measures introduced over the past 2 years?

Probe specifically on each of:

- Will your ongoing charges change for any members?
- Might the fund manager expense charges change?
- Could there be any other changes at all?
- How else do you expect to see the market for workplace pensions change, as the reforms introduced in 2015 and 2016 are embedded?
- What will be the effect of this in 2 years' time? 5 years' time?

Ongoing burden

For providers who completed the template last year:

- What about completing this template? Have you found it easier this year than you did last year?
- Might it get easier to complete this template in future years? Why/why not?
- *If not/if unclear:* Might you have systems in place that make it easier to measure the different charges?

Ask all:

- Would there be a cost to you to be able to report on these charges on a regular basis?
- *If necessary:* How much might it cost you to be able to upgrade your systems?
- Conclusion Finally, do you have any other comments on any of the subjects we discussed today?
- Would you be happy for Breaking Blue to keep your contact details and for someone to re-contact you if more research takes place in the future?

Thank and close.

Appendix B
Materials used in conducting the survey with unbundled schemes

B.1 Invitation letter to unbundled schemes

Private Pensions Policy and Analysis
1st Floor, Caxton House
Tothill Street
London SW1H 9NA

[DATE]

[PROVIDER NAME]

Pension scheme charges research 2016

We are writing to you to ask for your help in a research study that has been commissioned by the Department for Work and Pensions (DWP).

The Government is committed to ensuring that people get maximum value from their pension savings. To help us do this, DWP has commissioned a survey to help us understand charging structures, types and levels in UK pension schemes.

The research is being conducted on DWP's behalf by Breaking Blue and Critical Research, who are independent research organisations. You will be contacted by Critical Research to take part in a telephone survey which it is estimated will last just **10-12 minutes**, depending on your answers.

One important piece of information that we will request from you is the **annual ongoing charge** paid by a 'typical' member: this information will only be used to calculate the average levels of charge paid by all scheme members in similar schemes across the UK. If you do not have this information to hand, we would be very grateful if you could ask your adviser or administrator about this before we interview you. The attached fact sheet explains more.

Any information you provide will be held in the strictest of confidence and will be handled securely throughout the study. The research findings will not identify you or your organisation and no personal information will be shared with any third parties.

If you have any questions about the research or do not want to take part you can contact the project team at Critical Research on [CONTACT DETAILS].

Your contribution will provide us with valuable information that will help to inform policy and improve the services we provide. We hope that you decide to take part.

Yours sincerely,

B.2 Information sheet for unbundled schemes

In our telephone interview, we would like to discuss with you various details to do with your trust-based, defined contribution pension scheme.

We recognise that you may not have all of the information to hand that we require. If you feel an alternative contact would be better placed to answer any of our questions and they would be happy to participate, please do let us know during the course of the interview.

Understanding pension scheme charges is a very important aim of this research

In almost all types of pension scheme, members pay an ongoing charge (sometimes called an annual management charge, or AMC), usually taken as a percentage of the member's fund or of their pension contributions.

We will ask you the annual ongoing charge paid by a 'typical' existing member invested in the scheme's default fund. This is likely to cover the variety of services supplied as part of the running of the scheme, including:

- third party administration;
- investment advice;
- fund management;
- professional trustees;
- auditors/accountants; and
- legal advice.

The ongoing charge **excludes** transaction costs, and **excludes** any extra fund charges paid by members who themselves choose to invest in a different fund.

We will only ask about charges that are paid for by the members themselves, i.e. excluding any costs that are covered by the employer.

We will separately ask about the following:

- Approximately what proportion of the charge members pay is accounted for by the services we have listed above.
- any Active Member Discounts (*where active members, currently paying into their pension, pay a lower charge than those who are not*).
- any Transaction Charges paid by members (*these are incurred by the fund manager when buying and selling the underlying assets of the fund. These are passed onto the scheme members, usually as a reduction in the value of investments held*).
- The number of active and deferred members.
- Approximate average contribution rates.
- The total funds under management for the scheme.

We understand that you might not be able to answer all of these questions, but any information that you are able to locate in advance would be very much appreciated.

Thank you once again in advance for your help with this important research.

B.3 Questionnaire for unbundled schemes

Introduction for switchboard/gatekeeper

Good morning/afternoon. Please could I speak to [FIRST CONTACT]?

If unavailable and alternative names in sample: Could I then speak to [NEXT SAMPLE CONTACT]?

If unavailable and no alternative names available: Could I then speak to the person responsible for dealing with pension scheme administration for [SCHEME]?

If asked by switchboard: My name is .... And I'm calling you from Critical Research, on behalf of the Department for Work and Pensions.

The DWP is currently conducting research into pension scheme charges. We are contacting you because [SCHEME] provides a pension scheme for its employees. We understand that [CONTACT] is responsible for dealing with the pension scheme administration.

Introduction for potential respondent

Hello my name is .... And I'm calling from Critical Research on behalf of the Department for Work and Pensions.

The DWP is currently conducting research into pension scheme charges. As part of this, we would like to conduct a short telephone survey you, which should last around **10-12 minutes**. It concerns the costs and charges involved in the [SCHEME] pension scheme.

Just to explain – we are interviewing a selection of schemes on The Pensions Regulator's database, solely for the purposes of this research. The details they hold indicated that you are responsible for dealing with pension scheme administration.

S1 Can I just check that you are the best person to speak to regarding [SCHEME]?

SINGLE CODE

1	Yes	CONTINUE
2	No	SEEK REFERRAL
99	Refused	THANK AND CLOSE

Thank you. Once the research is completed we can send you the full findings of the study, if you would like to receive them.

S2 Can I just check that you're happy to take part?

1	Yes	CONTINUE
2	No	THANK AND CLOSE

Read confidentiality statement now or earlier if required: I can assure you that anything you tell us during the course of the research will be treated in confidence by the project team. It will not be attributed to you, or your organisation, either in our presentations or in the final project report which will be published by DWP. We will not tell DWP which organisations participated in this research.

The interview is being conducted under the terms of the Market Research Society Code of Conduct.

I will send you a letter from the Department for Work and Pensions, which gives you more information about the research, and the subjects we would like to discuss. **Confirm email details and send. Arrange a suitable time to re-contact respondent as necessary.**

SECTION A: Scheme classification

A1 According to The Pensions Regulator records, [SCHEME] is [OPEN TO NEW MEMBERS/CLOSED TO NEW MEMBERS/FROZEN/WINDING UP]. Is this correct?

1	Yes	Auto-code A2 then skip to A3
2	No	Ask A2
98	Unsure	SEEK REFERRAL
99	Refused	THANK AND CLOSE

A2 Could you confirm what the scheme status is?

READ OUT OPTIONS IF NECESSARY, SINGLE CODE.

1	Open	Continue
2	Closed	
3	Frozen	
4	Winding up	
5	Fully wound up	THANK AND CLOSE
98	Unsure	SEEK REFERRAL
99	Refused	THANK AND CLOSE

Programmer: if A2 answer = TPR info recode A1 as 1.

A3 And again, just to confirm, our understanding from TPR is that [SCHEME] is a trust-based DC scheme? **If necessary:** DC means defined contribution.

1	Yes	Skip to A5
2	No	Ask A4
98	Unsure	SEEK REFERRAL
99	Refused	THANK AND CLOSE

A4 It sounds like the information that we hold from TPR isn't correct. Would you mind telling me what type of scheme [SCHEME] is?

Record verbatim and refer back to Breaking Blue ASAP; thank and close.

A5 And finally, we understand from The Pensions Regulator that [SCHEME] is an unbundled scheme – in other words, your scheme trustees run the scheme in conjunction with a pension scheme administrator and separate investment managers? Is this correct?

SINGLE CODE

1	Yes – scheme is unbundled	Skip to A7
2	No – we just have a single pension provider	Ask A6
98	Unsure	SEEK REFERRAL
99	Refused	THANK AND CLOSE

A6 It sounds like the information that we hold from TPR isn't correct. Would you mind telling me who your pension provider is?

Record verbatim and refer back to Breaking Blue ASAP; thank and close.

A7 Thanks for re-confirming all of these details. For the remainder of the interview, when I say 'the scheme' I'm referring specifically to [SCHEME]. Approximately how many active members does your scheme have? If necessary: an 'active member' is a member who is building up pension benefits from their present job.

Probe for best estimate, but allow range if necessary

NUMBER:_______________		GO TO A8
AUTO-CODE ACTIVE BAND		
1	0-11	
2	12 to 99	
3	100 to 249	
4	250-499	
5	500-999	
6	1,000-4,999	
7	5,000+	
98	Don't know	OBTAIN REFERRAL OR THANK AND CLOSE
99	Refused	

A8 Approximately how many deferred members does your scheme have? **If necessary:** a 'deferred member' is a member who has stopped contributing to a scheme, but will get the pension benefits when they retire. This would usually be because they have left your organisation. Retired members should not be included.

Probe for best estimate, but allow range if necessary.

NUMBER:_______________	
AUTO-CODE DEFERRED BAND	
1	0-11
2	12 to 99
3	100 to 249
4	250-499
5	500-999
6	1,000-4,999
7	5,000+
98	Don’t know
99	Refused

<N.B. Respondent must be able to estimate number of active members to continue; for deferred members ‘no answer’ is permissible>

IF A7 and A8 both coded 1 or DK/Ref (i.e. the total number of members may be less than 12, but this is unclear), ask A9. Otherwise go to A10.

A9 In total does your scheme have 12 or more members?

SINGLE CODE

1	Yes	GO TO A10
2	No	THANK AND CLOSE
98	Don’t know	
99	Refused	

A10 Just to check – in total, your scheme has approximately **[A3 + A4; or use midpoints if only bands used; use 0 where not known; or if A9=1 then total=12]** members?

SINGLE CODE

1	Yes	AUTO-CODE A10b ACCORDINGLY THEN CONTINUE TO A11
2	No	GO BACK TO A7 AND A8 TO CORRECT
98	Don’t know	AUTO-CODE A10b BASED ON SAMPLE INFO THEN CONTINUE TO A11
99	Refused	

A10b AUTO-CALCULATE TOTAL MEMBERS:______________	
AUTO-CODE TOTAL BAND	
1	0-11 **[ALREADY SCREENED OUT]**
2	12 to 99
3	100 to 249
4	250-499
5	500-999
6	1,000-4,999
7	5,000+
98	Don't know
99	Refused

A11 What was the average employer contribution in the last 12 months as a percentage of employees' gross pay?

If necessary: If the percentage varies between employees please just give your best overall estimate. **If don't know, ask for a range.**

1	%:______________
2	% RANGE:________
98	Don't know
99	Refused

A11b ***Programmer: auto-calculate average employer contribution including A11_2 midpoints.***

A12 And what was the average employee contribution in the last 12 months as a percentage of their gross pay?

If necessary: If the percentage varies between employees please just give your best overall estimate. **If don't know, ask for a range.**

1	%:______________
2	% RANGE:________
3	Employees make no contribution
4	Information not held by the company
98	Don't know
99	Refused

A12b ***Programmer: auto-calculate average employee contribution including A12_2 midpoints.***

A13 Is the scheme a qualifying scheme that you use for automatic enrolment?

If necessary: If a scheme is used to automatically enrol employees, it needs to meet certain qualifying conditions set by government; and so not all schemes can be used for automatic enrolment.

1	Yes
2	No
98	Don't know
99	Refused

A14 In what year did membership of the [EMPLOYER] scheme start?

Interviewer note: an estimate is acceptable. If respondent not able to give an estimate offer bands

ENTER YEAR ________	
1	2013-2016
2	2006-2012
3	2001-2005
4	1991-2000
5	Before 1991
98	Don't know
99	Refused

SECTION B: Respondent job role

B1 Are you an employee of the company where the scheme operates?

SINGLE CODE

1	Yes	Go to B2
2	No	Go to B4
98	Don't know	GO TO SECTION C
99	Refused	

ASK IF B1=1 (EMPLOYEE):

B2 And what is your job title?

Interviewer note: allow Director/Manager/Controller/Executive/Supervisor interchangeably.

SINGLE CODE

1	Accountant/book-keeper	
2	Administrator	
3	Company secretary	
4	Director	
5	Finance Director	
6	HR Director	
7	Pensions Manager/Administrator	
8	Owner/Managing Director	
9	Payroll Manager	
97	Other (specify)___________	

98	Don’t know	
99	Refused	

ASK IF B1=1 (EMPLOYEE):

B3 Are you also a trustee of the scheme?

Interviewer note: a ‘trustee’ is an individual appointed to govern a trust-based scheme, on behalf of the members, in accordance with legal requirements.

1	Yes	
2	No	
98	Don’t know	
99	Refused	

ASK IF B1=2 (EXTERNAL), ANY SCHEME:

B4 And what is your job title?

Interviewer note: allow Director/Manager/Controller/Executive/Supervisor interchangeably

SINGLE CODE

1	Accountant/book-keeper	
2	Administrator	
3	Financial adviser	
4	Investment manager	
5	Pensions consultant/adviser	
6	Pensions manager	
7	Trustee	
8	Director	
97	Other (specify)___________	
98	Don’t know	
99	Refused	

SECTION C: Overall scheme charges

We’ve come to the most important part of the interview.

I’d like to understand the total charge paid by members of the scheme’s default fund over the past 12 months. As you will have seen in our letter, this includes fees paid by the members of the scheme itself for services including:

- administrators;
- advisers;
- investment managers;
- professional trustees;
- auditors and accountants; and
- any other services.

Please just focus on existing members invested in the scheme's default fund, so exclude any additional charges that certain members might pay for particular fund choices.

Please also exclude any costs that are covered by the employer.

C1 Have the scheme members themselves paid any charges relating to the pension scheme in the past 12 months?

SINGLE CODE

1	Yes	GO TO C3
2	No	CONTINUE
98	Don't know	
99	Refused	

C2 Can I just double check: it is quite unusual for pension scheme members to pay no charges at all. Usually ongoing charges are deducted from a member's pension fund, or from the contributions that they pay. I wonder if this is information that you might be able to find out for us?

If necessary: *Your pensions administrator or a colleague should be able to tell you this information.*

SINGLE CODE

1	Members do pay charges – I have this information to hand now	RECODE C1 AS 1 THEN CONTINUE
2	I will check with a colleague or administrator	SUSPEND INTERVIEW AND RE-START @ C1
3	No – members definitely pay no charges	GO TO SECTION D
98	Don't know	
99	Refused	

For C3-C7, remove reference to 'Active' if there are 0 active members at A7.

C3 Over the past 12 months were the fees paid by active members structured as a single annual management charge, or were there a number of separate ongoing charges?

Interviewer note: *if necessary remind respondent to focus only on existing members invested in the scheme's default fund.*

SINGLE CODE

1	Single annual management charge	Continue
2	Broken down into separate charges	
98	Don't know	
99	Refused	

C4

Wording if C3=1:

Was the annual management charge paid as a percentage of members' pension funds, or in some other way?

Interviewer note: *in most cases the AMC is a percentage of the pension fund, but it could also be a percentage of their contributions, a flat fee per member, or a combination of these.*

Wording if C3≠1:

I would like you to estimate, if possible, the total ongoing charges relating to the pension scheme paid in the last 12 months by a typical active scheme member.

In which of the following ways can you best estimate these ongoing charges: as a percentage of the members' pension fund, as a percentage of their contributions, as a flat fee per member, or a combination of these?

MULTICODE POSSIBLE

1	% of pension fund	QUALIFY FOR C5	GO TO C5-C7 LOOP
2	% of contribution	QUALIFY FOR C6	
3	Flat fee per member	QUALIFY FOR C7	
97	Other (specify):________	QUALIFY FOR C7	
98	Don't know	ASK C4i	
99	Refused		

C4i I wonder if this is information that you might be able to find out for us?

If necessary: *Your pensions administrator or a colleague should be able to tell you this information.*

SINGLE CODE

1	I have this information to hand now	GO BACK TO C4
2	I will check with a colleague or administrator	SUSPEND INTERVIEW AND RE-START @ C4
98	Don't know	GO TO SECTION D
99	Refused	

<u>**C5-C7 LOOP**</u>

If more than one answer coded @ C4 read out: As members' charges are charged as a [ANSWER 1] and as a [ANSWER 2] [and as a ANSWER 3], I will take each one in turn. First of all …

Programmer note: Ask each of C6a, b or c as relevant, depending on answers to C4 – routing instructions are also repeated below.

ASK C5 TO ALL CODING 1 @ C4

C5 What was the average charge over the last 12 months, as a percentage of the average member's pension fund?

1	%:_______________	GO TO INSTRUCTION BEFORE C6
98	Don't know	ASK C5i
99	Refused	

C5i I wonder if this is information that you might be able to find out for us?

If necessary: *Your pensions administrator or a colleague should be able to tell you this information.*

SINGLE CODE

1	I have this information to hand now	GO BACK TO C5
2	I will check with a colleague or administrator	SUSPEND INTERVIEW AND RE-START @ C5
98	Don't know	GO TO INSTRUCTION BEFORE C6
99	Refused	

ASK C6 TO ALL CODING 2 @ C4

C6 What percentage of their contributions did active members pay on average over the last 12 months?

1	%:_______________	GO TO INSTRUCTION BEFORE C7
98	Don't know	ASK C6i
99	Refused	

C6i I wonder if this is information that you might be able to find out for us?

If necessary: *Your pensions administrator or a colleague should be able to tell you this information.*

SINGLE CODE

1	I have this information to hand now	GO BACK TO C6
2	I will check with a colleague or administrator	SUSPEND INTERVIEW AND RE-START @ C6
98	Don't know	GO TO INSTRUCTION BEFORE C7
99	Refused	

ASK C7 TO ALL CODING EITHER 3 OR 97 @ C4

C7 What was the average fee per member over the last 12 months?

1	£:_______________	GO TO SECTION D
98	Don't know	ASK C7i
99	Refused	

C7i I wonder if this is information that you might be able to find out for us?

If necessary: *Your pensions administrator or a colleague should be able to tell you this information.*

SINGLE CODE

1	I have this information to hand now	GO BACK TO C7
2	I will check with a colleague or administrator	SUSPEND INTERVIEW AND RE-START @ C7
98	Don't know	GO TO SECTION D
99	Refused	

SECTION D: Unbundled services and charges

Interviewer note: *For the remaining questions, allow occasional don't knows, but if respondent gives multiple don't knows, try to encourage them to look up the information or speak to a colleague.*

D1 Has the scheme used the following six services in the last 12 months in respect to this pension scheme?

READ OUT ALL SIX AND 'OTHER'; MULTICODE POSSIBLE

1	Third party administrators	ASK D2
2	Advisers or investment consultants	
3	Fund managers	
4	Professional/Independent trustees	
5	Auditors/Accountants	
6	Solicitors/Legal advisers	
96	Has the scheme paid for any other services I've not mentioned? SPECIFY ________	
97	None	GO TO SECTION E
98	Don't know	
99	Refused	

D2 And now I'd like to know whether each of these services was paid for …

- entirely by the employer;
- entirely by the scheme members; and
- or a mix of both.

So please answer 'employer', 'members' or 'both' for each of the following:

Programmer: suppress all codes not answered at D1.

READ OUT EACH ANSWER AND SINGLE CODE

		Employer	Members	Both	DK	Ref
1	Third party administrators	1	2	3	98	99
2	Advisers or investment consultants	1	2	3	98	99
3	Fund managers	1	2	3	98	99
4	Professional/Independent trustees	1	2	3	98	99
5	Auditors/Accountants	1	2	3	98	99
6	Solicitors/Legal advisers	1	2	3	98	99
96	[VERBATIM FROM D1 CODE 96]	1	2	3	98	99

Ask D3-D5 if any of the charges at D2 are re-charged to members partially or in full; and if a numerical answer was given at either question C5, C6 or C7 i.e. (Any of D2_1 to D2_96 = 2 or 3) AND (ANY OF C5=1, C6=1, C7=1).

Otherwise skip to Section E.

D3 You said that some services were paid for at least in part by members. Just to check, were these all included in the ongoing charge totals you gave me earlier?

1	Yes	SKIP TO INSTRUCTION BEFORE D5
2	No	CONTINUE
98	Don't know	
99	Refused	

D4 Which of the services that members pay for were not included in the ongoing charge totals you gave me earlier?

Programmer: show only codes where 2 or 3 was answered at D2.

READ OUT IF NECESSARY; MULTICODE POSSIBLE

1	Third party administrators	
2	Advisers or investment consultants	
3	Fund managers	
4	Professional/Independent trustees	
5	Auditors/Accountants	
6	Solicitors/Legal advisers	
96	[VERBATIM FROM D1 CODE 96]	
97	None	RECODE D3 AS 1
98	Don't know	
99	Refused	

Ask D5 if two or more of the charges at D2 are re-charged to members partially or in full (i.e. more than two answers at D2_1 to D2_96 = 2 or 3), otherwise skip to Section E.

D5 Are you able estimate what percentage of the member's ongoing charge pays for each of the services?

Programmer: show only codes where 2 or 3 was answered at D2.

READ OUT IF NECESSARY; ALLOW VERY APPROXIMATE PERCENTAGES

1	Third party administrators	_________%
2	Advisers or investment consultants	_________%
3	Fund managers	_________%
4	Professional/Independent trustees	_________%
5	Auditors/Accountants	_________%
6	Solicitors/Legal advisers	_________%
96	[VERBATIM FROM D1 CODE 96]	_________%
98	Don't know	
99	Refused	

SECTION E: Active member discounts

IF MEMBERS DO NOT PAY ANY CHARGES (C1 IS NOT 1) OR IF THERE ARE 0 ACTIVE MEMBERS AT A7 – GO TO SECTION F.

E1 Do active scheme members pay lower charges than deferred scheme members?

If necessary: An "active member" is a member who is building up pension benefits from their present job.

A 'deferred member' is a member who has stopped contributing to a scheme, but will get the pension benefits when they retire. This would usually be because they have left your organisation.

SINGLE CODE

1	Yes	GO TO E2
2	No	GO TO SECTION F
98	Don't know	
99	Refused	

IF E1=1

E2 On average, by how many percentage points are the active members' charges lower?

Interviewer note: e.g. If active members pay 0.8%, and deferred members pay 1%, then enter 0.2.

1	PERCENTAGE:_______________%	If > 1% WARN: "that is a very large difference between different members' charges. Are you sure that this is correct?"
98	Don't know	
99	Refused	

SECTION F: Funds under management and transaction charges

Now just a few questions about the size of the pension fund.

ASK TRUST-BASED ONLY

F1 What do you estimate is the total value of the funds under management for the [reference scheme]?

PROBE FOR BEST ESTIMATE, TO NEAREST £

1	FIGURE:_______________	CONTINUE
98	Don't know	SKIP TO F3
99	Refused	

F2 So given the number of scheme members, can you confirm that the average pension fund of each member is approximately:

PROGRAMMER: SHOW FIGURE F1/A10b [OR MID-POINTS] AS £ PER MEMBER: APPROXIMATION SHOULD BE ROUNDED TO THE NEAREST 1,000

1	Yes, correct	GO TO F3
2	No	RE DO F1, A7 or A8
98	Don't know	GO TO F3
99	Refused	

F2b Programmer record exact £ per member (not rounded) once correct.

F3 Does the board of trustees attempt to measure the transaction costs passed on to members?

Interviewer note: Transaction costs are incurred by the fund manager when buying and selling the underlying assets of the fund. These are passed on to the scheme members, usually as a reduction in the value of investments held.

1	Yes	GO TO F4
2	No	SKIP TO SECTION G
98	Don't know	
99	Refused	

F4 And do you report to members the levels of transaction costs passed on to them?

1	Yes	CONTINUE
2	No	
98	Don’t know	
99	Refused	

F5 Although transaction costs are complex, the simplest way to express them is the percentage that is deducted from a member’s fund value annually.

Are you able to report the transaction costs deducted from a typical member’s fund as a percentage, based on the most recent information you have?

1	PERCENTAGE:______________%
98	Don’t know
99	Refused

SECTION G: Demographics and close

SKIP TO G4 IF ACTIVE MEMBERS=0

G1 What is the average annual gross pay of your active scheme members? An estimate is fine.

PROMPT FOR BEST ESTIMATE

1	FIGURE:______________	
98	Don’t know	
99	Refused	

G2 Could you tell me what percentage of the active scheme members are women?

1	% Women:______________	MUST ADD UP TO 100%
2	% Men:______________	
98	Don’t know	
99	Refused	

G3 What percentage of active scheme members belongs to the following age groups?

READ OUT

1	% under 22: _________	MUST ADD UP TO 100%
2	% between 22 and 50: _______	
3	% over 50: ________	
98	Don’t know	
99	Refused	

G4 Thanks so much for participating today. Would you like to be e-mailed a summary of key findings when it is available?

PRE-POPULATE EMAIL BY DEFAULT

1	Yes, confirm email address:_______________	
2	No	

G5 Would you be happy for Critical Research to hold your details and re-contact you in the next few months if we need to get clarification about any of your answers?

1	Yes	
2	No	

ASK G6 IN PILOT INTERVIEWS ONLY, OTHERWISE SKIP TO G7

G6 And would you be happy for a colleague in the DWP research team to listen to a recording of this interview, purely for quality control purposes?

If necessary: Just to confirm – it won't be circulated any more widely than the immediate project team.

1	Yes	
2	No	

G7 And finally, one of my colleagues will be conducting a small number of follow-up telephone interviews in the coming weeks, with a selection of firms, which will be more exploratory, asking about your views and experiences. If you are selected, would you be happy to take part in this short interview?

If asked: It should take no more than 20 minutes, depending on your answers.

1	Yes	Monitor and discuss rate with Breaking Blue
2	No	

Thank and close.

Interviewer notes and feedback on respondent: __________________________

Report in particular on areas of mis-understanding or hesitation, and also where caveats or other seemingly important information was given by the respondent that could not be captured.

B.4 Follow-up interview discussion guide

Introduction and Warm-up (2 minutes)

Setting the scene/ground-rules

Pre-interview: review trustee's responses to the quant survey, focusing particularly on which charges they are able or not able to report. Delete sections of this guide that to not apply.

My name is .... from Breaking Blue. Thank you very much for agreeing to take part in this study, which seeks to understand the charges that apply to your scheme, and your role in monitoring these.

There are no right/wrong answers: if you don't know about a certain charge, please do say so.

Confidentiality: I can assure you that anything you tell me will be treated in confidence by the Breaking Blue project team. It will not be attributed to you, or your organisation, either in our presentations or in the final project report which will be published by DWP.

Ask for permission to record for our analysis purposes. The recording will not be passed onto any third party and will be destroyed after the project finishes.

Before we start our discussion, do you have any questions?

Introduction

- Just to confirm, my questions today will mostly focus on ***[SCHEME NAME]***
- Can I confirm your job title, and how long you have been involved with managing this scheme?

Section 2 – Ongoing charge (7 minutes)

Overview

Review respondent answers to questions C5-7.

- To confirm, you were/were not able to report the annual ongoing charge paid by a 'typical' existing member invested in the scheme's default fund
- Is this something you measure as a matter of course?

If able to provide:

- The ongoing charge was ___________ . Is this correct?
- How easy was it to provide this information?
- Did you have to check it with someone else? Who?

If not able to provide:

- Can I ask why you were not able to provide this information? What were the barriers you faced?
- Was this a temporary issue? Or would you never be able to provide that information?
- If not clear: What would have to happen to enable you to get at that information?

Breakdown of ongoing charge

Review respondent answers to Section D. Only ask this section if multiple services were listed at D1, otherwise skip to Section 3 of this guide.

- I see that you were/were not able to break down the ongoing charge into the different services you've paid for, such as third party administration, investment advice and fund management.

If able to break down – highlight which ones to probe on:

- I see that you were able to provide information on:
  - third party administration;
  - investment advice;
  - fund management;
  - professional trustees;
  - auditors/Accountants; and
  - legal advice.

For each breakdown provided, ask:

- How easy was it to provide this information?
- Did you have to check it with someone else? Who?
- Does the charge vary at all? Under what circumstances does it vary?

If no breakdowns provided ***OR***

For each breakdown NOT provided, ask:

- Can I ask why you were not able to provide this information? What were the barriers you faced?
- Was this a temporary issue? Or would you never be able to provide that information?
- If not clear: What would have to happen to enable you to get at that information?

Section 3 – Active Member Discounts (5 minutes)

Don’t know if use AMDs

Review respondent answers to Section E.

- I see that you do/do not apply Active Member Discounts/you were not able to tell my about any Active Member Discounts you apply.

If level of AMD not known at E2:

- Can I ask why you were not able to provide this information? What were the barriers you faced?
- If not clear: What would have to happen to enable you to get at that information?

If level of AMD not known, skip to Section 4

Use AMDs:

If they apply AMDs and level is known:

- So active members’ charges are ________% lower than deferred members’ charges. Is this correct?
- From April 2016, Active Member Discounts were banned in schemes that are used for automatic enrolment. Is this an issue the trustees of your scheme have ever discussed?
- Did you take any action as a result? Has the ban affected you in any other way? Then skip to Section 4.

Do not use AMDs:

If they do not apply AMDs:

- Has your scheme ever used an Active Member Discount?

If AMDs never used, skip to Section 4

If previously used AMDs:

- What were the different levels of discount applied?
- When did you stop applying these?
- Why did you stop applying Active Member Discounts?
  - *If necessary:* From April 2016, Active Member Discounts were banned in schemes that are used to automatic enrolment. Was this a reason?
- Can you describe your approach to removing Active Member Discounts?
  - *If necessary:* Have you raised charges for active members, lowered them for deferred members, or used a mid-point?

Section 4 – Transaction Costs (5 minutes)

Review respondent answers to section F.

- I see that you do/do not attempt/don't know if your board attempts to measure the transaction costs passed onto members

If don't attempt to measure them:

- Have you ever heard the question of transaction costs mentioned?
- Can I ask why you don't attempt to measure transaction costs? What are the barriers you face?
  - *If not clear:* Is this a temporary issue? Or would you never be able to identify transaction costs?
- Have you ever tried to measure transaction costs? Tell me about that.
  - *If not clear:* What would have to happen to enable you to identify them?
- Have your scheme members ever asked you about reporting transaction costs to them? Has anybody else requested this?

If they DO attempt to measure them:

- When was the decision taken to start measuring transaction costs? Why was the decision taken?
- How easy do you find it to measure transaction costs? What process do you have to go through?
- How do you report these to members? Have you had any feedback or questions from them at all? What were these?
- Do you face any difficulties in obtaining the info on transaction costs? What are the barriers you face?
  - If so: What might happen to happen to enable you to identify them more easily?

Section 5 – Monitoring (5 minutes)

- Thinking now about all the information we've asked you for over these two interviews …
- How do you generally go about getting this information? Who do you approach – or what resources do you use?
- How easy is it to get any third parties you might use to share this information with you?
  - How responsive are they? How thorough is the information they provide?
- How long does it take you to gather this information? Does it impact upon your other duties (as a trustee)?
- Do you feel the charges members pay for the different services represents good value for money, compared to other schemes?
  - *Whether yes or no:* Why is this? What is it about your scheme that means members get better/worse value for money?
  - *If necessary:* For example the size of your scheme? Or any other factors?

- *For automatic enrolment schemes only:* How easy do you find it to maintain compliance with the charge cap? Why?
  - If necessary: Is there anything you need to monitor to make sure that individual members charges don't go over the cap? What does this entail?

Conclusion (5 minutes)

Final check

- Thanks again for completing the interview, and for all of your help today.
- Just to round off, do you expect to see any changes to take place to the pension scheme in the near future? What about the workplace savings market more generally?
  - What do you think the scheme will look like in 2 years' time? 5 years' time?
- Finally, do you have any other comments on what we discussed today?
- Would you be happy for Breaking Blue to keep your contact details and for someone to re-contact you if more research takes place in the future?

Thank and close.

Appendix C Number of members' pension pots covered by the study

Table C.1 below outlines the total number of members' pension pots covered across the 14 providers and 237 unbundled trust-based schemes that took part in the study. Breakdowns by scheme size are also provided for contract-based and trust-based schemes.

Table C.1 Number of members' pension pots covered by the study

Scheme size	Qualifying schemes				Non-qualifying schemes				Total
	Contract-based	Master trust	Trust-based	Unbundled trust-based	Contract-based	Master trust	Trust-based	Unbundled trust-based	
Total	4,254,961	6,305,478	679,101	588,303	2,713,529	43,558	372,619	131,548	15,089,097
1-5	23,730	-	243	-	135,678	-	26,238	-	-
6-11	48,087	-	228	-	158,652	-	17,419	-	-
12-99	798,471	-	4,010	-	395,681	-	66,390	-	-
100-999	1,732,375	-	71,328	-	416,337	-	98,324	-	-
1,000+	1,652,298	-	603,292	-	1,607,179	-	164,248	-	-

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