

# Disclosure of costs, charges and investments in DC occupational pensions

Government response

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February 2018

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# Introduction

1. This paper forms the Government's response to a consultation on the draft Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018, which ran from the 26 October 2017 to 7 December 2017. The draft Regulations were designed to:
  - introduce requirements for certain occupational schemes offering money purchase benefits to publish charge and transaction cost information, disclose this to members and others, and tell members where to find it; and
  - introduce requirements for the same schemes to provide information, if a member or a recognised trade union asks, about the pooled funds in which they are invested.
2. The proposals follow earlier calls for evidence on:
  - improving transparency in workplace pensions: transaction costs disclosure<sup>1</sup>; and
  - investment disclosure<sup>2</sup>.
3. The consultation applied to England, Wales and Scotland. It is anticipated that Northern Ireland will make corresponding regulations for pension schemes located there on charge and cost publication and disclosure, and for investment disclosure.
4. Given the high level of interest expressed in this short consultation by respondents from across a very wide range of sectors, we have decided to set out in more detail the comments received, how Government has considered and taken account of these, and the conclusions it has reached.

## Background

5. Engaged pension savers need to be able to find information about costs and charges, to satisfy themselves that they receive good value for money from their pension, and that it will meet their needs for future retirement. The Government has a legal duty to make regulations<sup>3</sup> which ensure that information on costs and

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<sup>1</sup> <https://www.gov.uk/government/consultations/improving-transparency-in-workplace-pensions-transaction-costs-disclosure>

<sup>2</sup> <https://www.gov.uk/government/consultations/occupational-pensions-reducing-regulatory-burdens-and-minor-regulation-changes>

<sup>3</sup> <http://www.legislation.gov.uk/ukpga/2014/19/section/44>

charges information is provided. The Government also considers that it is important that members have the right to know where their money is invested, where it is proportionate for trustees and managers to tell them.

6. Trustees and managers of occupational schemes offering money purchase benefits, with certain exceptions, already have a duty to:
  - request and report on the level of charges and, so far as they are able to do so, the level of transaction costs borne by scheme members for the default arrangement;
  - report on the range of charges and transaction costs for other arrangements.
7. They are required to do this via the Chair's statement<sup>4</sup>. This is available to members upon request. The FCA have also introduced rules requiring broadly similar disclosure by Independent Governance Committees (IGCs) with regard to workplace personal pension schemes<sup>5</sup>.
8. The key objective in requiring disclosure and also publication of charges and transaction costs is to assist the function of a healthy market in an area which is perceived as being opaque. Publication of charge and transaction cost information will enable trustees and others to compare the value for money they are receiving with their peers, thereby driving better market outcomes. By giving wider industry participants and commentators access to the data, this could also assist in the development of benchmarking services.
9. "Transaction costs" are defined in DWP legislation<sup>6</sup> as the costs and charges incurred as a result of the buying, selling, lending or borrowing of investments.
10. "Charges" are also defined in DWP legislation<sup>7</sup> and are generally considered to be all costs and charges which are borne by the members other than transaction costs and those incurred as a result of the holding or maintenance of property, as well as a small number of other exemptions, including the costs of complying with court orders, pension sharing costs, winding up costs and costs solely associated with the provision of death benefits.
11. Section 113 of the Pension Schemes Act 1993 (as amended by section 44 of the Pensions Act 2014) places a duty on the Secretary of State to make regulations requiring:

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<sup>4</sup> <https://www.legislation.gov.uk/ukxi/1996/1715/regulation/25>

<sup>5</sup> <https://www.handbook.fca.org.uk/handbook/COBS/19/5.html>

<sup>6</sup> <http://www.legislation.gov.uk/ukxi/2015/879/regulation/2>

<sup>7</sup> <http://www.legislation.gov.uk/ukxi/2015/879/regulation/2>

- The publication of information about some or all of the transaction costs, and some or all of the administration charges in respect of a relevant scheme; and
  - Information to be given to members or others about some or all of the transaction costs of a relevant scheme.
12. Section 44 also introduced a similar duty on the FCA to make rules in relation to personal pension schemes by amending the Financial Services and Markets Act 2000 to introduce a new section 137FA. The FCA's duties relate to personal pensions schemes with direct payment arrangements and stakeholder personal pension schemes.
13. The Government has long recognised that without a matching duty on asset managers to be required to disclose transaction costs, trustees and IGCs will find it difficult to obtain consistent and standardised information about the transaction costs borne by their schemes and ultimately by the members. They would therefore not be able to fully meet the duties which legislation requires DWP and the FCA to impose on them.
14. In March 2015, therefore the Government and the FCA jointly published the Call for Evidence, 'Transaction Costs Disclosure: Improving Transparency in Workplace Pensions'<sup>8</sup>.
15. Feedback from the Call for Evidence was published in the FCA's October 2016 consultation paper 'Transaction cost disclosure in workplace pensions'<sup>9</sup>, which proposed rules and guidance to improve the disclosure of transaction costs and charges in workplace pensions.
16. The FCA has now made rules<sup>10</sup> which were published in a Policy Statement<sup>11</sup> on 20 September 2017, which came into force on 3 January 2018. These rules now require those managing investments – broadly, investment managers and insurers – to provide information about transaction costs and charges in response to a request from a relevant pension scheme, either a workplace personal pension or a DC occupational pension. These rules now enable IGCs and trustees to obtain, for the first time, a disclosure of the transaction costs that scheme members incur calculated according to a standardised methodology.

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<sup>8</sup> 'Transaction Costs Disclosure: Improving Transparency in Workplace Pensions', DWP/The FCA, March 2015, <https://www.fca.org.uk/publications/discussion-papers/dp15-2-transaction-costs-disclosure-improving-transparency-workplace>

<sup>9</sup> 'Transaction cost disclosure in workplace pensions', the FCA, October 2016, <https://www.fca.org.uk/publication/consultation/cp16-30.pdf>

<sup>10</sup> [https://www.handbook.fca.org.uk/instrument/2017/FCA\\_2017\\_53.pdf](https://www.handbook.fca.org.uk/instrument/2017/FCA_2017_53.pdf)

<sup>11</sup> <https://www.fca.org.uk/publication/policy/ps17-20.pdf>

## Responses to the consultation

17. The consultation sought organisations'<sup>12</sup> views of proposals on transparency and disclosure for cost, charges; and investment information.

18. We have received a total of **46** responses to the consultation questions for organisations, from a varied mix of representative organisations throughout the industry:

12	Occupational Pension schemes (6 Master Trusts; 5 single employer schemes & representative body)
6	Insurance providers & representative body
10	Professional industry bodies (lawyers, actuaries, trustees, investment managers, financial industry etc)
11	Third party providers (consultants, employee benefit advisers)
5	Member representative groups (unions, charities etc)
2	Other (journalists and blogger)

19. A full list of organisational respondents can be found at **Annex A**. A list of the questions along with a brief summary of some of the organisational comments can be found at **Annex B**.

20. We received **44** responses that commented on at least one element of Chapter 1 relating to costs and charges information. No respondent disagreed with the needs for transparency. All respondents who specifically commented generally welcomed and agreed with the need to be transparent on charges and costs recognising the Government's legal duty to make regulations in this area. Respondents did however go on to provide a wide range of issues or concerns relating to the proposals which are captured in the next section.

21. We also had **37** organisations respond to at least one element of Chapter 2 on our investment disclosure proposals, under which occupational pension scheme members would receive information on request about the pooled funds in which they are invested. Again all respondents, who commented broadly welcomed the

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<sup>12</sup> By organisations, we meant consumer groups, employers, service providers - including third-party administrators, investment managers, independent financial advisers and adviser firms – and trustees and managers of schemes.

proposal but also had specific issues or concerns they raised, although to a lesser extent than the costs and charges proposal.

22. We have carefully considered all the comments and suggestions made and amended the Regulations and statutory guidance where we believe it to be necessary or appropriate. Clarification on these and other issues and concerns raised have been addressed within the following chapters of this consultation response.
23. The consultation also asked questions aimed at individuals, as members of relevant DC pension schemes (or representatives of a relevant pension scheme members) to help with understanding what information members currently receive (whether routinely or on request), member understanding of that information and the usefulness of it.
24. The member survey carried out by DWP received **55** responses from individuals. A similar survey was also carried out by the consumer group Which on behalf of DWP that received **2,300** responses from individuals. A full list of the questions along with a summary of the analysis from these surveys can be found at **Annex C**.

## Summary of key changes made following the consultation

### Disclosure of costs and charges

We have amended the coming into force date for changes to the annual benefit statement to be consistent with the new publicly available cost and charges information within the Chair's statement [further details included in Chapter 1, paragraphs 92-93].

We have also made some changes to the statutory guidance to address concerns raised on the accuracy of the data to be used in the production of the cost and charges illustration [further details in Chapter 1, paragraphs 117-130].

### Investment Disclosure

We have changed the timing of required pooled investment information. The information provided:

- must be available for all members to request from April 2019 (instead of our original proposal under which some members may need to wait until November 2019);

- must be no more than six months old at the point of request, subject to certain conditions being met (rather than up to 19 months if linked to the annual report regulatory requirement); and
- only one request can be made in a six month period.

In practice schemes may need to update their information at least twice a year, stakeholder feedback has suggested that this will be more useful to members without adding significantly to trustee burdens [further details included in Chapter 2, paragraphs 23-35].

We have also amended the Regulations in a number of other areas to confirm the policy intention, and clarify the requirements.

## Summary of the final amendment regulation changes

25. **Annex D** summaries the key changes made in the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018. These Regulations, the Explanatory Memorandum, and Impact Assessment can all be found on the legislation pages of Gov.uk<sup>13</sup>.

26. The statutory guidance “Cost and charge reporting: guidance for trustees and managers of occupational schemes”, can be found on the publication pages of Gov.uk<sup>14</sup>.

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<sup>13</sup> <http://www.legislation.gov.uk/uksi/2018/233>

<sup>14</sup> <https://www.gov.uk/government/publications/cost-and-charge-reporting-guidance-for-trustees-and-managers-of-occupational-schemes>

# Chapter 1 - Disclosure of costs and charges – Government response

## Introduction

1. From 3 January 2018 there is an obligation on asset managers to provide information about costs and charges to trustees and managers. Our consultation last year sought views on the next destination of the information flow, from trustee or manager to scheme member, in fulfilment of the Secretary of State's duties under Section 44 of the Pensions Act 2014 to make regulations requiring cost and charges information to be given to members and to be published.
2. As advised in our consultation, we believe that the publication of costs and charges information is both directly informative to members about the costs and charges they are paying and will help employers and members draw a meaningful comparison across schemes and the funds available in those schemes.
3. The proposals aimed to strike a balance between ensuring that scheme members and others receive timely and meaningful information which adds value about the costs and charges they bear, whilst avoiding placing unnecessary burdens on pension scheme trustees.
4. In summary the consultation included proposals:
  - for a requirement to publish free of charge on a publicly available website charge and transaction cost information– and that this should apply, subject to a small number of exceptions, to schemes that provide money purchase benefits;
  - that both the Chair's statement and published cost and charge information should set out the costs and charges for each default arrangement and each alternative fund option which the member is able to select;
  - that trustees and managers should not only publish the cost and charge information, but also provide an illustration of the compounding effect of the costs and charges affecting their pensions savings;
  - that the Chair's statement content relating to the default investment strategy and their assessment of the value for members should be published alongside the cost and charge information;
  - that trustees and managers should, as a minimum, publish costs and charges on a similar annual cycle to the Chair's statement, which must be produced alongside the scheme's annual reports and accounts;
  - not to be prescriptive as to where costs and charges information is published as long as it is published on the internet for public consumption;

- that trustees and managers of occupational schemes follow statutory guidance to ensure they meet the regulatory requirements; and
  - that each member who receives an annual benefit statement must also be provided at the same time with a web address and details of where members can find the costs and charges for their scheme.
5. **44** respondents replied to one or more questions in this Chapter of the consultation. **There was overwhelming support for the measure with agreement throughout for the increased momentum to provide greater transparency.** Nevertheless there were concerns raised by various respondents with some elements of the proposals, characterised by the following key themes.
- Around one-fifth of respondents requested a delay to implementation until April 2019. This was to be consistent with potential rules for personal pension schemes; to let other related workstrands, particularly the template being produced by the Institutional Disclosure Working Group (IDWG), to complete; and to allow trustees to develop a tested communication approach with their own membership.
  - Just over one-fifth of respondents questioned the extent to which giving this information to members would contribute to delivering value for money on scheme costs and charges. Concern was also raised by some (around one-fifth) respondents on the benefits of publishing for wider industry benchmarking purposes, as information from different schemes may not be fully comparable, or lack context.
  - There were some more practical issues raised about how the information might be published, on member secure websites and requests from over a quarter of respondents querying flexibility to publish a statement on costs and charges on a separate page from the other required parts of the Chair's statement.
6. We have carefully considered these and all the other comments and suggestions made. A brief summary of respondents' comments are included in each section, with a government response on the key points.
7. In summary, the most substantive regulatory change made to the cost and charges element is to amend the coming into force requirements for changes to the annual benefit statement to be consistent with the new cost and charges illustration [see paragraphs 92-93 below]. In addition, we have made a number of minor changes to the Regulations and the statutory guidance, highlighted in each section.

# Coming into force date

## Background

8. The consultation advised that we planned to implement our proposals following the coming into force of the FCA's rules from 3 January 2018 for disclosure by asset managers to IGCs of workplace personal pension providers, and to trustees and managers of occupational DC pension schemes. We also set out our expectation that the FCA would make corresponding rules to achieve a similar outcome for workplace personal pension scheme members and stakeholder pension scheme members in due course.

## Stakeholder responses

9. The majority of respondents agreed with the timescales for coming into force of the proposed Regulations, although as mentioned in paragraph 5 above, a minority of respondents did raise concerns over the timing of implementation of these proposals. They suggested that the coming into force of the Regulations might be delayed until April 2019.
10. The main reason given was the need for more time to develop systems and amend documents.
11. Another specific concern included the potential risk of inconsistencies with contract based schemes. These respondents thought the requirements for occupational and contract based schemes should come into force at the same time, allowing sufficient time for systems build and operational changes following the publication of the final FCA rules.
12. Finally, some respondents highlighted the potential for incompleteness or lack of quality on transaction cost data in the short term. As PS17/20, FCA's final rules for asset managers and providers were only published in September 2017, information provided to members in the first scheme year may be necessarily pro-rated or estimated.

## Government response

13. Whilst we have given these minority concerns careful consideration, we do not plan to change the coming into force date of the Regulations. This decision has been informed by the way the Regulations interact with pension schemes' reporting years. Schemes will be responsible for publishing the costs and charges within 7 months of the first scheme year end-date to fall on or after 6 April 2018.
14. Therefore even on the existing timetable the first schemes will have until 6 November 2018 to publish the information (schemes whose scheme year from 7

April 17 to 6 April 18) and the final schemes (schemes with a scheme year from 6 April 17 to 5 April 18) will not be required to publish until 5 November 2019.

15. We believe this gives scheme adequate time to implement the proposals, particularly as we are not being prescriptive about how the information is presented. Communicating the information effectively is likely to be an iterative process where trustees learn from feedback and from their peers, and a further delay would simply delay the learning process.
16. We are liaising closely with the FCA as they prepare their own rules for disclosure and publication by workplace personal pension schemes. They have confirmed it is their intention to consult on new rules in the 2<sup>nd</sup> quarter of 2018. They also plan to consult on the basis of an approach which is closely consistent with to our costs and charges proposals. In addition, without in any way pre-judging the outcome of their consultation, the FCA is mindful of the strong arguments for alignment wherever possible between occupational and personal pension schemes.
17. We are aware that trustees are dependent upon underlying investment managers providing the relevant costs and charges information, and we are engaged with the work of the Institutional Disclosure Working Group (IDWG) to establish a standardised template for cost and charge disclosure to institutional investors. One key aspect of this work is to ensure a consistency of breakdown in disclosure to allow trustees and IGCs to better understand where in funds transaction costs are incurred, and the reasons for differences between funds. Whilst these are self-evidently important, effective disclosure of high-level costs and charges to members is not contingent upon the availability of standardised lower-level breakdowns.
18. Asset managers and others already have a duty to disclose cost and charge information under the CoBS (Conduct of Business Sourcebook) rules, and we are not aware of any transaction costs which they do not capture. Trustees have also had a requirement to disclose cost and charge information since April 2015. Nevertheless, the Department's Regulations will only require trustees to report transaction costs as far as they are able. They will not be penalised for failing to disclose transaction cost information they do not have. The Financial Conduct Authority have broad powers to take action where investment managers do not disclose transaction costs without good cause.
19. We therefore do not believe it is appropriate for us to postpone our measures for fear that some of the data will need to be appropriately caveated, or some parts of it will be missing. In any case, we think such instances will be few and far between, given that no scheme will be required to publish any information at all until November 2018.

## Summary

We do not propose to postpone the coming into force date of these Regulations.

[See paragraphs 92-93 below in relation to the timing of annual benefit statement changes]

# Pension schemes and recipients in scope

## What pension schemes are in scope?

20. The consultation proposed that the requirement to publish charges and transaction costs information, and to disclose this to members, beneficiaries of the scheme and others including recognised trade unions should apply – subject to a small number of exceptions – to occupational schemes that provide money purchase benefits; even if the scheme does not *only* provide money purchase benefits.

21. The proposed ‘universe’ of schemes in scope was the same as those schemes to which the existing requirements in the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715) to assess charges and transaction costs and to prepare an annual governance statement apply currently. This applies in relation to money purchase benefits only and exempts the following schemes:

- executive pension schemes<sup>15</sup>;
- relevant small schemes<sup>16</sup>;
- schemes that do not fall within paragraph 1 of Schedule 1 (description of schemes) to the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013<sup>17</sup>;
- public service pension schemes<sup>18</sup>; or

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<sup>15</sup> Executive Pension Scheme means a scheme in relation to which a company is the only employer and the sole trustee; and the members of which are either current or former directors of the company and include at least one third of the current directors

<sup>16</sup> Also known as ‘Small Self-Administered Schemes (SSASs)’, a relevant small scheme is a scheme with fewer than 12 members where all the members are trustees of the scheme or all the members are directors of a company which is the sole trustee of the scheme

<sup>17</sup> This has the effect of principally excluding single member schemes, schemes which are not tax registered, and schemes which only provide death benefits.

<sup>18</sup> Strictly defined as schemes which falls within regulation 4(2) of the Disclosure Regulations, or do not fall within regulation 4(2) of those Regulations but are public service pension scheme as defined by section 318 of the 2004 Pensions Act. In practice, we are aware of no such schemes which meet this definition and offer money purchase benefits other than those attributable to AVCs.

- schemes which provide no money purchase benefits other than benefits which are attributable to additional voluntary contributions.

22. The majority of respondents agreed with this proposal. Around a fifth of respondents, however, disagreed, with most of these suggesting that Additional Voluntary Contributions (AVCs) should be in scope, citing that AVCs can sometimes have the highest charges and typically the lowest levels of governance.
23. A couple of respondents thought the salary-related benefits offered by Defined Benefit (DB) schemes should also be subject to the disclosure of costs and charges to promote best practice and good governance. One also thought executive pension and relevant small schemes should be brought into scope. There were also some alternative suggestions that for these schemes there could be more limited disclosure with potentially less frequent requirements.
24. We acknowledge respondents' views but do not propose to extend the scope at this time. We plan to let the regime for the money purchase benefits offered by occupational pension schemes settle in first and will continue to consider whether there is any detrimental impact to members of other schemes with costs and charges and if necessary how to mitigate this. The ABI also advise that some providers have indicated in practice that they are likely to apply the proposed Regulations to single-member schemes and AVCs, regardless of the proposed exemptions. We welcome this news and as part of our considerations, we will also observe how effectively and comprehensively this voluntary approach works.
25. In a wider context we launched a Green Paper on DB schemes in February 2017. The Green Paper discussed and sought views on a number of wide ranging issues, including the levels and transparency of cost and charges in DB schemes. We will be publishing our response in due course.

### **Summary**

We do not propose to make any changes to the scope of schemes captured by the charge and cost Regulations.

### **Who should have access?**

26. The consultation did not propose to amend the existing requirement as to whom trustees and managers of relevant occupational pension schemes make available a copy of the Chair's statement on request – namely, to the following “relevant persons”:
- members or prospective members of the scheme;

- spouses or civil partners of members and prospective members;
- beneficiaries of the scheme; and
- recognised trade unions.

27. A couple of comments were received in relation to “relevant persons” , one with a preference that all member representatives, including the advisers of employers, be given access to this information and another suggesting requests from trustees of other schemes, managers and advisers where accepted. We do not think this is necessary given that the information will be publicly available and therefore accessible to all other interested parties who would like search for and review this information.

### **Summary**

We do not plan to make any changes our proposals about the people who should have access to cost and charge information.

## **What should be published?**

### **What cost and charge information should be published?**

#### **Background**

28. Trustees and managers of schemes offering money purchase benefits are already required to report on the level of charges, and as far as they are able, transaction costs, borne by members invested in the scheme’s default arrangement, if they have one. Where schemes have more than one default arrangement, or more than one fund which is not part of the default arrangement, they are currently required to report only the range of costs and charges.

29. These charges do not consist solely of those associated with investments provided under FCA rules. In addition trustees are already expected to combine the information they receive from the insurer or investment manager with other scheme running costs borne by members, such as governance, administration, legal fees and payments for consultants.

30. The consultation noted that, a simple upper and lower bound for charges and transaction costs where there is more than one default arrangement, or more than one fund which is not part of the default arrangement may not meet the objective of providing meaningful member information. It would prove extremely difficult for any member who made an active choice of fund, or indeed any member at all where the scheme has multiple default arrangements, to identify the actual charges and transaction costs which they had incurred.

31. The consultation therefore proposed that the Chair's statement should go further and set out the costs and charges for each default arrangement, irrespective of the number of funds, and each alternative fund option which the member can select. We did not propose that trustees or managers should be required to separately set out the charges and transaction costs of any underlying funds which the member cannot actively select.
32. We also proposed that some additional information, such as the value for member's statement, the default strategy and an illustration of the compounding effect of costs and charges should also be published. This is covered in the next section.
33. The majority of respondents agreed with these proposals to amend the information requirements within the Chair's statement.

### **Schemes with many funds<sup>19</sup>**

34. The main concern expressed was the impact of requiring disclosure on burdens for trustees, or the length or ease of understanding of the Chair's statement.
35. One commenter suggested that the burdens associated with presenting the costs of each individual fund, irrespective of the number of funds a scheme offers may lead to them reducing the number of funds on offer resulting in less member choice. Others suggested high level disclosure of the 3 or 4 main defaults only.
36. Where any pension scheme is offering an investment option for the purpose of accumulating money purchase benefits, our policy is that trustees should be required to state the level of charges, and as far as they are able the level of transaction costs. We believe that if a scheme can carry out the due diligence to select and offer a fund, they also have a duty to carry out the governance to report on the level of costs and charges which members who select the fund will face.

### **What charges should be disclosed**

37. We acknowledged in our consultation that whilst disclosure of costs and charges should not give the false impression of absolute accuracy. Charges and transaction costs will comprise numerous underlying costs which vary over the course of the year, and therefore members will bear slightly different costs based on the point in the year at which they began to invest in a fund, the day on which members' contributions were invested, their portfolios were re-balanced and the profile of their holdings over the duration of the year.

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<sup>19</sup> Information on the number of fund options made available by DC occupational schemes is available in Box 1 of chapter 2 (after paragraph 39)

38. We recognised that it would be far from practical to indicate the precise costs borne by individual members to provide a personalised illustration, and indeed the Administration Regulations do not require that.
39. Nevertheless, a few respondents raised technical questions about precisely how the charges and transaction costs ought to be reported.
40. One respondent asked about the Net Asset Value which should be used as the denominator when converting costs and charges into a percentage. We agree that the ideal figure would be the average assets under management over the scheme year, but we recognise that this will not always be practical, especially in the early days of cost and charge disclosure. Alternatives such as year-beginning and year-end values are not prevented by the Regulations and may well be initially much more convenient. We would strongly encourage trustees to disclose the basis on which they have carried out the calculation, to assist with comparison.
41. Another respondent asked what would be expected when trustees sought to reconcile data from asset managers based on part-years (for example from 3 January 2018 onwards), or where reporting years of investment funds did not coincide with the scheme year. A pro-rated approach, again ideally based on the average assets under management over the reporting year, would be a proportionate response, and is not prevented by the legislation.

### **Bundled or blended products**

42. Several respondents raised the issue of blended or bundled products, such as lifestyle strategies or target date funds which invest members in a range of funds, in varying proportions, over their saving lifetime.
43. These may incur different levels of charges depending on the age of the member. For example, members may move from largely low cost passive equity investments for younger age groups to higher cost investments which seek to reduce volatility as the member nears decumulation.
44. We believe that presentation of a range of charges and transaction costs for such arrangement would be acceptable in this instance. However, trustees will clearly wish this information to be as useful as possible for members – it will limit uncertainty for members and potentially many queries for trustees, if they are able to explain proactively where in the member's saving lifetime higher charges and transaction costs are to be found. Therefore where there is significant variation by age, we would suggest that charges and costs are shown for a number of example ages, for example at 10 year intervals.

## Transaction costs from fund entry, exit and switching

45. For many members over a saving lifetime, a substantial majority of transaction costs will be incurred as a result of remaining invested rather than through entering and exiting investments, whether the latter takes place through contributions, fund switching or withdrawals. The majority of funds are now single-priced and now apply a swing to compensate existing investors for net inflows or outflows.
46. One respondent asked whether these costs ought to be included as part of reporting. Where funds in which pension schemes are investing are single priced, we do not believe that this is a necessity. Although in practice there will be some costs from fund entry and exit, the extent to which these costs will cancel one another out over the year will tend to increase as the DC market matures. These costs are also the hardest to apportion to individual members as the costs will be heavily dependent on the date of entry or exit. Finally, they will be harder for members to understand, given that it will serve as a third cost, calculated as a percentage of a different base (namely, contributions) than transaction costs (which are typically reported as a percentage of assets).
47. Where assets are invested in dual priced funds, a typically higher cost can be more readily calculated and apportioned to the member. However, the FCA last year consulted<sup>20</sup> on proposals to require investment managers to pass risk free box profits from dual priced funds into the fund itself. Subject to a final decision by the FCA, this would mean that what investors as a whole, although not individually, lose in transaction costs on the 'swings' they would gain in investment returns on the 'roundabouts'. We also do not therefore propose that transaction costs in dual priced funds should proactively be published.
48. Trustees who for whatever reason believe disclosure may be of benefit are of course free to do so. And we will also follow, where these costs are being disclosed, how well they are understood, as we consider whether to extend disclosure requirements.

### Summary

We have not made any policy changes to the proposals on the charges information that should be published. We have made some small drafting changes to the Regulations to make them clearer.

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<sup>20</sup> Consultation on implementing asset management market study remedies and changes to Handbook (CP17/18)

## **How should the information be presented and contextualised?**

### **Background**

49. Under the FCA's rules trustees and managers of pension schemes may receive data which, if combined with non-investment related costs and passed on verbatim, would exceed a member's needs.
50. The consultation advised that we consider that any information provided to scheme members should present them with wider contextual information to mitigate the risk of incorrect conclusions being drawn and poor decisions being made as a result. It also advised that we did not intend to be very prescriptive in our requirements. The proposed Regulations were drafted on the basis that the information which is required to be included in the Chair's statement in relation to the 'default investment strategy' and 'costs and charges' and 'value for members' sections was also presented alongside the cost and charge information.
51. The consultation requested views on whether the content was appropriate, or whether members would benefit from more or less prescribed contextual information.

### **Respondent views**

52. The overwhelming consensus from respondents agreed that contextualisation was imperative. Without it they believed this would present a significant risk to members (and others) who may misinterpret the information and make uninformed decisions with regard to their pension savings.
53. Respondents recommended that members should be encouraged to look at the whole picture and not just focus on cost and charges alone. These are just one piece of a complex puzzle, including investment performance and risk. Respondents also noted it was fundamentally important to include the relative performance of funds and risk profile in order for members to be able to assess the balance of cost in relation to return.
54. There was, however, no significant call to make this a mandatory regulatory requirement.

### **Government response**

55. We agree with respondents that context is extremely important and should be presented alongside the costs and charges information. We do not plan to be more prescriptive. Legislation sufficiently sets out the minimum requirements.

56. We believe this approach enables trustees and managers to be responsive to meet changing needs and the diverse requirements of different pension scheme memberships and we welcome innovation and development by trustees. We will keep this under review and consider whether any further mandating may be required in the future.

### **Summary**

We have not made any changes to the policy on supporting context to the published costs and charges information.

## **How, when and where should the information be published?**

### **Who should be required to publish?**

57. The consultation advised that we had considered whether there should be a designated public body which would aggregate and publish to the web all costs and charges information from those schemes within scope. It confirmed that we had come to the conclusion that this should be the responsibility of the trustees or managers of the scheme themselves, and we asked for views in the consultation on whether respondents agreed.

58. A minority of respondents continued to argue that a designated public body would be beneficial and suggested that The Pensions Regulator would be ideally placed to hold relevant disclosure documents, perhaps by adding a small addition to the Pension Scheme Levy, and could potentially oversee standardisation – for example via a mandated template. However the overwhelmingly majority of respondents agreed it should be the responsibility of the trustee or scheme manager.

59. Given the overwhelming support for the responsibility to provide this information falling to the trustee or manager of the scheme we do not plan to introduce a designated public body.

### **When and how often should it be published?**

60. Trustees and managers have a duty to consider and report within 7 months of the end of each scheme year on costs and charges via the Chair's statement, which must be produced alongside the scheme's annual reports and accounts.

61. The consultation proposed that trustees and managers of occupational schemes should, as a minimum, publish costs and charges on a similar annual cycle aligned with the pension's scheme year<sup>21</sup>. Schemes should naturally consider publishing cost and charge information more frequently if they have capacity to do so and believe it would be in their members' interests.

62. We also noted in the consultation that the timescales for production of the Chair's statement, pension scheme annual report and accounts are within 7 months of the scheme year end, and therefore proposed that similar requirements should apply to publication of cost and charge information.

### **Frequency of reporting**

63. The majority of respondents agreed with this proposal with a few suggestions that this information should be provided more often, for example with a minimum frequency of six monthly or even quarterly. There was, though, an acknowledgement that it would be beneficial to allow time for the industry to become more accustomed to cost and charge reporting and for this to be monitored before shortening the timeframes. We acknowledge respondents' views but do not propose to mandate more frequent information at this time.

### **Timing of reporting**

64. There was also the suggestion from a few respondents that the timeframe for the costs and charges new illustration should, rather than being linked to the Chair's statement, be instead aligned to the annual benefit statement cycle set by the scheme. This would be more beneficial for members as the annual benefit statement would link to web-published information about costs and charges relating to the scheme year covered by the benefit statement itself.

65. We acknowledge this would potentially be more useful to members. However some cost and charge information will take longer to obtain and aggregate, at least initially, than information included in the annual benefit statement. We are also prescribing additional narrative disclosures – the default strategy, and the trustees' assessment of the value for members – to assist with contextualising the charge and cost information, and this will take time to prepare.

66. Therefore again we do not plan to change this requirement at the present time although we will keep this under review.

## **Summary**

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<sup>21</sup> See regulation 1 of the Administration Regulations

We have not made any changes to the policy on frequency or timing of publishing the information.

## **Where should it be published?**

67. The consultation advised that we did not propose to be prescriptive as to where cost and charge information is published as long as it is published free of charge on the internet for public consumption – including members and non-members alike. Draft statutory guidance covered the expectation of where and how the specified information should be made available on the web.

68. We anticipated that schemes would generally want to use their existing website; in the case of single-employer schemes, the sponsoring employer may believe they should host it on theirs. As some schemes and employers may not have a website and may not wish to create one, we suggested that a low burden solution could be to utilise cloud services or online tools, where the documents could be uploaded and the link shared for members to view.

### **Publishing across multiple webpages**

69. Some respondents questioned whether the new cost and charges information needed to be published in the form of an excerpt from the Chair's statement and suggested that instead it could be, variously, a standalone document, annex or fund guide accompanying the Chair's statement. It could sit alongside existing investment information on the website, such as fund factsheets and, it might be more likely accessed by more members than the Chair's statement.

70. This was particularly a concern for schemes with a significant and growing number of defaults and a range of alternative funds, such as master trusts which tailor investment options to participating employers.

71. We do not intend to be prescriptive about the way the information is presented. Our policy intention in the development of the legislation is that trustees can, where they prefer, direct employees of different participating employers to charge and cost information on separate webpages or in different formats from the other parts of the Chair's statement which they will be required to publish – as long as trustees meet the requirements in law, and specifically regulation 29A of the amended Disclosure Regulations that this information is publicly available and includes the following items:

- the default arrangements - regulation 23(1)(a) of the Administration Regulations;
- the level of charges and transaction costs applicable to each default arrangement; the levels of charges and transaction costs for each fund which the members are able to select; any information about transaction costs which

the trustee or manager has been unable to obtain and how they will be dealing with going forward - 23(1)(c)(i) to (iii) of those Regulations;

- the extent to which charges and transaction costs represent good value for members (broadly, the trustees' value for money assessment) – 23(1)(c)(iv); and
- an illustrative example of the cumulative effect over time of costs and charges - new regulation 23(1)(ca) of the same regulations.

### **Smaller schemes**

72. A number of comments were made on the practical application of this proposal from a range of respondents. One key issue raised by a few respondents, as we acknowledged in the consultation, was that many schemes (for example, some small insured schemes and smaller single employer trust based schemes) do not operate their own website, so this requirement would be problematic, leading to increased workload and costs.

73. Some respondents suggested that one option might be for the provider administering the scheme to publish the information on their own website. Others suggested that some schemes should be exempt from having to make this information publically available, and provide the information on request instead.

74. We did not find these arguments persuasive. If members are required to enrol in smaller schemes in order to secure an employer contribution to their pension pot, there should be no reason why the persons governing the contributions on their behalf should be subject to less robust oversight. In practice, too, introduction of 'carve-outs' for smaller schemes actively discourages those schemes from merging as doing so would tend to be accompanied by increased governance burdens.

### **Password protection**

75. Some respondents reported that where schemes do have their own website they generally have secure sites for members only, which are password protected. A few respondents asked for clarification on whether member information could be provided in the password protected sections of their website.

76. Schemes may of course choose to host the information here as an additional repository for their members. However, they would still need to make the information available in such a way that it can be found and accessed via an internet search engine. We have also emphasised in statutory guidance that people wishing to view the information should not be required to enter a specific user name or password, or provide any personal information before doing so.

## Free web publishing alternatives

77. We do not think any of the issues raised are insurmountable for schemes.

Websites run by other organisations, such as service providers, can indeed be used as suggested above.

78. Whilst one respondent correctly observed that documents uploaded via some facilities such as Dropbox are not indexable by major search engines, many other services, including prominent social media sites, and those offered by large search engine providers, do offer straightforward publishing in such a form that the documents can be found via a search engine. In addition a range of free blogging tools are also available with the same functionality. These sites tend to include clear and comprehensive guidance about registration and publishing information in such a way that it will be found by a search engine.

79. Schemes always have the option to consider alternative strategies to limit any additional burdens, for example, consider consolidation into larger schemes using the new simplified process for DC-DC bulk transfers<sup>22</sup>.

### Summary

We have not made any changes to the policy on the body responsible for publishing this information, and the requirement to make this information publicly available still applies to all schemes in scope.

## Giving the information to members

80. The consultation asked for views on whether members should be proactively informed of the availability of cost and charge information. We proposed that each member who receives an annual benefit statement should be provided at the same time with a web address where members can find the costs and charges for their scheme.

81. The majority of respondents agreed with this proposal. There were also a range of additional comments made from different perspectives.

### Complexity of the annual benefit statement

82. Some highlighted that adding any additional information to the benefit statement would create additional complexity for members. On the other hand, other respondents suggested that the requirement should go further and that we should

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<sup>22</sup> [The Occupational Pension Schemes \(Preservation of Benefits and Charges and Governance\) \(Amendment\) Regulations 2018: consultation response. February 2018](#)

regulate for the costs and charges information to be included within the benefit statement itself.

83. We acknowledge that adding the web address (and relevant explanations as required by the Regulations) will add some additional complexity to the benefit statement and some costs to trustees and managers. However on balance we have concluded that the importance for members to be made aware of the availability of the costs and charges information as part of their benefit statement trumps the relatively minor concerns raised in the consultation.
84. We are not being prescriptive around the actual words included within the annual benefit statement. In line with legislation<sup>23</sup>, trustees should, as a minimum, include a brief explanation to the members on what information is available; a link that takes members to the place where they can access the information relevant to them; and how to do this (whether there are specific steps/actions to follow).
85. Schemes can of course go further if they believe that including details of the individual member's costs and charges into the statement itself would be helpful to a proportion of their membership.

### **Notifying members**

86. A further suggestion was that the Regulations should allow for other alternative formats to be used for trustees to be able to notify members of the relevant web address and that it would be less burden on trustees if this could be provided by scheme newsletters or other similar communications.
87. The requirement is that this information must be given as part of the annual benefit statement – but this does not require that the information is for example, on the same sheet of paper as the statutory money purchase illustration or the record of a member's contributions over the past 12 months. Trustees will of course wish to take their own legal advice, but our policy intention is that an insert delivered as part of the annual benefit statement would meet the requirement.

### **Notifying members via the web link**

88. Some stakeholders queried whether, where benefit statements are provided in hard copy, an electronic link would be effective. We appreciate that a web address on an annual benefit statement will need to be typed in. That is why our statutory guidance requires that the web address should be appropriately titled so that members can readily re-type it into a web browser.
89. A related concern was noted by a number of commercial providers of master trusts, who impose charges on members that vary with the participating employer.

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<sup>23</sup> Regulation 27(2) of the Disclosure Regulations

This will tend to be because they price business according to the relative costs of servicing that employer – for example larger employers, with higher contributions (which will often be linked in turn to salaries), and higher staff retention may be offered lower member-borne charges.

90. Our intention is that the mechanism for compliance suggested by some respondents – of publishing a number of charge breakdowns under headings of ‘member group 1’, ‘member group 2’ and so on, without identifying the participating employers, and pointing members via the annual benefit statement to the breakdown which applies to them – would meet this requirement.
91. Trustees will of course wish to take their own legal advice. However, as explained in paragraph 71 above, we do not intend to be prescriptive about the way the information is presented. Trustees can, where they prefer, direct employees of different participating employers to charge and cost information on separate webpages or in different formats from the other parts of the Chair’s statement which they will be required to publish, provided that the information is publically available free of charge.

### **Notifying members via web link in the first year of reporting**

92. Finally, a number of respondents also advised that they foresaw an unintended consequence with the application of the Regulations in relation to changes to the benefit statement. They flagged that the requirement to include a link to the website where the information is held comes into effect for the next annual benefit statement produced after 6 April 2018, but the deadline to actually make costs and charges information available is 7 months after the next scheme year to end on or after 6 April. Therefore if we left the Regulations unamended there would be a cohort of members who were legally required to be given a link on their benefit statement, but on trying to access the information would just get a blank page, as no cost and charge information would have been published. This will be frustrating and will not encourage them to look again.
93. As this was not the policy intention, we have amended the Regulations so that the date by which schemes have to start including information in benefit statements should be at the same time they need to provide the costs and charges illustration. That is within seven months of the first scheme year ending on or after 6 April 2018.

### **Notification on joining**

94. A few respondents noted that although cost and charge information is of course beneficial to members on an ongoing basis there is currently no regulatory requirement for this information to be provided when a member joins an occupational pension scheme, and that this is inconsistent with personal pensions.

95. We agree that costs and charges information may be useful to members at joining. At present we do not plan to make this a mandatory requirement but will keep this under review as the costs and charges illustration in the Chair's statement 'beds in'. Of course trustees may provide this information at joining if they so wish, and there will now be a light touch mechanism by which schemes can do this, through pointing to the published sections of the Chair's statement.

### **Summary of changes**

We have changed the Regulations so that the requirement to include a link to costs and charges information in the annual benefit statement does not come into effect until the requirement to publish the costs and charges information also applies.

## **What alternative formats should be available?**

96. Most information which is provided on request under the Disclosure Regulations (as covered by regulations 11-14 and Schedule 3) must be provided in accordance with regulation 26 (giving information and documents), except where the Regulations say otherwise.

97. The consultation set out that we do not believe it to be appropriate to require this process to be followed where cost and charge information must be published on the internet. The consultation therefore proposed that schemes should be required to give the information in hard printed copy on request only if it would be unreasonable for the individual requesting this to access the available information published online.

98. The majority of respondents agreed with this, although there were a few requests to confirm the intention within parts of the Regulations.

### **The need for a reasonableness test**

99. Comments included those from a few respondents suggesting the conditions for providing hard copy illustrations should be no different from other situations within the Disclosure Regulations with no additional test necessary.

100. There is a balance to be struck between minimising burdens on schemes and providing information to members who cannot readily get access to online information. To help limit burdens on schemes, in relation to the charges and costs information required to be published as a result of these Regulations, we continue to believe that signposting via the annual benefit statement and supplying hard copy only when it would be unreasonable not to do so – rather than providing hard copy on request – is the appropriate approach.

## Meaning of ‘unreasonable’

101. A few respondents asked for clarification on how to apply an ‘unreasonable’ test when deciding whether to provide hard copy illustrations on request, suggesting further understanding was needed on this. Another respondent suggested the rules for providing hard copies needed to be very tight in order to prevent wide scale requests incurring additional costs to schemes.
102. The kinds of issues we would expect trustees to take into account when deciding whether it would be unreasonable to expect someone to obtain the information from the website that the trustee or managers have selected, are:
- Whether the requester both has physical access to the web and is capable of using it. If they have sent a request by email, then we would generally expect this to indicate that an electronic version would be sufficient.
  - Whether the requester has pro-actively indicated either a disability or a lack of access or capability in using the web access which means they might reasonably be expected to need a hard copy. In this instance, trustees should consider providing a hard copy without making further enquiries.
  - Whether the requester has previously received an electronic copy and has indicated that this is unsatisfactory in any way that is not simply related to personal preference or a desire to save the costs of printing. Here again, the trustees should give serious consideration to providing a hard copy.

## Protected groups

103. As part of this consultation we sought views on whether there was any evidence of the impact of our proposals on protected groups, and how any negative effects may be mitigated. We only received a few comments in this area in relation to access to information published on a website for those with a disability that may prevent use of the internet. Respondents who made this point suggested that the impact should be mitigated by requiring the information to be sent by post in an accessible format.
104. We agree with this proposal, and our conclusions are explained above [paragraphs 97-102] in relation to requests for hard copy information, and below [paragraphs 131-133] in relation to accessing the information.

### Summary of changes

We have made minor technical changes to the Regulations to improve the clarity of the requirements. We have not made any further changes.

[Also see paragraph 131-133 below on changes to the statutory guidance to clarify access requirements for relevant website information.]

# Penalties

## Background

105. Enforcement of part V of the Administration Regulations – including the production and the content of the Chair’s statement – is currently provided for in Part 4 of the Charges and Governance Regulations<sup>24</sup>. Those Regulations require that the Regulator must issue a penalty notice where it is of the opinion that the trustees or managers have failed to prepare the statement in line with the Administration Regulations, or has received an indication to that effect. The consultation proposed that this penalty regime should also apply to the additional requirements relating to the reporting of transaction costs and charges set out in the draft Regulations.

106. Regulation 5 of the Disclosure Regulations sets out the penalty notices for failure to comply with any other requirement under those Regulations. The Regulator may impose a penalty, payable within 28 days, which must not exceed £5,000 for an individual, and £50,000 for an organisation. The consultation also proposed that this existing penalty regime should apply to any failure to report or publish costs and charges information in accordance with the requirements imposed by these proposed amendments to the Regulations.

## Responses

107. One respondent thought the penalty for failing to comply should be greater than £50,000 but the majority of respondents agreed with these proposals. There were however some specific comments from a handful of respondents each on:

- the need for a period of latitude in the early stages of implementation to allow processes to bed in before more rigorous enforcement;
- the reliance on others to provide the relevant information and this should be taken into account when considering any actions from The Pensions Regulator; and
- where any delay is as a result of the asset manager the penalty should in fact be applied to them as opposed to the trustee or manager of the scheme.

## Government response

108. To clarify, The Pensions Regulator has discretion not to levy a fine in relation to a breach of the Disclosure Regulations. Although the Regulator does not have such latitude where it is of the opinion that the trustees have not prepared the Chair’s statement which they are required to, we again emphasise that the duties on trustees around *obtaining* the information are not changing. Their duties

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<sup>24</sup> The Occupational Pension Schemes (Charges and Governance) Regulations (SI 2015/879)

remain to calculate and report on charges, and to calculate and report on transaction costs is to disclose as far as they are able.

109. The Pensions Regulator does not have the power to issue third party notices where an issue with reporting is caused by the asset manager. However, the Financial Conduct Authority have broad powers to take action directly against investment managers where they do not disclose charges or transaction costs without good cause. Trustees may well wish to highlight failures by particular investment managers to provide the necessary information by notifying the Financial Conduct Authority and the Pensions Regulator, and by drafting an explanation for publication – in line with regulation 23(1)(c)(iii) of the Administration Regulations – the particular barriers they faced to obtaining this information.

## **Guidance**

110. The consultation proposed requirements that trustees should not simply share annual percentage charges but also be required to include an illustration of the compounding effect of the costs and charges affecting their pension savings and a ‘£ and pence’ illustration, for ease of member understanding. We also produced draft statutory guidance for consultation setting out how this, and in particular the compounding effect, should be presented to scheme members to meet the requirements of the Regulations.

## **Statutory guidance**

111. We sought views on our principles, structure and content of the draft statutory guidance. We also requested any feedback on the meaningfulness for the intended audience, and how the draft statutory guidance assists schemes in producing the compounding illustration and in publishing cost and charge information online.

112. The large majority of respondents believed that some form of compounding illustration was useful. We received a number of other suggestions for changes – but there was a tension in the proposals, both between adding more detail for members whilst keeping the information clear, and between improving likely accuracy whilst not making the calculations excessively complicated for trustees.

## **Alternative ways of presenting the effect of compounding**

113. Some respondents suggested the table shown in page 5 was not the clearest way of presenting the data, and that a graphical illustration for members would be easier to understand. To note, we do not require the use of the table – schemes and their service providers are free to develop graphical versions, which they

believe will illustrate the compounding effect most clearly to their membership, whilst complying with the legislation and statutory guidance.

114. A few suggested they should be able to present the data in the form “If you invested £1000 in this fund for one year you would have paid the following amounts and types of charges”. This is also permitted, although the trustees would clearly have to show the amounts paid over a range of time intervals, not simply 1 year, precisely to achieve the intended purpose of illustrating the compounding effect.

### **Additional information and templates**

115. Suggestions to add benefit for members included the provision of percentage figures in addition to ‘pounds and pence’, accompanying performance data, further breakdowns of costs and charges, for example into administration, investment and transaction costs, or a further breakdown of transaction costs. We do not intend to mandate any of these disclosures. However we have amended the statutory guidance to indicate that trustees may consider provision of such information if they believe that members would benefit from the information and it would not prove distracting.

116. A few respondents suggested the provision of prescribed templates for reporting the compounding effect. We note these thoughts but we do not intend to incorporate them in guidance. A broad range of respondents favoured the flexibility provided by the existing guidance. Whilst mandating particular formats might assist trustees in making decisions, it would significantly constrain practice where trustees had identified approaches they felt would be more successful in communicating with their target audience.

### **Adjustment for the effect of costs and charges**

117. Respondents made a number of suggestions as to how this might be improved. Several respondents noted that transaction costs can vary significantly from year to year, and using only the previous year’s reported costs, as originally consulted, could significantly skew projected costs. Respondents suggested instead that a longer range of historic data should be used to smooth the costs. We agree with this suggestion and we have updated the guidance to require schemes to use ‘historic’ transaction costs based on the average of the last 5 years. However, we have also provided that, where fewer than 5 years’ transaction costs are available – as will usually be the case at the moment – an average based on the available years should be used.
118. Several respondents also highlighted an issue with potential double counting of transaction costs. The real terms investment returns permitted by the FCA

CoBS rules and by the Financial Reporting Council's AS TM1 are implicitly net of dealing costs<sup>25</sup>.

119. Neither the FRC nor the FCA define dealing costs. However as transaction costs are defined as the costs incurred as a result of buying, selling, lending and borrowing investments, or dealing in investments – in other words dealing in investments - we believe that this it is a reasonable for the statutory guidance to treat transaction costs and dealing costs as equivalent.
120. If the consultation draft guidance was followed, this would result in double counting. This is because it would have the effect of deducting transaction costs from returns which already took account of dealing costs. It would also mean that – because all funds have some transaction costs – the FCA's maximum returns are in practice unachievable. We have amended the guidance to take account of this point, by recognising that, for the purpose of providing an illustration, scheme trustees and managers may include real terms gross investment returns which exceed the levels permitted by CoBS or AS-TM1, at most by the level of transaction costs.
121. Two respondents went further and suggested that transaction costs should not be considered as contributing to a Reduction in Yield at all. We do not intend to adopt this suggestion. We agree that transaction costs must be incurred to make an initial investment, but they do not need to be incurred to remain invested. Where investment managers choose to carry out transactions on their investors' behalf, and pass the costs of those transactions on to pension schemes, this decision is predicated on the expectation that this will produce higher gross investment returns and the hope that those returns will exceed the cost of additional trading. Therefore we believe our approach is the right one.
122. Furthermore, the inclusion of transaction costs as well as charges as a drag on performance aligns with the Reduction in Yield calculation prescribed under the PRIIPS regulation, which applies to retail share classes of many of the funds in which DC pension schemes invest.

### **Bundled products with varying charges and returns**

123. A few other suggestions were made to improve the accuracy and meaningfulness of the data. Several respondents raised the issue of bundled products which invest members in a range of funds, in varying proportions, over their saving lifetime.

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<sup>25</sup> AS TM1 reports in paragraph C.2.9 that for products not covered by FCA projection rules "The assumed charges or expenses should include the costs of investment management, but exclude any dealing costs for the underlying portfolio and any routine management and servicing costs of existing property investments." FCA COBS 13 Annex 2 Projections 2.6 states the charges used in a projection "must not include the firm's dealing costs incurred on the underlying portfolio."

124. We believe that the draft statutory guidance already works for this kind of investment – we suggested that schemes should show the cumulative effect of charges and transaction costs over time, from the age of the youngest member until retirement. Where this can be done understandably, the scheme can show additional start points, based on different start ages where the investment mix, and therefore charges and costs, are different. We have updated the guidance slightly to clarify this point.

### **Entry and exit transaction costs**

125. Two respondents suggested that the transaction costs associated with fund switching, entry and exit should be included as these could be significant. On a related point, another commenter flagged that not including fund switching costs meant target date funds (where the switching costs are internal to the overarching fund) will report higher transaction costs than lifestyle strategies (where the switching costs are external to the funds).

126. We are sympathetic to this argument, but we do not intend to mandate that these costs are included in the compounding illustration. As noted above, we are not currently requiring pension schemes to disclose these costs, only the ongoing transaction costs from remaining invested, so it would be inconsistent and potentially confusing to require that they are taken into account in the compounding illustration. We also received comments from a few respondents that trustees might already find calculating the effect of charges and costs in compliance with existing guidance sufficiently taxing, without imposing new requirements.

127. However these requirements are minimums. Where schemes choose to also publish fund entry and exit costs, it would make sense to include those in the compounding illustration, and the inclusion of such additional costs would not breach the statutory guidance, provided that the inclusion of these additional costs are made clear.

### **Increasing flexibility in assumptions**

128. Two respondents suggested some simplifications in the guidance, so that where a service provider was creating illustrations for more than one scheme, or trustees were updating their compounding illustrations, they would not need to create multiple illustrations with very minor differences by contributions (often related to salary), age or pension pot.

129. We believe it is important that in broad terms the information is tailored to representative member circumstances, and we believe that there is already sufficient flexibility in how the starting pension pot and contributions are set. We acknowledge that there is a risk that a strict interpretation around the time invested could result in needless complexity of updating for schemes which does

not add significant value for members. We have introduced additional flexibility here.

130. One of the benefits of statutory guidance is that we can continue to update it more easily in response to changing circumstances, market and trustee practice, and evidence of any emerging problems. We have committed to review the guidance at least every 3 years.

### **Accessing and archiving information**

131. As mentioned in paragraph 103 above we received a few comments that emphasised the need to ensure access to information for those with a disability that may prevent use of the internet.

132. We also received one substantive comment on the statutory guidance around publishing the information online. One respondent argued that it was essential that a copy of digital information (particularly for deferred members) can be saved to enable access to historic information and deter further requests for hard copy information.

133. We agree, in principle, with both these proposals. Whilst we acknowledge that regulation 26(4) of the Disclosure Regulations permits the use of electronic communications only where the trustees or managers are satisfied that the information can be stored and printed, we do not intend to impose a similar restriction on the publication of charges and costs information required by the Regulations. We have disapplied regulation 26(4) in relation to new regulation 29A, to take account of technical comments received<sup>26</sup>. We have however amended and expanded the statutory guidance to ensure that access, storage and printing, as well as the needs of disabled people are taken into account.

### **Summary of changes**

We have made policy changes to the following sections of the statutory guidance:

- Historic transaction costs – schemes should use the average of the last 5 years or, where less than 5 years' transaction costs are available, an average based on the available years.
- Double-counting of transaction costs – we will permit schemes to set maximum real terms gross investment returns which exceed the levels permitted by CoBS or AS-TM1, by at most the level of transaction costs.

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<sup>26</sup> It was suggested that regulation 26(4) could potentially be used by trustees to apply discretion, against the policy intent. In effect, they may conclude that the costs and charges information need not be made publicly available on a website if it was not 'designed' to take account of access to, storage, and printing of the information, taking account of the requirements of disabled people.

- We have updated the guidance to clarify the treatment of bundled products with varying charges and returns and to permit more flexibility for schemes in the time invested.
- Finally, we have updated the guidance on web publication to clarify that cost and charge information should be published in such a format that it can be stored offline or printed and requirements of disabled people should be taken into account.

A number of minor drafting changes, as mentioned in paragraphs 115, 124, 127, 129 and 133 above have also been made to clarify the policy intent.

## **Further suggestions for guidance**

134. We received suggestions of additional guidance from TPR, DWP or FCA of various types.

### **Guidance for producers**

135. This included guidance for trustees on asking for the information, calculating transaction costs, comparing charges between funds and asset classes, clarifying expectations for trustees around good practice and inclusion of risk and performance data. A few went as far as suggesting an optional disclosure pro-forma/template to help with standardisation, particularly helping smaller schemes.

136. A few respondents suggested overarching guidance covering trust and contract based schemes and potentially covering all relevant parties, including those who provide the information (investment managers, insurers and so on), those advising on it, such as consultants, and decision-makers themselves (trustees and IGCs) would be helpful in ensuring a consistent approach.

### **Guidance for members**

137. A few respondents suggested simple guidance for members would help increase engagement and understanding, including: how to interpret costs and charges illustrations and ways to switch pension providers. Some respondents also suggested prescriptive presentation requirements would help both standardise output and reduce costs. Finally one respondent suggested a standard document for use with all the disclosures, including a very simple account of what a pension is and what the various costs may be.

### **Government response**

138. At present we do not plan to introduce any additional good practice on top of the statutory guidance.

139. We view the proposed guidance for trustees as largely covering core duties which trustees should be able to carry out without further Government guidance, with the help where necessary of their advisers.
140. The greater the level of prescription, the higher the costs of compliance for trustees, as they would be forced to incur expenditure on an approach which did not integrate well with existing systems, when much lower cost mechanisms for compliance could have been achievable.
141. A prescriptive approach would also prevent trustees from tailoring their communications to what they already know about the way their membership, or different segments of their membership, engage with information.
142. We will however continue to observe public domain reporting of costs and charges, and liaise with The Pensions Regulator and the FCA, as well as industry trade bodies on any future developments, and keep this under review. We of course encourage trustees and others to share good practice and note the good work that not for profit and commercial bodies are already doing to encourage meaningful interpretation and decision making around newly emerging cost and charge information.

## **Benefit realisation**

### **Use of the information by the industry**

#### **DC scheme consolidation**

143. A couple of respondents suggested that trustees must be required to assess how costs borne by members of their own scheme compare to those incurred by members of other schemes. Based on this comparison, trustees should be required to consider whether lower costs could be delivered to members by transferring members to another scheme and winding up to ensure consolidation.
144. Government has made clear on this point that for the time being it sees scheme consolidation as being delivered through the removal of barriers to consolidation than actively forcing schemes to justify why they do not consolidate. Our Regulations to simplify the consolidation of DC schemes without potentially valuable guarantees were laid in February 2018<sup>27</sup>, and expected to come into force in April 2018.

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<sup>27</sup> The Occupational Pension Schemes (Preservation of Benefits and Charges and Governance) (Amendment) Regulations 2018: consultation response. February 2018.

## **Benchmarking**

145. The consultation advised that one of the benefits of disclosure and publication of charges and costs is to assist the function of a healthy market in an area which is widely perceived as being opaque. Publication of this information will enable trustees and others to compare the value for money they are receiving with their peers, thereby driving better market outcomes. There was a consensus that the information provided by asset managers to trustees will be key for trustees, who, as part of their governance role will be responsible and equipped to take advice and ensure scheme funds are well invested.
146. Whilst several respondents recognised that information on other schemes would be a useful comparison, comments were also raised on the limitations of benchmarking. Some respondents thought a focus on cost and the exclusion of all other variables that deliver value may have a detrimental impact. Information from different schemes may not be comparable, due to different scheme models or investment options, or lack full context, carrying the potential risk of negative wider public commentary.
147. A few respondents also raised concern that publication of costs and charges alone could lead to league tables of pension schemes being drawn up on cost grounds and being compared on that basis alone. Others suggested that this risk could be mitigated by providing investment strategy performance. Conversely other respondents endorsed simple league tables that compare the costs and risk adjusted performance of occupational schemes, as this would lead to operators, trustees and IGCs focusing on member outcomes and the best way to encourage competition.
148. Finally two respondents suggested that the impact of price transparency, where trustees had already negotiated preferential terms with an investment manager, might be limited.

## **Government response**

149. We acknowledge the comments made. However we plan to continue with requirements to publish this information, as we still believe publication is an important step to help drive market behaviour in the long-term and a step in the right direction for transparency across the industry. Many other sectors have seen the emergence of price comparison tools, and judging by those sectors the potential harm appears to be overstated.
150. In the investment management market, where fixed costs must be weighed against the uncertain prospect of future returns, this does not appear to have led to a single-minded consumer focus on cost to the exclusion of all other factors, so it is unclear why pensions should be different.

151. More practically publication also fulfil duties placed on the Secretary of State to make regulations by Section 44 of the Pensions Act 2014. We encourage trustees to contextualise this information as much as possible so a fair assessment can be made from any commentators from the information provided.

152. We note the concerns that benefits of publishing will be limited where trustees have already secured an advantageous agreement with their investment manager. But we do not see them as an argument against disclosure, given that many trustees will not have availed themselves of such advantageous terms, or will be under the impression that they have negotiated good terms which price transparency will reveal not to be. Investment managers will remain incentivised to offer good terms when they have a particular interest in winning certain business, and will be perfectly capable of rejecting demands for lower costs when they do not.

## **Use of the information by members**

### **Member engagement**

153. The consultation proposed that members should be able to search for cost and charge information online, and to be told via their annual benefit statement that this information was available.

154. Some (around one-fifth) respondents challenged how giving this information to members would contribute to the effectiveness of achieving improved governance or improved value for money on schemes costs and charges. Respondents suggested members would not draw meaningful examples across schemes. They questioned what members would do with the information (as they don't decide which pension schemes to use, but instead are enrolled into a scheme chosen by their employer). Some also doubted demand by the member and whether they would access it, and – even if they did – whether they would understand it (even given appropriate context – see paragraphs 49-56 above).

### **Showing the Impact of increased Contributions**

155. A couple of respondents noted that a key determinant of good outcomes for members was the level of saving rather than a narrow focus on charges and therefore strongly endorsed an additional requirement to illustrate the projected impact of the member making a regular extra contribution.

### **Incorporating transaction costs into the cap**

156. In the context of the separate reporting of transaction costs and other charges, two respondents commented that incorporation of transaction costs into the cap would help savers more easily understand the true cost of their choices,

especially as it will be challenging for many savers to understand the transaction cost information.

### **Government response**

157. We note the suggestions around the interaction between the coverage of the charge cap and member understanding of charges. Clearly we should not make regulatory changes with such significant consequence for market practice on the basis of member understanding alone. In any case, the Government has made a firm commitment to review the level and scope of the charge cap, including the potential inclusion of transaction costs in 2020.
158. Similarly, we acknowledge the benefits of illustrating regular extra contributions. As part of the 2017 review of Automatic enrolment<sup>28</sup> a sample 2 page annual benefit statement which included such an illustration was developed. However we have no plans to make this a mandatory requirement in the foreseeable future. In the case of commercially run pension schemes, service providers are already incentivised to increase member contributions, whereas no such incentives exist for cost and charge reporting. Again, we would encourage schemes to consider voluntarily provide this information, whether via their online modelling tools or alongside the member's annual benefit statement.
159. Finally, we acknowledge that not all members will engage with this information. However members are not all alike, and some are engaged. They would have to be, or respondents' fears of members making poor decisions would not carry any weight at all. We believe, like a number of other respondents, that it is extremely important that this information is available where and when members do want to access it, providing a sense of personal responsibility where they do choose to engage, and creating an environment of transparency and trust longer-term.
160. We believe this is a step by step process and gives members the opportunity, particularly when they are employees of small employers or members of small schemes, to raise concerns with employers and trustees to consider and drive better value and ultimately member outcomes. Whilst members do not choose their pension scheme, they can choose where to consolidate and they may well have a choice of scheme into which to make additional contributions.
161. There are other indicators of member engagement than increased contributions. Sometimes trustees will be asked to explain why their costs are higher than seemingly comparable offerings by other schemes, and what extra is delivered in return. Where these can be justified, trust is enhanced and higher

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<sup>28</sup> Automatic enrolment review 2017: Maintaining the momentum – see Annex

contributions can follow. Where they cannot, trustees will need to work to improve member outcomes. We do not see either of these results as a bad thing.

# Chapter 2: Investment disclosure – Government response

## Introduction

### Background to proposals

1. We consulted on the following proposals:
  - a duty on trustees and managers to disclose on request to members and recognised trade unions, the top level of funds for which public information is available (strictly, ‘collective investment schemes’), in which members are directly invested;
  - that each member who receives an annual benefit statement should also be notified that they can request this information;
  - that the disclosure regime should look-through the ‘unit-linked contracts’ often found in pension schemes, to the first layer of underlying funds; and
  - that trustees and managers of schemes must monitor the fund holdings over the scheme year, that they must prepare the information within 7 months of scheme year end date and they must respond within 2 months of such a request.

### Summary of responses

2. 37 respondents replied to one or more questions in this consultation. There was broad support for the measure. The following key themes characterised member responses.
  - Some greeted this as a welcome first step, but believed that Government should in the long term consult on going further – for example via additional disclosures, requiring trustees to contextualise the information, or requiring publication.
  - In contrast, others emphasised that relatively few members were expected to request this information and therefore any disclosure needed to involve proportionate burdens for trustees.
  - A number of respondents highlighted that they already provided very similar content online and that it would make sense if they were permitted to point members to this information rather than impose additional very similar statutory disclosures.
  - A small number of respondents identified some limited circumstances in which the current Regulations would be unhelpful, as members would be unable to identify any information.

- Several respondents demonstrated that the current Regulation would mean that the information was unnecessarily out of date by the time it reached members.
3. We have carefully considered all the comments and suggestions made, and the proposals for disclosure have been adapted in some areas to take them into account. A summary of changes is included at the end of each section, and consolidated at the end of this chapter.

### **Objectives of the proposals**

4. There was occasional confusion over the purpose of the proposals. Several respondents highlighted that requiring disclosure only of top-level collective investment schemes may mean that members did not get sight of all the costs and charges they bear. Others in particular focused on better trustee and manager practice to take account of long-term financial risks such as climate change, or members' views of the way in which their pensions were invested.
5. To clarify, it is not our intention that this information is used to report on pension scheme costs and charges. The Government's proposals in that area are set out in Chapter 1. We accept that many costs will not be identified if the member relies on a fund factsheet for some of the underlying costs, including the costs of governance, administration, legal advice and the costs of holding or trading any investments which are not held via a collective investment scheme.
6. Rather, the proposals are designed to provide information to help give members access to further material such as the funds' top holdings, how the asset managers select investments on trustees' behalf; and how they engage with the companies in which they invest. Where this information is not available in fund factsheets, members can nevertheless use a variety of sources, including fund annual reports; the Financial Reporting Council's ratings of asset manager reporting against the Stewardship code; and asset manager and fund reports produced by a range of organisations to uncover more information about how assets are being managed on their behalf.
7. Engaged members can use this information to bring trustees' attention – or the attention of an employer who selects a pension scheme on their behalf - to relevant aspects of the scheme's investment practices. For example, this might include examples of particularly effective or less effective adherence to transparent reporting and responsible investment by the asset managers the trustees have selected.
8. Neither are we introducing, in these Regulations, any additional steps that trustees will be required or permitted to take to ensure that they take account of long-term investment risks or member preferences in their investment policies. The Government has already indicated that it accepts the recommendations from the Law

Commission's report on Pension Funds and Social Investment<sup>29</sup>, and will consult on policy and regulations to ensure that these are implemented as effectively as possible.

9. Nevertheless, we envisage that empowerment of engaged members, through a statutory right to investment information that trustees can provide without undue burden, will act as a useful lever. When increasing proportions of assets in defined contribution schemes are a result of automatic enrolment and the member has not made any active choice of fund, it is even more important that trustees are accountable for their decisions, and make those decisions knowing that members have the right to examine them.

### **White labelling**

10. A final source of concern for several respondents was the impact on 'white labelled' funds. Under white labelling practice, a fund or combination of funds, most often in the default arrangement, are given an overarching name and objectives. Often the underlying funds which make up the white labelled fund are not proactively disclosed to members. This structure gives trustees the flexibility to remove or substitute underlying funds, for example due to underperformance or unavailability, without seeking members' active consent.
11. The effect of our Regulations would be to require schemes to disclose the current or recent underlying funds which make up white labelled arrangements on request. However, it is not our intention that these disclosures should impede trustees' ability to switch or remove those underlying funds in white labelled arrangements without seeking members' active consent. We do not believe our Regulations will limit trustees in this respect. Trustees may wish to draw members' attention to the implications of white labelling in any such disclosures they are asked to make.

## **Who should have the right to request information and from what schemes**

### **Schemes in scope**

12. We proposed that, like cost and charge disclosure, fund disclosure on request should have the same scope as the requirement to produce a Chair's statement.
13. These are occupational schemes offering money purchase benefits, in respect of those benefits alone, with the following exceptions:

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<sup>29</sup> Pension funds and social investment: interim response - <https://www.gov.uk/government/publications/pension-funds-and-social-investment-interim-response>

- executive pension schemes<sup>30</sup>;
- relevant small schemes<sup>31</sup>;
- schemes that do not fall within paragraph 1 of Schedule 1 (description of schemes) to the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013<sup>32</sup>;
- public service pension schemes<sup>33</sup>; or
- schemes which provide no money purchase benefits other than benefits which are attributable to additional voluntary contributions.

14. We did not propose to extend this requirement to non-money purchase benefits, such as Defined Benefit only schemes or Defined Benefit sections of hybrid schemes, at the present time. This received broad support from consultation respondents, with no respondents suggesting that the scope should be either broadened or narrowed. We do not intend to change this policy.

## Requesters in scope

15. We proposed that members should have the right to request information on the funds in which they were invested; and that trade unions should have the right to request information about the funds in which their members are invested.

16. We suggested that it would be disproportionate and could raise privacy concerns if we were to require schemes to disclose information to spouses, civil partners and beneficiaries of the scheme, and that it would be impractical to disclose such information to prospective members as they would not know the funds those members were to invest in.

17. There was broad support for these proposals.

18. One respondent suggested that survivors of a dead member ought to have the right to investment information. However, in this scenario, where the survivor remained

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<sup>30</sup> Executive Pension Scheme means a scheme in relation to which a company is the only employer and the sole trustee; and the members of which are either current or former directors of the company and include at least one third of the current directors

<sup>31</sup> Also known as 'Small Self-Administered Schemes (SSASs)', a relevant small scheme is a scheme with fewer than 12 members where all the members are trustees of the scheme or all the members are directors of a company which is the sole trustee of the scheme

<sup>32</sup> This has the effect of principally excluding single member schemes, schemes which are not tax registered, and schemes which only provide death benefits.

<sup>33</sup> Strictly defined as schemes which falls within regulation 4(2) of the Disclosure Regulations, or do not fall within regulation 4(2) of those Regulations but are public service pension scheme as defined by section 318 of the 2004 Pensions Act. In practice, we are aware of no such schemes which meet this definition and offer money purchase benefits other than those attributable to AVCs.

invested they would themselves become a member and entitled to the same information as other members.

19. In the case of a survivor benefit in payment, such as a joint life annuity, the member would not be invested in any pooled funds within the scheme. The annuity would be paid most commonly via an insurance policy taken out by the pension scheme trustee, or more rarely via a pool of assets held by the trustees within the scheme and not designated as held by the individual members. Therefore there would be no pooled funds in which the survivor was invested to be disclosed.
20. One respondent also suggested that recognised trade unions in particular should have access to information about the funds chosen by employees of all employers who recognise them for collective bargaining purposes, not just those used by union members.
21. However, other instances of the Disclosure Regulations in relation to recognised trade unions make clear that disclosures relate only to members of the unions themselves rather than all represented employees. We do not intend to deviate from that approach.
22. Several respondents argued that it would be much more helpful for members and trade unions to receive information about all the pooled funds used by the parts of the scheme which provided money purchase benefits, rather than just those in which the members were invested. This point is covered under Content in paragraphs 36-43 below.

### **Summary**

Apart from some minor technical drafting corrections to clarify schemes in scope in regulation 12A, we have made no other changes to this part.

## **Timing, content, format and penalties**

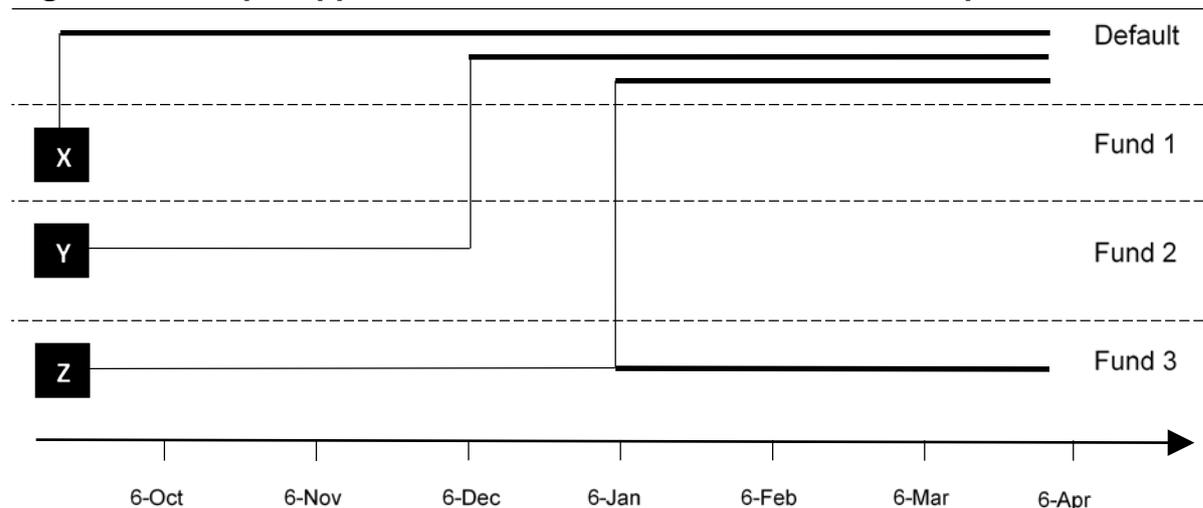
### **Timing**

23. We originally proposed that trustees and managers of schemes should prepare information on the pooled funds in which members were invested for the previous scheme year. We also proposed this information should be available within 7 months of each scheme year end date and that it must be provided within 2 months of a request being made.
24. Whilst some respondents were supportive of this proposal, it also attracted significant concerns. Many other respondents thought that this disclosure would be too slow, and that giving members information about the pooled funds in which they were invested

potentially up to 19 months ago would be actively unhelpful. In fact the situation might be even worse than that – a member enquiring about investment information 5 months after a scheme year would actually receive information about the funds in which they were invested in the scheme year before the one that ended 5 months ago. In this worst-case scenario the member would receive information about investments from between 19 and 31 months earlier.

25. Nevertheless we acknowledge that respondents, especially from pension schemes themselves, preferred a cycle of regular collation and updating, rather than a requirement to check and update information about the pension schemes' investments on an ad hoc basis, every time they received a request.
26. We therefore now intend that the information which schemes must provide about the pooled funds should correspond to the investment options (for example the default arrangement, or one or more self-selected funds) in which members were invested at the time of their request.
27. Trustees may provide the pooled funds in which members were invested on the date of request, or the pooled funds which relate to those investment options on another date from up to 6 months earlier, as long as the trustees and managers are satisfied that the investment options in which the member was invested are the same as those on the date of the request.
28. This means that in the vast majority of instances, trustees will be permitted to update pooled fund information on a 6 month cycle. The only occasion when trustees may need more recent information is when the member has switched one or more investment options in the previous six months. In this instance, the pooled fund information which the trustees provide must correspond to that in which the member is invested on the date of the request.
29. This is illustrated in the figure below. The movement of members X, Y and Z between the defaults fund and funds 1, 2 and 3 is shown over the 6 months leading up to the coming into force date of the investment disclosure requirements. Each of the members is assumed to make a request on the 6 April 2019.

**Figure 1: Example application of the investment disclosure requirements**



30. The thick black line showing the path of each member, shows the date range that can be used for investment disclosure, in response to a member request.

- Member X last changed investment options more than 6 months ago, and has been invested in the default from 6 October onwards. Subject to the trustees satisfying themselves that the member had not switched investment option, they would disclose the ‘top level’ of collective investment schemes which made up the default on any particular stated date between 6 October 2018 and 6 October 2019.
- Member Y changed from fund 2 to the default arrangement on December 2018. Subject to the same requirements, trustees would be able to disclose the top level of collective investment schemes making up the default on any one date between 6 December 2018 and 6 April 2019.
- Member Z diverted a proportion of their assets into the default arrangement in January 2019, whilst remaining invested in fund 3. As a common relevant date must be used for disclosure across each investment option, trustees would be required to disclose the top level schemes making up the default and fund 3 on any one date between 6 January and 6 April 2019.

31. This change has the effect of shortening the start date of the first disclosure for some schemes, in such a way that they may not have time to prepare. Previously the first pension schemes – those with a scheme year ending very soon after 6 April, would need to disclose 7 months after the coming into force date (by November 2018), whilst schemes with a scheme year ending immediately before 6 April, would have up to 19 months (by November 2019) before answering member requests.

32. Because we received few indications that trustees would not be able to organise and update this information within a reasonable timescale, we have revised our proposals. Taking into account a balance of benefits to members and burdens on schemes, we are now requiring that the disclosure for pooled fund information should come into force for all schemes on 6 April 2019.

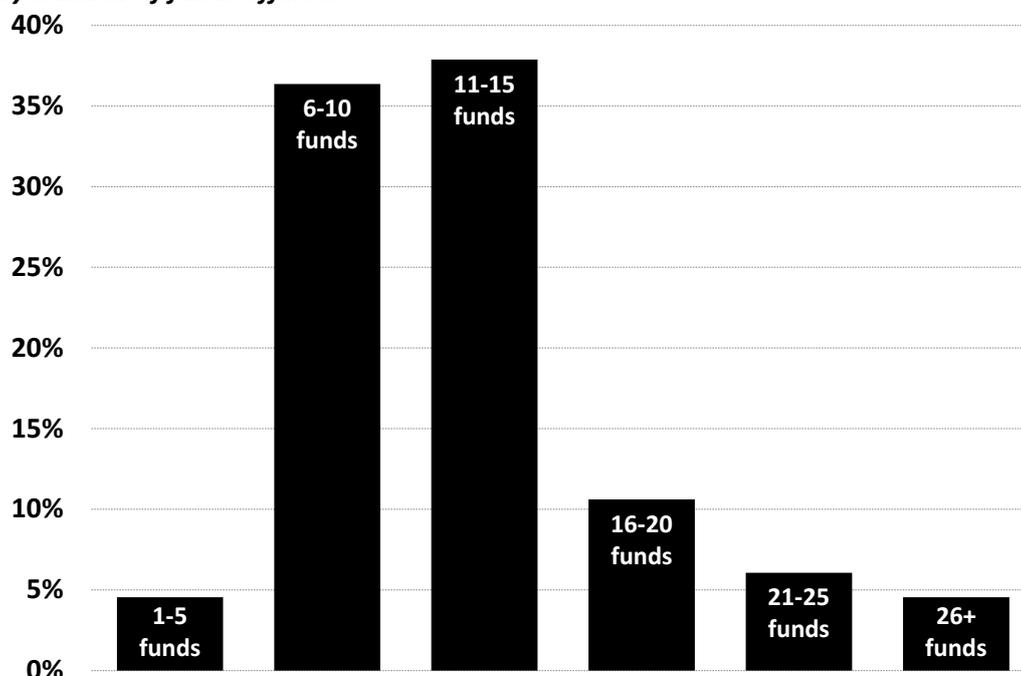
33. As the statutory investment disclosure is of the pooled funds which corresponded to the member's current investment options on a date up to 6 months earlier, there is no practical benefit in members having a statutory right to request the data more often than every 6 months, we have therefore introduced a provision to limit requests from members to only one in a 6 month period. Where schemes voluntarily update pooled fund information more often, we would naturally encourage them to also answer more frequent requests.
34. Consistent with the consultation, trustees and managers must still disclose this information in response to a member or recognised trade union request, within 2 months of the request.
35. These changes are reflected in amending regulation 1 and new regulation 12A and paragraph 35 of Schedule 3 of the Disclosure Regulations, as inserted by these Regulations.

## **Content**

36. A significant number of respondents suggested that members and recognised trade unions ought to be able to request information about the pooled funds associated with every money purchase investment option offered by the scheme, not just those in which the members – or the pension scheme members who were members of the union – were invested. These respondents argued that members will often quite reasonably wish to understand and research other investment options which are available.
37. In addition, a number of respondents responsible for scheme administration or scheme governance favoured a single standardised disclosure over multiple 'cuts' of information for members who had selected different investment options.
38. It was not our policy intention to prevent schemes from disclosing additional information – for example, the pooled funds associated with other investment options – as long as members also received the disclosure of the pooled funds in which they were directly invested.
39. However, we remain sceptical about the benefits of mandating disclosure of pooled funds for all investment options. Although schemes are increasingly tending to offer a smaller number of investment options, a significant number of schemes still have a very large number of fund options – more than 20 is far from rare (Box 1 below provides more details).. We believe mandating schemes of this type to make disclosures on all funds to all members and trade unions could be extremely confusing and therefore counter-productive to good decision-making.

### Box 1

**% of open defined contribution schemes with more than 5,000 members  
by number of funds offered**



Source: DWP analysis of Occupational Pensions Schemes Survey 2016

59% of open, occupational defined contribution schemes with more than 5,000 members offering a choice of funds have more than 10 choices of fund and 11% have more than 20 choices of fund.

#### Methodology

The data used in the statistics shown is from the Occupational Pension Schemes Survey 2016 and covers open, occupational defined contribution schemes registered in the UK which offer a choice of funds and have more than 5,000 members. The sample size when restricted to these particular schemes is 138 and the results are not weighted. Robust data for scheme percentages is only available for schemes with more than 5,000 members.

The Occupational Pension Schemes Survey is carried out annually by the Office for National Statistics and provides a detailed view of the nature of occupational pension provision in the UK. This survey gives us robust official statistics about fund choices across schemes which are not available elsewhere. Note that personal pensions and group personal pensions are excluded from the survey.

More detail about the survey including methodology, coverage and quality assurance can be found at the following websites:

<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/pensions/savingsandinvestments/bulletins/occupationalpensionschemessurvey/uk2016>

<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/pensions/savingsandinvestments/methodologies/occupationalpensionschemessurveygmi>

40. Trustees and managers of relevant schemes do have a choice. They may disclose only those pooled funds in which the member is directly invested – at the time of their request – or alternatively they may disclose the pooled funds for all the investment options offered by the scheme. Importantly, if trustees or managers take the latter course, they would still need to indicate the options in which the member is directly invested at the time the query was lodged. The member may not have this information to hand, and there is no requirement on the scheme to disclose this at other times, for example via the annual benefit statement.
41. Schemes will of course have latitude to make decisions about how they report this information in such a way as it is most useful to their membership, but our expectation is that schemes with relatively few investment options – say, 10 or less – will generally wish to disclose the pooled funds for each of them.
42. We also acknowledge that it may well be less burdensome to provide a list of all investment options and the associated pooled funds when responding to requests by recognised trade unions – and that having already compiled this information for unions it will be easier to share in the same form with individual members.
43. Schemes also have latitude in other ways. Some respondents suggested that they ought to be able to give details of investments in a way which takes account of behavioural biases and levels of financial literacy, whilst others suggest optional disclosure of fund performance statistics alongside the information. We have no intention of being prescriptive about the information that accompanies the required investment disclosure. Trustees are free to use the insight they have about their membership and their representatives to decide how best to contextualise and explain the information.

## **Format**

44. In our consultation, we proposed that on receiving a request, trustees and managers should be required to disclose this information in line with regulation 26 of the Disclosure Regulations. In broad terms, this allows schemes to provide this information by electronic communications (e-mail or on a website for example) unless the member has specifically said they do not wish to receive this information this way.
45. Several respondents on behalf of pension schemes were concerned about this proposal, believing that they already published all the relevant information to the web and would not be able to utilise this means on communication. We do not however consider that the application of regulation 26 will be burdensome in this instance. Where trustees have provided email contacts, we would expect a substantial majority of member enquiries to take place via this channel, and that a very small proportion of them will specifically request the information in hard copy. This permits trustees to provide a largely standardised response by email directing the member to the

website, with the only personalised content highlighting the options in which the member is invested [see paragraphs 36-43 above].

46. Trustees may also voluntarily tell members where they can access the information online. Where trustees include a weblink, we believe this is likely to sharply reduce the number of ad hoc requests which trustees would have to answer.

## Penalties

47. We proposed that the same penalty regime should apply for failure to disclose pooled funds as any other requirement under the Disclosure Regulations, including those that we proposed in Chapter 1.

48. There was broad support for this approach, and we therefore do not intend to change it.

### Summary

We have amended the Regulations so that:

- trustees have a duty to begin to disclose pooled fund information from 6 April 2019, and the information must be no more than 6 months out of date at any time.
- disclosure is based on the investment options in which the member is invested at the time of their request, rather than those in which they were historically invested over the previous scheme year.
- trustees only have to provide this information once in a six month period.

Apart from some other minor drafting corrections, we have made no other change to this section.

## Direct investment and level of pooled fund disclosure

49. In our consultation, we proposed that:

- Where arrangements are invested in a collective investment scheme, that trustees should disclose the names and the International Securities Identification Number (ISIN) of all funds in which they are directly invested (not the underlying funds), so that members can find the appropriate public information.
- In arrangements where the assets are managed to a bespoke mandate trustees should similarly disclose the names and ISINs of any 'top-level' collective investment schemes which make up the mandate, in which members are directly invested.

- Where arrangements are invested in unit-linked contracts, trustees ‘look-through’ the unit-linked contracts to any collective investment schemes by reference to which the value of the unit-linked contract is determined, and disclose the names and ISINs of those ‘top-level’ schemes.
50. Most respondents were broadly supportive of this approach. A few suggested that schemes should have the option or the requirement to report further information, such as underlying funds, or to provide the fund factsheets themselves rather than the ISIN. We have not introduced a mandatory requirement for this but there is nothing to prevent schemes going further, and certainly some members are likely to find additional disclosures useful.
51. Members are readily able to find a fund factsheet by entering the ISIN into any search engine, and to find any significant investments in underlying funds by consulting the factsheet of the top-level fund. We will however continue to informally monitor disclosure, and we will consider additional requirements if the level of demand and the way in which those demands are supplied can be improved.
52. We asked whether there were any circumstances in which trustees would not know the top-level funds for which public information is available. Respondents identified a few very broadly-described scenarios in which the information could potentially be harder to obtain – for example complex investments in infrastructure or unlisted firms, were suggested. But none of these examples were detailed or specified sufficiently to provide any evidence to suggest that a relaxation of the legislation in certain circumstances is required.
53. Some respondents highlighted potential confusion about the requirements. The lower tier of funds in a fund of funds scenario would not need to be identified where the parent fund was a collective investment scheme. Where the parent was not such a scheme, it would appear reasonable for trustees to make themselves aware of the underlying funds as part of their due diligence.
54. Similarly another respondent mentioned the instance where a trustee body itself constructs a ‘fund’. In this instance, as the constructed fund would not generally be a collective investment scheme, the highest level collective investment schemes in the underlying investments would need to be disclosed.
55. We made no proposals to require pension schemes to disclose the relative proportions of assets invested in different collective investment schemes. Nor, where some of the holdings are invested in directly held securities, such as individual equities or bonds, were we minded to require schemes to disclose the proportion of assets not invested in collective investment schemes.
56. One stakeholder suggested we should provide guidance for this scenario; another believed that the proportions must be disclosed for the information to be meaningful;

whilst conversely another believed it was crucial that schemes were not required to disclose proportions, for commercial reasons.

57. We do not propose to make any legislative provision in this area, or to issue guidance. Any guidance designed to cover the full range of possible circumstances and the diverse levels of engagement and understanding amongst different membership groups would tend to make the guidance largely generic and accordingly low-value. However we would always encourage trustees and managers to make the disclosures as helpful as possible to members and recognised trade unions, this will generally be in a scheme's own interests to avoid follow up queries.
58. Finally, one firm drew our attention to the instance where a unit-linked contract tracks a 'notional pool' of directly held equities or bonds, but those assets are not held in a collective investment scheme. In this case, the unit-linked contract is the closest thing to a collective investment scheme, and often providers reflect this by producing a fund factsheet for the contract itself, offering much of the same information in relation to fund objectives, asset allocation, and top 10 holdings, sometimes even including a dummy ISIN.
59. In this instance, the legal requirement does not bite on any collective investment schemes. Here, of course, we would nevertheless encourage schemes to draw members' attention to the factsheets that they or others produce. However, it would be beneficial to pro-actively explain, in simple terms, why further information is not available.

### **Summary**

Other than minor technical drafting changes to paragraph 35 of Schedule 3, we have not made any amendments to this section in relation to the investments in scope.

## **Telling members about the availability of information**

60. We proposed that when the annual benefit statement is sent to members, this should also explain that members can request further information about the funds in which they are directly invested.
61. Most respondents were broadly supportive of this approach, agreeing that this approach was the least burdensome. As with cost and charge information, we are requiring that this information must be given as part of the annual benefit statement – but this does not require that the information for example be on the same sheet of paper as the statutory money purchase illustration or the record of a member's contributions over the past 12 months. Trustees will of course wish to take their own

legal advice, but our policy intention is that an insert delivered as part of the annual benefit statement would meet the requirement.

62. A small number of respondents flagged the concern over additional requirements making the annual benefit statement unwieldy. We remain mindful of that concern, but do not believe that this disclosure will have that effect. Trustees can alert members to the existence of pooled fund information very concisely and in plain English.
63. Finally a few respondents believed that trustees of some schemes – for example those above a certain size – should be legally required to publish investment information online. Whilst we will monitor the situation, we do not plan to change the Regulations, which require pooled fund information is to be provided on request in accordance with the existing regulation 26 of the Disclosure Regulations, which does allow electronic communications. Rather, we believe that economics will tend to naturally drive this response over time. If there are significant numbers of requests, and if, as appears to be the case, there are no significant commercial confidentiality concerns, it may be more cost-effective for trustees or their representatives to publish the content online, and signpost members to it, whilst also indicating the funds in which the member is invested.
64. Nevertheless, as set out in chapter 1, we believe publication will often serve a useful purpose, both to share, compare and learn from good practices, and to expose, address and prevent poor ones. We will consider the effect of these measures as we continue to consider wider aspects of disclosure.

#### **Summary**

We have not made any amendments to this section.

# Annex A - List of consultation respondents

Aon Hewitt	Mercer Ltd
Association of British Insurers (ABI)	NEST Corporation
Association of Consulting Actuaries Ltd	NOW: Pensions
Association of Member Nominated Trustees	PensionBee
Association of Pension Lawyers	Pension Playpen Limited
Association of Professional Pension Trustees	Pensions and Lifetime Savings Association (PLSA)
Aviva	Pensions Management Institute
Barclays Bank UK Retirement Fund	Sacker & Partners LLP
Barnett Waddingham LLP	SEI Investments
B&CE Ltd	Share Action
Cairn Consulting	Simplitium
Capita	Smart Pension Ltd
Ensign Retirement Plan	Society of Pension Professionals
Fidelity International	SRI Services / Rathbones
Financial Services Consumer Panel	Standard Life
Hymans Robertson LLP	Supertrust UK Master Trust
ICAEW	Universities Superannuation Scheme Ltd
Investment Association	Trades Union Congress
Kingfisher Pension Scheme	UK Sustainable Investment and Finance Association (UKSIF)
Larry Bates (Author and blogger)	UNISON
LEBC Group Ltd	Which?
Legal & General	Whitbread Group plc
Lesley Curwen (Journalist)	Willis Towers Watson
	Zurich Insurance plc

# Annex B – Summary of organisational responses

## Overall

No respondent disagreed with the needs for transparency. All respondents who specifically commented generally welcomed and agreed with the need to be transparent on charges and costs.

Overall, we believe that transparency and improved value for members is a good thing and do not believe that the proposed additions represent a significant burden for well-run schemes. **Aon Hewitt**

The new disclosures will allow Trustees to fully benchmark the investment funds they use and assess performance and risk against costs. The increased transparency should also apply pressure on asset managers to improve investment efficiencies and potentially drive competition in pricing which will benefit all investors. **Barclays Bank UK Retirement Fund**

We strongly agree with and welcome the DWP's acknowledgment that information around costs, charges and investments must be understandable and useful for members. **NEST Corporation**

We believe that the measures proposed by the DWP will lead, over time, to a significant and sustained improvement in the value for money achieved by pension schemes and by members. We believe that it should be a simple condition of doing business that members should be able to see how much they are paying for investment services. There are no good reasons for not disclosing costs and charges to members in a clear format. **PLSA**

Greater transparency and disclosure of costs and charges could play a necessary, albeit in isolation insufficient, role in bringing down costs and charges and giving savers a better standard of living in retirement. **Trades Union Congress**

We believe that the proposals are proportionate in that they make information available to members but recognise that they will only be of interest to a limited number of members. **Zurich Insurance plc**

Some respondents did go on to provide a range of comments or raise concerns relating to the more detailed proposals as captured in the individual questions below.

## Disclosure of costs and charges

**Q1. The proposed Regulations on costs and charges apply to the same schemes to which the existing requirements to assess charges and transaction costs and to prepare an annual governance statement applies currently. Do you agree with this proposal?**

The majority of respondents agreed with this proposal.

We support the coverage of the proposed regulations .... Some providers have indicated that in practice, they are likely to also apply the proposed regulations to single-member schemes and Additional Voluntary Contribution arrangements, regardless of the proposed exemption... However, we believe that this should be left up to the discretion of providers, as opposed to being mandatory. **ABI**

In some circumstances, money purchase Additional Voluntary Contributions (AVCs) saved under the trust of a defined benefit scheme form a significant element of retirement benefit ... so there is an argument that disclosure of costs and charges of these arrangements should be in scope. However, on balance we agree for the majority it makes sense to continue to exclude them. **Capita**

Around a fifth of respondents disagreed however and thought AVC's should be in scope with a couple also suggesting Defined Benefit schemes should also be brought into scope of the Regulations for costs and charges information.

All elements of the scheme's structure should be subject to review and cost statement. This includes defined benefit and AVC's. The government clearly recognises the problem and therefore needs to act across the whole workplace pension landscape. We do not agree that scheme members do not bear the risk of DB costs and charges. Schemes and closed without the necessary investigation into costs and potential improvements in cash flow resulting to a change in investment strategy. **UNISON**

[The proposals] would exclude schemes which provide no money purchase benefits other than AVCs and which, in our experience, are the schemes that typically have the highest charges and in many cases are often seen as very low priority in respect of governance and regular communication with members. It is important for schemes to make members aware of the scale and impact of these charges and where other options may be available. **Universities Superannuation Scheme Ltd**

**Q2. We propose that the Chair's statement should be extended to include the actual charges and transaction costs for each default arrangement and any alternative fund choices. Do you agree with this proposal?**

The majority of respondents agreed with these proposals to amend the information requirements within the Chair's statement.

Yes. This is much more helpful than a range of charges and enables advisers to assess value for money and suggest alternative fund choices where this fits the member's requirements. **LEBC Group Ltd**

It is also more likely to be those who have selected a fund other than the default who will want to consider this information in more detail to make their investment choices. Clear and consistent comparison of all fund options will ultimately lead to maximum engagement from members. **Simplitium**

The main concern expressed was the impact of requiring disclosure on burdens for trustees, or the length or ease of understanding of the Chair's statement.

Chair's Statements are already, at least in some cases, longer than scheme report and financial statements. This new requirement is likely to add further complexity and cost to the scheme report and financial statements. We see there being a strong argument to separate these two documents. **Hyman's Robertson LLP**

A few respondents raised technical questions about precisely how the charges and transaction costs ought to be reported.

It is assumed that both charges and transaction costs are shown in percentage of NAV [Net Asset Value] and the DWP could be more prescriptive here to define what type of NAV to report against. Charges and transaction cost figures could be reported inconsistently by using a Closing Financial Year-End NAV or other NAV. By using the highest NAV available, both the charge and transaction cost figures may appear to be lower than they actually are. We suggest that the Average NAV be used. **Cairn Consulting**

Several respondents raised the issue of blended or bundled products, such as lifestyle strategies or target date funds which invest members in a range of funds, in varying proportions, over their saving lifetime.

Where default arrangements involve lifestyle strategies that automatically switch between investment funds then the disclosure should identify and report on each of those funds separately rather than trying to aggregate charges across the strategy as the proportions held in each fund will vary depending on the term to retirement of each investor. **Fidelity International**

**Q3. We propose that cost and charge information should be:**

**(a) Published annually;**

**(b) The responsibility of the scheme trustees or managers to publish;**

**(c) At the discretion of trustees and managers of where to publish, as long as it is publically available and can be indexed by major search engines.**

**Do you agree with these proposals?**

The overwhelmingly majority of respondents agreed this information should be published annually and be the responsibility of the trustee.

It is right that trustees should not be required at this time to publish the relevant information more than once a year.

**Association of Member Nominated Trustees**

(a) We agree that the information should be published annually.

(b) We agree that it should be the responsibility of the scheme trustee or manager to publish the information. **SEI Investments**

There were a few suggestions that this information should be provided more often.

There should be a minimum 6 monthly and in reality it should be done quarterly.

**UNISON**

There was also the suggestion from a few respondents for aligning costs and charges reporting to the annual benefit statement, rather than the Chair's statement.

We agree the cost and charges information should be made available to members annually, but the timing of the costs and charges disclosure should be linked with the timing of annual benefit statements rather than being aligned with the scheme year. **ICAEW**

A minority of respondents did argue that a designated public body would be beneficial.

We think the Pensions Regulator is ideally placed to take on this role and the cost of doing so can be covered by a small addition to the Pension Scheme Levy thus avoiding your concerns in paragraph 52 about cross-subsidisation between schemes. **Pensions Management Institute**

There was a variety of comments received on trustee discretion over where to publish.

Some respondents questioned whether the new cost and charges information needed to be published in the form of an excerpt from the Chair's statement.

We do not feel that this has to be communicated as part of the Chair's Statement. A standalone document should suffice, as long as it contains the relevant information. **Ensign Retirement Plan**

One key issue raised, was that many schemes do not operate their own website. Some respondents reported that where schemes do have their own website they generally have secure sites for members only, which are password protected.

Some schemes will not have a publicly available website, because the site is intended for use by scheme members only and will, therefore, be password protected. In these situations, a possible means of placing the information in the public domain would be to use a facility such as Dropbox, but these are not indexable by major search engines. Some small insured schemes might not have a scheme website. In these cases, one option might be for providers to facilitate this information on their website. **Society of Pension Professionals**

There was a consensus that the information provided by asset managers to trustees will be key for trustees.

The trustees of schemes would find this information very useful. It would also be an effective lever for trustees to try and achieve better costs, or for sponsors to wind-up schemes that cannot compete on costs for a given service. **Capita**

We understand that stakeholders .... would welcome more transparency of the cost and charges paid by individual schemes, to undertake benchmarking and aid their value for money for money assessments. However... information provided directly by providers to a third party, rather than scraped off websites, is more likely to provide the necessary granularity and accuracy. For example, it would be more useful for trustees and IGCs to understand the breakdown of transaction costs, as set out in the FCA's PS17/20, as opposed to a single figure. **ABI**

Some respondents challenged how giving this information to members would contribute to the effectiveness of achieving improved value for money for their schemes costs and charges or could indeed potentially lead to detrimental behaviour by members.

We do think that members should be able to understand how much they pay towards the running of their pension scheme, but we are concerned that highlighting these costs and charges could cause members to focus too much on price and not enough on other aspects. Members are not as well equipped as trustees to deal with such details, as they may not be aware of the wider picture and may not consider other issues, such as the quality of administration and communications. **Aon Hewitt**

There is a danger of scheme members not having the knowledge to be able to interpret the illustrative examples, and therefore being led to believe that the highest projected fund size, taking into account the cumulative effect of charges and transaction costs, is the best fund for them. This is very often not the case.

#### **NOW Pensions**

**Q4. We recognise that how the information is contextualised and presented to members is important. We therefore propose:**

**(a) that the ‘default investment strategy’ and ‘Costs and charges and value for members’ sections be published to provide appropriate contextualisation to the cost and charges information;**

**(b) that schemes are required to show the cumulative effect of costs and charges over time, as set out in the draft statutory guidance.**

**Do you agree with these proposals?**

The overwhelming consensus from respondents agreed that contextualisation was imperative.

We agree it is important to provide the appropriate context. Members should be encouraged to look at the whole picture rather than focussing solely on costs. There is a risk that, in practice, members may only look at the figures and not take account of the context around it. **Aviva**

A value for money statement from the trustees on those costs and charges is important as most scheme members will lack the financial expertise to be able to make that judgement for themselves. **Legal and General**

There were a number of respondents who noted the need to also provide fund performance information too.

Publishing the ‘default investment strategy’ and ‘costs and charges and value for members’ sections of the Chair’s annual statement is therefore important context. However, we think the Department could go further. While these additional pieces of disclosure will contain information on the performance of the default strategy we think this important piece of information should be presented directly alongside the charges and transaction costs of the default strategy... **Investment Association**

We believe embedding the cost disclosure without regulatory disclosure on fund performance net of fees and volatility is a bit of a blunt tool. **Kingfisher Pension Scheme**

The large majority of respondents also believed that some form of compounding illustration was useful. They also noted other suggestions on the illustration.

Illustrating the impact of pension scheme costs and charges in the manner proposed would...reveal projected cost and after-cost results thereby enabling scheme members to make informed “cost/benefit” assessments. **Larry Bates**

While price is important and costs and charges have a real impact on members’ funds, an expert would not overweight price as a decision making criterion. We believe that schemes should be encouraged to further contextualise disclosure with information about value for money. In the first instance, this could be taken from the Chair’s statement. The PLSA will work further on value for money metrics in 2018 as part of our Hitting the Target consultation. **PLSA**

We agree that the potential cumulative effect of the costs and charges and a “£ and pence” illustration needs to be included within the information that is disclosed to members, whatever form that takes ... However, the actual effect cannot be known in advance and this calculation will require a series of assumptions, for example, for future investment returns. **Mercer Ltd**

We would recommend schemes use a common hypothetical member, or set of members, so that the only variable between schemes is their own expected costs and charges, rather than second and third order assumptions about salaries, inflation, investment returns, wage growth etc. **NEST Corporation**

Our defaults are target dated and we do not think it helpful for members to present pages of charts demonstrating the effect for each target date fund. We would appreciate some flexibility in the statutory guidance to allow us to show a single illustration that delivers the intention of the disclosures, rather than a confusing range of illustrations. **Whitbread Group plc**

The illustrations of charges should give consideration to the fact that members at different stages of lifestyling will be subject to different charges. This could be achieved by providing different examples at different stages of the member journey, however this will need to be balanced against the risk of providing too much detailed information. **Association of Consulting Actuaries**

The current guidance, and in particular the section ‘Adjustment for the effect of costs and charges’ (paragraphs 35 and 36), will result in an incorrect and hence misleading RIY calculation being prepared for members. .... As currently drafted the guidance would result in an over-estimation of RIY and a misleading number for scheme members. **Investment Association**

We also note that the illustration of the impact of costs and charges needs to be shown for a particular fund. It therefore fails to show the impact of transaction costs incurred when switching between funds - which can be the most material cost members incur. **Association of Pension Lawyers**

We do not believe it is in the member's best interests to take into account the transaction costs incurred in the previous scheme year, as these could be impacted by one off events that would not only be smoothed out over time, but would create a distorted illustration of future benefits which could easily contradict any illustration previously provided. **NOW Pensions**

**Q5. We propose that a web link to the location where cost and charge information for their pension scheme can be found is given to members as a matter of course when they receive an annual benefit statement. Do you agree with this proposal?**

The majority of respondents agreed with this proposal.

We believe that providing a web link in annual benefit statements is a pragmatic approach that manages both the cost to providers (and ultimately consumers) of sending material via post, and also ensures that the relevant material is easy for interested members to locate and identify. **ABI**

A number of respondents advised that they foresaw an unintended consequence with the application of the Regulations in relation to changes to the benefit statement.

Although trustees have 7 months from the end of the scheme year to publish the data, annual benefit statements issued from 6 April 2018 will need to include a web address signposting to the information which may not yet be available. **Aviva**

There were also a range of additional comments made from different perspectives.

The proposals seem contrary to the general drive to simplify member communications. We have reservations about adding yet more information to benefit statements. The disclosure requirements for benefit statements are already extensive; and the more detail that is provided, the less likely it is that members will read it. **Aon Hewitt**

We feel it would be much more impactful if included with the ABS rather than signposted. **Capita**

We agree it is sensible to provide this link at the same time as the annual benefit statement but assume it will be acceptable for this to be provided alongside the statement e.g. in a covering letter. **Aviva**

A few respondents noted that although cost and charge information is beneficial to members on an ongoing basis there is currently no regulatory requirement for this information to be provided when a member joins an occupational pension scheme.

Summaries of such information and signposts to more detail can and should also be included in member welcome pack and on fund factsheets. These are generally the documents used when members are making decisions about their pension savings which is when the cost and charge information is likely to be most relevant. **Fidelity International**

**Q6. Is any further guidance or support required to achieve to meet the proposed regulatory obligations in the proposed statutory guidance?**

The large majority of respondents did not believe further guidance was necessary.

As this stage, the Statutory Guidance would appear sufficient for each scheme to implement an indicative illustration in the Chair's Statement.

**Ensign Retirement Plan**

We do not believe that any further information is necessary.

**Association of Professional Pensions Trustees**

No. If it is not wholly prescriptive there is no need for further guidance.

**Smart Pension Ltd**

There were a number of suggestions however to add to the statutory guidance.

It may be useful for the DWP to provide an optional disclosure pro-forma for smaller schemes, as a form of guidance in good practice. **NEST Corporation**

We note that in the context of the requirement to illustrate the impact of costs and charges there is no guidance as to how to calculate transaction costs or reference to other guidance which might be helpful on that point.

**Association of Pension Lawyers**

It would be helpful to extend the statutory guidance to clarify how trustees should use the costs and charges information available when it does not align to their scheme year. **Aviva**

Trustees may face some challenges in complying with the disclosure requirements and guidance would be helpful in the following areas, for example:

- If trustees have not received the relevant information, or information in an appropriate form, from the asset managers.
- How to deal with situations where the transaction costs vary by member age, for example, in a lifestyle strategy.
- Understanding the potential for differing calculations and disclosures for a traditional lifestyle strategy arrangement (where de-risking occurs at fund level) versus a target dated fund (where lifestyle de-risking transactions occur within the fund). This could lead to the transaction costs appearing very different for the two approaches, when the underlying strategy and costs are the same.
- How to deal with aggregated costs in bundled schemes.

#### **Mercer Ltd**

We also received suggestions of additional guidance from TPR, DWP or FCA of various types.

There may be some benefit in offering guidance on how to translate the information received from asset managers and insurers, into digestible information for a member. There will naturally be a difference in quantity of data which will be presented, however trustees may benefit from guidance on how much would be reasonable to pass through and how it should be consolidated and presented. **Simplitium**

I suggest that the DWP (maybe with the FCA and others) could write a standard document for use with all the disclosures, a very simple account of what a pension is and what the various costs may be, with an explanation of the longterm effect on a pension payment of higher costs through a worked example of compound interest. If this is standardised it would mean individual schemes do not have the burden of explaining all this to their members but it would be an essential tool in the understanding of why the costs matter to an individual saving for a pension.

**Leslie Curwen (Journalist)**

#### **Q7. Do you agree with the proposed penalty regime?**

The majority of respondents agreed with these proposals.

We have no objection at all to the penalty regime. **Whitbread Group plc**

We have no issue with the proposed penalty regime where information has failed to be disclosed within 7 months of the scheme year end.

**Ensign Retirement Plan**

There were however some specific comments from a handful of respondents.

The penalty should be greater than £50k. **PensionBee**

Yes. We note, though, that the information is extremely complex and that the timelines for its provision are short. Realistically, schemes will have difficulty with compliance in the very short term. We believe that the penalty regime should be applied with that in mind. **PLSA**

**Q8. Do you agree with the proposal that trustees should only be required to provide a hard printed copy if it would be unreasonable for the individual to access the available information published online? Do you have any other evidence or thoughts about how these proposals will affect members of protected groups and what mitigations, if any, may be required?**

The majority of respondents agreed with this, although there were a few requests to confirm the intention within parts of the Regulations.

Where material is available only online, the problems of the blind and partially sighted are sometimes compounded, but we believe that AMNT members, and trustee boards generally, will do all they can to mitigate them, so we do not now seek any amendment to the legislation in this connection.

**Association of Member Nominated Trustees**

In our experience the majority of members make use of online tools and prefer this approach to receiving hard copies; however there is a need to cater to those who are unable to access this information and it would be difficult and time consuming for trustees to prove whether the individual could reasonably be expected to have accessed the information online. Providing an alternative communication method would help the minority who are not able or willing to access the information online. **Universities Superannuation Scheme Ltd**

Comments included those from a few respondents suggesting the conditions for providing hard copy illustrations should be no different from other situations within the Disclosure Regulations with no additional test necessary.

Where information is available online, we do not think it is necessary for trustees to assess whether it is unreasonable for the member to view the information online – how will they be able to make that assessment? It should be made available in paper format on request. **Barnett Waddingham LLP**

A few respondents asked for clarification on how to apply an ‘unreasonable’ test when deciding whether to provide hard copy illustrations on request.

It is also not clear what would be deemed “unreasonable”. Does this mean that the individual must have no access at all to the internet? Or no access at work? We would encourage the Government to give further thought to this and undertake research with pension scheme members. **Financial Services Consumer Panel**

**Q9. Thinking about the current administrative processes undertaken by the scheme, can you give an indication of the additional time/costs of incorporating our proposals into existing process?**

Some schemes responded to this question providing some high level indicative examples, some commented more generally, a few examples.

Adding a link to an ABS would not be too onerous, but obtaining the required information, introducing additional text to explain the link, performing the illustration(s) and setting up a publicly available website would impose additional costs for schemes. **Capita**

On the assumption that the required data is provided as needed by the asset manager, the proposals will only require minimal changes for the Plan. The most significant cost/time will be compiling the data to produce the indicative cost illustration although this is not expected to be substantial. **Ensign Retirement Plan**

For schemes that have a firm focus on governance, we do not anticipate a material increase in the time or costs spent to incorporate these proposals. **Aon Hewitt**

Tailoring the annual benefit statement to inform members of where the cost and charge information can be located is likely to impose a small cost only. However, some schemes (or employers) are unlikely to have a dedicated website or other electronic presence (noting comments in relation to cloud services), so establishment of such a facility to host the proposed information is likely to incur a one-off cost and periodic costs thereafter in terms of maintenance. The greater degree of additional time and costs will be in the collating and contextualising of the information. **Barnett Waddingham LLP**

**Q10. Do the draft Regulations deliver our policy intent, or are there aspects which you believe will not deliver our objectives? Do you foresee any unintended consequences?**

There was a balanced response on whether respondents agreed this would deliver the policy intent. Many agreed, whilst others disagreed due to concerns with engagement, members making detrimental decisions or more practical issues.

Yes. We doubt that there will be unintended consequences. **B&CE Ltd**

We believe that the Regulations achieve the stated policy intent in full.

**Association of Professional Pension Trustees**

We welcome the stated aim in the consultation document to look to 'future digital innovations' to enhance the publication of disclosures, and show meaningful comparisons between schemes on costs and charges. We would suggest, however, that the Government could go even further in delivering on the policy intent by looking into ways that are already available in the short-term to enhance public disclosure for members, rather than waiting for 'future digital innovations' to arise.

**Share Action**

We are concerned that the public disclosure of costs and charges will require us to disclose commercially sensitive information. While we do not consider the consequences of this to be significant in the near term it does raise some potential issues around the effect on competition and pricing. **Fidelity International**

Possible unintended consequences could include the more frequent use of published information by industry commentators, accompanied in all probability by negative headlines (as opposed to reporting the good work done by many). This is likely to be read and taken at face value by members. **SEI Investments**

We are concerned about the quality of the information provided to trustees that will be used to provide disclosure on costs and charges. In these proposals there appears to be no mechanism for auditing of disclosures. This could lead to errors either due to mistakes made in inputting or from massaging of the figures to provide a more flattering number for the asset manager. There is a role here for independent scrutiny of the information disclosed. **Trades Union Congress**

There were also some more technical regulatory drafting comments.

**Q11. Are there any other proposals in this consultation on which you would like to offer comments?**

The majority of respondents agreed with the timescales for coming into force of the proposed Regulations, although a minority of respondents did raise concerns over the timing of implementation of these proposals.

This is a new requirement, which might well involve a considerable amount of work on behalf of the trustees and their advisers and computer programmers, so it would be reasonable to defer this requirement for a further year.

**Society of Pension Professionals**

Consideration should be given to delaying the requirement to provide the information to members for 12 months (until 6 April 2019), to give the new FCA rules on transaction cost disclosure time to bed down and time for the trustees to understand the information provided and consider fully the needs of their membership when deciding how to present it. **Mercer Ltd**

Given the development work required and the risks involved with how the information is used, it would make more sense to understand better how trustees are using charge and investment cost information over the course of 2018 first. This may inform how best to make similar information available to members in a way that it is used effectively. **Standard Life**

Some respondents challenged how giving this information to members would contribute to the effectiveness of achieving improved governance or improved value for money on schemes costs and charges. Others challenged that the proposals did not go far enough.

Members can bring collective pressure to bear on their employer and their scheme, for instance via their trade unions. But this will require access to comparable data across the universe of DC schemes. Likewise, any requirements placed on chairs of trustees to justify the prevailing level of costs and charges would be most effective if there was a clear mechanism for comparing these across the market. A requirement on Chairs of trustees to state that they have considered the relative value of the scheme and believe that savers get the best value from operating the scheme in its current form would be a way of driving industry change. **Trades Union Congress**

There was also some comments linked to wider proposals.

Other complementary policies, including the pensions dashboard and auto-enrolment charge cap, are crucially important for ensuring good outcomes for consumers. The OFT concluded that competition alone cannot be relied upon to drive value for money in workplace pensions, as the buyer side of the market is weak. Namely, while members contribute towards a workplace pension and bear the cost of the provision of the scheme, it is their employer that chooses the pension scheme. Consumers still need to engage if they are to understand the market, shop around and switch, or consolidate their pension savings where possible. **Which**

## Investment disclosure

**Q12. Do you believe that members, and recognised trade unions should have the right to request this information and that the requirement to disclose this on request is proportionate?**

Most respondents broadly supported members' and recognised trade unions' right to access this information:

We agree that members and recognised trade unions should have the right to request this information and that the requirement to disclose this on request is proportionate. In reality, however, we expect few such requests. **SEI Investments**

Others recognised that point, but saw an upside for more engaged members.

Accommodating the minority of members who might wish to access this information is likely to engender greater confidence and trust in their schemes while at the same time being unlikely to create any significant amount of material detriment.

**NEST Corporation**

Some appeared to be surprised that members did not already have a right to the information.

Information about pooled funds that DC scheme members invest in is already publicly available via fund factsheets... Where authorised funds (unit trusts and OEICs) are being wrapped by unit-linked life policies (life funds) and then sold onto DC investors, an annual report and accounts for the underlying fund is also available. Life funds themselves are not required to produce an annual report and accounts. **Investment Association**

It is of course the situation of life funds, and white labelled arrangements, that information such as fund factsheets and annual reports and accounts is not available. Some respondents reported concerns about the impact on such white labelling.

It will be important to have flexibility to make sure that the information is presented in a way that does not cut across trustees' flexibility to make changes to the managers and funds used where that is in members' interests. **Sackers & Partners LLP**

**Q13. Do you agree with the proposed timing and penalties for pooled fund disclosure on request? Do you agree with the policy that trustees should disclose the pooled funds invested in over the previous scheme year? If not, what alternatives would you propose?**

Whilst a number of respondents were content with this proposal, many respondents expressed disquiet at the proposed timescales for disclosure.

We have no strong opinion on timings – although the proposed timings sound long given the level of technology that now exists. **SRI / Rathbones**

This is an issue of trust: Longer waiting times for disclosure of this information may well lead to a decrease in trust amongst savers. This has the potential to undermine the entire point of this exercise, and could even lead to more disengaged members. **UKSIF**

Others suggested alternative timescales for disclosure

Where pooled investments are utilised, information on the investments held are published on a quarterly basis, trustees should be able to meet these standards so that any decisions made by members' to change the risk profile of their investments can be based on actual assets held in the recent past, rather than what they were more than a year ago. **LEBC Group**

Several respondents highlighted that a disclosure based on their current investments would be more helpful.

If the information is to be provided in response to ad hoc requests, it would be less confusing to members and easier for schemes to disclose information relating to the current funds the member is invested in. **Mercer Ltd**

Most members would expect to receive information on the funds they are invested in at the time they make the request, subject to a reasonable timeframe for receiving this information. **Share Action**

The penalty regime was broadly supported, although one respondent suggested a lead-in period:

We also agree with the proposed penalty regime but would suggest a transition/grace period if and when such requirements are first introduced. **Barnett Waddingham LLP**

**Q14. Do you agree that restricting disclosure on request to only the pooled funds in which members were directly invested is more helpful to members and less burdensome to trustees?**

A significant number of respondents favoured this proposal:

Yes, going further would become quite complex and so difficult for trustees to report on in many cases. **Capita**

We agree that restricting disclosure on request to only the pooled funds in which members were directly invested is more helpful to members and less burdensome to trustees. **ABI**

However, some respondents strongly favoured pooled funds associated with all investment options being disclosed:

Members and their representatives have the right to use any of the funds offered to them so it makes sense to make information on all funds equally available. Trustees should be prepared to report on all funds offered to all members who have the options to use them. **Pensions Playpen Ltd**

Others suggested a hybrid approach

In many cases, full disclosure of all available top-level pooled funds should be relatively straightforward regardless of whether any member has invested in them. Alternatively, trustees should be directed to take a proportionate approach.. perhaps by indicating the approximate number of alternative funds and where a full list of options can be obtained. **Barnett Waddingham LLP**

**Q15. Do you agree with our proposed policy on disclosure of top-level pooled funds only, combined with 'look through' of unit-linked contracts and mandates to the 'first tier' of underlying pooled funds?**

Most respondents were supportive of this as an initial position.

It would be unreasonable to require trustees to disclose information in exhaustive detail. We are satisfied that the proposals will ensure that members and recognised trade unions are adequately informed. **Pensions Management Institute**

A few other comments argued that trustees could perhaps be required to offer more help:

Whilst not putting a burden on the trustees, the proposed rules put some burden on the member. Once they obtain the ISIN Code for the fund, they have to seek out the fund fact sheet, find the top holdings, look at Morningstar or similar to find out about the fund, look at the managers' Stewardship Code and PRI statements and piece everything together. The asset managers for the individual funds and/or administrators in pension funds would be much better equipped to do this research. **Share Action**

There was also a divergence of views about whether the proportion of funds invested in different pooled funds ought to be disclosed:

The relative weightings of different holdings within a fund selected by a member should be disclosed at least on a high-level basis ... The information need not be

correct in real time, but should be accurate as at a stated date not more than a month or two earlier or later than that on which the request is made.

**Association of Member-Nominated Trustees**

In some cases, the nature of the component subfunds of a pooled fund and the exact asset allocation between those subfunds may be proprietary information of interest to competitors. Fund managers may refuse to hand over this information and thereby force divestment. **PLSA**

We were also made aware of situations where unit-linked contracts did not track any collective investment schemes.

Many pooled funds will not invest in authorised funds (eg many of the large index pooled funds are directly invested). **Fidelity International**

**Q16. Are there any circumstances where trustees and scheme managers would not be aware and would be unable to obtain information about the pooled funds in which their members are directly invested?**

**If there are circumstances in which they are unaware, please clarify how trustees remain compliant with their fiduciary duties in these scenarios.**

Most respondents could not identify any such scenarios

We cannot anticipate a situation where the Trustee would be unable to obtain the information about pooled funds in which members were directly invested. **Ensign Retirement Plan**

We do not know of any circumstances where trustees and scheme managers would be unaware as described. **Society of Pension Professionals**

A few respondents identified potential instances where disclosure may be more difficult, or they were uncertain how it might work in practice.

We would expect trustees to be aware of how assets are being managed, although information relating to very specific holdings or connected reasons may not be known. Trustees should make reasonable endeavours to ensure they are aware of investment strategies used and monitor portfolio decision making either via an external party or by regularly meeting investment managers.

**Universities Superannuation Scheme Ltd**

This may change if the Government is successful in promoting more complex investment strategies to support infrastructure and highly innovative industries.

**Capita**

For other respondents, the issue was more about how the disclosure would be made meaningful.

There will be some more complex default arrangements where it is difficult to provide the necessary information in a way that is meaningful to members, but this is where the value of the trustees will play its part, i.e. they will be charged with assessing value and making judgements on members' behalf. **Standard Life**

**Q17 Do you agree with our proposal that schemes should give standard information about the availability of further information about pension scheme investments in the annual benefit statement?**

**Are these reasons why this requirement would be burdensome or undesirable?**

Most respondents were content with the proposal.

We are comfortable that this represents good practice and again aids transparency.  
**Aon Hewitt**

Yes, if this is wording making members aware that the information could be requested (rather than the information itself), then this would be a simple way of communicating.  
**Barclays Bank UK Retirement Fund**

Two respondents were content with the proposal as long as they had the flexibility to disclose the information alongside the annual benefit statement:

Yes. This could impact on those schemes on legacy systems in terms of the cost of altering the ABS. For this reason schemes should have the option of including this information in addition to the ABS as a separate page in the pack. **Capita**

Two other respondents suggested that there remained a risk of the annual benefit statement growing lengthy additional disclosure requirements:

We are concerned that any future standardised annual benefit statement does not gradually acquire additional disclosure requirements and thereby become unwieldy and hard to read. Limiting disclosure to signposts to further information is probably the right way forward. **PLSA**

Whilst two more respondents suggested that the information might also be published:

Trustees have to publish an annual benefit statement. Adding a small section about the process for requesting additional information seems reasonable. This information should also be available on a schemes' website. **Trades Union Congress**

**Q18 Thinking about the current administrative processes undertaken by the scheme, can you please give an indication of the additional time/costs of incorporating our proposals into existing processes?**

Some schemes responded to this question providing some high level indicative examples, some commented more generally, the vast majority of respondents commented that costs would be limited.

We anticipate there being a one-off cost to amend annual benefit statement template. Ongoing costs will depend upon the number of individual requests received. **Ensign Retirement Plan**

We envisage that the costs will be minor. **B&CE Ltd**

Our current reporting framework is already largely aligned with these proposals so we don't expect significant further expense as and when they are rolled out. For example, we already publish information on all the underlying funds that make up our default strategy and fund choices on a quarterly basis. **NEST Corporation**

In practice, the largest costs for providers may be producing scheme specific information for smaller schemes that offer a number of generic funds arrangements. In such cases, it may be more practical for schemes/providers to be able to provide a table/list or searchable field that links to all of the possible funds, and allow members to search/identify the relevant fund themselves based on the fund identifiers included in the annual benefit statement. **ABI**

**Q19 Are there any where the Regulations do not meet the policy intent?**

Two respondents – the Society of Pension Professionals and the Association of Pension Lawyers - highlighted a number of suggested amendments to the Regulations to improve clarity or to meet the policy intent. We are grateful for their detailed analysis, and have incorporated most of the suggested changes.

**Q20 Are there any other proposals in this consultation on which you would like to offer comments?**

Where appropriate, responses to this question have been incorporated elsewhere in this summary.

# Annex C – Summary of individual responses

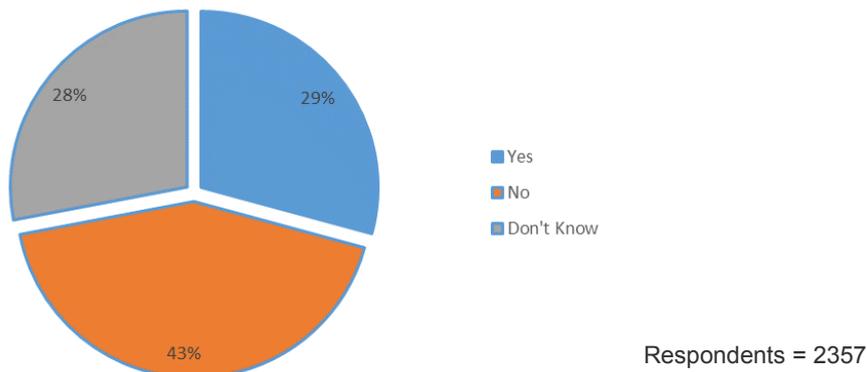
## Disclosure of costs and charges

1. Does your pension provider tell you information about the costs and charges that apply to your pension without being prompted?
2. Do you understand the information that you currently receive?
3. How useful is this information?

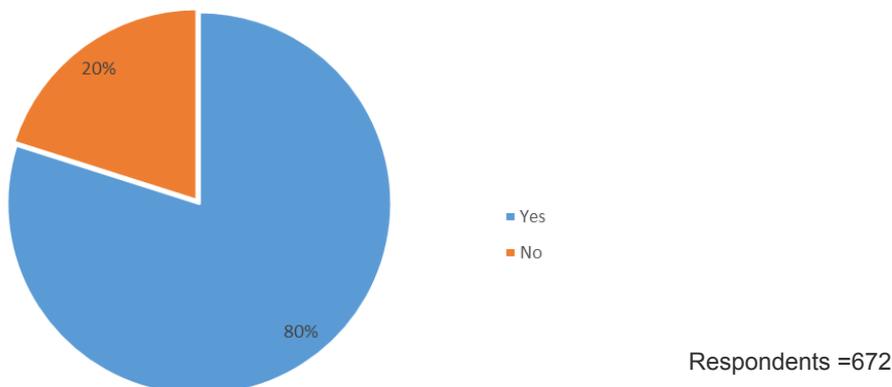
Most people didn't think their pension provider told them information about the costs and charges that apply to their pension without being prompted

Of the information they currently receive, most said they understood it and it was quite useful.

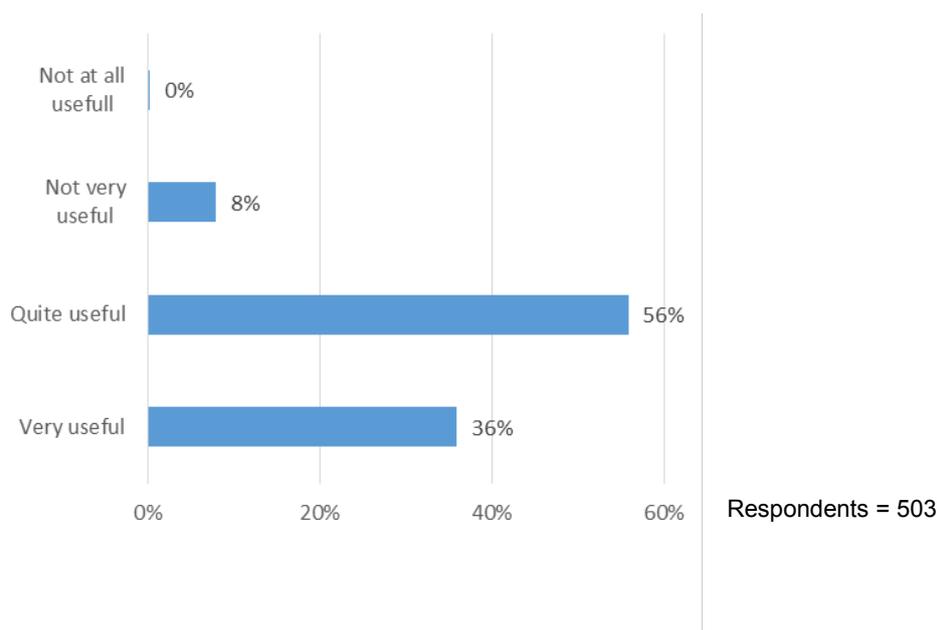
1. Does your pension provider tell you information about the costs and charges that apply to your pension without being prompted?



2. Do you understand the information that you currently receive?



### 3. How useful is this information?



### 4. What further action, if any, have you taken as a result of the information you received about the costs and charges in your pension? - Tell us what you have done with the information received

Some respondents said that following receipt of the information they had made changes:

I have transferred benefits from another more expensive scheme.

I have moved some of my investments into cheaper managed funds.

Other individuals had not changed investments, but were monitoring them more closely or adjusting their contributions.

[I] review my investment funds on a regular basis and know I am getting value for money.

[I] compare the risk and return figures for a range of investment products and saved the maximum amount into the pension to take advantage of the tax free pension allowances.

### 5. How could the information have been presented better?

Whilst some respondents said that they found the information understandable, we also received many comments about the use of jargon and information not being easily understood:

Yearly statements have reams of information that's not easy to review without knowledge of financial advisor

Some respondents said that they would prefer pounds and pence disclosure over percentages:

They talk in percentages which seem reasonable on face of it but do not say how much of contributions that is each year or how it affects invested sums.

Others had comments on the standardisation or location of the information:

I find it difficult to understand the difference between an AMC and a TER. I'd prefer to see one fee figure that I can be certain of.

I would like to be able to see the charges being applied to my account no more than one click away from the main page where information on my retirement pot is provided. I only found information on the charges when looking at my annual statement.

**6. Have you ever requested any additional information about the costs and charges in your pension?**

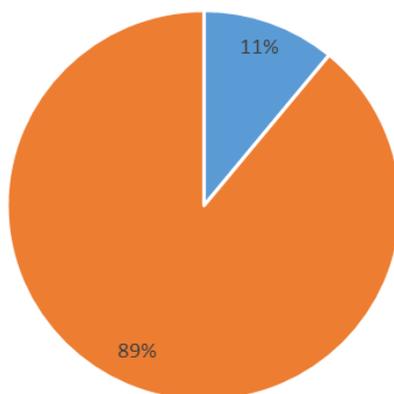
**7. Did you receive the information you requested from your pension provider?**

**8. How useful was this information?**

Most individuals had not requested additional information about costs and charges in their pension

Of those who had, most had received the information with over half of them finding it quite or very useful.

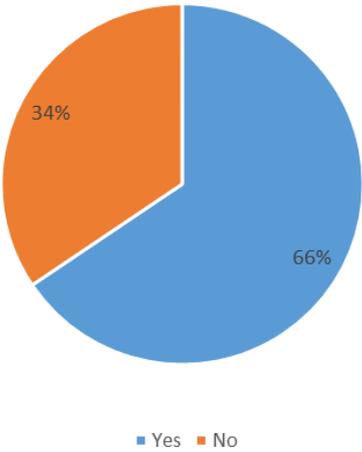
6. Have you ever requested any additional information about the costs and charges in your pension?



■ Yes ■ No

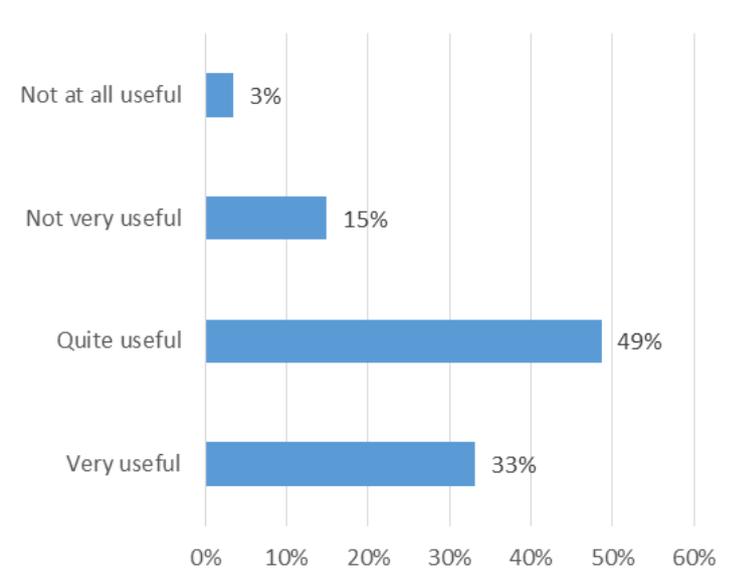
Respondents = 2218

7. Did you receive the information you requested from your pension provider?



Respondents = 238

8. How useful was this information?



Respondents = 148

**9. Please tell us more**

Some respondents' positive experiences had again inspired positive change:

It explained to me that for every £1.00 I put in, my employer contributed £1.80 (Unison the union), so I increased my payments to the maximum allowed.

They broke down the costs, enabled me to calculate the deficit and reduction in return because of costs, then on to a comparison with non-tax advantaged investments.

Others felt that they had received some of what they wanted, but gaps still remained.

Summary information was provided showing the AMC for individual funds and their annualised performance net of other expenses but no explicit detail of the other expenses was provided.

Whilst a third group had felt it to be a frustrating experience:

The customer service team did not have the charges of the 'old' plan to hand when asked. The fund fact sheet information was not correct on the website.

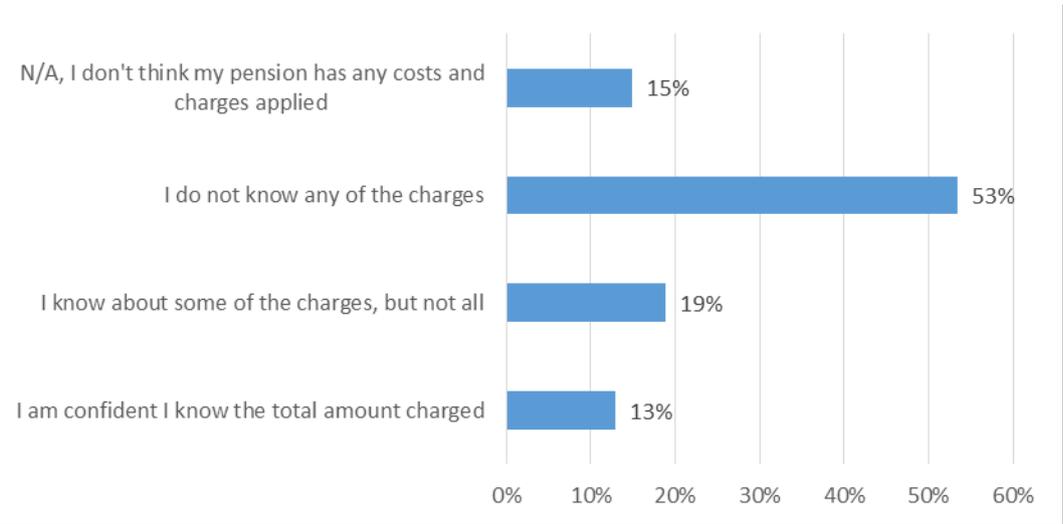
One respondent concluded that:

Currently scheme members have, in most cases, no idea that there are costs and charges applicable to their scheme; they therefore do not know that they can ask to see such information. Greater openness and transparency would enable scheme members to participate more usefully in the management of their pension assets.

**10. Please select the statement which best describes your knowledge of the total costs and charges applied to your pension.**

Only 13% of respondents said they were confident that they knew of all the costs and charges applied to their pension

The majority of respondents did not have any knowledge of the charges applied and others did not think their pension had costs and charges applied at all.



Respondents = 2050

**11. What additional information, if any, would you like your pension provider to supply about those costs and charges?**

A number of respondents said they would prefer more information on costs and charges from their pension provider. Some respondents wanted:

To be told about charges unprompted and exactly what they are for so I can make an informed decision about my pension.

Other wanted comprehensive disclosures:

Full details of all "hidden" costs including transaction fees, bid offer spreads, research fees, degree of trading activity etc.

- what charges are applied and why?
- to whom are these charges payable?
- how often are these charges levied?
- how do these charges compare with those levied by other providers?
- what governance is applied to the scheme: how can members influence the management of the scheme?

Other respondents had an interest in seeing the figures broken down more clearly.

Fund charges need to be split out from charges that the pension provider levies for administration. It needs to be made clear there are a variety of charges that can vary by fund and that these all contribute to a total annual charge. Better, though not perfect, examples are in retail investment/ISA space.

One individual said they would like to see providers “set out the potential options and costs re retirement, so that I can plan ahead and not assume that the in-house default options and fees are best value for me.”

Another respondent suggested there should be “benchmarking against charges in this sector and if there is an increase in charges explain why.”

One respondent suggested that language could be improved

At different times in my career I have been enrolled into a number of DC schemes run by different providers. I have tried to assemble an overview of the charges and restrictions that apply to the various schemes but am far from confident that I am aware of every charge or retirement provision. There doesn't appear to be a consistent language or framework for recording these features so a side by side comparison is proving quite challenging. Similarly named products are working with what must be quite different underlying assumptions and objectives.

Finally, there was a plea from the least well-informed members:

I'm not aware that I've been paying any costs or charges but if I have I would like to be informed as to what these are.

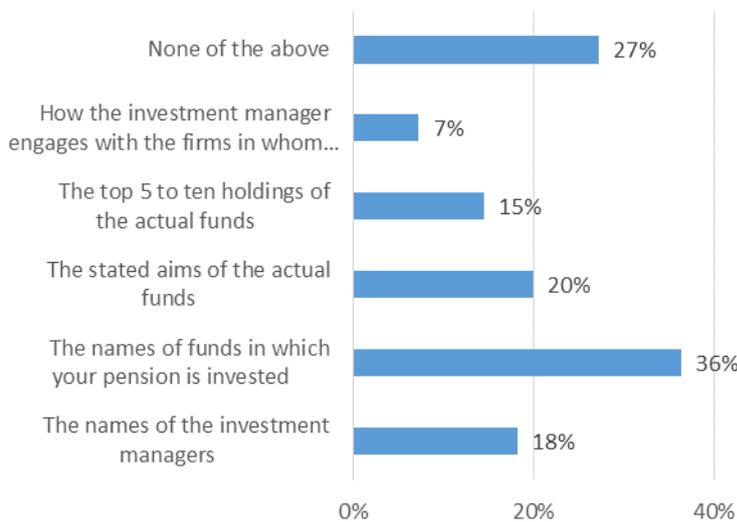
# Investment disclosure

- 1. Does your scheme provide you, without asking, any or all of the following information about the investment managers, investments and policies that apply to your pension?**
- 2. Do you understand the information that you currently receive?**
- 3. How useful is the information?**

More than a quarter of individuals were not provided pro-actively with any of the information we asked about.

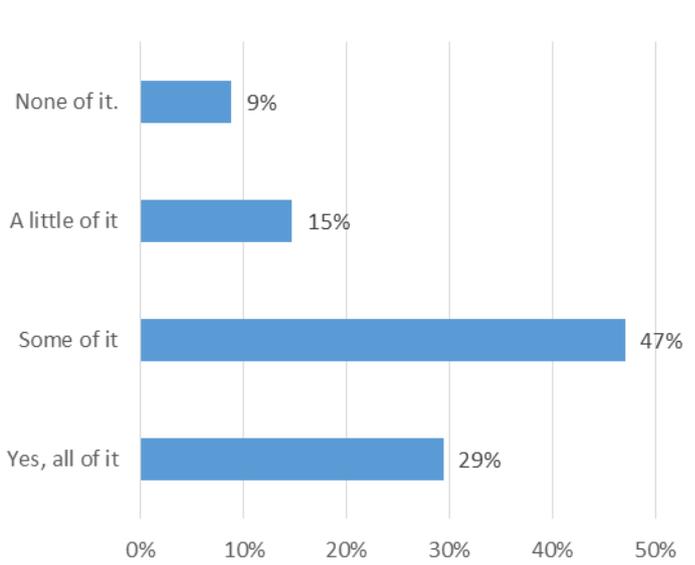
Of those who were, most of them said they understood some or all of it and that some or all of it was useful.

1. Does your scheme provide you, without asking, any or all of the following information about the investment managers, investments and policies that apply to your pension?



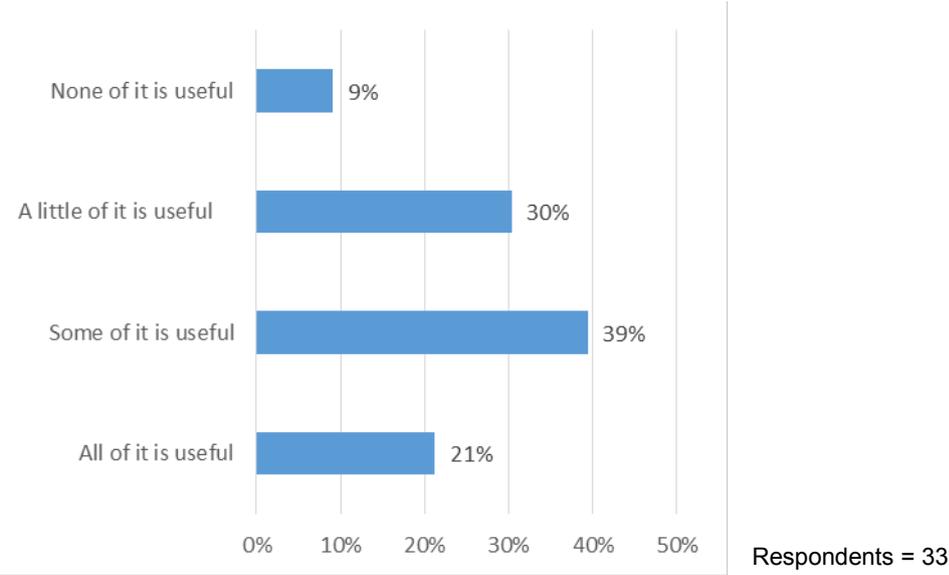
Respondents = 68

2. Do you understand the information that you currently receive?



Respondents = 34

3. How useful is the information?



**4. What further action, if any, have you taken as a result of the information you received about investments in your pension?**

Some respondents commented that they had taken further action as a result of the information they had received about investments in their pension:

I have researched the funds elsewhere.

I have swapped funds to funds with different holdings, though I had to find that information out elsewhere.

Originally I was in the default fund but I wanted to invest my money ethically so I switched to the ethical fund.

Others reported difficulties trying to obtain further information:

I clicked on the relevant links on the website of my pension provider, however the information was very vague and did not give any details about the specifics about my investments.

I want my pension to be invested ethically, so when I heard that USS was opening a couple of ethical funds as part of its DC section I wanted to find out about this. It was extremely difficult to obtain this information. As a deferred member of USS I did not have access to the members' section of the website and could not find what I needed in the public section. I had to ask USS for it explicitly. Once I had the information about the ethical criteria, I was happy to switch.. But it should have been easier to obtain this information.

For some respondents, this had had an impact on their engagement and contributions to the scheme:

I have not taken any further action. I did not feel I had enough information to take action. I have not increased the contributions to my pension scheme, although if I had more information and felt more confident and connected to my scheme, I may have done so. I am aware I should be saving more.

#### **5. How could the information have been presented better?**

Some respondents reported wanting more information:

I would like information on ALL of the options you list [in Q1 above]. However, only the name of the funds are provided in my annual statement. Without accessing the provider's online platform there is no information other than the fund name. ... It would be useful to have the charges, costs and impact listed alongside the fund name with information on where and how you can find out more, i.e. a prompt to the providers website.

Others commented on the formatting of information or the links between broader investment strategy and members' individual pension saving:

More clarity, less jargon, less length. Provided via email rather than in the post.

I am aware that my pension provider discloses a reasonable amount of information about its investment strategy. The issue is that my pension provider does not draw an easy link between this information and my actual pension pot.

Some respondents wanted to know more information about the funds their scheme was invested in, particularly around ethical and environmental investments:

There could have been significantly more information about what the funds invested in. Instead I was only given the name of the funds and the risk-level attributed to that fund.

It wasn't specific enough about how climate risks are evaluated.

I'm in the ethical fund but it's not overly clear how my money is invested. I don't know which companies I have invested in which seems quite key. According to my provider my money is invested in companies that do things like respect the environment and human rights but there is a lot of green washing out there so I would like to know who. Also to be totally honest not even sure how I would go about finding the information I want or who I would contact at my pension provider.

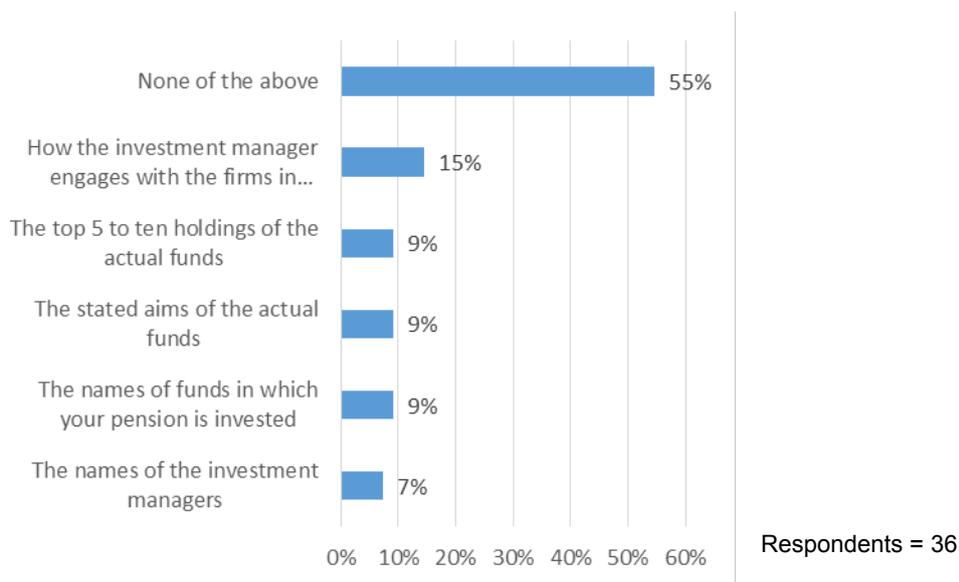
**6. Have you ever requested the following additional information about investments in your pension, beyond anything that is routinely provided by your scheme?**

**7. Did you receive the information you requested from your scheme?**

**8. If you received 'All of it', 'Some of it' or 'A little of it' how useful was this information? <sup>34</sup>**

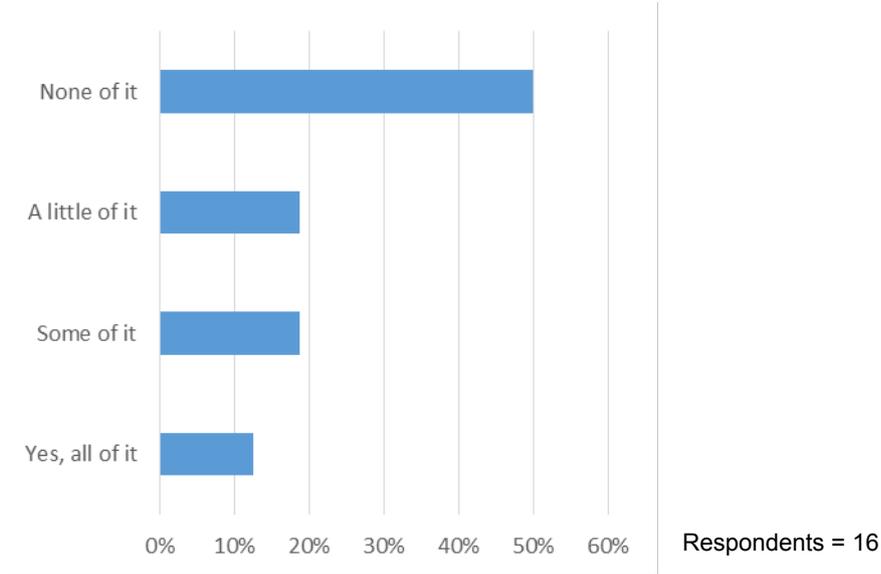
Over half of respondents have never requested the additional information about investments in their pension, beyond anything that is routinely provided by their scheme. Of those who had request additional information, half of them did not receive it. Of those who did, over half said none, or little of it was useful.

6. Have you ever requested the following additional information about investments in your pension, beyond anything that is routinely provided by your scheme?

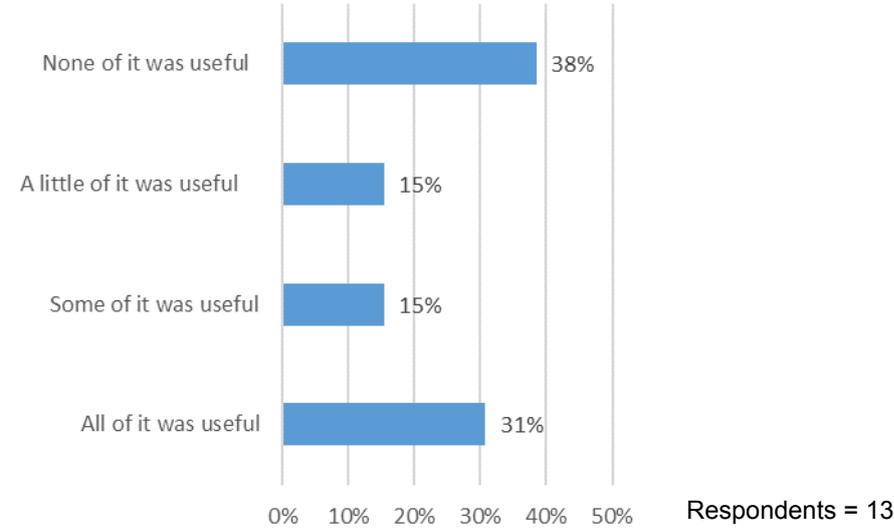


<sup>34</sup> Note: Base numbers in questions 7 and 8 of the survey are significantly lower than in questions 1 to 6, as most members did not request further information. We believe this is because most members are not told that this information is available. The measures confirmed in this consultation response will in future require this.

7. Did you receive the information you requested from your scheme?



8. If you received 'All of it', 'Some of it' or 'A little of it' how useful was this information?



**9. Please explain your views**

Some respondents commented on difficulties in obtaining information.

There is no information beyond the top ten funds available. No information was forthcoming on how the pension provider implements its responsible investment policy. There is not SMART: specific, measurable, attainable, relevant and timely data. For example, in 2016 we said we would engage on executive pay, climate change, and as a result we voted on XXX. There is no clear distinction between responsible investment, or financial ESG factors and non-financial factors, such as ethical concerns.

Others suggested layering the information:

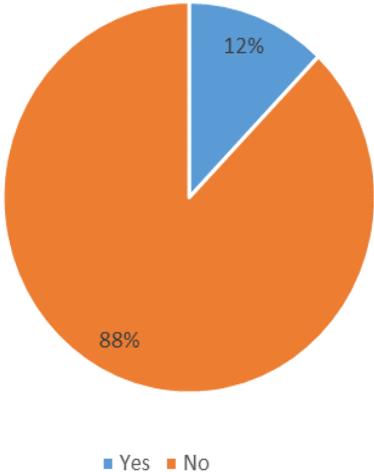
I think that DC scheme members deserve to know how their contributions are invested. I'm not sure this information should be sent in the post indiscriminately, but perhaps a small summary, and a link to a micro-site for investor engagement, could be included in the initial policy documents/members welcome, and annual valuations.

A third group commented on the broader appetite for increasing disclosures:

I appreciate not everyone will care, but a lot will. People overall are becoming more concerned about how their pensions are invested; some will just want to know their pension savings are invested wisely; others will want to know their pension savings are invested ethically/sustainably. Expectations of pension providers, and fund managers, have rightfully risen. Members deserve transparency about how their pension savings are invested, and how providers/fund managers will engage the companies invested in, where necessary.

This is an issue I am just waking up to, but in the light of climate change in particular I think it is important that all those contributing to pension funds, or drawing a pension from a fund (as I am) should automatically receive information on where their money is invested.

**10. Do you feel you know enough about investment managers, investments and policies that apply to your pension?**



Respondents = 41

**11. What other additional information would you like your pension scheme to provide about your investments?**

Some respondents were interested in much greater granularity of data being made available:

Names and details of companies and specific projects funded; details of companies and projects that managers may be linked to, or political parties they may be linked with.

USS have a whole team working on Responsible Investment but I would like to know which AGMs they attend and how they vote there. I was dismayed when I learnt a couple of years ago that USS had not agreed to co-sponsor the shareholder resolutions to Shell and BP AGMs, on the grounds that they had not previously fully engaged with these companies on all the issues mentioned in the resolutions! And yet they claim to be very involved in engagement.

Others were keen on disclosures about the investment governance arrangements of their pension scheme:

There should be transparency on how the fund managers' performance is measured against their investment mandate, and how pension provider is ensuring that investments are made for the long-term, stewarding ESG factors accordingly.

I would like the IGC to benchmark performance with other pension providers on investment return and ESG.

Others have felt misled but high level disclosures, which have resulted in a desire for much more information, to allow them to satisfy themselves that funds are invested as they would wish:

I want full disclosure of the holdings of my fund, not just the top ten companies. I chose an ethical pension because I do not want my money to be fund military or weapons. My fund said it was a fit for me on this basis - but when I combed the small print it says that no more than 10% of the fund will be invested in military or arms trade. This could still amount to billions of pounds and is simply unacceptable to me. This should be made clearer, and there should be options that meet my values and requirements.

A few respondents commented on the communications from schemes:

I want more regular communication from my pension fund about the successful engagements they've had with companies on environmental and social issues.

Everything they know should be passed on to us in very clear English, without using jargon nonsense terms we can't understand. We should automatically know what companies our money is invested in, and how these investments are doing.

I would like to know more about the investment performance of my funds as against benchmarks. Again I feel as if I have to go off searching in different documents for this information rather than this being a click away from my general fund info.

**12. Do you have any other comments on our proposals? If you have read the draft Regulations please provide your views on whether these meet the intent of our policy.**

There were several responses which were supportive of these proposed regulations:

I'm not an expert but I think they seem good and I would like to commend the DWP for taking action. One argument I've heard is that your proposals will put too much of a burden on trustees. I disagree with this. I think it is a fundamental part of their role is to ensure that savers are informed about their pension.

I think these proposals are a good step towards achieving greater awareness about our pensions, and where our money is invested. I think the proposals are workable, and won't put excessive burdens of trustees.

# Annex D – Summary of regulation changes

This Annex summarises the changes implemented by the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018, known throughout this Annex as the “Amendment Regulations<sup>35</sup>”.

## A. Charge and cost reporting

**Background, existing requirements** – The existing Administration Regulations and Disclosure Regulations<sup>36</sup> require trustees and managers to produce an annual Chair’s statement and provide it on request. Most of the existing requirements relating to the Chair’s statement are unaffected – there is no change to the following requirements.

Description	Details	Regulation
Schemes in scope	<p><b>All the changes in the Amendment Regulations apply to the same schemes as those that already have to provide a Chair’s statement</b>, i.e. an occupational pension scheme which provides money purchase benefits, except:</p> <ul style="list-style-type: none"> <li>• an executive pension scheme;</li> <li>• a relevant small scheme;</li> <li>• schemes that do not fall within paragraph 1 of Schedule 1 of the Disclosure Regulations;</li> <li>• certain public service pension schemes; and</li> <li>• schemes which provide no money purchase benefits other than benefits which are attributable to additional voluntary contributions.</li> </ul>	Administration Regulations - regulation 1 (relevant scheme)

<sup>35</sup> The Amendment Regulations amend both the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (“the Administration Regulations”) and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (“the Disclosure Regulations”).

<sup>36</sup> Regulation 23 of the Administration Regulations and Regulation 12 and Schedule 3 of Disclosure Regulations.

Description	Details	Regulation
<b>Recipients in scope</b>	<p><b>There is no change on who should receive the information given in the full Chair’s statement</b>, including:</p> <ul style="list-style-type: none"> <li>• a member or prospective member of a scheme;</li> <li>• spouse or civil partner of a member or prospective member;</li> <li>• beneficiary of a scheme;</li> <li>• recognised trade union.</li> </ul>	Disclosure Regulations - regulations 1 (relevant person) and regulation 12
<b>Timing</b>	<p><b>Existing regulations mean that a Chair’s statement has to be prepared within seven months of the end of each schemes chosen scheme year.</b></p> <p>For example if the scheme year runs from 6 April 2017 to 5 April 2018 the Chair’s statement for that scheme year will need to be provided by 5 November 2018.</p>	Administration Regulations - regulation 23(1)
<b>Information in Chair’s statement</b>	<p><b>There is no change to the following information that needs to be provided:</b></p> <ul style="list-style-type: none"> <li>• <u>Default arrangements</u></li>   <li>• <u>Requirements for processing financial transactions</u></li>   <li>• <u>Unavailable transaction cost details</u> - The requirements to calculate charges and (as far as trustees and managers are able) transaction costs in relation to each default arrangement and each fund that members are able to choose, is not changing. There is a duty to report on any transaction costs which trustees and managers are unable to obtain, and what they are doing to obtain that information in the future.</li>   <p>[<u>Note</u>: investment managers now have a duty under FCA rules to give the information to trustees and managers who have a duty to report on levels of charges and transaction costs. As before, the cost and charge information obtained from their investment managers need to be combined with other charges that it imposes on members – for example, for administration or governance. Trustees and managers will need to continue to ask for information on these charges from all service providers, irrespective of whether the charges and costs are explicitly invoiced, or (like transaction costs) deducted from the value of members’ pension pots.]</p>   <li>• <u>Value for money statement</u> - Trustees or managers will also need to continue to provide the extent to which charges and costs represent good value for members.</li> </ul>	<p>Administration Regulations - regulation 23(1)(a)</p> <p>Administration Regulations - regulation 23(1)(b)</p> <p>Administration Regulations - regulation 23(1)(c)(iii)</p>    <p>Administration Regulations - regulation 23(1)(c)(iv)</p>

**Key changes** – The key changes in the ‘Amendment Regulations’ are as follows:

Description	Details	New or amended regulation
<p><b>Coming into force – timing</b></p>	<p><b>All new charge and cost information will need to be provided by trustees or managers when their next scheme year ends on or after 6 April 2018.</b> This is:</p> <ul style="list-style-type: none"> <li>• The new information required for the Chair’s statement;</li> <li>• The publication of certain information in the Chair’s statement on a website, free of charge; and</li> <li>• Information to be included in the member’s annual benefit statement.</li> </ul> <p>[<u>Note</u>: this will mean that the first information will need to be provided by schemes with a scheme year running from 7 April 2017 to 6 April 2018 – by 6 November 2018. The last scheme to be required to provide information will be schemes who have a scheme year that runs from 6 April 2018 to 5 April 2019 – by 5 November 2019.]</p>	<p>Amendment Regulation 1(3)</p>
<p><b>Information in Chair’s statement</b></p>	<p><b>The following information requirement has changed, new details need to be provided on:</b></p> <ul style="list-style-type: none"> <li>• <u>The level of all default arrangements</u> - the level of charges and transactions applicable to each default arrangement – not a range</li> <li>• <u>The levels of all funds</u> – the levels of charges and transaction costs for each fund which the members can select – again not just a range.</li> <li>• <u>An illustrative example</u> - a new illustrative example of the cumulative effect over time of the application of charges and transaction costs on the value of a member’s accrued rights to money purchase benefits.</li> </ul> <p>[<u>Note</u>: the new provisions do not prescribe how this information should be presented. This decision is at the discretion of the trustees and managers of the scheme (although also see details on statutory guidance below). The policy intent is that it should be clear to readers how the trustees justify the transaction costs and charges incurred. Where they wish, trustees may include assessments against the investment performance of each scheme – although this is not a regulatory requirement at present.]</p>	<p>Administration Regulations – amended regulation 23(1)(c)(i)</p> <p>Administration Regulations – amended regulation 23(1)(c)(ii)</p> <p>Administration Regulations – new regulation 23(1)(ca)</p>

Description	Details	New or amended regulation
<p><b>Publicly available information</b></p>	<p><b>Certain information in the Chair’s statement will need to be publicly available, free of charge on a website.</b> This is:</p> <ul style="list-style-type: none"> <li>• The default strategy.</li> <li>• The level(s) of charges and (as far as you are able) transaction costs paid by members for each default arrangement and fund which members are able to select;</li> <li>• A statement on the unavailable transaction costs details and future steps.</li> <li>• Value for money statement.</li> <li>• An illustration of the compounding effect of costs and charges.</li> </ul> <p><u>[Note:</u></p> <p>(1) The policy intension is that this information must be publicly available and accessible by anyone who wants to search for it using an internet search engine. There is no reason why the trustee and manager however cannot publish all the information within the Chair’s statement if they wish to do so.</p> <p>(2) Trustees may also opt to direct employees of different participating employers to separate pages based on the default arrangements and other investment options which are available.</p> <p>(3) Trustees and managers must have regard to the new statutory guidance on presentation of the illustrative example and publication (see below).</p> <p>(4) Unlike some other requirements in the Disclosure Regulations there is no requirement to notify members that a website is being used for the first time where relevant signposting is included in the annual benefit statement (see below).]</p>	<p>Disclosure Regulations – new regulation 29A</p>
<p><b>Information on request</b></p>	<p><b>The information mentioned above must be provided on request where a member (or certain others) request this information in hard copy.</b></p> <p><u>[Note:</u></p> <p>(1) To limit burdens on business, trustees or managers have the discretion to consider for each request whether it is unreasonable for that person to obtain the information from the website.</p> <p>(2) Where trustees or managers conclude that they should provide the information in hard copy, they must do so within two months of the request.]</p>	<p>Disclosure Regulations – new regulation 29A</p>

Description	Details	New or amended regulation
<p><b>Annual benefit statement</b></p>	<p><b>A members' annual benefit statements must include details informing the member that this information is available, the location of the publication, how to access it and the circumstances this will be available in hard copy format.</b></p> <p>[<u>Note</u>: the policy intention is that this should take account of how the annual benefit statement is provided to the member (electronically or hard copy) and provide appropriate accessibility information.]</p>	<p>Disclosure Regulations – new paragraph 5B of Schedule 6</p>
<p><b>Statutory guidance</b></p>	<p><b>Trustees and managers will need to have due regard to new statutory guidance.</b></p> <p>This is the “Cost and Charge reporting: guidance for trustees and managers of defined contribution occupational schemes”) and published on Gov.uk. Trustees and managers must have regard to the guidance on both the production of the new illustration and the publication of the information on a website.</p> <p>[<u>Note</u>: the guidance sets out minimum standards and the guidance otherwise leaves is open to trustees and managers interpretation to decide how, consistently with their legal obligations, to implement the requirements of the legislation based on the needs of their membership.]</p>	<p>Administration Regulations – new regulation 23(1A)</p> <p>Disclosure Regulations - new regulation 29A(3)(b)</p>

## B. Investment reporting

**Key changes** – The amendments on investment reporting are new requirements, as follows:

Description	Details	New or amended regulation
<b>Coming into force – timing</b>	<b>All new investment information will need to be provided by trustees or managers from 6 April 2019 onward.</b>	Amendment regulation 1(2)
<b>Schemes in scope</b>	<p><b>The new investment reporting applies to the same schemes as those who need to provide a Chair’s statement</b>, i.e. an occupational pension scheme which provides money purchase benefits, except:</p> <ul style="list-style-type: none"> <li>• an executive pension scheme;</li> <li>• a relevant small scheme;</li> <li>• schemes that do not fall within paragraph 1 of Schedule 1 of the Disclosure Regulations;</li> <li>• certain public service pension schemes; or</li> <li>• schemes which provide no money purchase benefits other than benefits which are attributable to additional voluntary contributions.</li> </ul>	<p>Disclosure Regulations – new regulation 12A</p> <p>Administration Regulations - regulation 1 (relevant scheme)</p>
<b>Requesters in scope</b>	<b>Information can be requested from a member or recognised trade union on behalf of the member.</b>	Disclosure Regulations – new regulation 12A
<b>Investment information on request</b>	<p><b>Information must be provided, within 2 months of a request.</b></p> <p>[<u>Note</u>: to limit burdens on business only one request in a six month period needs to be provided.]</p>	Disclosure Regulations – new regulation 12A

Description	Details	New or amended regulation
<p><b>Details of investment information to be provided</b></p>	<p><b>In relation to the pooled funds in which the members money purchase benefits are invested, a statement identifying:</b></p> <ul style="list-style-type: none"> <li>• <b>the international securities identification number (ISIN) for each collective investment scheme in which assets are directly invested or indirectly invested if via a unit-linked contract; and</b></li> <li>• <b>the name of each of the above collective investment schemes.</b></li> </ul> <p><u>[Note:</u></p> <p>(1) This information must be no more than six months out of date at the point of request.</p> <p>(2) The information must relate to the investment options in which the member is invested at the time of their request (rather than those in which they were historically invested over the previous scheme year).]</p>	<p>Disclosure Regulations – new paragraph 35 of Schedule 3</p>
<p><b>Annual benefit statement</b></p>	<p><b>A members' annual benefit statement must include details informing the member how to obtain this information.</b></p>	<p>Disclosure Regulations – new paragraph 5A of Schedule 6</p>

**Please note the information contained in this Annex does not constitute legal advice nor substitute the relevant Regulations or advice from trustees or administrators own legal representatives.**