Department for Work & Pensions

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# Landscape and Charges Survey 2013: Charges and quality in defined contribution pension schemes

February 2014

Research Report No 859

A report of research carried out by RS Consulting on behalf of the Department for Work and Pensions



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# Summary

This report provides the findings of a study commissioned by the Department for Work and Pensions (DWP), designed to explore charging levels and structures in trust- and contract-based pension schemes, and to understand the characteristics of schemes that maximise the chance of better outcomes for members.

The research comprised a combination of quantitative research with private sector employers offering a defined contribution (DC) workplace pension, supplemented by qualitative and administrative data supplied by providers and other industry participants:

- 593 telephone interviews with **trust-based schemes** with six or more members, which are open to new members, and where the employer makes a contribution;
- 717 telephone interviews with **contract-based schemes** with six or more members, which are open to new members, and where the employer makes a contribution;
- **qualitative interviews** and focus groups with 11 of the Top 20 contract-based pension scheme providers in terms of market share, and 14 intermediaries.

The same robust survey methodology was used in DWP's 2011 Charges survey.

## Key findings

The average annual management charge (AMC) for trust-based schemes was 0.75 per cent of the fund per year; this had not changed significantly since 2011, when the AMC was reported as 0.71 per cent overall. Among contract-based schemes the average AMC had fallen slightly from 0.95 per cent in 2011 to 0.84 per cent in 2013.

Providers and advisers agreed that high charges could have a major impact on member outcomes over the lifetime of a pension. However, most providers insisted that charges on new schemes were now at an historic low and argued against lowering them further, except on older schemes with very high charges.

The research also explored the ways in which scheme governance, investment governance and scheme administration could drive better member outcomes. It was seen as vital that those responsible for governance should be skilled and engaged with their scheme, and should meet regularly to assess its performance and objectives.

Advisers also underlined the importance of good administration in driving positive member outcomes, and some felt that increased use of electronic data processing was central to maintaining high standards of accuracy.

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# List of abbreviations

| | |
|---|---|
| **AMC** | Annual Management Charge |
| **AMD** | Active Member Discount |
| **CATI** | Computer-aided Telephone Interviewing |
| **DB** | Defined benefit |
| **DC** | Defined contribution |
| **DWP** | Department for Work and Pensions |
| **EBC** | Employee Benefits Consultant |
| **FCA** | Financial Conduct Authority |
| **GPP** | Group Personal Pension |
| **GSHP** | Group Stakeholder Pension |
| **GSIPP** | Group Self-invested Personal Pension |
| **IFA** | Independent Financial Adviser |
| **NEST** | National Employment Savings Trust |
| **OFT** | Office of Fair Trading |
| **ONS** | Office for National Statistics |
| **PTR** | Portfolio Turnover Rate |
| **RDR** | Retail Distribution Review |
| **SIPP** | Self-invested Personal Pension |
| **SPA** | State Pension age |
| **SSAS** | Small Self-administered Scheme |
| **TCF** | Treating Customers Fairly |
| **TER** | Total Expense Ratio |
| **TPR** | The Pensions Regulator |

# Glossary of terms

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| **Active member** | For **defined contribution** pension schemes this is a **member** who is currently making contributions into the scheme. For **defined benefit** pension schemes this is a member who is currently accruing benefits in the scheme. |
| **Active Member Discount (AMD)** | A charging model that some **providers** may apply to members of a particular pension scheme. Under this model, **active members** of that scheme pay a lower **annual management charge** than **deferred members**. |
| **Administration** | For the purposes of this research, we define pension scheme administration as the process of keeping track of all **member** data that is important to the functioning of a pension scheme, and identifying and correcting any errors in the data. |
| **Annual Management Charge (AMC)** | A charge levied annually by a pension provider on a member's **pension fund** to cover the costs associated with providing that pension scheme. The charge is usually levied as a percentage of the total fund value. |
| **Automatic Enrolment** | Pension scheme enrolment technique whereby an employer enrols eligible jobholders in the **workplace pension** scheme 'automatically' – i.e. without the jobholder having to make a separate application for membership. Individuals who are automatically enrolled are free to opt out or cease active membership, but need to take action to do so. |
| **Commission-based** | In the context of this study, an **intermediary** that charges the **provider** commission, based on the pensions products that are sold. The basis for the commission is individually negotiated between the provider and the intermediary. The provider usually attempts to recover the cost of this commission by increasing the value of the **AMC** applied to the member's fund. Under new regulations introduced as part of the **Retail Distribution Review (RDR)**, new products sold since 31 December 2012 may not be sold on a commission basis, but commission may continue to be received on products sold before then. |
| **Contract-based pension** | A **defined contribution** pension scheme purchased by an individual, either through their employer or individually, from a pension provider. It is owned entirely by the individual with the contract existing between the individual and the pension provider. |

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| **Contribution charge** | Contribution charges are levied as a percentage of each contribution paid into an individual's pension pot. Unlike an **AMC**, once the contribution, net of the charge, has reached the member's pension pot, no further charges are levied on it. |
| **Defined benefit (DB) scheme** | A **trust-based pension** scheme that provides benefits based on a formula involving how much a person is paid at retirement (or how much a person has been paid on average during their membership of the scheme) and the length of time they have been in the pension scheme. |
| **Defined contribution (DC) scheme** | A **trust-based** or **contract-based** pension scheme that provides pension scheme benefits based on the contributions invested, the returns received on that investment (minus any charges incurred) and the rate at which the final pension fund is annuitised. |
| **Default fund** | The pre-assigned fund or funds into which a member's contributions are invested, if no decision is made by the individual regarding which funds they wish their contributions to be invested in. |
| **Deferred member** | For **defined contribution** pension schemes this is a **member** who no longer contributes to the scheme but has not yet begun to receive retirement benefits from that scheme. |
| **Employee benefits consultant (EBC)** | An adviser, or firm of advisers, that advises employers on employment benefits packages that it might offer to its employees, including pensions and other benefits. |
| **Fee-based** | In the context of this study, an **intermediary** that charges the employer a fee for their services. The terms, basis, duration and frequency of the fee are individually negotiated. |
| **Fund manager** | A person or organisation appointed to make and implement day-to-day investment decisions for some or all of a pension scheme's assets. |
| **Governance** | The management processes that are in place to ensure that a pension scheme is well managed and members' interests are met (**scheme governance**), and that a scheme is invested appropriately (**investment governance**). |
| **Group Personal Pension (GPP)** | An arrangement made for the employees of a particular employer, or for a group of self-employed individuals, to participate in a personal pension scheme on a grouped basis. |

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| **Group Self-invested Personal Pension (GSIPP)** | An arrangement made for the employees of a particular employer, or for a group of self-employed individuals, to participate in a **Self-invested Personal Pension** scheme on a grouped basis. |
| **Group Stakeholder Pension (GSHP)** | A **personal pension** that was required to meet certain legislative conditions including an AMC of no more than 1.5 per cent. Prior to the **workplace pension** reforms, employers with five or more employees who did not already offer a pension scheme were required to offer a GSHP. |
| **Hybrid scheme** | A private pension scheme which is neither pure **defined benefit** nor **defined contribution** arrangement. Typically a hybrid scheme is a defined benefit scheme, which includes elements of defined contribution pension design. |
| **Independent financial adviser (IFA)** | An adviser, or firm of advisers, that is in a position to review all the available products and companies in the market as the basis for recommendations to clients. All IFAs are regulated directly by the Financial Conduct Authority. |
| **Insurer-administered scheme** | In the context of this report, this refers to **trust-based** schemes that are offered through a single pension provider or insurance company. |
| **Intermediary** | An adviser, or firm of advisers, that is in a position to review all the available products and companies in the market as the basis for recommendations to clients. |
| **Investment governance** | See **governance**. |
| **Master trust** | A multi-employer **occupational pension** scheme, which a pension provider manages under a single account. The **trustees** of the scheme are professionals that are usually employed by the provider. The National Employment Savings Trust is an example of a master trust. |
| **Member** | A person who has joined a pension scheme and who is entitled to benefits under it. |
| **National Employment Savings Trust (NEST)** | An **occupational pension** scheme, formerly known as Personal Accounts, established by legislation. NEST is aimed at eligible jobholders on moderate to low incomes, who do not have access to a good-quality **workplace pension**. |
| **Occupational pension** | See **Trust-based pension**. |
| **Open scheme** | A pension scheme that admits new active members. |
| **Pension fund** | The assets that form a pension scheme. |
| **Personal pension** | See **Contract-based pension**. |

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| **Portfolio Turnover Rate (PTR)** | A measure of how frequently assets within a fund are bought and sold by the managers. Portfolio turnover is calculated by taking either the total amount of new securities purchased or the amount of securities sold – whichever is less – over a particular period, divided by the total net asset value of the fund. The measurement is usually reported for a 12-month time period. |
| **Provider** | An organisation, usually a bank, life assurance company or building society that sets up and administers a pension scheme on behalf of an individual or trust. |
| **Retail Distribution Review (RDR)** | The RDR was launched in June 2006 by the Financial Conduct Authority (FCA) in response to problems in the market for retail investment advice. The RDR aims to ensure that consumers are offered a transparent and fair charging system for the advice they receive; consumers are clear about the service they receive; advisory firms are more stable and better able to meet their liabilities; and consumers receive advice from highly respected professionals. Most RDR-related rules took effect from 31 December 2012. |
| **Scheme administration** | See **Administration**. |
| **Scheme governance** | See **Governance**. |
| **Self-invested Personal Pension (SIPP)** | A **personal pension** scheme under which the **member** has some freedom to control investments. The requirements governing SIPPs are set out in the Personal Pension Schemes (Restriction on Discretion to Approve) (Permitted Investments) Regulations 2001. |
| **Small Self-administered Scheme (SSAS)** | A special type of small, **trust-based DC pension**, set up for a small group of key staff, usually directors or key employees, within which every member is a **trustee**. |
| **Third-party administrator** | An external organisation that is responsible for the day-to-day administration around processing pension scheme transfers, on behalf of a provider. |
| **Total Expense Ratio (TER)** | A measure of what it costs an investment company to operate a fund. The TER is determined through an annual calculation, where a fund's operating expenses are divided by the average value of its assets under management. |

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| **Treating Customers Fairly (TCF)** | A set of principles established by the Financial Conduct Authority (FCA), outlining how financial services firms must be able to demonstrate that they are consistently delivering fair outcomes to consumers; and that senior management are taking responsibility for ensuring the firm and staff at all levels deliver the consumer outcomes relevant to their business through establishing an appropriate culture. |
| **Trust-based pension** | A pension scheme taking the form of a trust arrangement, which means that a board of **trustees** is set up to govern the scheme. Benefits can be either **defined contribution** or **defined benefit**. |
| **Trustee** | An individual or company appointed to govern a **trust-based** scheme, in accordance with the provisions of the trust instrument, the legal document that sets up, governs or amends the scheme, and general provisions of trust law, for the benefit of scheme **members**. |
| **Unbundled scheme** | In the context of this report, this refers to **trust-based** schemes where the **trustees** work with a range of different **providers** or investment managers to administer the scheme. |
| **Unit reconciliation** | The process of ensuring that the number of units that an individual has purchased in a particular **pension fund** matches the number of units attributed to them by the **provider**. |
| **Workplace pension** | Any pension scheme provided as part of an arrangement made for the employees of a particular employer. |
| **Workplace Pension Reforms** | The reforms introduced as part of the Pensions Act 2008 (and updated as part of the Pensions Act 2011): the measures include a duty on employers, starting in 2012 and on a rolling-programme basis, to **automatically enrol** all eligible jobholders into an automatic enrolment pension scheme. |

# Reporting conventions

Chapters 1 to 8 of this report explore pension scheme charges based primarily upon the results of a quantitative survey with employers. Because trust-based schemes and contract-based schemes operate under quite different structures and have different charging levels, results for trust-based schemes and contract-based schemes are shown separately.

The survey is weighted in such a way that it gives equal weight to every trust-based and contract-based pension scheme in the country. Where we present average figures for all schemes, this figure will be close to the average for smaller schemes, because the number of smaller schemes in the market far outweighs the number of larger schemes.

A number of providers were interviewed qualitatively on the same subject and provided some supporting data on charges, to give context to the results from the employer interviews.

In tables based on data from the quantitative (employer) survey, the following conventions are used when displaying results:

- Non-italic denotes a statistically significant difference against all except that sub-group
- Italic denotes a statistically insignificant difference against all except that sub-group
- [ ] percentages based on fewer than 50 observations
- * a result of less than 0.5 per cent
- 0 no observations
- – category not applicable

The base, or number of respondents (unweighted), is shown beneath each table. In most questions, the base of the question represents all respondents that were asked that question: respondents that answered ‘don’t know’ or could not give an accurate answer are included as discrete categories in tables and in percentage calculations, because we believe it is important for the reader to understand where there was uncertainty, or lack of knowledge, about particular subject areas.

The exception to this is where tables show averages (for example, Table 3.1 in Chapter 3 shows average employer and employee contributions in trust-based schemes). In these cases, the base excludes those answering ‘don’t know’, and the percentage answering ‘don’t know’ is shown in the footer of the relevant table.

Results in tables based on the employer surveys are tested to a confidence interval of 95 per cent. Thus, if a result in a table is shown as statistically significant, there is just a five per cent chance that the difference could have happened by chance.

Charts that compare results from the 2011 Charges survey[1] to this survey show statistically significant changes from 2011 to 2013 via an arrow: either ↑ or ↓. The same robust survey methodology has been used as in the 2011 survey, which allows for a statistical comparison of results between the two waves.

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[1] Wood, A., Wintersgill, D. and Baker, N. (2012). *Pension landscape and charging: Quantitative and qualitative research with employers and pension providers*, Department for Work and Pensions. Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/193451/rrep804.pdf

Data given to us by providers as part of the qualitative research exercise is occasionally also presented in table format. However, this data is not representative of the whole market, because not all providers were able to give a breakdown of their charges, and such data should consequently be treated as indicative only. Where this applies, this is explained clearly below each relevant table.

# Executive summary

## Introduction

This report provides the findings of a study commissioned by the Department for Work and Pensions (DWP), designed to explore charging levels and structures in trust- and contract-based pension schemes, and to understand the characteristics of schemes that maximise the chance of better outcomes for members.

## Background

Automatic enrolment is a response to some of the key challenges facing the UK pensions system, and ultimately the issue of millions of individuals in the UK not saving enough for their retirement. Once fully implemented, automatic enrolment is intended to increase the number of individuals newly saving – or saving more – in a workplace pension by around eight million, within a range of six to nine million.

The Government has put measures in place to help support existing pension provision in light of automatic enrolment, and has made a commitment to monitor its possible impacts. As part of DWP's ongoing workplace pension reform research programme, this study was designed to examine charges and quality in trust- and contract-based workplace pension schemes.

## Scope of the research

The research comprised a combination of quantitative research with private sector employers offering a defined contribution (DC) workplace pension, supplemented by qualitative and administrative data supplied by providers and other industry participants. The charges survey was split into three parallel elements:

- **Trust-based DC schemes**: 593 telephone interviews with trust-based schemes with six or more members, which are open to new members, and where the employer makes a contribution.
- **Contract-based schemes**: 717 telephone interviews with contract-based schemes with six or more members, which are open to new members, and where the employer makes a contribution.
- **Contract-based pension providers**: Qualitative interviews with 11 of the Top 20 contract-based pension scheme providers in terms of market share.

The same robust survey methodology has been used as in DWP's 2011 Charges survey[2], which has allowed us to examine how charging levels have changed since 2011.

In addition, to explore the subject of pension scheme quality and the characteristics that maximise the likelihood of better outcomes for members, qualitative interviews and focus groups were conducted with the 11 pension providers that took part in the Charges survey, as well as 14 intermediaries of all sizes.

[2] ibid.

# Key findings

## Charges paid by scheme members

In most DC pension schemes, members are required to pay an annual management charge (AMC), which covers the costs that the pension provider incurs in setting up and running the pension scheme, and in some cases, commission paid to an intermediary.

The most common approach to charging was where members paid a fixed percentage of their total pension fund to the provider per year. The average AMC for trust-based schemes was 0.75 per cent of the fund per year; this had not changed significantly since 2011, when the AMC was reported as 0.71 per cent overall. Among contract-based schemes the average AMC had fallen slightly from 0.95 per cent in 2011 to 0.84 per cent in 2013.

The key determinants of the AMC were:

- **size of the scheme**: Members of smaller schemes (12 to 99 members) paid a higher than average AMC in both trust-based and contract-based schemes, of 0.91 per cent. In contrast, members of larger schemes paid significantly below the average: those in the largest schemes of 1,000 members or more paid an average of only 0.42 per cent in trust-based and 0.51 per cent in contract-based schemes;
- **commission**: Where a commission-based adviser was used, this led to an average increase in the AMC paid by members of trust-based schemes of 0.4 percentage points[3]; and in contract-based schemes of just under 0.2 percentage points[4];
- **contributions**: Higher contributions, which were driven both by salary and the percentage of salary contributed to the pension by employers, led to a lower AMC being paid by members;
- **scheme age**: Older schemes tended to charge more. The average AMC for trust-based schemes that were set up before 1991 was 0.81 per cent; this decreased to 0.71 per cent for schemes set up in 2001 or later. Similarly, the average AMC for contract-based schemes that were set up before 1991 was exactly 1.0 per cent; this decreased to 0.80 per cent for schemes set up in 2001 or later.

## Fees paid for advice and other services

Around two-thirds (64 per cent) of trust-based schemes reported that they had used an adviser in relation to their scheme in the past year. Their likelihood of having done so increased with scheme size: 85 per cent of trust-based schemes with 1,000 members or more reported using an adviser, compared to only 44 per cent of the smallest schemes.

While a similar proportion of contract-based and trust-based schemes used an adviser, employers with contract-based schemes were more likely to use commission-based advice (41 per cent of contract-based schemes, compared to 25 per cent of trust-based schemes that used a commission-based adviser).[5]

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3 In trust-based schemes using fee-based advisers, the AMC was 0.57 per cent; whereas the average AMC for commission-based schemes was 0.97 per cent.

4 In contract-based schemes using fee-based advisers, the AMC was 0.73 per cent; whereas the average AMC for commission-based schemes was 0.89 per cent.

5 Under new regulations introduced as part of the Retail Distribution Review (RDR), new products sold since 31 December 2012 may not be sold on a commission basis, but commission may continue to be paid by the provider on products sold before then.

Where employers with a trust-based scheme paid a fee for advice, this was £180 per active member on average, while those with contract-based schemes paid £140 on average. Larger schemes paid less on a per member basis, and almost all employers claimed that such fees were never passed onto members.

Almost half of trust-based schemes (45 per cent) used one or more additional services in conjunction with the pension scheme, with larger schemes more likely to use a wider range of services, auditors and accountants being the most commonly-used service, used by 40 per cent of schemes; followed by solicitors and legal advisers, used by 21 per cent. Where employers with trust-based schemes did pay for additional services, they had spent an average of £300 per member on these in total in the previous year. Again, almost all employers claimed that such fees were never passed onto members.

## Additional charges for specific funds

While providers typically set the basic AMC, normally paid by the majority of a scheme's members, there were circumstances under which some members of a particular scheme might pay higher charges than others.

Most commonly this happened where a member chose to invest in certain funds other than the default fund. The vast majority of contract-based pensions and two-thirds of trust-based schemes offered members a choice of funds, although most scheme members tended to invest only in the default fund, which did not carry additional charges: providers themselves pointed out that between 80 and 95 per cent of members of contract-based schemes were invested in such funds.

Under half (41 per cent) of trust-based schemes and just under one third (32 per cent) of all contract-based schemes reported that members would have to pay additional charges for certain fund choices. It was extremely rare for members to have to pay any charge for the actual process of fund switching, however.

## Member specific discounts and other member-specific charges

Some providers offered lower AMCs to members currently making contributions into the scheme (active members) than to members no longer making contributions (deferred members). Three per cent of trust-based and ten per cent of contract-based schemes reported that they operated on the basis of such Active Member Discounts (AMDs). On average, deferred members were said to be charged 0.38 per cent more than active members.

A very small minority of trust-based schemes (three per cent) said their members with larger pension funds received a discount off the AMC, while a slightly higher proportion of contract-based schemes reported this (eight per cent). The average discount was 0.17 per cent off the AMC, which was typically applied where the member's fund value was above either £25,000 or £50,000.

Other member-specific charges, including member joining fees, charges for transfers in or out of the scheme, higher charges in the early years of an individual's scheme membership and discounts for high contributions were all reported as being extremely rare by both employers and providers.

## Reviewing employers' pension provision

Almost half (44 per cent) of employers with trust-based schemes of 1,000 members or more had already begun automatic enrolment at the time of interview, compared to 38 per cent of employers with contract-based schemes of 1,000 members or more.

Of these employers who had begun automatic enrolment, many had reviewed their provider as part of this process (57 per cent of trust-based schemes and 90 per cent of contract-based). But fewer had reviewed and switched provider as part of the process (nine per cent of trust-based and 26 per cent of contract-based).

Among the non-automatic enrolment schemes, 80 per cent of employers with trust-based schemes and 79 per cent of with contract-based schemes had reviewed whether their current pension provision was suitable for their needs at some point in the past (around half of employers had done so in the previous 12 months). But in total, only 11 per cent of employers in trust-based and 20 per cent of employers in contract-based schemes who reviewed their provision actually switched provider as a result of this.

Of the small proportion of employers in trust-based schemes who did switch provider, 26 per cent said charges were 'very important' in their decision. Charges played a more significant role in the decision of employers with contract-based schemes to change provider, with almost half (49 per cent) saying charges were 'very important' in their decision to switch.

## The relationship between charges and scheme quality

In our interviews with providers and advisers, most agreed that high charges could have a major impact on member outcomes over the lifetime of a pension, particularly in an environment of low investment returns. However, most providers insisted that charges on new schemes were now at an historic low and argued against lowering them further, except on older schemes with very high charges.

Providers felt that higher charges sometimes allowed them to offer a range of higher quality services, which could help drive member engagement. A few providers described anecdotally how charging a bit more allowed them to devote more resources to nurturing employer and member relationships, for example, by spending more money on producing high-quality communications.

Some advisers shared providers' views that there was more to picking an appropriate scheme than simply identifying the one with the lowest charges. While they always took charges into consideration when researching the market, they looked primarily at how different charges would deliver value for money. Advisers did not agree on a specific list of services for which it was worth paying more, but explained in broad terms that they would recommend a higher-priced scheme if they felt that it was better suited to the employer's and members' individual objectives.

Many advisers – and providers themselves – felt, however, that providers' charging structures could be too complex and inconsistent for them to perform this task effectively, and that this could be a barrier to fostering transparency and trust in the industry. They suggested that creating a straightforward way to compare charges across providers would help to achieve this goal.

Some also questioned the fairness of AMDs. While some providers felt that AMDs helped to encourage persistency and members' continuing to save, a number of advisers reported that members were not always aware that their charges could go up if they left their employer and considered this kind of discount to be increasingly problematic, given that there was a growing trend of people changing employers multiple times during their working life.

## Charges and employer size

Providers and intermediaries agreed that charges were heavily dependent on the size of the employer, with members at larger employers usually benefiting from lower charging levels, due to the economies of scale associated with processing a larger membership. The vast majority could not see a way of changing this situation to the benefit of members, arguing that providers would not have an incentive to take on smaller employers if very low charges made smaller schemes unprofitable.

It was therefore expected to be cost-effective for smaller employers to choose either a large contract-based group personal pension (GPP) or a master trust.

Providers and intermediaries disagreed as to whether master trusts or GPPs offered members at smaller employers better value for money. Several master trusts offered members a flat-rate AMC regardless of employer size and were therefore perceived to be an attractive option for smaller employers. However, some master trusts did charge members at smaller employers more, reportedly because the provider incurred fixed costs in setting up a new employer to use the master trust, and in operating a trust-based governance structure.

Providers disagreed as to whether the system of charging a flat rate was fairer: while some felt that members should not be penalised because they happened to work for a smaller employer, others argued that since it was cheaper to process a large membership en masse, the larger employer should reap the rewards of this greater degree of efficiency.

## Scheme governance

Providers and the largest intermediaries (known as employee benefits consultants (EBCs)) saw scheme governance as key to ensuring good member outcomes; whereas smaller independent financial advisers (IFAs) saw scheme governance as a hygiene factor, and rarely questioned providers' governance processes. These IFAs worked predominantly with large, leading providers and tended to assume that such providers governed their schemes to a high standard unless they saw any evidence to the contrary.

Providers and intermediaries felt that it was crucial for trustees to have the appropriate level of skill and engagement to govern schemes effectively. Many felt that employer-based trustees had a positive impact on member outcomes, because they were likely to scrutinise their own scheme's structure and performance on a continuous basis, as well as nurture member engagement with the pension scheme. Nevertheless, some providers were concerned that there was not sufficient regulation of trust-based schemes, and felt that some trustees, particularly those governing smaller schemes, could lack the necessary skills to do so. They were nevertheless sceptical about whether any kind of minimum qualification would do much to address this.

Some providers and intermediaries therefore suggested that master trusts might be a good alternative for members at smaller employers. In particular, those master trusts whose charges were the same across the entire membership were seen to offer the high quality governance of a large provider, which a small employer might not otherwise be in the position to afford.

GPP providers reported that they governed their own scheme via one or more internal committees, which would sometimes contain one or two independent members, such as an actuary, to scrutinise the provider from an external perspective. Some providers insisted that the schemes they actively marketed offered levels of governance that were as good as those of trust-based schemes, benefiting from their professional expertise and guided by the FCA's Treating Customers Fairly (TCF) principles.

Others noted, however, that the committees responsible for contract-based schemes might not behave in as impartial a way as trustee bodies, since they were not truly independent. In addition, some providers noted that older contract-based schemes that had been set up several years in the past and were no longer open to new members would often be reviewed by providers less frequently, potentially not benefiting from the same level of systematic and regular governance. This was despite the fact that the TCF principles also applied to these older schemes.

## Investment governance and default options

Both providers and intermediaries felt that investment governance was a key factor in driving positive member outcomes, stating that it was vital to design an investment strategy that was appropriate for the membership profile. Most default options actively marketed by providers now were seen as a safe and appropriate approach for most members, and were heavily influenced by DWP's default option guidance; although some older schemes were seen as offering greater risks to members.

The majority recommended that those governing the default fund should meet at least quarterly to assess investment performance, and review the overall scheme objectives at least every three years; but warned against reacting over-sensitively to market fluctuations by attempting to change strategy on too frequent a basis.

Traditional and master trusts were seen to offer a particular regulatory advantage over contract-based schemes if a default option strategy were to be changed: trustees could take the decision to move members out of a particular default fund if this was deemed to be in members' best interests; whereas in a contract-based scheme, this could not be done without the member's permission.

## Scheme administration

Both EBCs and IFAs underlined the importance of good administration in driving positive member outcomes. Most providers were confident that their own administration processes were effective. However, EBCs and IFAs felt that certain providers that used paper-based processes, particularly when receiving membership data, could often suffer from data entry errors. They singled out providers whose schemes were closed to new business as committing this kind of error more frequently, as they reportedly lacked an incentive to modernise their procedures.

The majority warned that poor communication with employers or members could also have an impact on administrative data, with such mistakes in administration potentially undermining a provider's ability to communicate and build trust with the member. Conversely, several providers felt that administrative errors were often the result of employers failing to give them complete and up-to-date information.

Almost all agreed, however, that increased use of electronic data processing had meant that such issues were becoming rarer, and had improved transparency and communication with members.

# 1 Introduction

This report provides the findings of a study commissioned by the Department for Work and Pensions (DWP), designed to explore charging levels and structures in trust- and contract-based pension schemes, and to understand the characteristics of schemes that maximise the likelihood of better outcomes for members. This chapter introduces the relevant policy background and the objectives of the research, as well as describing the methodological approach taken.

## 1.1 Background

Automatic enrolment is a response to some of the key challenges facing the UK pensions system and ultimately the issue of millions of individuals in the UK not saving enough for their retirement. Once fully implemented, automatic enrolment is intended to increase the number of individuals newly saving – or saving more – in a workplace pension by around eight million, within a range of six to nine million. DWP estimates that by the end of staging in February 2018, around 11 million workers will have been automatically enrolled into a workplace pension scheme.[6]

The workplace pension reforms will require employers to automatically enrol all eligible workers[7] aged between 22 and State Pension age (SPA) into a workplace pension scheme. The worker is able to choose to 'opt out': that is, to leave the scheme within one month of being automatically enrolled. The new employer duties are being introduced between October 2012 and February 2018, with the largest organisations, implementing automatic enrolment first.

## 1.2 Research objectives

The Government has made a commitment to monitor the possible impacts of the reforms on the pensions industry. The DWP commissioned this study to measure a range of key indicators across the defined contribution (DC) pensions landscape before the reforms were implemented. The results will be used in monitoring the charging structures, types and levels of charges in contract- and trust-based pension schemes.

The survey was designed to:

- monitor charging structures, types and levels in trust-based and contract-based schemes;
- understand the extent and nature of additional and ad hoc scheme charges, and charges paid to intermediaries and other third parties;

6 DWP (2012). *Workplace Pensions Reform: estimates of the number of employees automatically enrolled by May 2015*. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/222946/WPR_Staging_Profile_updated_250113.pdf

7 Workers will be eligible if they are at least 22 and under State Pension age, and earn over £9,440 per year (in 2013/14 terms). This is known as the 'earnings trigger'. In 2012, the earnings trigger was £8,105.

- assess whether there has been any change in charging structures, levels and types since the 2011 Charges survey[8];
- identify what scheme features are necessary to maximise the chance of better outcomes for members.

Specifically the study covered the following subject areas:

**Profile of workplace pensions**

- Types of pension used by employers
- The membership demographics
- Employer and employee contributions
- Pensions sold by providers in the last 12 months

**Member charges**

- Annual management charges (AMCs)
- Key factors influencing AMCs

**Intermediary and professional charges**

- Basis and level of charges applied by intermediaries
- Who pays these charges

**Additional scheme charges**

- Total Expense Ratio (TER)
- Portfolio Turnover Rate (PTR)
- Charges for specific fund choices
- Charges for transfers in or out of the scheme
- Discounts for active members; large schemes; high contributions
- Front loaded charges and setup charges

**Reviewing provider charges**

- When employers last reviewed their pension scheme provider
- Extent to which charges influence employers' decision of which provider to use

**Pension scheme quality**

- How scheme charges and scheme size impact upon member outcomes
- Other factors impacting scheme quality, including scheme governance, investment governance and scheme administration

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8 Wood, A., Wintersgill, D. and Baker, N. (2012). *Pension landscape and charging: Quantitative and qualitative research with employers and pension providers*, Department for Work and Pensions.

## 1.3 Approach to the study

The element of the study focused on scheme charges consisted of a combination of quantitative research with private sector employers offering workplace DC pensions, supplemented by qualitative information supplied by providers themselves. It was split into three parallel elements:

- **trust-based DC schemes**: 593 telephone interviews with trust-based schemes with six or more members, sourced from the SCORE database provided by The Pensions Regulator (TPR);
- **contract-based schemes**: 717 telephone interviews with contract-based schemes with six or more members where the employer makes a contribution, sourced from a publicly-available sample source (Dun & Bradstreet);
- **contract-based scheme providers**: Qualitative interviews with 11 of the top 20 contract-based pension scheme providers in terms of market share.

Defined benefit (DB) and public sector schemes were excluded from this study.

Fieldwork was conducted between 3 April and 7 May 2013.

## 1.4 Methodological development

This study adopts the same approach as the 2011 DWP commissioned survey ‘Pension landscape and charging: Quantitative and qualitative research with employers and pension providers’ (the 2011 Charges survey).[9]

Both surveys have been designed to overcome a number of issues that previous research had identified:

- employers’ knowledge of even basic scheme charges paid by members can be low, especially among smaller employers;
- while pension charges are often made up of several different elements, it is extremely difficult to calculate in a research study the overall charge by attempting to add up the component parts;
- particular subjects, such as the commission paid by a provider to a commission-based intermediary, are seen as particularly complex, and employers cannot typically assess to what extent these are passed onto members;
- if not managed carefully, smaller employers in particular are likely to ‘guess’ inaccurate answers, rather than state ‘don’t know’, when a high proportion of the questions in a questionnaire are unknown to them.

The survey addressed many of these issues, primarily through careful questionnaire design followed by piloting and cognitive testing. In particular, the questionnaire attempted to accommodate the fact that knowledge of certain scheme charges was low, by first establishing an overall level of charge paid by scheme members, and then breaking this overall charge down into the component parts to the best of respondents’ knowledge. That way, even if employers did not know each of the individual elements, we were still able to reach a figure for the total AMC for as many employers as possible. Figure 1.1 illustrates this approach.

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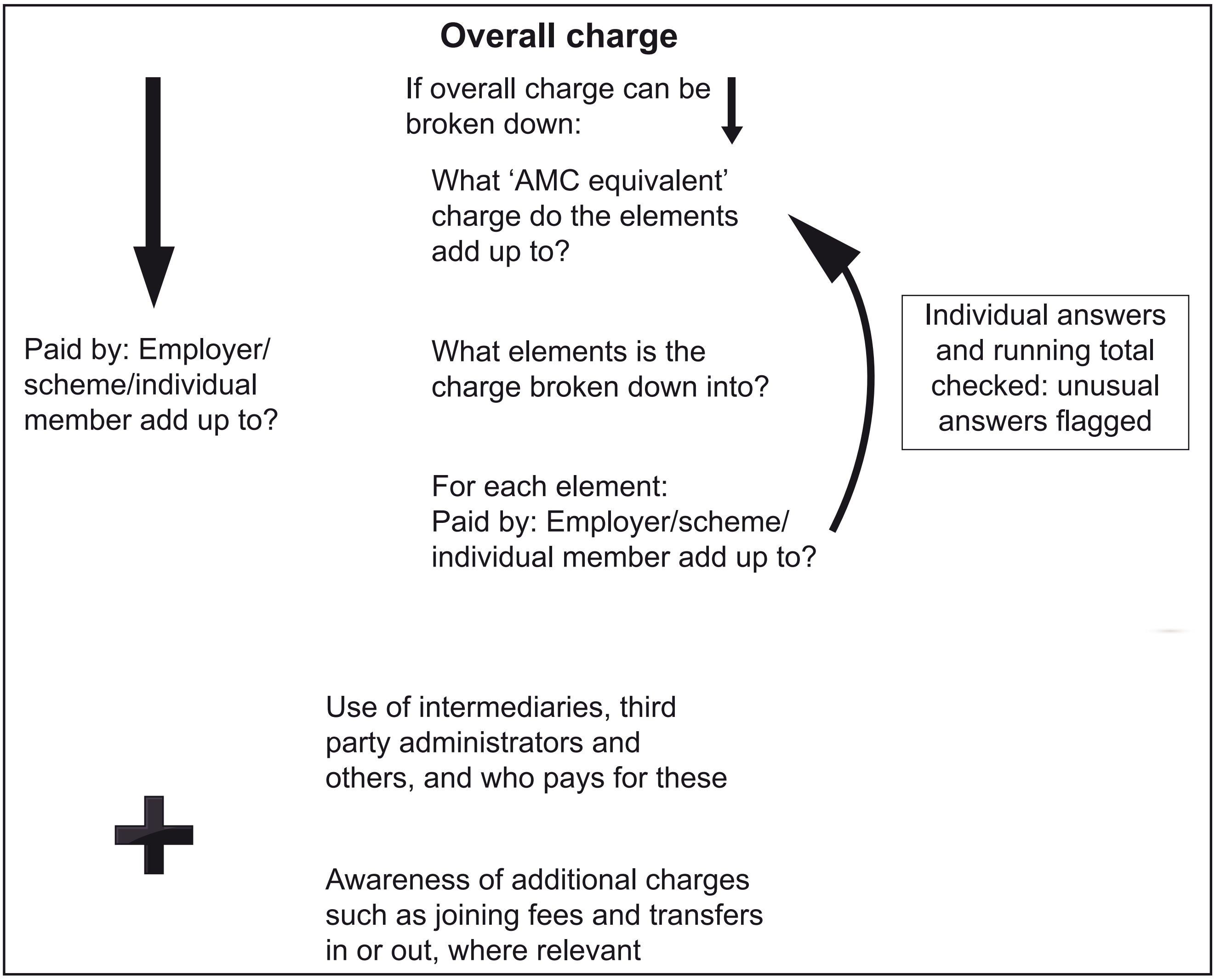
9 ibid.

**Figure 1.1 Approach taken in the questionnaire to establishing member charges**




While the survey was not designed to test awareness, the 2011 Charges survey had demonstrated that employers' awareness of the charges paid by members was very low. In fact, in 2011 only 28 per cent of trust-based and 33 per cent of contract-based schemes believed that members paid any charges at all, with significantly lower awareness among smaller firms. While this was a useful finding in itself, in 2013 we worked with each of the 1,310 employers to explain by letter and by phone how they could find out the level of AMC paid by members.

We requested, in particular, that if employers did not have this information to hand, they ask their pension provider or adviser before the interview; stressing that many providers have a website or telephone number for employers, through which it should be possible to find out the AMC.[10]

As a result of this approach, perhaps along with the increased government and media attention upon pensions and related charges, 74 per cent of employers with trust-based schemes and 85 per cent of employers with contract-based schemes confirmed that members did pay a charge in 2013. This means that over 800 employers were able to tell us

10 The information provided to employers can be found in Section A.1 of this report.

the level of AMC paid by members, compared to around 300 employers in 2011. This higher number allows us to draw more statistically significant conclusions about what factors drive the level of AMC than we could in 2011.

These results are explored further in Chapter 3. It is important to appreciate that much of the increase in awareness was due to our working closely with these particular employers; we cannot conclude that awareness of charges among all employers has increased since 2011. Even with our help, a minority were still unable to tell us the level of charge paid by members.

In reporting the results of this study, we have been careful to show clearly where employers were unable to answer particular questions. In some cases, particularly, the awareness of more 'unusual' charging structures, 'don't know' results represent a high proportion of those answering, and consequently this reduces the number of observations we were able to gain about the actual charging level. While this has slightly reduced the robustness of these results, this approach was seen as preferable to the risk of allowing potentially inaccurate 'guesstimates', which itself would cast doubt on the accuracy of the results. Because our sample sizes were sufficiently high despite the 'don't knows', we are able to report statistically significant results throughout the report with confidence.

## 1.5 Scope of employer research and sample source

The same sampling approach was used as in the 2011 Charges survey, to ensure that the results of each wave could be compared robustly. The employer research was conducted with private sector pension schemes that were open to new members:

- **trust-based schemes**: 593 telephone interviews with open, private sector, trust-based DC schemes with six or more members, where the employer makes a contribution, sourced from the SCORE database provided by TPR;
- **contract-based schemes**: 717 telephone interviews with open, private sector, contract-based workplace pensions with six or more members that pay an employer contribution, sourced from a publicly-available sample source (Dun & Bradstreet).

Interviews were conducted with the individual best placed to provide the information required. Where an external pensions intermediary or administrator was able to provide more detailed information than the employer, we completed the interview with them, with the employer's permission.

### 1.5.1 Trust-based schemes

In principle, this study was designed to include all private sector, trust-based DC schemes that were open to new members. Schemes with fewer than six members were, however, excluded, because DC schemes of this size are usually small, self-administered schemes (SSASs), set up for a small group of key staff, usually directors or key employees, within which every member is a trustee. Typically no decisions are made on behalf of other members, and the charging structures as such can vary widely. In addition, where schemes with six or more members were shown during sampling or screening to be SSASs, they were excluded.

The sample for trust-based schemes was provided by TPR. TPR administers a single database of all trust-based schemes, known as the SCORE database, and as such this offered an appropriate source to draw a sample of trust-based schemes to be used in this study. Sampled schemes were contacted and screened to check qualification and ensure that the right respondents were interviewed.

Contract-based schemes

This study was designed to include any open, private sector, contract-based workplace pensions with six or more members that pay an employer contribution.

We excluded workplace pensions where no contributions were paid on the basis that most were likely to be group stakeholder pensions (GSHPs) with no members, and consequently no associated charges. Schemes of fewer than six members were also excluded as a result of the extremely low incidence of such schemes.

Because there is no single database of contract-based pension schemes, we decided that the most effective and methodologically sound approach was to free-find contract-based schemes, using a publicly-available sample source of employers: in this case, Dun & Bradstreet's All UK Businesses database. Employers were then screened to establish whether there was a contract-based scheme into which employer contributions were made.

## 1.6 Employer research: fieldwork

We used computer-assisted telephone interviewing (CATI) as our preferred data collection methodology with trust-based and contract-based schemes. We knew that employers varied in terms of the information different individuals could provide about their charges, and so to collect the data needed for a single interview we knew that we might need to speak to multiple individuals: this was much easier to achieve via CATI rather than other interview methods, because our expert interviewing team was able to help individuals through this process on the telephone.

The recruitment and interviewing process for each interview worked as follows:

**1** the research team made first contact with the organisation by phone, to establish the most appropriate contact. In most trust-based schemes, a named individual was present in the sample. In all other cases we initially sought the most senior person responsible for employee salaries and benefits;

**2** before asking any screening questions, the respondent was offered written confirmation about the study from DWP. Respondents were also assured as to the confidentiality of the information collected. That letter appears as Appendix A of this report;

**3** on average the interview consisted of around 15 minutes' worth of data collection;

**4** we were flexible in allowing the respondent to hand over to an alternative respondent, who could better answer particular questions, where necessary. Contact details of the second respondent were gathered from the first contact, where permission was given.

The full methodology for the employer research, including interview targets, response rates and weighting methodology, appears as Appendix D of this report.

## 1.7 Supporting information on charges collected from pension providers

In order to supplement and cross-check the results provided by employers, we conducted qualitative interviews with 11 of the top 20 contract-based pension scheme providers in terms of market share.

This was initially collected via a self-completion questionnaire, followed by an in-depth, qualitative interview with a senior representative of each provider to fully contextualise and understand the individual complexities of each provider's products.

We made first contact with senior decision-maker(s) within each provider's organisation that had experience of working with DWP in the context of the pension reforms. A letter was sent from DWP, describing the purpose of the research (see Appendix B).

Following this, an electronic copy of the data collection template was sent to all relevant providers (see Appendix B). Once the template had been completed by providers, a face-to-face interview was arranged, where both the data collection template and other subject areas were discussed in detail (the discussion guide appears in Appendix B).

All interviews were recorded using encrypted dictaphones with the agreement of the respondent. All respondents were assured that all data collected were to be kept entirely confidential. This meant:

- data was not to be passed back to DWP or any third party in any way that could identify them or their organisation;
- data has not been included in the published report in any way that could identify them or their organisation;
- we did not inform DWP of the identity of participating organisations;
- recordings were not passed back to DWP or any third party, and will be deleted after publication of this report.

At the time of data collection (spring and summer 2013), the Office of Fair Trading (OFT) was conducting a review of pension scheme charges, which involved the co-operation of the same providers in providing significantly more detailed information on charges, requested in a different format (see Section 1.8). As a result of the significant effort required for the OFT review, only four providers were able to calculate the further set of detailed charge breakdowns required as part of the DWP Charges study. Where we quote provider data therefore, we stress that the data is indicative only, because it is not representative of the whole market.

## 1.8 The OFT's workplace pension market study

In January 2013, the OFT launched a market study to investigate whether the DC workplace pension market is working well for consumers, and whether competition between providers is set up to work in the best interests of current and future savers to deliver low-cost, high-quality pension schemes.[11]

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[11] OFT (2013). *Defined contribution workplace pension market study*. Available at http://www.oft.gov.uk/shared_oft/market-studies/oft1505

Overall, the OFT concluded that competition alone cannot be relied upon to drive value for money for all savers in the DC workplace pension market. This arises from the combination of two factors:

- the complexity of the product. The complexity makes it difficult to make the right choices about pensions, for individual savers and employers;
- employers, who have the responsibility of deciding which pension scheme to choose for their employees, may often lack the capability or the incentive to assess value for money.

The OFT also found that these weaknesses have already created a risk of savers losing out in two parts of the market:

- old and/or high-charging schemes. Around £30 billion of savings in old and/or high-charging contract- and bundled-trust schemes may not offer value for money;
- small trust-based schemes. Around £10 billion of savings in smaller trust-based schemes are at risk of delivering poor value for money due to low levels of trustee engagement and capability.

Like this year's DWP Charges survey, the OFT's study focused primarily on DC workplace pension schemes sold in the UK, although the methodologies of the two studies did differ. The primary source of data for the OFT study consisted of responses to information requests from providers and intermediaries; in the DWP study, data was collected as part of a quantitative survey with employers.

Although both studies report upon the average levels of AMC levied by schemes, the figures cannot be directly compared. The DWP Charges survey reports an average AMC that gives equal weight to every trust-based and contract-based pension scheme in the country; whereas the OFT reports what is effectively a weighted average AMC across scheme assets.

The OFT average figures therefore place a higher weight on the charges of schemes with more assets under management (i.e. larger schemes), whereas the DWP figures place more emphasis on the AMC of smaller schemes, because there are far more of these in the market.

Nevertheless, even despite these methodological differences, the results of DWP's Charges survey do support those of the OFT:

- in one section of its report[12], the OFT gives an average AMC for all schemes that were set up between 2001 and 2012.[13] It reports that these schemes had an average AMC of between 0.75 per cent (for schemes set up in 2001) and 0.92 per cent (for schemes set up in 2012);
- In comparison, the DWP Charges study reports that the average AMC across all trust-based schemes set up since 2001 was 0.71 per cent, and the average AMC across all contract-based schemes set up since 2001 was 0.80 per cent[14];
- the DWP Charges survey also confirms that AMCs for older schemes are higher than those of newer schemes; and confirms the OFT's finding that charges for smaller schemes are significantly higher than those of the largest schemes.

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12 See Figure 6.1 in Section 6.7 of the OFT market study.

13 This particular data is weighted by scheme, and so is broadly comparable with the DWP Charges survey.

14 See Section 4.4.5 of this report.

## 1.9 Scheme quality: approach to research with pension providers and intermediaries

As part of this research, we also carried out qualitative interviews with industry stakeholders: providers, employee benefits consultants (EBCs) and independent financial advisers (IFAs), in order to understand how charges and other factors impact scheme quality and member outcomes.

This element of the study was entirely qualitative in nature. The subjects were discussed as part of a programme of in-depth, face-to-face interviews and focus groups with 25 organisations, including:

- interviews with 11 workplace pension providers. All of the major UK workplace pension providers participated in this study, including automatic enrolment scheme providers;
- interviews with four EBCs that typically advise large employers on workplace pension products;
- two focus groups with a total of ten IFAs, that typically advise a range of sizes of employer on workplace pension products.

Initial contact was made with participants by the research team, and a letter sent from DWP, describing the purpose of the research (see Appendix C). The discussion guide used for both the interviews appears in Appendix C. The reassurances on confidentiality that applied to the provider interviews that took place on the Charges survey also applied to this element of the study: see Section 1.7 for further details.

Chapters 9 and 10 will explore the findings from this part of the research.

# 2 Scheme demographics

This chapter explores the demographics of the schemes included in the quantitative research, as well as their sponsoring employers and members.

As we discussed in Chapter 1, this study was designed to ensure that we achieved a robust number of interviews with both trust-based and contract-based pension schemes across four different member size bands. In all other respects, employers were sampled at random, which means that the schemes covered by the study can be considered to be representative of all open defined contribution (DC) pension schemes with six or more members, into which the employer offers a pension contribution.

This chapter focuses on the following aspects of those schemes:

- the job title of the person interviewed;
- the type of pension scheme;
- the age of the pension scheme;
- membership demographics (gender, age and salary);
- the proportion of active compared with deferred members.

In 2013, the same robust survey methodology has been used as in the 2011 survey, to allow for an accurate assessment of how charging structures have changed since 2011. The demographics of the employers interviewed have not themselves changed to any significant extent since 2011.

## 2.1 Interviewee job roles

Key findings:

- In most schemes our interviewee was a senior employee of the sponsor company: in large companies typically a pensions manager, otherwise often a finance director.
- In trust-based schemes, almost half of these employees were also trustees.
- In 26 per cent of trust-based schemes, and seven per cent of contract-based schemes, we interviewed an external professional, most often a financial adviser or administrator.

Because this study asked respondents to provide quite detailed information regarding their pension scheme, it was vital for us to speak to the individual who was most knowledgeable about its charging structures. This could vary from employer to employer, and from scheme to scheme.

### 2.1.1 Trust-based schemes

In trust-based schemes, a board of trustees is responsible for providing members with a safe and secure investment framework. Trustees could be nominated by the employer or scheme members, and usually had other roles within the sponsor company. Some trust-based schemes also have external trustees and may also have an internal or external pensions manager and/or scheme administrator.

In 74 per cent of the trust-based schemes that we interviewed, the main respondent was an employee of the sponsor company, with the remaining 26 per cent of schemes providing an external professional for interview.

Of the internal employees interviewed, around one-quarter (22 per cent) were finance directors or managers, although there was a very wide spread of job roles, with pensions managers, accountants, owners and human resources (HR) directors all proving to be the most knowledgeable person about their own companies' pension schemes. Typical internal job roles are listed in Table 2.1.

**Table 2.1 Internal interviewee job roles in trust-based schemes**

| All trust-based schemes where internal employee was interviewed (column percentages) | |
|---|---|
| Finance Director/manager | 22 |
| Pensions manager/administrator | 16 |
| Director/general manager/senior manager | 11 |
| Accountant/book-keeper/bursar | 10 |
| Owner/managing director | 9 |
| Company secretary | 9 |
| HR director/manager | 2 |
| Administrator/office manager | 2 |
| Payroll manager | 2 |
| Other | 7 |

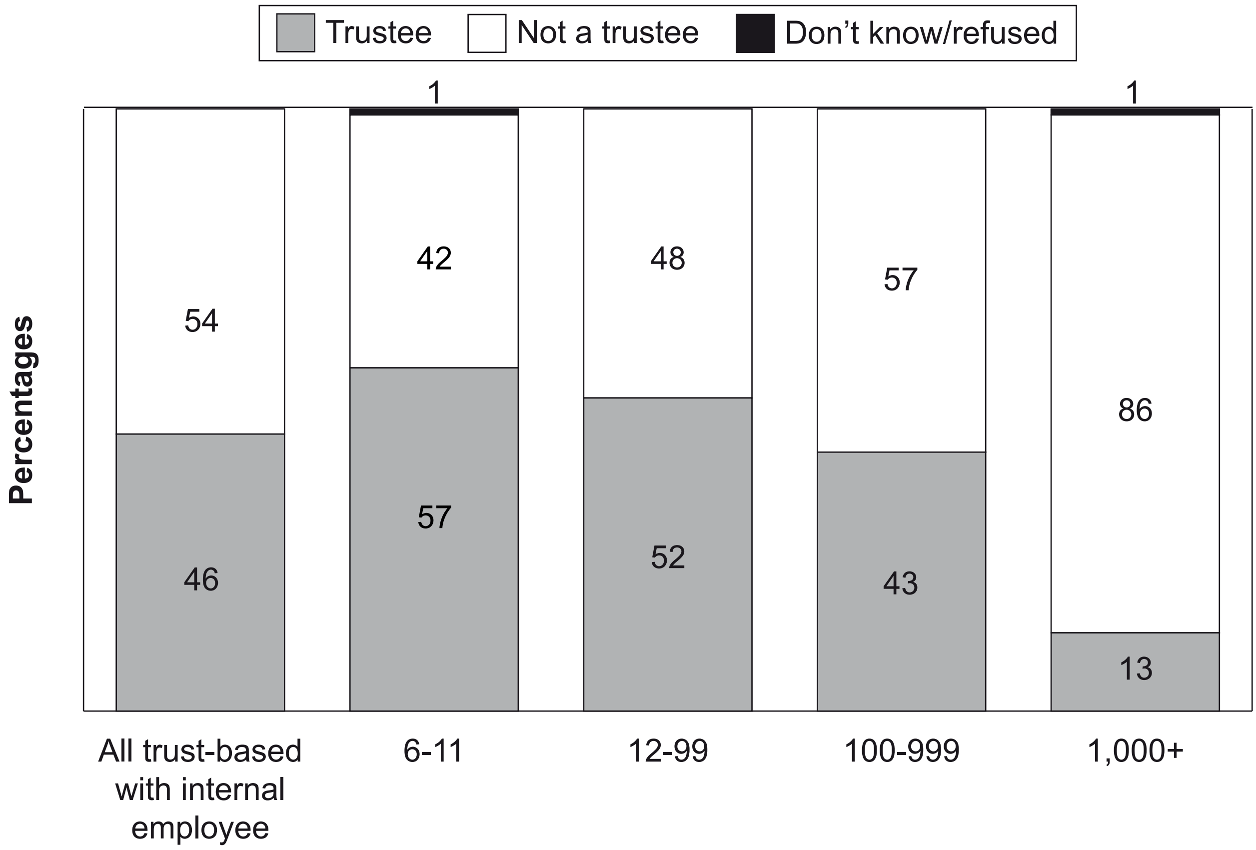
*B2. What is your job title?*
Base: All trust-based internal employees (447).

In the very largest schemes of 1,000 or more members we were significantly more likely to interview a dedicated pensions manager or administrator (72 per cent compared to 16 per cent overall). In the smallest schemes of six to 11 members we were significantly more likely to interview the company secretary (17 per cent compared to nine overall).

Of these internal employees interviewed, 45 per cent were also trustees of the scheme. This was significantly more likely in small schemes than in large, as Figure 2.1 illustrates: over half of internal employees in the smallest schemes of six to 11 members also performed trustee duties, compared with just over one in ten (13 per cent) in schemes with 1,000 or more members.[15]

[15] This finding is unsurprising, as dedicated pensions managers, most common in large schemes, do not typically also act as a trustee of the scheme, to avoid any possible conflict of interest between the employer and the scheme.

**Figure 2.1 Whether internal employee interviewed in trust-based scheme was a trustee, by scheme size**




*B3. Are you also a trustee of the scheme?*
Base: All trust-based internal employees (523); 6-11 (84); 12-99 (185); 100-999 (156); 1,000+ (98).

Of the 26 per cent of external interviewees, we were most likely to interview the scheme's administrator (21 per cent) or a financial adviser (15 per cent) or a pension consultant (15 per cent), with external trustees also interviewed less commonly.

## 2.1.2 Contract-based schemes

In contract-based schemes, there is no board of trustees in place, and there are fewer employer responsibilities, because contract-based pensions are administered by a pension provider. Consequently, an internal employee, such as a finance director, HR manager or, in larger organisations, pensions manager, is often most knowledgeable about the scheme.

In contract-based schemes we were more likely to interview an internal employee than in trust-based schemes (93 per cent were internal, compared to 74 per cent in trust-based schemes). This was particularly the case in the largest schemes: 94 per cent were internal in schemes with 1,000 or more members, compared to 83 per cent in schemes with six to 11 members.

Nearly half (41 per cent) of internal employees interviewed were finance directors or managers, as Table 2.2 shows. HR directors were more likely to be interviewed than they were for trust-based schemes, with 13 per cent working in HR.

**Table 2.2 Internal interviewee job roles in contract-based schemes**

| | All contract-based schemes where internal employee was interviewed (column percentages) |
|---|---|
| Finance director/manager | 41 |
| HR director/manager | 13 |
| Accountant/book-keeper/bursar | 8 |
| Director/general manager/senior manager | 8 |
| Owner/managing director | 5 |
| Company secretary | 4 |
| Pensions manager/administrator | 4 |
| Payroll manager | 4 |
| Administrator/office manager | 1 |
| Other | 4 |

*B2. What is your job title? Base: All contract-based internal employees (656).*

Almost half of external interviewees in contract-based schemes (44 per cent) were financial advisers.

# 2.2 Type and age of main scheme

Key findings:

- Most trust-based schemes were insurer-administered, single employer schemes; although larger schemes were more likely to use multiple providers for different services.
- Over three-quarters of contract-based schemes were group personal pensions (GPPs); group stakeholder pensions (GSHPs) represented under one-quarter of the contract-based pensions in the market.
- Contract-based schemes tended to have been set up more recently than trust-based schemes, reflecting the continued trend away from trust-based schemes.

## 2.2.1 Scheme type

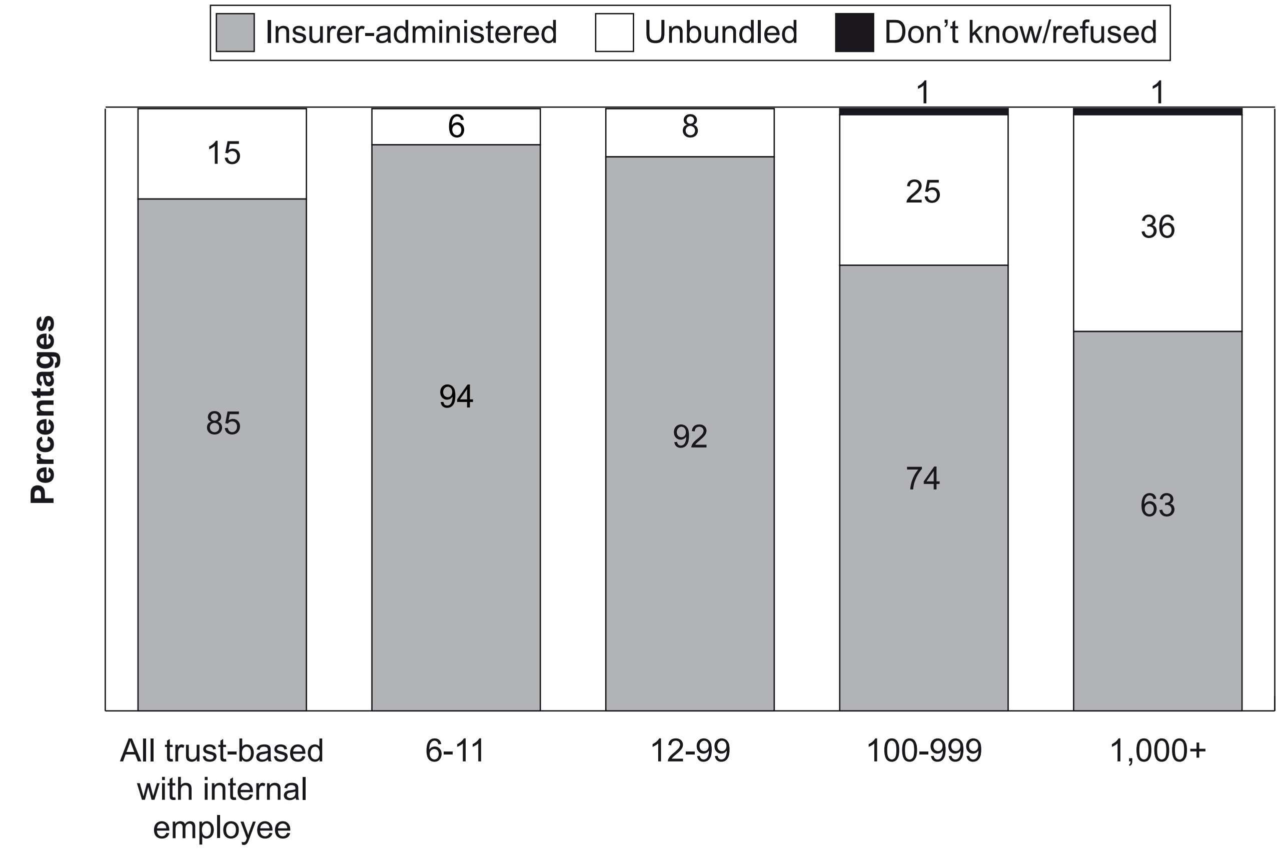
### Trust-based schemes

In this study we identified two broad types of trust-based pension, depending on whether the scheme used a single pension provider to deliver investment and administration services (which we have referred to as an insurer-administered scheme) or used multiple providers for different services like fund management, scheme administration and investment consultancy (which we have referred to as an unbundled scheme).

A majority of trust-based schemes (85 per cent) were insurer-administered, although Figure 2.2 shows that the likelihood of choosing an unbundled scheme was strongly driven by size, with the largest schemes far more likely to choose an unbundled arrangement (36 per cent of 1,000 or more member schemes did so) than the smallest (around seven per cent of schemes with fewer than 100 members chose an unbundled arrangement).[16]

[16] In Chapter 6 we will show that the use of an unbundled arrangement increases the costs of pension scheme administration for the employer.

**Figure 2.2 Type of main trust-based scheme, by scheme size**



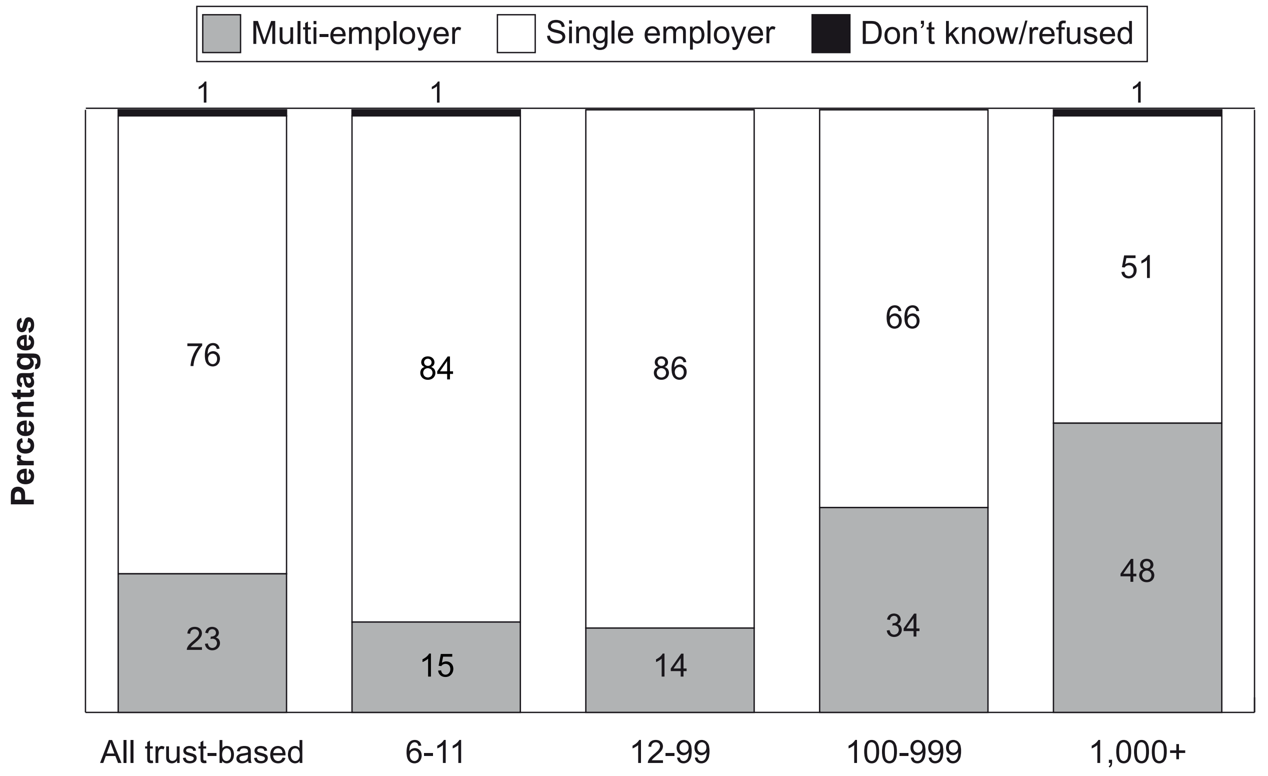

*C4 Is the pension scheme offered through a single pension provider or insurance company, or do the trustees work with a range of providers or investment managers?*
Base: All trust-based (593); 6-11 (87); 12-99 (201); 100-999 (179); 1,000+ (126).

All trust-based schemes were asked whether theirs was a multi-employer scheme, or a single employer scheme. In part, this question was designed to understand the incidence of multi-employer 'master trusts', which are multi-employer occupational pension schemes, which a pension provider manages under a single account.[17] Because recognition of the term 'master trust' was very low, employers were simply asked whether they had a multi-employer scheme or a single employer scheme.

Figure 2.3 shows that, the larger the scheme, the more likely it was to define itself as a multi-employer scheme with almost half (48 per cent) of schemes with 1,000 or more members covering more than one employer, often subsidiaries of a parent company, compared to just 15 per cent of schemes with six to 11 members or 14 per cent of schemes with 12 to 99 members covering multiple employers.

17 In a master trust, the trustees of the scheme are professionals that are usually employed by the provider. This means that employers under this arrangement are not required to set up their own trustee boards, and investment decision-making does not need to take place at employer level.

**Figure 2.3 Whether the trust-based scheme was single or multi-employer, by scheme size**




*A9 Is your scheme a multi-employer scheme or a single employer scheme?*
Base: All trust-based (593); 6-11 (87); 12-99 (201); 100-999 (179); 1,000+ (126).

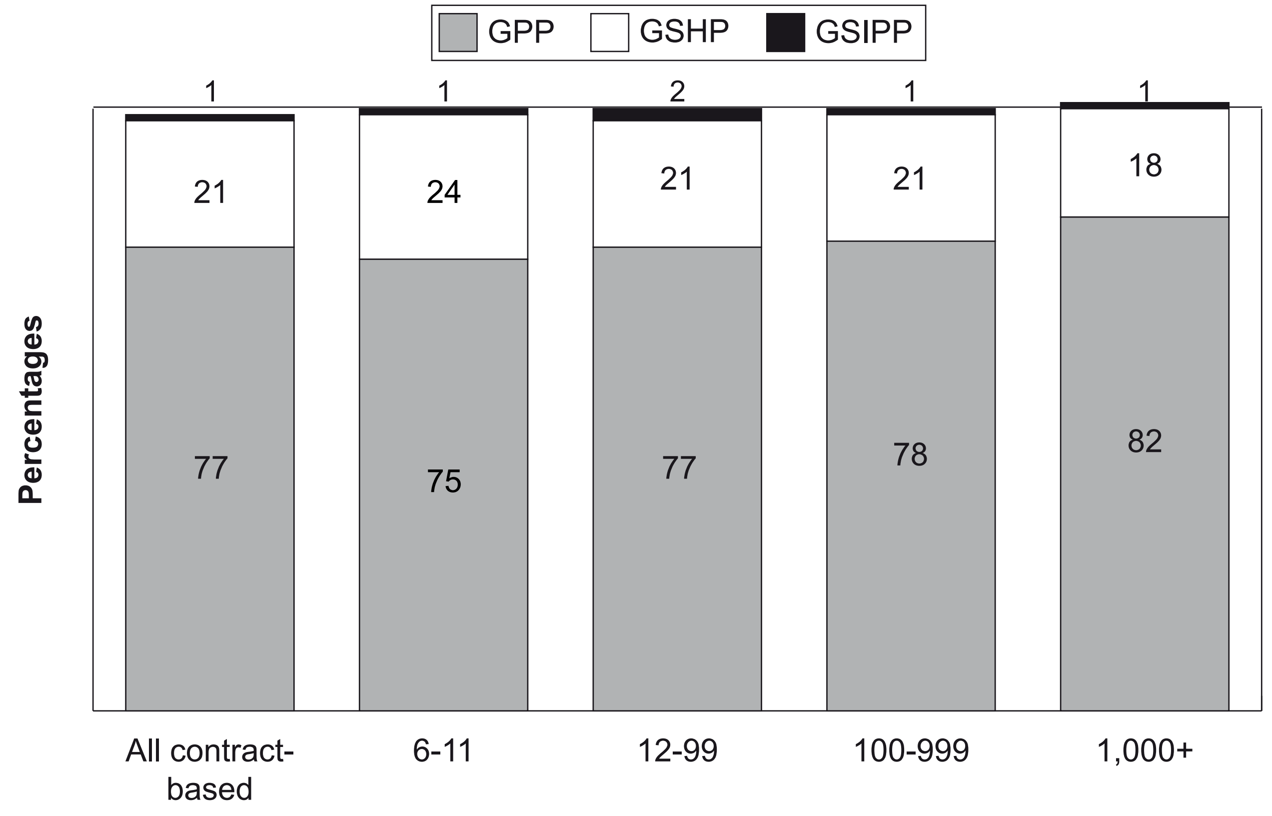
## Contract-based schemes

The study included employers that offered an employer contribution to any of the three main types of contract-based pension: a GSHP, a GPP or a Group Self-Invested Personal Pension (GSIPP). In the rare cases where employers contributed to more than one type of qualifying contract-based pension, we focused solely on the one that had the highest proportion of active members.

Figure 2.4 shows that the majority of contract-based schemes were GPPs (77 per cent overall) or GSHPs (21 per cent). In 2011, the proportion of employers offering a GSHP as their main scheme had been significantly higher, at 31 per cent. Providers themselves reported to us that this was a result of the ongoing trend whereby GSHP schemes were slowly being phased out of the market, with customers now tending to prefer GPPs, because they offered a greater flexibility than GSHPs, which often offered fewer investment choices and customisation options (such as employer branding and online member account administration).

The pattern was broadly similar across all size categories, although a slightly higher proportion of GSHPs were found in the smallest organisations of six to 11 members (24 per cent), than the largest of 1,000+ members (18 per cent).

**Figure 2.4 Type of main contract-based scheme, by scheme size**




*A2_1. Can you please confirm which types of pension the organisation offers to staff?*
Base: All contract-based (717); 6-11 (126); 12-99 (258); 100-999 (251); 1,000+ (82).

Whereas the number of members had a limited impact on the type of scheme chosen by employers, the salary of members did appear to influence this: where members had higher salaries, this increased the likelihood of the employer choosing a GPP. The vast majority (89 per cent) of schemes where members earned £40,000 per annum or more were set up as GPPs, compared to 77 per cent overall.

The providers interviewed as part of this study were also asked to confirm how many contract-based pensions their organisations had sold in the previous 12 months. Across the four providers that could give detailed breakdowns, they reported that in the 12 months prior to the research, a majority of their sales comprised of GPPs, representing over 80 per cent of the 1,610 schemes sold, confirming the continued trend away from GSHPs towards GPPs.

GSIPPs were rare. Providers noted that, while individual Self-invested Personal Pensions (SIPPs) were popular as a product sold directly to individuals, they are typically most appropriate for high earners such as directors or senior managers as opposed to entire workforces, and so very few employers considered them relevant as a workplace pensions product. Some observed that the fact that most scheme members chose to invest in the default fund, without making any active choice to switch, partly explained why a SIPP arrangement might not be seen as attractive to most employees. Charges for GSIPPs are not covered in this report.

### 2.2.2 Scheme age

Overall, contract-based schemes tended to be 'younger' than trust-based schemes, with the average contract-based scheme having been set up in 2001, whereas the average trust-based scheme was set up eight years earlier (1993). Scheme age was linked to size of the scheme, with the smallest schemes more likely to be the oldest in both trust-based and contract-based schemes, as Tables 2.3 and 2.4 show.

**Table 2.3 Average year of commencement of trust-based scheme, by scheme size**

| | All trust-based schemes (average year that scheme membership started) | | | |
|---|---|---|---|---|
| **All trust-based** | **6-11** | **12-99** | **100-999** | **1,000+** |
| 1993 | 1991 | 1992 | 1997 | *1998* |

*A10e In what year did membership of the scheme start?*
Base: All trust-based (579); 6-11 (83); 12-99 (197); 100-999 (175); 1,000+ (124).
Bases exclude don't know/refused (3% of those asked).

**Table 2.4 Average year of commencement of contract-based scheme, by scheme size**

| | All contract-based schemes (average year that scheme membership started) | | | |
|---|---|---|---|---|
| **All contract-based** | **6-11** | **12-99** | **100-999** | **1,000+** |
| 2001 | 2001 | *2001* | 2004 | *2005* |

*A10e In what year did membership of the scheme start?*
Base: All contract-based (684); 6-11 (122), 12-99 (244); 100-999 (237); 1,000+ (81).
Bases exclude don't know/refused (5% of those asked)

## 2.3 Membership profile

Key findings:

- Contract-based schemes had a higher proportion of female members (34 per cent compared with 30 per cent in trust-based schemes).
- The membership age profile was somewhat related to scheme size, with larger schemes having a slightly younger membership profile than smaller schemes.
- Members of contract-based schemes tended to have a slightly higher average salary than trust-based scheme members.

### 2.3.1 Gender and age profile of active members

Similar to 2011, according to the employers interviewed, on average 30 per cent of the active members of trust-based schemes were female, compared to a slightly higher 34 per cent of contract-based active members.

The age profile of trust-based scheme members varied somewhat depending on the size of the scheme, with larger schemes reporting a younger membership profile overall than smaller schemes: Table 2.5 illustrates that there were twice as many members of age 50 or more in the smallest schemes (48 per cent) than in the largest (24 per cent).

**Table 2.5 Age profile in trust-based schemes, by scheme size**

| | Age profile in trust-based schemes, by scheme size (column percentages) | | | | |
|---|---|---|---|---|---|
| | **Total** | **6-11** | **12-99** | **100-999** | **1,000+** |
| Under 22 | 2 | 1 | *2* | 3 | 6 |
| 22-50 | 59 | 51 | *59* | 68 | 70 |
| 50+ | 39 | 48 | *39* | 29 | 24 |

*G5a. What percentage of active scheme members are: under 22? G5b. What percentage of active scheme members are: between 22 and 50? G5c. What percentage of active scheme members are: over 50?*
Base: All trust-based (464); 6-11 (80); 12-99 (181); 100-999 (125); 1,000+ (78).
Bases exclude don't know/refused (17% of those asked).

As with trust-based schemes, the age profile of contract-based active scheme members was older in the smaller organisations, although the variation is less marked, as Table 2.6 shows.

**Table 2.6 Age profile in contract-based schemes, by scheme size**

| | Age profile in contract-based schemes, by scheme size (column percentages) | | | | |
|---|---|---|---|---|---|
| | **Total** | **6-11** | **12-99** | **100-999** | **1,000+** |
| Under 22 | 2 | 2 | *2* | 4 | *5* |
| 22-50 | 72 | *72* | *71* | *72* | *75* |
| 50+ | 26 | 26 | *26* | *24* | *19* |

*G5a. What percentage of active scheme members are: under 22? G5b. What percentage of active scheme members are: between 22 and 50? G5c. What percentage of active scheme members are: over 50?*
Base: All contract-based (600); 6-11 (121); 12-99 (241); 100-999 (186); 1,000+ (52).
Bases exclude don't know/refused (8% of those asked).

## 2.3.2 Average salary and pension pot

The average salary of a trust-based scheme member was £26,000 per annum, only slightly below that of a contract-based scheme member at £26,500. This did not vary significantly depending on the size of the scheme they were a member of, as Table 2.7 shows.

**Table 2.7 Average active member salary, by scheme size**

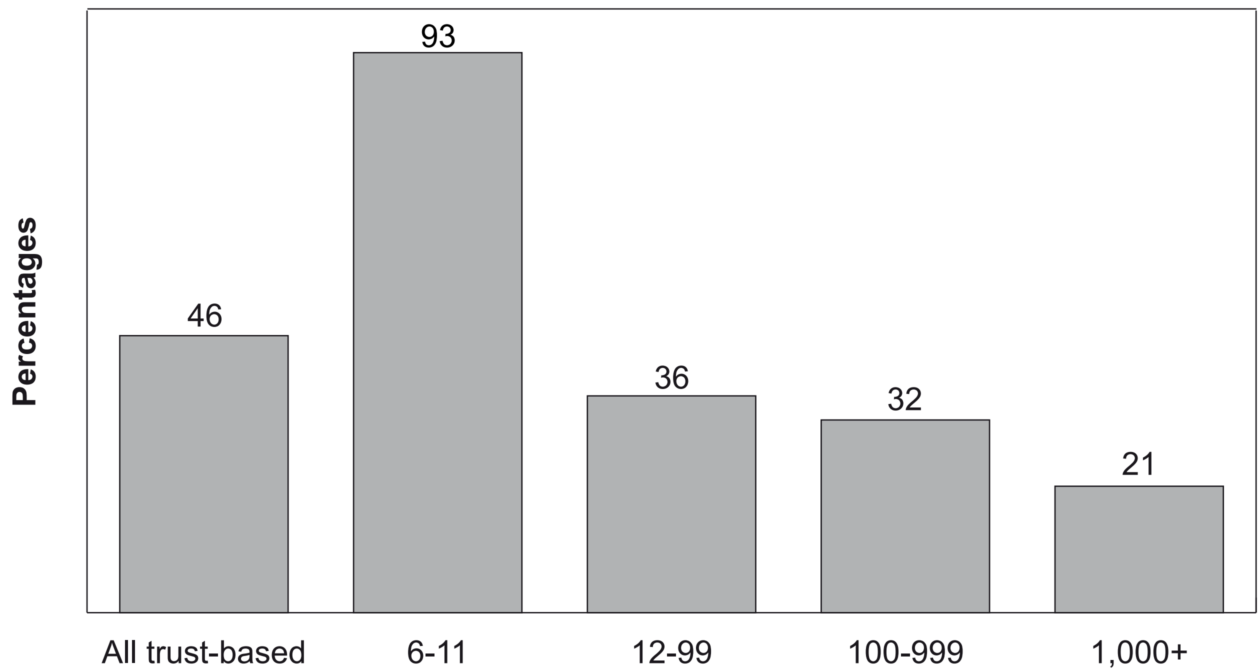
| | All schemes (median of salary levels reported by all employers) | | | | |
|---|---|---|---|---|---|
| | **Total** | **6-11** | **12-99** | **100-999** | **1,000+** |
| All trust-based | £26,000 | *£25,000* | *£25,000* | *£30,000* | *£28,000* |
| All contract-based | £26,500 | *£25,200* | *£28,000* | *£30,000* | *£29,000* |

*G3. What is the average gross pay of your active scheme members?*
Base: All trust-based (495); 6-11 (71); 12-99 (176); 100-999 (152); 1,000+ (96).
All contract-based (628); 6-11 (115); 12-99 (230); 100-999 (218); 1,000+ (65).
Bases exclude don't know/refused (16% of those asked in trust-based schemes and 11% of those asked in contract-based schemes).

Trust-based schemes were also asked to estimate the value of the total pension fund, and using this, an average pension pot size per member was calculated, by dividing the overall pot size by the total number of members, as shown in Figure 2.5 below.[18]

The average estimated pension pot stood at around £46,000 per member, with members of smaller schemes having larger pot sizes on average. Members of schemes with six to 11 members had an average pot size of £93,000, reflecting the fact that these schemes had a higher proportion of members aged 50 or over who had benefited from a longer accrual period.

**Figure 2.5 Average fund size per member, by scheme size (shown in £1,000s)**




*G2. So given the number of scheme members, can you confirm that the average pension fund of each member is approximately [x]?*
Base: All trust-based (471); 6-11 (56); 12-99 (145); 100-999 (150); 1,000+ (120).
Bases exclude don't know/refused (24% of those asked).

[18] This figure was itself verified with respondents during the interview process.

# 3 Employer and employee contributions

For a scheme to be included in this research study, the sponsoring employer had to offer an employer contribution to at least some members of the scheme.

This section examines the average level of employer and employee contributions made in the 12 months prior to the research, and briefly looks at the scheme characteristics that drive employer contributions. Both employer and employee contributions are important because, as Chapter 4 will show, contribution levels play a role in determining the annual management charge (AMC) that members pay.

## 3.1 Trust-based schemes

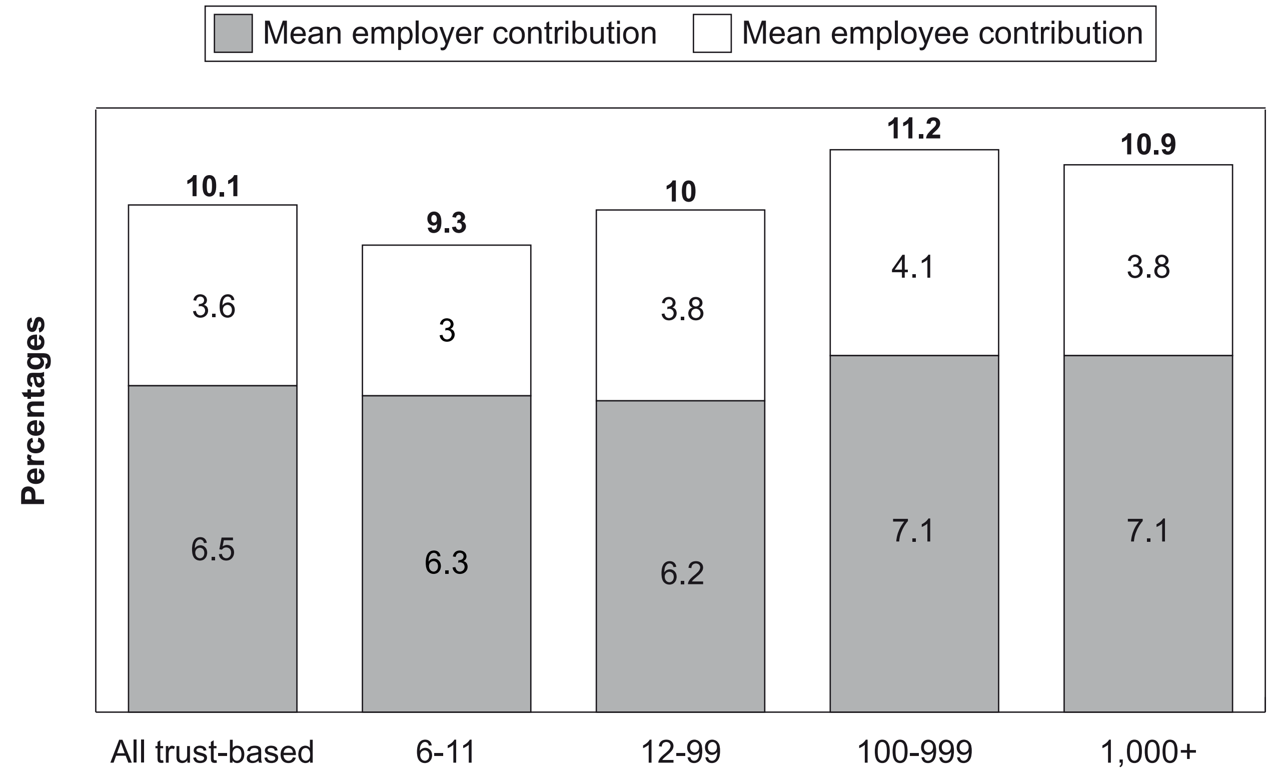
Key findings

- Contract-based employer contributions were lower than trust-based (5.2 per cent compared to 6.5 per cent), with larger schemes paying higher employer contributions.
- Employee contributions did not vary by scheme type, averaging around 3.7 per cent.
- In trust-based schemes, employer contributions increased significantly with employee salary, but employee contributions did not; whereas in contract-based schemes, both employer and employee contributions increased with salary to some extent.
- Employers willing to pay a fee for advice also tended to pay members the highest contributions.

While all of the employers recruited to this study made an employer contribution, the employees did not necessarily have to contribute. On average, the members of trust-based schemes received total contributions of 10.1 per cent of their gross pay, made up of 6.5 per cent employer contribution and 3.6 per cent employee contribution. These figures are almost identical to the 2011 survey, when trust-based schemes received total contributions of 10.0 per cent of their gross pay, made up of 6.2 per cent employer contribution and 3.8 per cent employee contribution.

Figure 3.1 shows that members of larger schemes received higher employer contributions: employers with schemes of 100 members or more contributed just over seven per cent on average. In comparison, the smallest schemes of six to 11 members contributed just 5.3 per cent on average. It appears that it is only the larger trust-based schemes that offer the very highest employer contributions, although it is worth noting that even the smallest trust-based schemes offer higher contribution levels than most contract-based pensions (see later this section). This finding is again almost identical to that found in the 2011 Charges survey.

**Figure 3.1 Average contributions in trust-based schemes, by scheme size**

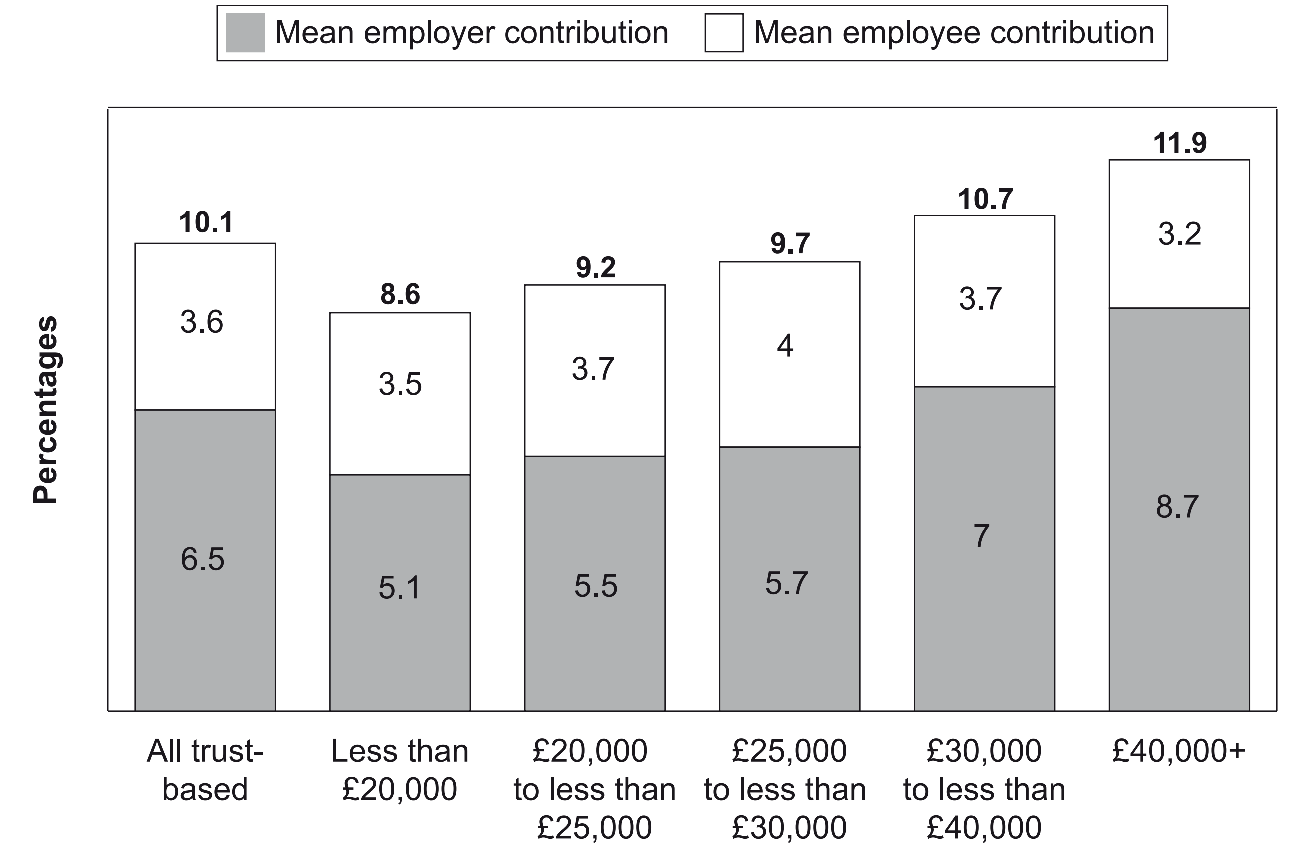



*A7 What was the average employer contribution in the last 12 months as a percentage of employees' gross pay?*
*A8 And what was the average employee contribution in the last 12 months as a percentage of their gross pay?*
Base: All trust-based (567); 6-11 (80); 12-99 (195); 100-999 (176); 1,000+ (116).
Bases exclude don't know/refused (4% of those asked).

In total 14 per cent of trust-based schemes reported that their employees typically made no contributions at all; this proportion was significantly higher among smallest schemes with six to 11 members, where 26 per cent of employees made no contribution.

Unsurprisingly, the level of contribution paid by employers with trust-based schemes was also strongly related to salary. Employer contributions increased significantly from 5.1 per cent in schemes with the lowest-paid members (less than £20,000) to 8.7 per cent in schemes where members earned £40,000 or more (see Figure 3.2). It is interesting to note, however, that employee contributions did not increase significantly in line with average member pay – trust-based scheme members seem to differ from contract-based scheme members (see later this section) in that they do not increase their percentage employee contribution as their salary increases, perhaps because they are able to rely on their employer to do this.

**Figure 3.2 Average contributions in trust-based schemes, by active member salary**



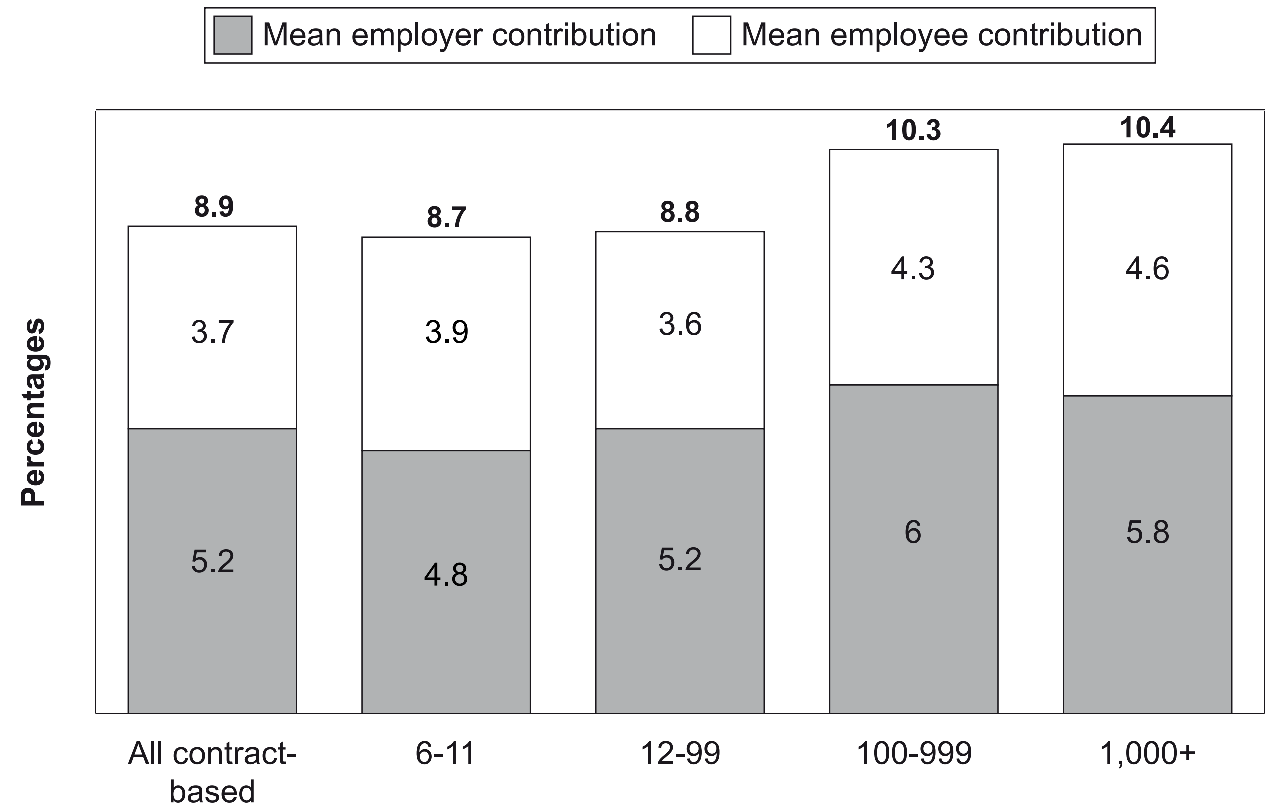

*A7 What was the average employer contribution in the last 12 months as a percentage of employees' gross pay?*
*A8 And what was the average employee contribution in the last 12 months as a percentage of their gross pay?*
Base: All trust-based (567); less than £20K (67); £20K-less than £25K (92); £25K-less than £30K (103); £30K-less than £40K (126); £40K+ (97).
Bases exclude don't know/refused (4% of those asked).

## 3.1.1 Contract-based schemes

While all of the employers recruited to this study made an employer contribution, the employees did not necessarily have to contribute. Employer contributions in contract-based schemes were lower than those in trust-based schemes (5.2 per cent compared to 6.5 per cent), and this did not vary significantly by scheme type (group personal pension (GPP) vs. group stakeholder pension (GSHP)). Employee contributions for contract-based schemes were 3.7 per cent compared to 3.6 per cent for trust-based schemes; again this did not vary significantly by scheme type. This meant that, on average, the members of contract-based schemes received a total contribution of 8.9 per cent.

Employer contributions in contract-based schemes did not increase with scheme size to the same extent as they did in trust-based schemes. Figure 3.3 shows that employers with larger schemes pay slightly more than those with the smallest, but this increase is not statistically significant.

**Figure 3.3 Average contributions in contract-based schemes, by scheme size**

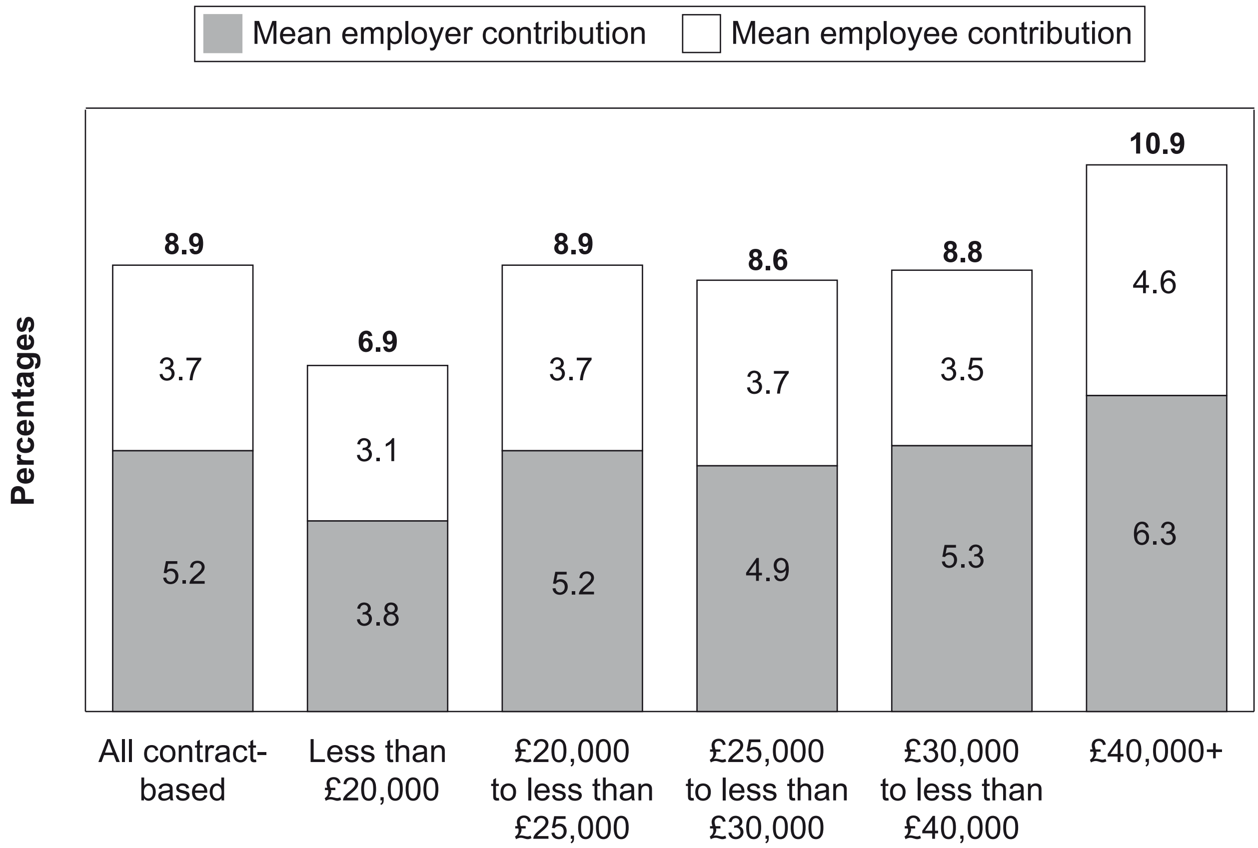



*A7 What was the average employer contribution in the last 12 months as a percentage of employees' gross pay?*
*A8 And what was the average employee contribution in the last 12 months as a percentage of their gross pay?*
Base: All contract-based (797); 6-11 (118); 12-99 (251); 100-999 (248); 1,000+ (80).
Bases exclude don't know/refused (2% of those asked).

Overall, six per cent of contract-based schemes reported that their employees made no contributions; lower than trust-based schemes (where 14 per cent of employees made no contributions). This proportion was slightly higher among the smallest schemes (with six to 11 members) where nine per cent of employees made no contributions.

The link between employer contributions and member salary was also present in contract-based schemes, with employers whose active members were earning above £40,000 per annum contributing 6.3 per cent on average, compared to four per cent in the smallest schemes. Employees also appeared to increase the percentage they themselves contributed as their salary increased to beyond £40,000, which meant that total contributions among the highest paid members were as high as 10.9 per cent, as Figure 3.4 shows.

**Figure 3.4 Average contributions in contract-based schemes, by active member salary**




*A7 What was the average employer contribution in the last 12 months as a percentage of employees' gross pay?*
*A8 And what was the average employee contribution in the last 12 months as a percentage of their gross pay?*
Base: All contract-based (697); less than £20K (66); £20K-less than £25K (121); £25K-less than £30K (135); £30K-less than £40K (169); £40K+ (189).
Bases exclude don't know/refused (2% of those asked).

# 4 Charges paid by scheme members

In most defined contribution (DC) pension schemes, members are required to pay a charge to the pension provider. In some cases, this charge may need to cover the cost of commission paid by the provider to the intermediary, which we explore in Chapter 5.

In trust-based schemes it is possible, although rare, for the sponsoring employer to cover all the charges associated with administering a pension scheme, resulting in no charge being payable to scheme members. In most trust-based schemes, however, and in all contract-based schemes, these charges are payable by the member.

The most common approach to charging is where members pay a fixed percentage of their total pension fund per year to the provider. This charge is typically referred to as the annual management charge (AMC).[19] Most commonly, providers set a basic AMC for a particular employer or scheme, for example, one per cent of each member's total fund value per year. This charge will normally be paid by the scheme members.

Because this one per cent charge is levied every year, the total amount that may betaken from the fund over a member's entire career can be significant. On 30 October 2013, the government launched a consultation that sought views on a range of measures to tackle pension charges and protect employees in workplace defined contribution pension schemes.[20]

This chapter reviews the basic level of AMC set by providers, and also looks at what the key determinants are of these charges. Later in this report, Chapter 7 will go on to examine the circumstances under which some members of a particular scheme might pay higher charges than others.

## 4.1 Employers' awareness of member charges

Key findings:

- Awareness of member charges among employers was significantly higher in 2013 than in 2011, in part as a result of our working with the employers interviewed, and explaining where they could obtain this information.
- Over 800 employers of the 1,310 we interviewed were able to tell us the level of AMC paid by members, compared to only around 300 employers in 2011.

It was important to ascertain whether employers were aware of the charges incurred by scheme members, before asking employers to tell us about their charging structures and levels. In order to report on this, all employers were asked the same question we asked in 2011:

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

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19 Other member charging structures are possible, for example, charges may be levied as a percentage of the member's total contributions (this is called contribution charging).

20 See the consultation page of DWP's website: https://www.gov.uk/government/consultations/better-workplace-pensions-a-consultation-on-charging

The 2011 Charges study demonstrated that employers' awareness of the charges paid by members was relatively low. In 2011, only 28 per cent of trust-based and 33 per cent of contract-based schemes believed that members paid any charges at all, with significantly lower awareness among smaller firms. While this was a useful finding in itself, in 2013 we worked with each of the 1,310 employers to explain by letter and by phone, how they could find out the level of AMC paid by members.[21]

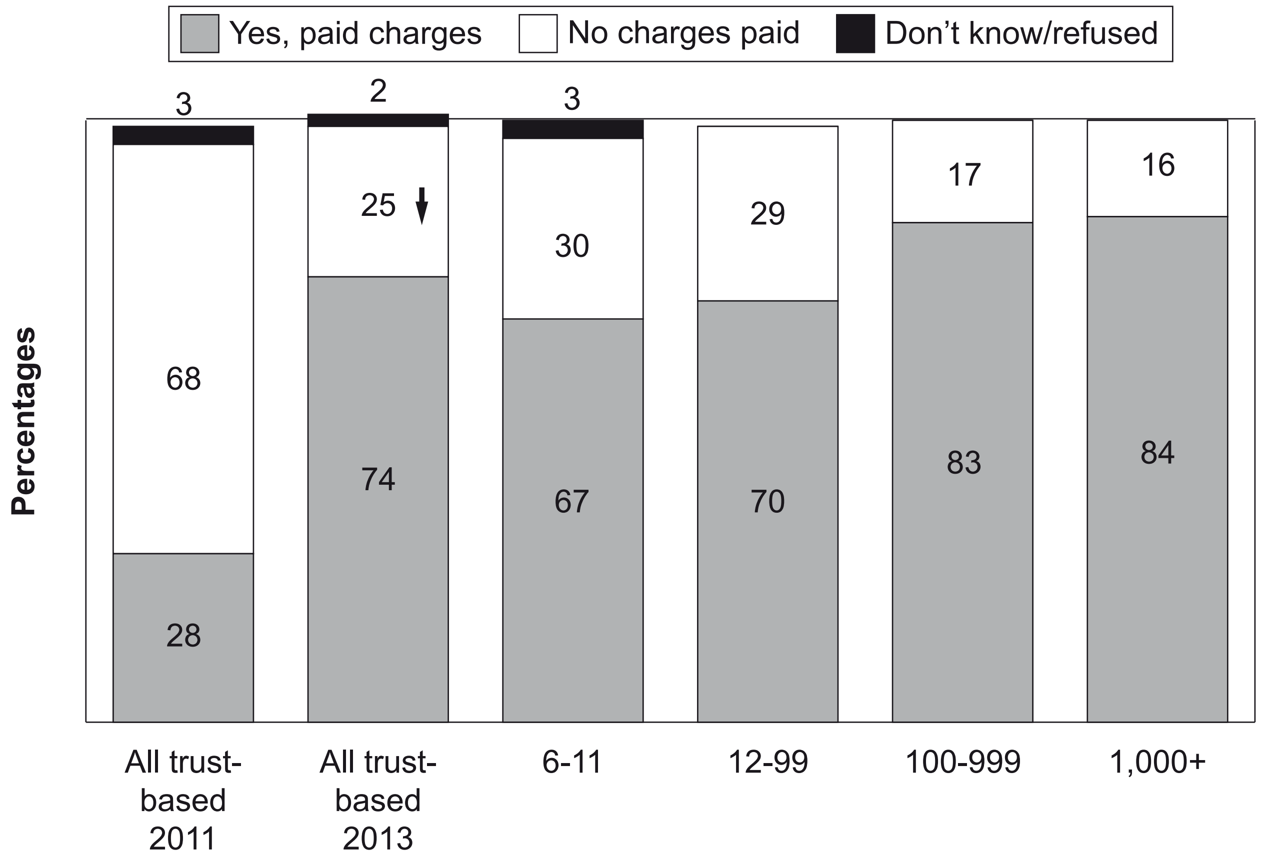
As a result of this approach, perhaps along with the increased government and media attention upon pensions and related charges, 74 per cent of employers with trust-based schemes and 85 per cent of employers with contract-based schemes confirmed that members did pay a charge in 2013. This means that over 800 employers have been able to tell us the level of AMC paid by members, compared to around 300 employers in 2011. This higher number allows us to draw even more statistically significant conclusions about what factors drive the level of AMC.[22]

Figure 4.1 demonstrates the effect of our working with these employers in 2013: among the employers in this survey, awareness of member charges has increased, although the same is unlikely to be true across all employers in the UK. Similar to the results from 2011, awareness differed significantly between schemes of varying size. A lower proportion (67 per cent) of the smallest trust-based schemes were aware of member charges, compared to 84 per cent of the largest.

21 We requested that if employers did not have this information to hand, they ask their pension provider or adviser before the interview; stressing that many providers have a website or telephone number for employers, through which it should be possible to find out the AMC.

22 It is important to appreciate that much of the increase in awareness was due to our working closely with these particular employers; we cannot conclude that awareness of charges among all employers has increased since 2011. Even with our help, a minority were still unable to tell us the level of charge paid by members.

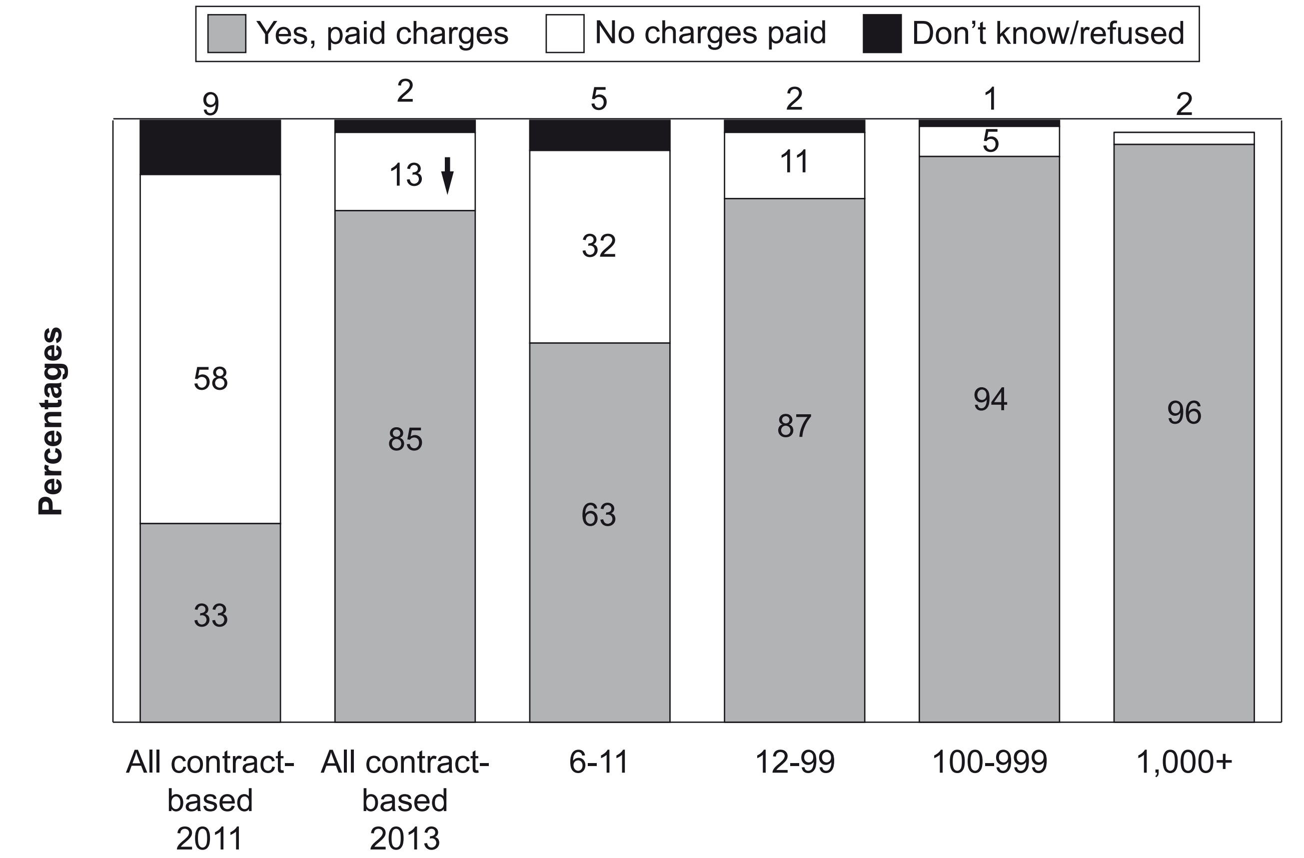
**Figure 4.1 Proportion of trust-based schemes where members are thought to pay charges, by scheme size**




*C1a Have the scheme members themselves paid any charges relating to the pension scheme in the past 12 months?*
Base: All trust-based (593); 6-11 (87); 12-99 (201); 100-999 (179); 1,000+ (126).

Results were similar for contract-based schemes, with overall awareness in larger schemes far higher than smaller schemes, as Figure 4.2 shows.

**Figure 4.2 Proportion of contract-based schemes where members are thought to pay charges, by scheme size.**




*C1a Have the scheme members themselves paid any charges relating to the pension scheme in the past 12 months?*
Base: All contract-based (717); 6-11 (126); 12-99 (258); 100-999 (251); 1,000+ (82).

Where employers were unaware that the charges existed, we did not ask them about the level of charges paid by members. Despite this, we were able to draw statistically significant conclusions about the basis on which member charges were paid from employers who were aware of their members' charges, and Sections 4.2, 4.3 and 4.4 explore this further.

## 4.2 Basis on which member charges were paid

### Key finding

- Where employers knew their members' charges, most (84 per cent of trust-based schemes and 90 per cent of contract-based schemes) reported that it was charged as a percentage of the member's fund per annum.

### 4.2.1 Trust-based schemes

In cases where employers with trust-based schemes knew their members' charges, 84 per cent reported that it was charged as a percentage of members' funds per annum. Other charging structures used are outlined in Table 4.1: a small proportion (ten per cent) reported charging as a percentage of members' contributions, with fewer still (four per cent) reporting a flat fee charge per member. It was possible for an employer to state that there was more than one charging basis in operation[23], although very few did so.

**Table 4.1 Basis on which member charges are paid in trust-based schemes, by scheme size**

| | All trust-based schemes aware of member charges (column percentages) | | | | |
|---|---|---|---|---|---|
| | **Total** | **6-11** | **12-99** | **100-999** | **1,000+** |
| Percentage of pension fund | *84* | *[79]* | *79* | *92* | *89* |
| Percentage of contributions | *10* | *[11]* | *14* | *6* | *5* |
| Flat fee per member | *4* | *[9]* | *4* | *2* | *3* |
| Other | *1* | *[2]* | *0* | *1* | *2* |
| Don't know/refused | *1* | *0* | *4* | *0* | *0* |

*C1a Have the scheme members themselves paid any charges relating to the pension scheme in the past 12 months? C2a. Was this overall charge paid as a percentage of members' pension funds, as a percentage of their contributions, as a flat fee per member, or a combination of these?*
Base: All trust-based where members pay an overall charge (366); 6-11 (47); 12-99 (105); 100-999 (122); 1,000+ (92). Multiple answers are possible: totals may add up to more than 100 per cent.

This report will only focus on the level of charges paid as percentage of a pension fund, as there are too few observations of other charging methods to report reliably. As we will show in Section 4.3, for all trust-based schemes, the average AMC was 0.75 per cent of the fund per year, with members of larger schemes paying significantly less.

### 4.2.2 Contract-based schemes

Nine out of ten contract-based schemes that were aware of member charges said that they were charged as a percentage of the overall fund, slightly more than for trust-based schemes. This figure does not differ significantly across scheme sizes for contract-based schemes, and only a very small percentage of trust-based and contract-based schemes were unaware of the charging basis, as Table 4.2 demonstrates.

23 For example, NEST (the National Employment Savings Trust) currently operates on the basis of a 1.8 per cent charge on the value of each contribution plus an AMC of 0.3 per cent of the value of the fund. At the time of fieldwork (April/May 2013), most employers with fewer than 5,000 employees had not yet begun automatic enrolment, and so could not yet use NEST. It is therefore unsurprising that few employers reported this charging mechanism.

**Table 4.2 Basis on which member charges are paid in contract-based schemes, by scheme size**

| | All contract-based schemes aware of member charges (column percentages) | | | | |
|---|---|---|---|---|---|
| | **Total** | **6-11** | **12-99** | **100-999** | **1,000+** |
| Percentage of pension fund | *90* | *86* | *90* | *90* | *91* |
| Percentage of contributions | *7* | *12* | *7* | *7* | *9* |
| Flat fee per member | *1* | *2* | *1* | *1* | *0* |
| Other | *1* | *0* | *1* | *1* | *0* |
| Don't know/refused | *1* | *2* | *1* | *1* | *0* |

*C1a Have the scheme members themselves paid any charges relating to the pension scheme in the past 12 months? C2a. Was this overall charge paid as a percentage of members' pension funds, as a percentage of their contributions, as a flat fee per member, or a combination of these?*
Base: All contract-based where members pay an overall charge (518), 6-11 (65), 12-99 (184), 100-999 (200), 1,000+ (69). Multiple answers are possible: totals may add up to more than 100 per cent.

As with trust-based schemes, this report will only focus on the level of charges paid as percentage of the pension fund, as there are too few observations of other charging methods to report reliably. As we will show in Section 4.3, the average AMC in contract-based schemes was 0.84 per cent.

# 4.3 The level of charge paid by members

Key finding:

- The average AMC for trust-based schemes in 2013 was 0.75 per cent of the fund per annum; the average AMC of contract-based pensions was higher at 0.84 per cent.
- Levels of charge were lowest for the largest schemes and highest for the smallest schemes.
- Members were most likely to pay the highest AMCs (of one per cent or greater), in older schemes, those that contributed least, and those where member salary was lowest.

Overall, members of trust-based schemes paid lower charges than those of contract-based schemes. In all trust-based schemes, the average AMC was 0.75 per cent of a member's fund per year, while for an average contract-based scheme member the AMC was higher at 0.84 per cent.

The average AMC in trust-based schemes had not changed significantly since 2011, when the AMC was 0.71 per cent overall. This is shown in Table 4.3, broken down by size category.

**Table 4.3 AMC levels in trust-based schemes by scheme size in 2011 and 2013**

| | All trust-based schemes (mean AMC as column percentages) | | | | |
|---|---|---|---|---|---|
| **Number of scheme members** | **Total** | **6-11** | **12-99** | **100-999** | **1,000+** |
| **2011** | | | | | |
| Average AMC | **0.71** | *(very low base)* | *[0.82]* | *0.66* | *0.48* |
| **2013** | | | | | |
| Average AMC | **0.75** | *[0.91]* | 0.94 | *0.60* | 0.42 |

*C3a. What percentage of the fund per year did active members pay on average over the last 12 months?*
Base: All trust-based where members pay charges as % of fund 2011 (164), 6-11 (8), 12-99 (34), 100-999 (69), 1,000+ (53); all trust-based where members pay charges as % of fund 2013 (369), 6-11 (44), 12-99 (102), 100-999 (131), 1,000+ (92).

In comparison, among contract-based schemes the average AMC had fallen slightly since 2011 from 0.95 per cent to 0.84 per cent, as Table 4.4 shows.

**Table 4.4 AMC levels in contract-based schemes by scheme size in 2011 and 2013**

| | All contract-based schemes (mean AMC as column percentages) | | | | |
|---|---|---|---|---|---|
| **Number of scheme members** | **Total** | **6-11** | **12-99** | **100-999** | **1,000+** |
| **2011** | | | | | |
| Average AMC | **0.95** | *(very low base)* | | *0.82* | *[0.48]* |
| **2013** | | | | | |
| Average AMC | **0.84** | *[0.91]* | 0.86 | *0.65* | 0.51 |

*C3a. What percentage of the fund per year did active members pay on average over the last 12 months?*
Base: All contract-based where members pay charges as % of fund 2011 (141); 6-11(14); 12-99(27); 100-999 (53); 1,000+ (47). All contract-based where members pay charges as % of fund 2013 (523); 6-11 (66); 12-99 (189); 100-999 (199); 1,000+ (69).

Table 4.5 illustrates the spread in the level of charges paid by members of trust-based and contract-based schemes, and again shows that members of trust-based schemes were likely to pay the lowest charges. In total, 18 per cent of members of all trust-based schemes paid less than 0.4 per cent, whereas only six per cent of all contract-based schemes had charges this low. The difference between scheme types is less pronounced at the higher end of the charging scale: almost one-third (28 per cent) of all trust-based and almost half (40 per cent) of all contract-based schemes had an AMC of exactly one per cent, with a relatively low proportion paying more than this (ten and seven per cent respectively).

**Table 4.5 Range of AMCs paid by members of trust-based and contract-based schemes**

| | All schemes where charges are paid as percentage of fund (column percentages) | |
|---|---|---|
| | **Trust-based (mean: 0.75%)** | **Contract-based (mean: 0.84%)** |
| AMC up to 0.19% | 8 | 2 |
| AMC between 0.2% and 0.39% | 10 | 4 |
| AMC between 0.4% and 0.59% | 18 | 15 |
| AMC between 0.6% and 0.79% | 13 | 17 |
| AMC between 0.8% and 0.99% | 10 | 11 |
| AMC of 1% | 28 | 40 |
| AMC over 1% | 10 | 7 |
| Don't know/refused | 5 | 2 |

*C1a Have the scheme members themselves paid any charges relating to the pension scheme in the past 12 months? C3a. What percentage of the fund per year did active members pay on average over the last 12 months?*
Base: All trust-based where members pay charges as % of fund (369); All contract-based where members pay charges as % of fund (523).

As the proportion of schemes that had an AMC of over one per cent was low, it is only possible to draw indicative conclusions about which types of employers were likely to have a pension with such a high level of charge. For trust-based schemes, charges of more than one per cent appeared to be more prevalent among employers with:

- a lower than average employee salary (less than £25,000 per annum);
- those who paid lower employer contributions;
- those who used a commission-based adviser.

In the case of contract-based schemes, charges of more than one per cent were generally more prevalent among employers with:

- older schemes that were set up before 1991;
- group stakeholder pensions;
- lower average employer contributions;
- smaller schemes (fewer than 100 members).

## 4.4 Factors impacting the AMC

### Key findings

- Apart from scheme type, the size of the scheme was the greatest determinant of the AMC, with members of the largest schemes more likely to pay lower charges.
- If a commission-based adviser was used, this led to an overall increase in the AMC paid by members.
- Higher contributions, which were driven both by salary and the percentage of salary contributed in total, led to lower charges being paid by members.
- The average AMC for trust- and contract-based schemes that were set up before 1991 were higher than those set up in 2001 or later.

As we showed in Section 4.2, the average AMC among trust-based schemes was 0.75 per cent, while for contract-based schemes this was 0.84 per cent. One objective of this study is to understand the drivers of charges, and what factors determine whether members pay more or less than the average amount for their pension. This section examines the variables that drove the AMC.

### 4.4.1 Scheme size

The size of the scheme was one of the greatest determinants of the AMC, as Table 4.6 shows.

**Table 4.6 AMC levels by scheme size, compared to the average AMC**

| | All trust- and contract-based schemes (mean AMC as column percentages) | | | | |
|---|---|---|---|---|---|
| **Number of scheme members** | **Total** | **6-11** | **12-99** | **100-999** | **1,000+** |
| **Trust-based** | | | | | |
| Average AMC | 0.75 | *[0.91]* | 0.94 | *0.6* | 0.42 |
| **Contract-based** | | | | | |
| Average AMC | 0.84 | *0.91* | 0.86 | *0.65* | 0.51 |

*C3a. What percentage of the fund per year did active members pay on average over the last 12 months?*
Base: All trust-based where members pay charges as % of fund (369); 6-11(44); 12-99(102); 100-999 (131); 1,000+ (92). All contract-based where members pay charges as % of fund (523); 6-11(66); 12-99(189); 100-999 (199); 1,000+ (69).

As in 2011, there was a significant decrease in the average AMC paid by members as scheme size increased. In both types of scheme, the AMCs paid by the members of the very smallest schemes were as high as 0.91 per cent on average. In contrast, members of larger schemes paid significantly below the average: those in the largest schemes of 1,000 members or more paid an average of only 0.42 per cent in trust-based and 0.51 per cent in contract-based schemes.

As a comparison, we asked four pension providers to tell us how many contract-based schemes they had sold in the previous 12 months in each of five categories relating to size, and the level of charge of these schemes. This is shown in Table 4.7 below.

**Table 4.7 AMC in contract-based schemes reported by providers, by scheme size**

| | All participating providers (column percentages) | | | | | |
|---|---|---|---|---|---|---|
| **Number of scheme members** | **Total** | **1-5** | **6-11** | **12-99** | **100-249** | **250+** |
| **Provider data** | | | | | | |
| Average AMC | *0.83* | *0.94* | *1.00* | *0.78* | *0.59* | *0.51* |

*Provider Q2 Thinking about pension charges for Group Personal Pensions (GPPs) and group Stakeholder Pensions (SHPs), please indicate the total number of new schemes sold in each category in the last 12 months. Please note that provider data is not representative of the whole market, and should be treated as indicative.*

While the size bands used by providers are slightly different, the same broad trends are evident. The average AMC for contract-based schemes sold in the 12 months prior to the research was 0.83 per cent. Once again, providers applied the lowest levels of charge to the largest schemes.

In Chapter 9 of this report, we will explore in more detail providers' views on how the level of charge and scheme size relate to each other, and the possible impact this may have on member outcomes.

## 4.4.2 Commission

Prior to 2013, if an employer chose to use an adviser in relation to their pension scheme, they could choose between paying a fee for the service, thus covering the costs of advice themselves (we have described this as using a 'fee-based adviser'), and using a 'commission-based adviser'. In the latter case, the employer paid no fee to the adviser, but instead the pension provider paid the adviser commission for the business that they introduced. The provider then passed this commission on to the member, indirectly, via an increase in the AMC.

Under new regulations introduced as part of the Retail Distribution Review (RDR) which came into force on 31 December 2012, new products sold since that date may not be sold on a commission basis, but commission may continue to be paid by the provider on products sold before then.

We might expect, then, that the AMC for employers using a commission-based adviser would be higher than for those using a fee-based adviser. Indeed, as Table 4.8 shows, in trust-based schemes using fee-based advisers, the AMC was significantly lower at 0.57 per cent; whereas the average AMC for commission-based schemes was 0.97 per cent, almost double the level of charge and significantly higher than average.

The picture was the same for contract-based schemes, where the average AMC in schemes using fee-based advisers was 0.73 per cent. In contrast, the average AMC for commission-based adviser schemes was 0.89 per cent.

**Table 4.8 AMC levels by use of adviser**

| | All trust-based and contract-based scheme average AMCs, by use of an adviser (column percentages) | |
|---|---|---|
| | **Trust-based (mean: 0.75%)** | **Contract-based (mean: 0.84%)** |
| Fee-based adviser | *0.57* | *0.73* |
| Commission-based adviser | *0.97* | *0.89* |

*C3a. What percentage of the fund per year did active members pay on average over the last 12 months?*
Base: All trust-based where members pay charges as a percentage of the fund (369).
Base: All contract-based where members pay charges as percentage of the fund (523).

Data given to us by providers produced similar results. Schemes that were sold with commission faced an average AMC that was 0.2 percentage points higher than those without. Table 4.9 shows the level of charges paid by scheme members, in the 1,610 schemes sold by four providers in the 12 months prior to the research.

**Table 4.9 Impact of commission on AMC reported by providers, by scheme size**

| | All participating providers (column percentages) | | | | | |
|---|---|---|---|---|---|---|
| **GPP/GSHP Scheme members** | **Total** | **1-5** | **6-11** | **12-99** | **100-249** | **250+** |
| Average AMC | 0.83 | 0.94 | 1.00 | 0.78 | 0.59 | 0.51 |
| Average AMC (no commission) | 0.73 | 0.80 | 0.81 | 0.71 | 0.54 | 0.48 |
| Average AMC (with commission) | 0.92 | 1.15 | 1.17 | 0.84 | 0.62 | 0.62 |
| Impact of commission on AMC | +0.19 | +0.35 | +0.36 | +0.13 | +0.08 | +0.14 |

*Provider Q2 Thinking about pension charges for GPPs and group SHPs, please indicate the total number of new schemes sold in each category in the last 12 months. Provider data is not representative of the whole market, and should be treated as indicative.*
Employer base: All contract-based schemes where members pay charges as a percentage of the fund (523).

## 4.4.3 Member salary

Higher member salaries can sometimes lead to members benefiting from lower levels of charge. This is demonstrated in Table 4.10.

**Table 4.10 AMC levels by member salary**

| | All trust-based and contract-based scheme average AMCs, by member salary (column percentages) | | | | | |
|---|---|---|---|---|---|---|
| | Average | <20k | £20<£25k | £25<£30 | £30k<£40k | £40k+ |
| Trust-based | *0.75* | *[0.77]* | *0.93* | *0.79* | *0.69* | 0.64 |
| Contract-based | *0.84* | *0.9* | *0.88* | *0.85* | *0.80* | *0.80* |

*C3a. What percentage of the fund per year did active members pay on average over the last 12 months?*
Base: All trust-based where members pay charges as % of fund (369); <£20k (42); £20<£25 (55); £25<£30 (66); £30<£40 (89); £40+ (54).
Base: All contract-based where members pay charges as % of fund (523); <£20k (43); £20<£25 (87); £25<£30 (99); £30<£40 (128); £40+ (107).

Overall, there is relatively little difference in the level of AMC by salary in contract-based schemes, although charging levels do decrease slightly as salary levels increase. The impact is most evident in trust-based schemes in which members' salaries average £40,000 or more: in these cases, the AMC decreases to 0.64 per cent, well below the average of 0.75 per cent.

Providers that we interviewed also confirmed to us that they investigated the average prospective members' salary when selling a scheme to a new employer. The reason for this was because the total contributions that the scheme was likely to receive over time in absolute cash terms was likely to be far higher. As a result, providers could offer the employer a lower AMC to compensate.

> *'If we, for example, got a workforce that is low-paid and likely to move every three or six months, then invariably they will get a pretty high annual management charge because we just can't make any money off the back of those.'*
>
> (Provider)

### 4.4.4 Employer contributions

While we have seen that member salary was an important determinant of the AMC providers could offer, the percentage of the salary that was actually paid into the pension was also of significance. Higher employer contributions were directly related to the level of AMC, as Table 4.11 shows.

**Table 4.11 AMC levels by employer contribution**

| | All trust-based and contract-based scheme average AMCs, by employer contribution (column percentages) | | | |
|---|---|---|---|---|
| | Total | 2-3.99% | 4-7.99% | 8+% |
| Trust-based | 0.75 | 0.91 | *0.77* | 0.65 |
| Contract-based | 0.84 | 0.93 | *0.85* | 0.67 |

*C3a. What percentage of the fund per year did active members pay on average over the last 12 months?*
Base: All trust-based where members pay charges as % of fund (369); 2-3.99% (54); 4-7.99% (183); 8%+ (111).
Base: All contract-based where members pay charges as % of fund (523); 2-3.99% (107); 4-7.99% (288); 8%+ (103).

Charges applied to members with employer contributions of eight per cent or above were typically lower than the average, at 0.65 per cent for trust-based schemes and 0.67 per cent for contract-based schemes. This may in part be driven by salary, as higher employer contributions also correlate with higher member salaries. In contrast, the lowest category of employer contributions for both trust-based and contract-based schemes reported significantly higher than average AMC levels.

It is worth noting that AMCs did not correlate with employee contributions in the same way as the employer contribution levels did: there were no significant differences between level of employee contribution and level of AMC.

Providers agreed that employer contribution levels were one of the variables used in assessing employers' likely profitability for a provider. As a result of this correlation, providers were willing to charge less for such schemes. Providers said that, in reality, they were interested in the absolute monthly payment, rather than the percentage of salary contributed, or how this split into employer or employee contribution. However, they took both into account when setting the AMC.

> *'Obviously we look at contribution rates, particularly in terms of the assets that will potentially be there … What we don't want to be doing is taking on a large number of members who have got very, very small pots.'*
>
> (Provider)

### 4.4.5 Scheme age

The year in which the scheme was created was another determining factor in the level of AMC charged to members, for both trust- and contract-based schemes. This is shown in Table 4.12.

**Table 4.12 AMC levels by scheme age**

| | All trust-based and contract-based scheme average AMCs, by employer contribution (column percentages) | | | |
|---|---|---|---|---|
| | **Total** | **Pre-1991** | **1991-2000** | **2001 or later** |
| Trust-based average AMC | 0.75 | *0.81* | *0.76* | *0.71* |
| Contract-based average AMC | 0.84 | *[1]* | 0.89 | 0.80 |

*C3a. What percentage of the fund per year did active members pay on average over the last 12 months?*
Base: All trust-based where members pay charges as % of fund (369); pre-1991 (94); 1991-2000 (111); 2000 or later (156).
Base: All contract-based where members pay charges as % of fund (523); pre-1991 (35); 1991-2000 (110); 2000 or later (355).

The average AMC for trust-based schemes that were set up before 1991 was 0.81 per cent; this decreased to 0.71 per cent for schemes set up in 2001 or later. Similarly, the average AMC for contract-based schemes that were set up before 1991 was exactly one per cent; this decreased to 0.8 per cent for schemes set up in 2001 or later.

Providers agreed that older schemes were likely to face higher charging levels. This applies particularly to those schemes that were sold prior to 2001, when stakeholder pensions limited the maximum level of AMC to 1.5 per cent initially (and one per cent later):

> *'Back in the nineties, schemes were subject to a huge range of different charges. Most schemes have long since been renewed on a better rate, but there are still some of them out there.'*
>
> (Provider)

# 5 Intermediary services and fees

In Chapter 4, we examined the charges that are paid by the vast majority of trust- and contract-based scheme members. The next two chapters examine the fees paid by employers.

This chapter will examine the services provided by intermediaries and the fees that are issued for this service; Chapter 6 will then go on to examine other fees that may be covered by employers.

The typical role of the intermediary is to provide the employer with advice regarding the most appropriate choice of pension scheme for their scheme members. This usually leads the selection process of the provider. In many cases, intermediaries will also provide individual members with personalised advice.[24]

## 5.1 The use of commission-based versus fee-based intermediaries

### Key findings

- Almost two-thirds (64 per cent) of trust-based schemes used an adviser in relation to their scheme; schemes of over 100 members were significantly more likely to use an adviser. The largest schemes were also the most likely to pay a fee for their advice.
- While a similar proportion of contract-based and trust-based schemes used an adviser, employers with contract-based schemes were less likely to pay a fee for advice and more likely to use commission-based advice.
- The use of commission-based advisers for trust-based schemes increased from 20 to 25 per cent since 2011, and was most prevalent among employers with fewer than 100 employees.
- The use of commission-based advisers for contract-based schemes also increased from 28 per cent in 2011 to 41 per cent in 2013.

Prior to 2013, if an employer chose to use an adviser in relation to their pension scheme, they could choose between paying a fee for the service, thus covering the costs of advice themselves (we have described this as using a ‘fee-based adviser’), and using a ‘commission-based adviser’. In the latter case, the employer paid no fee to the adviser, but instead the pension provider paid the adviser commission for the business that they introduced. As Chapter 4 demonstrated, the provider then passed this commission on to the member, indirectly, via an increase in the annual management charge (AMC).

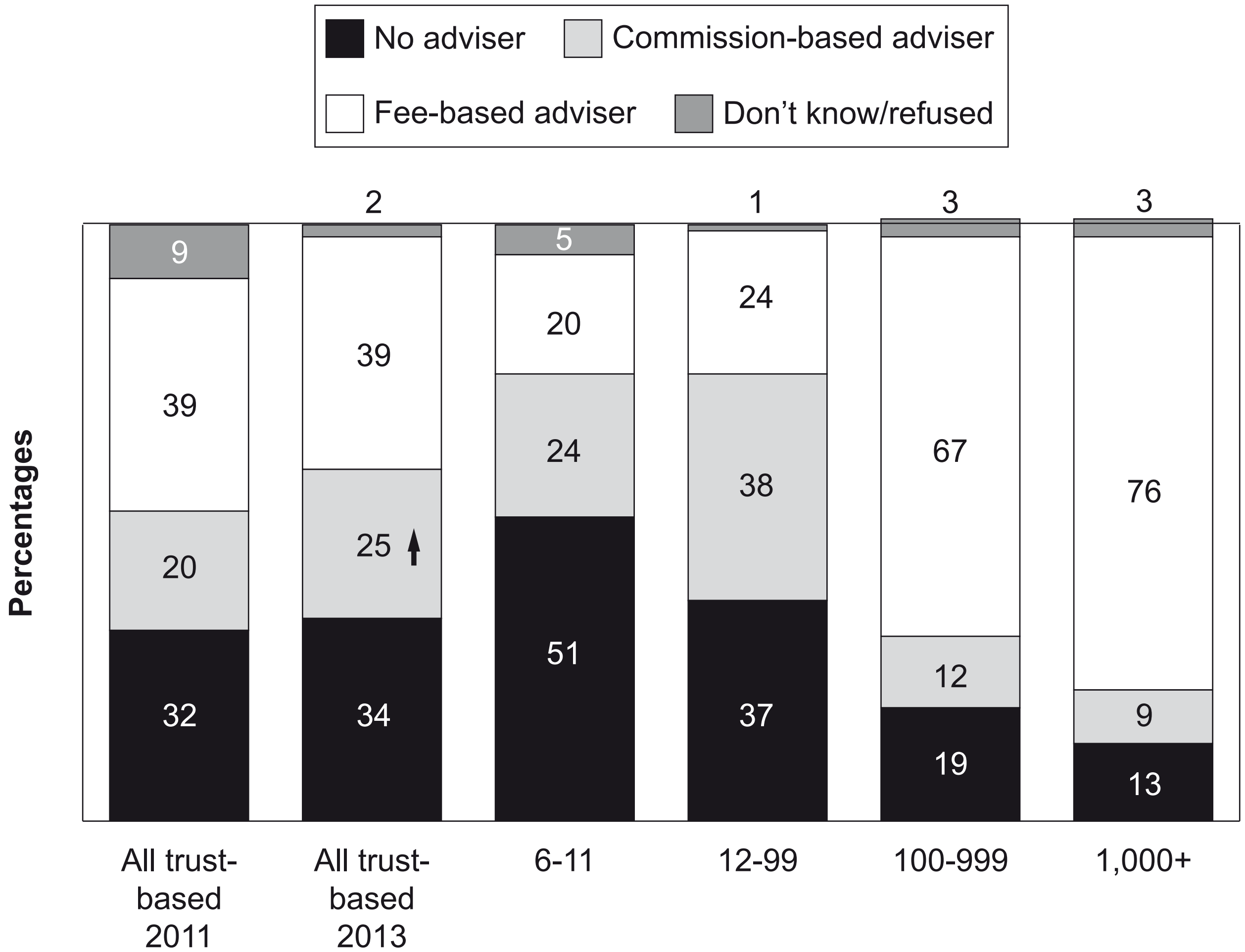
Under new regulations introduced as part of the Retail Distribution Review (RDR), new products sold since 31 December 2012 may not be sold on a commission basis, but commission may continue to be paid by the provider on products sold before then.

[24] In the context of this report the term ‘intermediary’ is synonymous with ‘adviser’.

### 5.1.1 Trust-based schemes

In 2013, almost two-thirds (64 per cent) of trust-based schemes reported that they had used an adviser of some sort in relation to their scheme. Their likelihood of having done so increased with scheme size: 85 per cent of schemes with 1,000 members or more reported using either a fee or commission-based adviser, compared to only 44 per cent of the smallest schemes. Figure 5.1 breaks down the type of adviser used by scheme size.

**Figure 5.1 Use of advisers in trust-based schemes, by scheme size**




*C6a Has the employer/scheme used the services of an employee benefit consultant, adviser or intermediary in relation to the scheme in the last 12 months?*
*C6b. Did they charge on a commission basis, or did they charge in some other way such as via a fee?*
Base: All trust-based (593); 6-11 (87); 12-99 (201); 100-999 (179); 1,000+ (126).

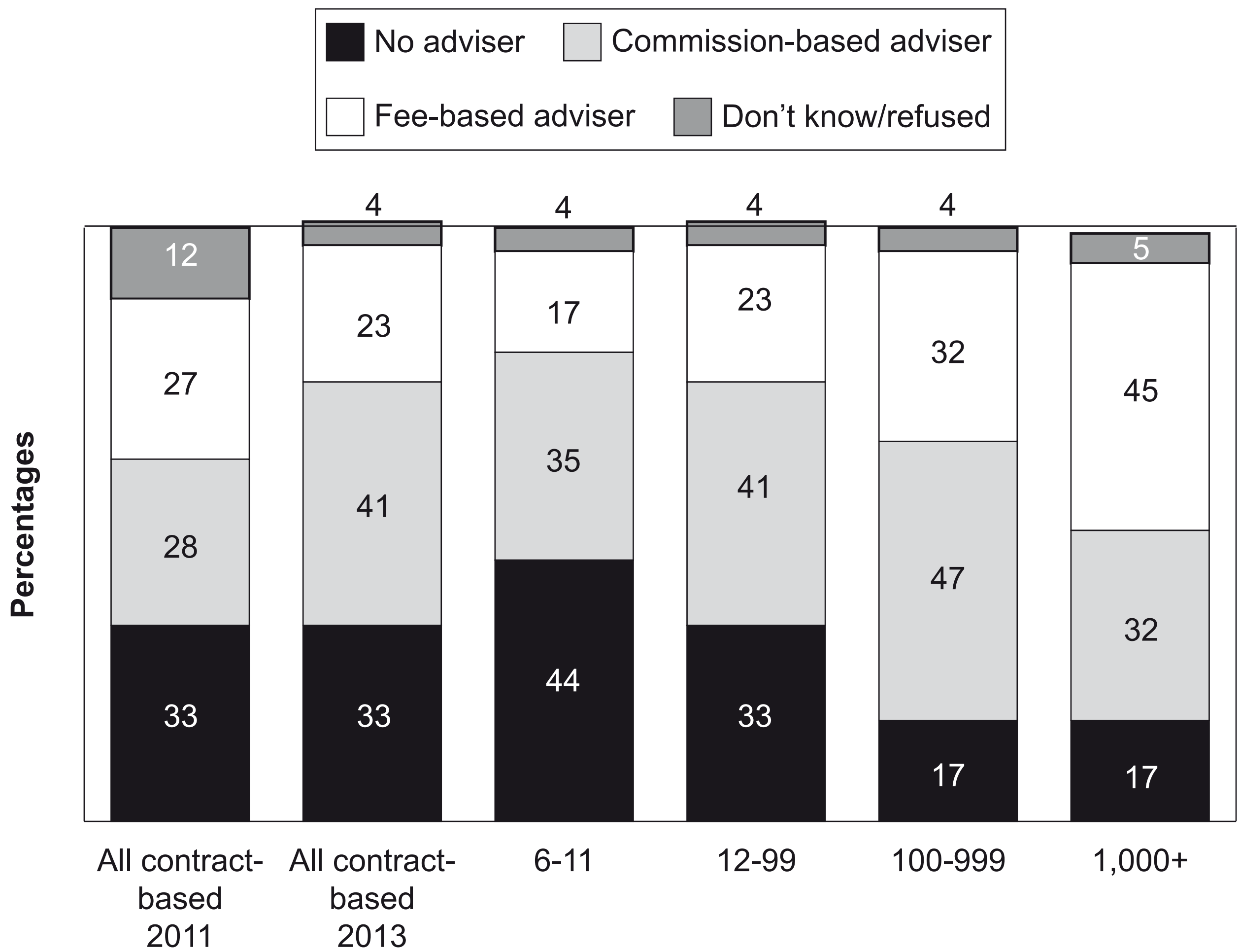
As well as being less likely to use an adviser, the smallest schemes were also the least likely to pay a fee for this advice. Only 20 per cent of schemes with six to 11 members paid a fee for advice, compared to 76 per cent of schemes with 1,000 members or more.

On average, 25 per cent of all trust-based schemes had used a commission-based adviser in the 12 months prior to this research, up from 20 per cent in 2011. The fact that commission was banned for new schemes sold from 2013 under the RDR may be one of the reasons why this study shows an increase in commission-based advice in the run up to the ban. Paying for advice through commission was more common among smaller schemes, with around a quarter (24 per cent) of schemes with six to 99 members having done so, while only nine per cent of the largest schemes used commissioned-based advisers.

### 5.1.2 Contract-based schemes

Similar to trust-based schemes, the use of commission-based advisers has increased significantly since 2011 (from 28 per cent to 41 per cent as Figure 5.2 shows), and is most common among employers of up to 1,000 employees.

**Figure 5.2 Use of advisers in contract-based schemes, by scheme size**




*C6a Has the employer/scheme used the services of an employee benefit consultant, adviser or intermediary in relation to the scheme in the last 12 months?*
*C6b. Did they charge on a commission basis, or did they charge in some other way such as via a fee?*
Base: All contract-based (717); 6-11 (126); 12-99 (258); 100-999 (251); 1,000+ (82).

Again, the fact that commission was banned for new schemes sold from 2013 under the RDR may be one of the reasons why this study shows an increase in commission-based advice in the run up to the ban. Contract-based schemes were also less likely to pay a fee: only 23 per cent paid a fee for advice, compared to 39 per cent of trust-based schemes.

Smaller contract-based schemes were more likely to use no adviser at all, with only 52 per cent of schemes with six to 11 members having done so in the last 12 months. In contrast, 87 per cent of schemes with 1,000 members or more used some kind of advice when selecting their schemes. Employers with small contract-based schemes were also less likely to pay a fee for advice (only 17 per cent), compared to 45 per cent of the largest schemes.

# 5.2 Fees paid by employers for fee-based intermediaries

**Key findings**

- Where employers with trust-based schemes paid a fee, this was on average £180 per active member, while those with contract-based schemes paid £140 on average.
- In both types of scheme, the largest schemes paid the least per member.
- Almost all employers reported that they covered the entire cost of advice, with negligible amounts recharged to members overall.

## 5.2.1 Trust-based schemes

Where schemes paid for an adviser by way of a fee, we asked employers to tell us how much they paid in the last 12 months for these services. This is shown in Table 5.1.

**Table 5.1 Fees paid to advisers in trust-based schemes, by scheme size**

| | **All trust-based schemes paying a fee for advice (shown in £)** | | | | |
|---|---|---|---|---|---|
| | **All trust-based** | **6-11** | **12-99** | **100-999** | **1,000+** |
| Total adviser charge paid by employer | £42,000 | *(very low base)* | *[£5,000]* | *£34,000* | *£129,000* |
| Total adviser charge paid by employer per active member | £180 | *(very low base)* | *[£200]* | *£210* | *£50* |

*C6d1. How much as a Flat or hourly fee/annual retainer was paid in total in the last 12 months?*
*C6e. Was any of this paid for by, or recharged to, the pension scheme members, or did employer/scheme cover the entire cost?*
Base: All trust-based schemes paying a fee (261); 6-11 (16); 12-99 (43); 100-999 (115); 1,000+ (87).

Employers with larger schemes unsurprisingly paid more than employers with smaller schemes in absolute terms. It is also useful to report how much the employer is paying per active member. In this case, amount paid per member decreases as scheme size increases. While the average scheme paid around £180 per member, the smaller schemes paid the most, at £200 per member, while the largest schemes paid only £50 per member on average.

Almost all employers reported that they covered the entire cost of advice, with negligible amounts recharged to members overall in the few cases that any costs were passed onto members. In these cases, the base was too small to provide a reliable measure of sums recharged to members and so has not been reported here.

### 5.2.2 Contract-based schemes

In contract-based schemes, fees for advice also depended on the size of the scheme. The largest schemes paid less than half the average per member than the smallest (£60 and £150 respectively). Overall, the fees paid were lower in contract-based schemes: the average spent per member was £140 compared to £180 for trust-based schemes. This is broken down in Table 5.2. Again, almost all employers reported that they covered the entire cost of advice.

**Table 5.2 Fees paid to advisers in contract-based schemes, by scheme size**

| | All contract-based schemes paying a fee for advice (shown in £) | | | | |
|---|---|---|---|---|---|
| | **All contract-based** | **6-11** | **12-99** | **100-999** | **1,000+** |
| Total adviser charge paid by employer | £7,700 | *(very low base)* | [£4,800] | £16,800 | [£113,600] |
| Total adviser charge paid by employer per active member | £140 | *(very low base)* | [£150] | £70 | [£60] |

*C6d1. How much as a flat or hourly fee/annual retainer was paid in total in the last 12 months?*
*C6e. Was any of this paid for by, or recharged to, the pension scheme members, or did employer/ scheme cover the entire cost?*
Base: All contract-based schemes paying a fee (165); 6-11 (15); 12-99 (46); 100-999 (68); 1,000+ (36).

# 6 Other services and fees

As well as the fees paid for intermediaries, which we examined in Chapter 5, employers may also have paid for certain other services in relation to the pension scheme. This chapter will explore these additional services and charges, with particular emphasis on:

- employers with an insurer-administered trust-based scheme, or a contract-based scheme, who may choose to pay a fee to their pension provider to offset some of the charges that would otherwise be paid for by scheme members;
- employers with trust-based schemes who may pay for a variety of other services and fees, such as auditors or third-party administrators, investment consultants and managers, or professional trustees that are related to the operation of the pension scheme.

This chapter examines these other fees employers might pay.

## 6.1 Fees paid by the employer to the provider

Key finding

- Only a small minority of trust-based and contract-based schemes chose to pay a fee to their provider in the 12 months prior to the study.
- Only in rare cases was it possible for providers to charge a fee to the employer for setting up a scheme.

As in 2011, it was rare for employers to choose to pay a fee to their pension provider. Only 18 per cent of all trust-based schemes and just six per cent of all contract-based schemes had paid a fee to their provider in the previous 12 months.[25] An average of £300 per member per year was spent by those employers with trust-based schemes who were paying fees for any services.

In rare cases, it is possible for providers to charge an employer for setting up a scheme. However, as in 2011, awareness of any scheme setup fees was low. In total, ten per cent of trust-based and 13 per cent of contract-based schemes set up after 2001 said that they may have been charged a setup fee, but almost none could estimate a figure. Providers themselves told us that they do not typically charge setup fees, as it is now the norm to include all setup charges as part of the annual management charge (AMC), which they felt employers found easier to understand.

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25 Note that this question was only asked to insurer-administered trust-based schemes (81 per cent of all trust-based schemes) and all contract-based schemes. Where employers had unbundled trust-based schemes (i.e. they used multiple providers for different services like fund management, scheme administration and investment consultancy), this question was not asked.

## 6.2 Use of other services by trust-based schemes

### Key findings

- Almost half (45 per cent) of trust-based schemes used one or more additional services, with larger schemes more likely to use a wider range of services.
- Auditors and accountants were the most commonly-used service, used by 40 per cent of scheme, followed by solicitors and legal advisers (21 per cent).
- Where employers with trust-based schemes did pay for additional services, they had spent an average of £300 per member on these in total in the previous year. Almost all employers claimed that such fees were never passed onto members.

All trust-based schemes were asked whether they used any additional services in relation to their pension scheme. This applied both to unbundled schemes, who used multiple providers for different services like fund management, scheme administration and investment consultancy, and insurer-administered schemes who relied on a single pension provider, but may still have chosen to use external services such as a professional trustee.

Overall, almost half of the trust-based schemes paid for at least one additional service (45 per cent), with usage mainly driven by the size of the scheme, as Table 6.1 shows. The largest schemes were more likely to use a wider range of services, with 83 per cent of schemes with 1,000 or more members paying for additional services, while only 21 per cent of the smallest schemes paid for any additional services.

**Table 6.1 Use of other services by trust-based schemes, by scheme size**

| | Other services used by trust-based schemes, by scheme size (column percentages) | | | | |
|---|---|---|---|---|---|
| | All trust-based | 6-11 | 12-99 | 100-99 | 1,000+ |
| Auditors/accountants | 40 | 16 | 31 | 64 | 80 |
| Solicitors/legal advisers | 21 | 0 | 5 | 44 | 72 |
| Third party administrators | 14 | 5 | 6 | 25 | 36 |
| Investment consultants | 12 | 3 | 1 | 22 | 44 |
| Investment manager | 7 | 1 | 2 | 11 | 27 |
| Professional/independent trustees | 9 | 2 | 3 | 13 | 34 |
| Paid for any other additional services | 1 | 0 | 0 | 3 | 6 |

*C7 Has the employer/scheme used and paid for any of the following services in the last 12 months in respect to this pension scheme?*
Base: All trust-based schemes (593); 6-11 (87); 12-99 (201); 100-999 (179); 1,000+ (126).
Multiple answers possible.

Where employers with trust-based schemes told us that they used any of the other services listed in this chapter, we asked them to tell us how much they spent on each service in the previous 12 months. In this section, we show the total spent by employers on additional services, where they could give us this information – in total 75 per cent of employers with trust-based schemes were able to estimate this.

Employers with trust-based schemes that paid fees for services other than advice spent an average of around £72,000, a total of £300 per member per year. Almost all employers reported that they covered the entire cost of advice, with negligible amounts recharged to members overall. As Table 6.2 shows, spend per member decreased with scheme size, with the largest schemes spending around £160 per member on non-advice related services, and all other size categories paying at least £300 per member.

**Table 6.2 Total fees paid by employers with trust-based schemes for services other than advice**

| | All trust-based schemes where services other than advice were paid in fees (shown in £) | | | | |
|---|---|---|---|---|---|
| | **All trust-based** | **6-11** | **12-99** | **100-999** | **1,000+** |
| Total charge paid by employer | £72,000 | £2,000 | £5,000 | £57,000 | £302,000 |
| Total charge paid by employer per active member | £300 | £300 | £370 | £310 | £160 |

*C5b. How much did the employer/scheme pay in total to the pension provider in the last 12 months? C8b_1 (1). [Service]: how much was paid in total as a flat or hourly fee/annual retainer in the last 12 months? E3 [Additional charges]: how much was paid on a flat or hourly fee or annual retainer basis?*
Base: All trust-based schemes paying flat fees/fee per member for provider/EBC/any other services (341); 6-11 (27); 12-99 (92); 100-999 (133); 1,000+ (89).

# 7 Member-specific fees

As we saw in Chapter 4 of this report, in most defined contribution (DC) pension schemes, members are required to pay an annual management charge (AMC). Most commonly, providers set a basic AMC for a particular employer or scheme, which will normally be paid by the scheme members. There may, however, be circumstances under which some members of a particular scheme might pay higher charges than others.

This chapter explores circumstances where charges might vary. More specifically, we examine employers' awareness of the following charges[26], where relevant supported by information provided by the providers themselves:

- the Total Expense Ratio (TER);
- the Portfolio Turnover Rate (PTR);
- charges for specific fund choices or fund switching;
- charges for transfers in or out of the pension scheme;
- other member-specific discounts, including Active Member Discounts (AMD).

## 7.1 The Total Expense Ratio and Portfolio Turnover Rate

### Key findings

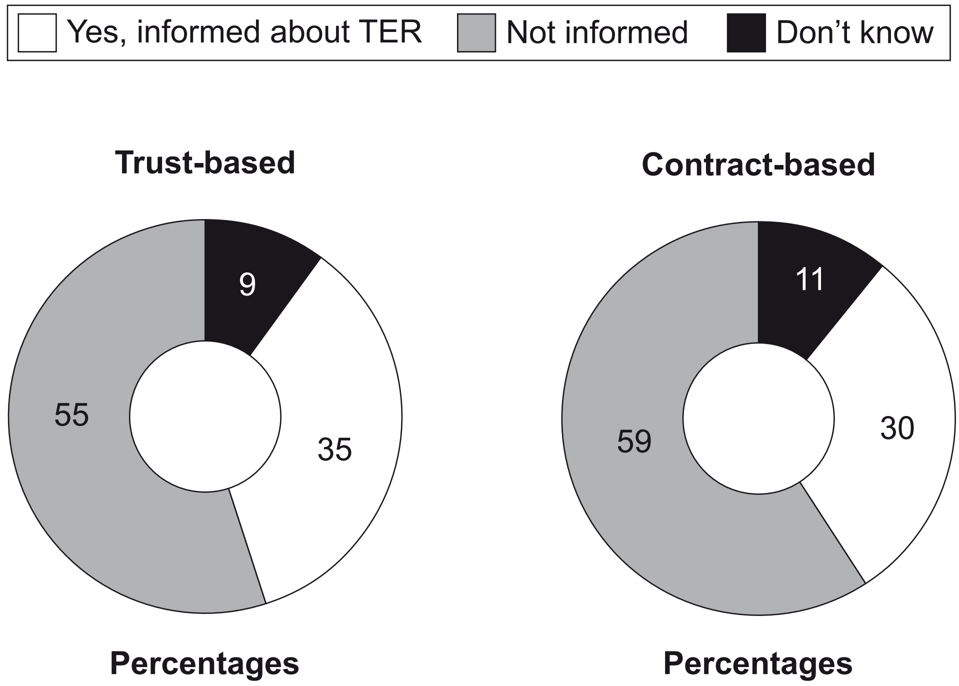
- Around one-third of schemes claimed that they had been informed of their TER.
- Few could estimate the TER: typically saying it was the same as the AMC, or slightly higher.
- Only 13 per cent of trust-based and 11 per cent of contract-based schemes claimed they had been informed about their PTR.

The TER is a method of measuring the total costs associated with managing and operating a pension fund. These costs include management fees (i.e. the standard AMC), plus any additional expenses such as adviser fees, legal fees, auditor fees and other operational expenses. If all of these additional expenses are already included as part of the AMC levied by the provider, then it is possible for the AMC to equal the TER.

Approximately one-third of both trust- and contract-based schemes told us that they had been informed of the TER by their pension provider, as Figure 7.1 shows. There were no significant differences in awareness by scheme size.

26 Employers were also asked whether there is a one-off joining fee when a new member joins the scheme – this may be levied by providers to cover some of the administrative costs associated with setting up their membership. However, only a very small minority of schemes reported any joining fees: three per cent of all trust-based schemes and four per cent of contract-based schemes. Consequently we do not explore these in this chapter.

**Figure 7.1 Awareness of Total Expense Ratio**




*C15. Has your pension provider informed you about the Total Expense Ratio in regard to charges you pay for members invested in the scheme's default fund?*
Base: All trust-based schemes where members pay charges (452).
Base: All contract-based schemes where members pay charges (619).

While around one-third of trust-based schemes claimed that they had been informed of their TER, only 65 per cent could actually estimate the level of the TER. Half of those cases stated that the TER equalled the AMC, as Table 7.1 shows. Fewer contract-based schemes said they were informed of the TER (30 per cent), and less than half that number were able to estimate it. Of those who did estimate it, 73 per cent agreed that the TER was the same rate as the AMC.

**Table 7.1 Total Expense Ratio levels estimated by employers**

| | All schemes where TER was estimated (column percentages) | |
|---|---|---|
| | **Trust-based** | **Contract-based** |
| TER is lower than AMC | 17 | 7 |
| TER equals AMC | 49 | 73 |
| TER is higher than AMC | 34 | 20 |

*C15. Has your pension provider informed you about the Total Expense Ratio in regard to charges you pay for members invested in the scheme's default fund?*
Base: All trust-based schemes where TER is estimated (118).
Base: All contract-based schemes where TER is estimated (97).

Most providers reported that when members made no active fund choices and so invested in the scheme's default fund, resulting in no additional costs, then the TER for the members would be the same as the AMC.

The PTR is a measure of how frequently assets within a pension fund are bought and sold by the fund managers. Typically the PTR is calculated by dividing the total of assets sold or purchased (whichever amount is higher) by the total net asset value. This is estimated over a set amount of time, typically over a 12-month period. While the PTR does not directly equate to a particular charge, a high PTR indicates that a high proportion of the assets in a scheme are being traded, and this is therefore likely to lead to higher trading costs.

Only a minority of schemes were aware of their PTR: 13 per cent of trust-based and 11 per cent of contract-based schemes claimed they had been informed about the PTR. Nevertheless, almost no schemes that were informed of their PTR were able to recall the PTR.

## 7.2 Choice of funds

Key findings

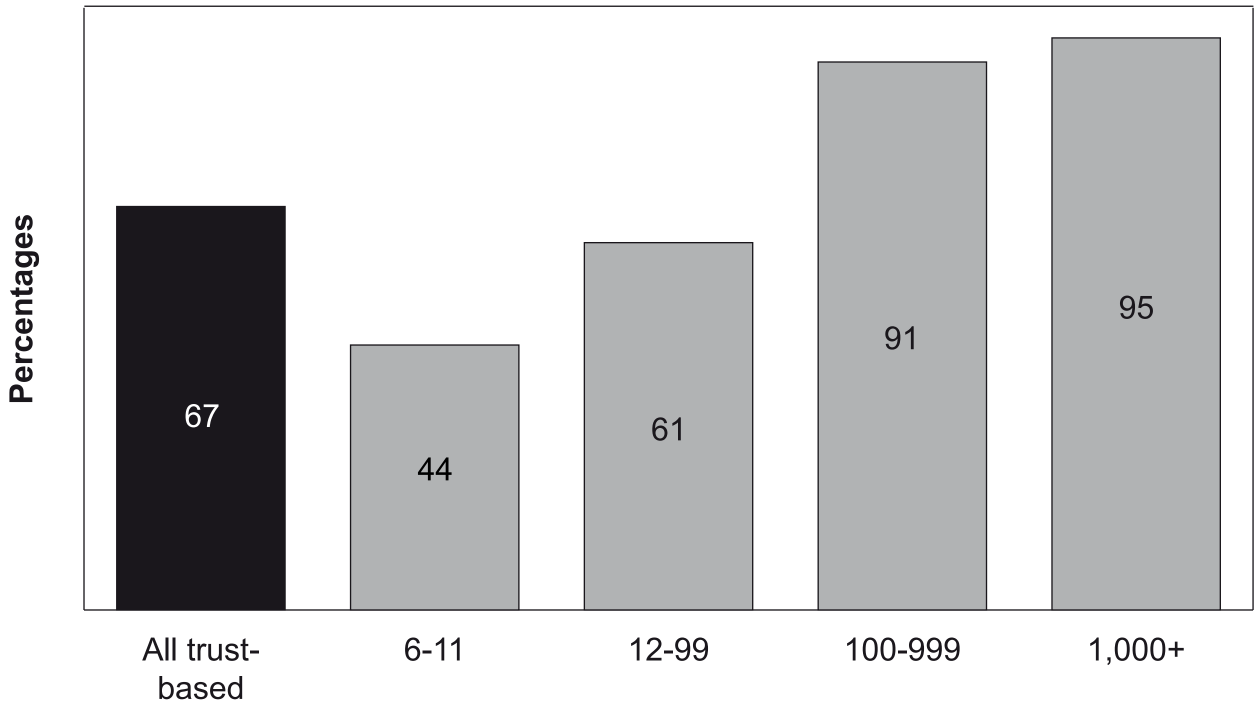
- While the vast majority of contract-based pensions offered members a choice of funds to invest in, trust-based schemes often did not, particularly smaller schemes.
- Most scheme members tended to invest in the default fund, which did not carry additional charges: providers themselves pointed out that between 80 and 95 per cent of members of contract-based schemes were invested in such funds.
- Around one-third of employers reported that their schemes had funds that carried an additional charge; however, charges for switching funds were rare.

There are many ways in which pensions can be set up for individual employers or schemes: many schemes offer a choice of pension funds from which members can choose one or a selection of funds they would like their pension contributions to be invested in. As found in 2011, the vast majority of contract-based schemes offered their members a choice of funds to invest in (90 per cent), whereas significantly fewer trust-based schemes offered a choice (67 per cent).

### 7.2.1 Trust-based schemes

The likelihood of a trust-based scheme offering a choice of funds was related to size, with trust-based schemes with six to 11 members significantly less likely to offer a choice of funds (44 per cent), compared to almost all schemes with 1,000 members or more (95 per cent), as Figure 7.2 shows.

**Figure 7.2 Choice of funds offered to members in trust-based schemes, by scheme size**



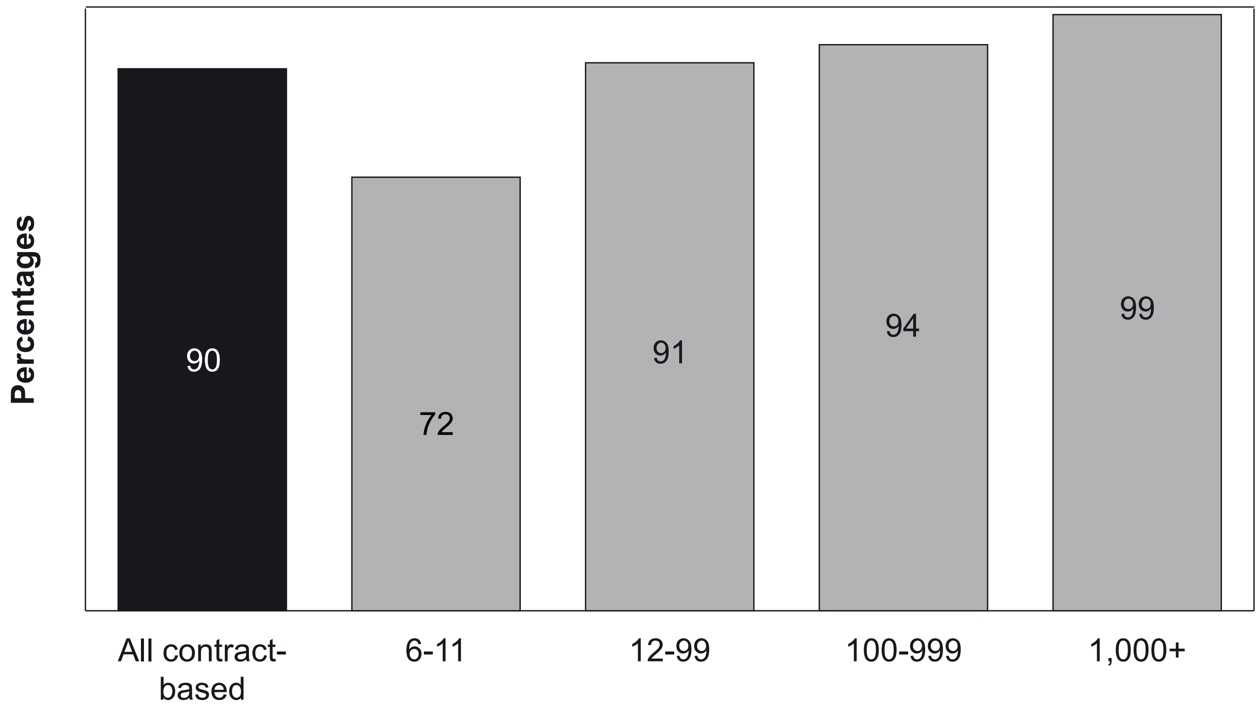

*D1. Do members have a choice of funds that they can invest their pension in?*
Base: All trust-based (593); 6-11 (87); 12-99 (201); 100-999 (179); 1,000+ (126).

Additionally, trust-based schemes that paid a fee for their advice were more likely to offer a choice of funds (77 per cent, compared with only 48 per cent of schemes that did not pay for advisers).

### 7.2.2 Contract-based schemes

In total, nine out of ten contract-based schemes offered members a choice of funds, with a link again between scheme size and the likelihood of offering a choice. The difference between the smallest and largest schemes was less than for trust-based schemes, as Figure 7.3 shows.

**Figure 7.3 Choice of funds offered to members in contract-based schemes, by scheme size**




*D1. Do members have a choice of funds that they can invest their pension in?*
Base: All contract-based schemes (717), 6-11 (126), 12-99 (258), 100-999 (251), 1,000+ (82).

Members of Group Personal Pension (GPP) schemes were more likely to be offered a choice of funds (91 per cent compared with 85 per cent of Group Stakeholder Pension (GSHP) members). As in trust-based schemes, the use of an adviser by contract-based schemes had a significant impact on their likelihood of offering a choice of pension funds: 84 per cent who used no adviser offered a choice of funds compared to 93 per cent of those who did use one.

Providers typically reported that, regardless of the choice available, the vast majority of members (typically 80 per cent or more) tended to invest only in the default fund, and so ensuring that this particular fund meets the majority of members' needs was seen as more important than offering several options.

## 7.2.3 Charges for fund choices and switching

As different fund choices entail different fund management costs, certain fund choices may carry additional charges to members. Under certain circumstances, some schemes may also charge for switching between funds. Both of these possible charges are examined in this section.

## Trust-based schemes

Just under half (41 per cent) of trust-based schemes reported that members would have to pay additional charges for certain fund choices. Table 7.2 shows that the likelihood of additional charges applying was significantly higher among larger schemes (61 per cent of schemes with 1,000 or more members), while the smallest were significantly less likely to be aware of any additional charges (34 per cent).

**Table 7.2 Whether any fund choices carry an additional charge to members of trust-based schemes, by scheme size**

| | All trust-based schemes where members have a choice of funds (column percentages) | | | | |
|---|---|---|---|---|---|
| | All trust-based | 6-11 | 12-99 | 100-999 | 1,000+ |
| Yes – there are charges | 41 | *34* | 30 | 48 | 61 |
| No – there are no charges | 54 | *61* | 65 | 48 | 38 |
| Don't know/refused | 4 | *5* | *6* | *4* | 1 |

*D2. Do any fund choices carry an additional charge to scheme members, over and above the charges applied to the default fund?*
Base: All trust-based schemes where members have a choice of funds (442); 6-11 (38); 12-99 (122); 100-999 (162); 1,000+ (120).

Only a small minority of trust-based schemes reported that charges were levied if members switched funds (ten per cent).

## Contract-based schemes

Just under one-third (32 per cent) of all contract-based schemes carried additional charges for certain fund choices, and once again the likelihood of doing so increased significantly with scheme size, as Table 7.3 shows.

**Table 7.3 Whether any fund choices carry an additional charge to members of contract-based schemes, by scheme size**

| | All contract-based schemes where members have a choice of funds (column percentages) | | | | |
|---|---|---|---|---|---|
| | All contract-based | 6-11 | 12-99 | 100-999 | 1,000+ |
| Yes – there are charges | 32 | *26* | 30 | 52 | 67 |
| No – there are no charges | 58 | *62* | 59 | 41 | 28 |
| Don't know/refused | 11 | *12* | *11* | 6 | 5 |

*D2. Do any fund choices carry an additional charge to scheme members, over and above the charges applied to the default fund?*
Base: All contract-based schemes where members have a choice of funds (645), 6-11(91); 12-99 (236); 100-999 (237); 1,000+ (81).

A very small minority of all schemes (seven per cent) reported that charges for fund switching ever applied.

# 7.3 Transferring funds out and in

Key findings

- 13 per cent of trust-based schemes and 10 per cent of contract-based schemes believed that members were charged for transferring funds out of the scheme, with far fewer aware of any charges for transfers in.
- No provider said they charged any members for transfers out or in.

Charges for a member transferring their entire pension pot either out of or into a scheme were rare among both trust- and contract-based schemes.

## 7.3.1 Trust-based schemes

Just over one in ten trust-based schemes (13 per cent) believed that members were charged for transferring funds out (see Table 7.4), with larger schemes least likely to carry a charge for transfers out of a scheme. Fewer still (three per cent of employers) believed there was any charge for transfers in.

**Table 7.4 Trust-based schemes where charges for transfers in and out apply, by scheme size**

| | Trust-based schemes where charges for transfers in and out apply, by scheme size (column percentages) | | | | |
|---|---|---|---|---|---|
| | **All trust-based** | **6-11** | **12-99** | **100-999** | **1,000+** |
| Charges for transfers out apply | 13 | *11* | 21 | 7 | 3 |
| Charges for transfers in apply | 3 | *3* | *4* | 1 | 2 |

*D11. Are there any charges to members for transferring funds out of the scheme?*
Base: All trust-based (593); 6-11 (87); 12-99 (201); 100-999 (179); 1,000+ (126) D14.
*Are there any charges to members for transferring funds into the scheme?*
Base: All trust-based (593); 6-11 (87); 12-99 (201); 100-999 (179); 1,000+ (126).

## 7.3.2 Contract-based schemes

Charges for transfers out of and into a scheme were also rare among contract-based schemes. A total of ten per cent of employers with contract-based schemes said that charges for transfers out applied. Only seven per cent reported charges for transfers in, as Table 7.5 shows.

**Table 7.5 Contract-based schemes where charges for transfers in and out apply, by scheme size**

| | Contract-based schemes where charges for transfers in and out apply, by scheme size (column percentages) | | | | |
|---|---|---|---|---|---|
| | **All contract-based** | **6-11** | **12-99** | **100-999** | **1,000+** |
| Charges for transfers out apply | 10 | *15* | *9* | *11* | 2 |
| Charges for transfers in apply | 7 | *6* | *7* | *5* | *4* |

*D11. Are there any charges to members for transferring funds out of the scheme?*
Base: All contract-based (717); 6-11 (126); 12-99 (258); 100-999 (251); 1,000+ (82) D14.
*Are there any charges to members for transferring funds into the scheme?*
Base: All contract-based (717); 6-11 (126); 12-99 (258); 100-999 (251); 1,000+ (82).

No providers we interviewed said that they charged any members for transfers out or in at the time this research was conducted.

## 7.4 Member-specific discounts

Key findings

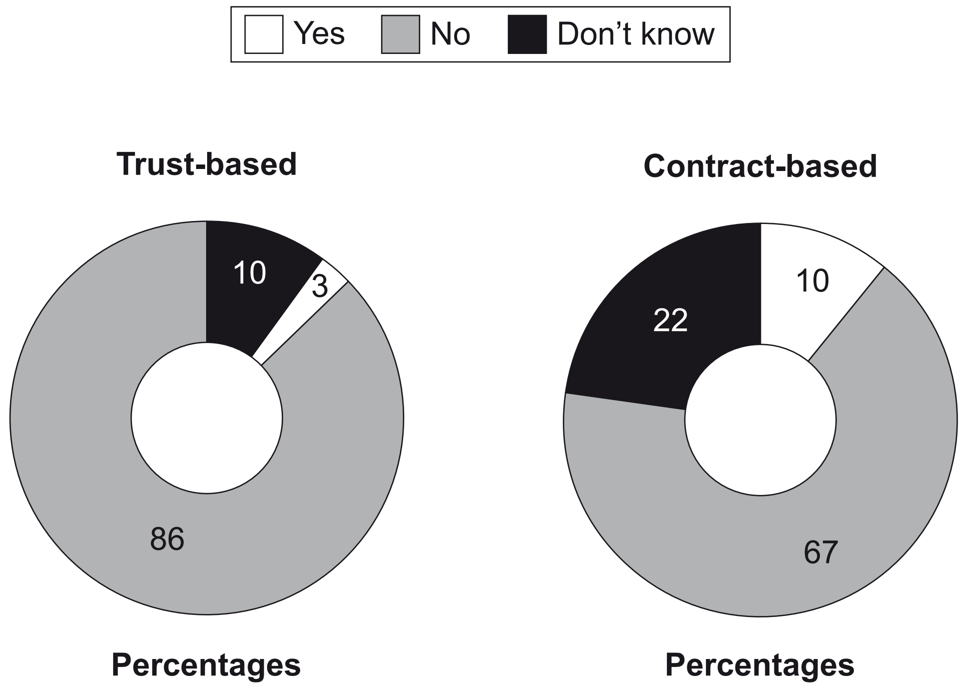
- Although additional discounts were rare, three per cent of trust-based and ten per cent of contract-based schemes operated on the basis of Active Member Discounts (AMD).
- On average, deferred members were charged 0.38 per cent more than active members.
- For the small proportion (three per cent of trust-based and eight per cent of contract-based schemes) of members receiving a large fund discount, the average was 0.17 per cent.

### 7.4.1 Active Member Discounts

Some providers offer lower AMCs to members who are currently making contributions into the scheme (active members) than to members who are no longer making contributions (deferred members). In part, this was said by providers to encourage employee persistency as well as offset the costs of administering the funds of members whose pots are not increasing in size.

It was extremely rare for employers with trust-based schemes to mention that AMDs were in operation on their scheme (just three per cent said their active members benefit from a discount). A significantly higher proportion of contract-based schemes reported using an AMD (ten per cent, as illustrated by Figure 7.4).

**Figure 7.4 Use of Active Member Discounts**




*F1. Do active scheme members pay lower charges than deferred scheme members?*
Base: All trust-based schemes where members pay charges (452); all contract-based schemes where members pay charges (619).

Where AMDs were said to be offered in contract-based schemes, on average, deferred members were charged 0.38 per cent more than active members, according to employers.

In Section 9.1.2 of this report, we will examine to what extent providers and intermediaries thought the use of AMDs in the industry was justified.

## 7.4.2 Front-loaded AMC

Some providers may charge new members a higher AMC for a limited period of time (typically in the first years of membership), in order to recoup setup costs more quickly than would be possible through the usual AMC. Only a small minority of trust-based and contract-based schemes (both at four per cent) said that their new members could pay higher AMC in the first years of membership.

### 7.4.3 Large fund discounts

Occasionally, providers may offer lower AMCs to members with pension funds above a certain amount. Only a very small minority of trust-based schemes said their members with large pension funds received a discount (three per cent), while a slightly higher proportion of contract-based schemes said their members benefited from this type of discount (eight per cent).

For the small proportion of contract-based schemes where members could receive a large fund discount, the average discount was 0.17 per cent off the AMC. This was typically applied where the member’s fund value was above either £25,000 or £50,000.

### 7.4.4 Higher contribution discounts

Employers were also asked whether there was a discount for members who made total contributions above a certain level. Only one per cent of trust-based and contract-based schemes said that a higher contribution discount applied to their schemes.

No provider mentioned use of high contribution discounts for individual members – although expected pension contributions were taken into consideration when setting the AMC to be applied to a particular employer’s scheme.

# 8 Reviewing employers' pension provision

This chapter examines when employers with trust-based and contract-based schemes last reviewed their pension provider and whether they changed provider as a result of this. In the case of the very largest employers, this may have been as a result of implementing automatic enrolment: at the time of fieldwork (April/May 2013), most employers with more than 5,000 employees had begun automatic enrolment.

In 2011, the Department for Work and Pensions (DWP) published official guidance on selecting appropriate default options for defined contribution (DC) workplace schemes.[27] The chapter also examines employers' awareness of DWP's default option guidance, and how influential it was on their decision-making processes.

## 8.1 Reviewing schemes as a result of starting automatic enrolment

Key findings

- Almost half (44 per cent) of employers with trust-based schemes with 1,000 members or more had already begun automatic enrolment at the time of interview, compared to 38 per cent of contract-based schemes with 1,000 members or more.
- Of these employers who had begun automatic enrolment, many had reviewed their provider as part of this process (57 per cent of trust-based and 90 per cent of contract-based).
- But fewer had reviewed and switched as part of the process (9 per cent of trust-based and 26 per cent of contract-based).

Almost half (44 per cent) of trust-based schemes with 1,000 members or more had already begun automatic enrolment at the time of interview, compared to 38 per cent of contract-based schemes with 1,000 members or more. The proportion of employers who reviewed their provider as part of their implementation of automatic enrolment is shown in Table 8.1.

27 DWP (2011). *Guidance for offering a default option for defined contribution automatic enrolment pension schemes*, available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/185056/def-opt-guid.pdf

**Table 8.1 Review of pension provision as a result of starting automatic enrolment**

| Scheme type | Automatic enrolment started (column percentages) | Reviewed provider (as a percentage of those starting automatic enrolment) |
|---|---|---|
| Trust-based | 44 | *57* |
| Contract-based | 38 | *90* |

*A10a Have you started automatic enrolment?*
Base: All 1,000+ trust-based schemes (126); all 1,000+ contract-based schemes (82) G6.
*Did employer review provider for automatic enrolment?*

More than half of all trust-based employers who had started automatic enrolment did review their provider as part of this process (57 per cent); nevertheless, very few actually decided to change provider following their review (just nine per cent of schemes starting automatic enrolment).

It was more normal for employers with contract-based schemes to review their provider: 90 per cent of contract-based schemes implementing automatic enrolment did so. And slightly more than trust-based schemes – 26 per cent – ultimately changed provider as a result.

# 8.2 When other providers last reviewed their scheme

## Key findings

- 80 per cent of employers with trust-based schemes and 79 per cent of employers with contract-based schemes had reviewed whether their current pension provision was suitable for their needs at some point: the largest schemes were more likely than the smallest to have done so in the previous 12 months.
- In total, only 11 per cent of trust-based and 20 per cent of contract-based schemes who reviewed their provision actually switched provider as a result of this. Larger schemes were more likely to switch once they had reviewed them.
- Of the small proportion of employers with trust-based schemes who did switch provider, 26 per cent said charges were ‘very important’ in their decision. Charges played a more significant role in contract-based schemes’ decision to change provider, with almost half (49 per cent) saying charges were ‘very important’ in their decision to switch.

This section reports on the extent to which employers **not** starting automatic enrolment reviewed their pension scheme, and whether they changed providers as a result. On average, more than half of employers with trust-based schemes reviewed their scheme in the last 12 months, with larger employers more likely to have done so in the last 12 months, as Table 8.2 demonstrates.

### Table 8.2 When trust-based schemes last reviewed their pension scheme

| | All trust-based schemes excluding automatic enrolment (column percentages) | | | | |
|---|---|---|---|---|---|
| | Total | 6-11 | 12-99 | 100-999 | 1,000+ |
| Less than 12 months | 54 | 40 | *56* | *60* | *73* |
| One to two years | 10 | *9* | *10* | *10* | *10* |
| More than two years | 16 | *28* | *15* | *5* | *10* |
| Never | 4 | *7* | *4* | *1* | *4* |
| Don't know/refused | 16 | *16* | *14* | *23* | *3* |

*G7. When did your organisation last review whether your current pension scheme is suitable for your needs?*
Base: Trust-based, excluding those who reviewed as a result of AE (561); scheme size 6-11 (87); 12-99 (201); 100-999 (179); 1,000+ (94).

Employers with the smallest schemes were most likely to report that they had not reviewed their scheme in more than two years (28 per cent, compared to 16 per cent overall) or not at all (seven per cent, compared to four per cent overall).

Contract-based schemes followed the same pattern as trust-based schemes, as Table 8.3 shows: while 48 per cent of employers with contract-based schemes had reviewed their pension scheme in the previous 12 months, this was far more likely among the largest schemes (67 per cent).

### Table 8.3 When all contract-based schemes last reviewed their scheme

| | All contract-based schemes excluding automatic enrolment (column percentages) | | | | |
|---|---|---|---|---|---|
| | Total | 6-11 | 12-99 | 100-999 | 1,000+ |
| Less than 12 months | 48 | *40* | *47* | 64 | *67* |
| One to two years | 16 | *19* | *16* | *14* | *17* |
| More than two years | 16 | *13* | *16* | *11* | *17* |
| Never | 6 | 12 | *5* | *2* | *0* |
| Don't know/refused | 15 | *15* | *15* | *8* | *0* |

*G7. When did your organisation last review whether your current pension scheme is suitable for your needs?*
Base: Contract-based, excluding those who reviewed as a result of (AE: 688) scheme size 6-11 (126); 12-99 (257); 100-999 (251); 1,000+ (54).

Switching as a result of a review was rare, as Table 8.4 shows. In total, only 11 per cent of trust-based and 20 per cent of contract-based schemes who reviewed their scheme actually switched provider as a result. The likelihood of switching provider increased with scheme size, with almost a quarter of the largest schemes who reviewed their pension provision switching, compared with around one in ten of the smallest schemes.

**Table 8.4 Employers changing provider following a review of pension scheme**

| | All schemes excluding automatic enrolment that reviewed provider (column percentages) | | | | |
|---|---|---|---|---|---|
| | **Total** | **6-11** | **12-99** | **100-999** | **1,000+** |
| Trust-based | 11 | 7 | 9 | 13 | 21 |
| Contract-based | 20 | 11 | 20 | 34 | 24 |

*G8. And did you change provider as a result of this?*
Base: All who reviewed scheme excluding automatic enrolment, trust-based: (453); 6-11 (67); 12-99 (164); 100-999 (135); 1,000+ (87); contract-based 576; 6-11 (92); 12-99 (204); 100-999 (226); 1,000+ (54).

Of the small proportion of employers with trust-based schemes who switched, 26 per cent said charges were 'very important' in changing provider. Charges played a more significant role in contract-based schemes' changing provider, with almost half (49 per cent) saying charges were 'very important' in their decision to switch.

## 8.3 Awareness of DWP's default option guidance

### Key findings

- The majority of both trust- and contract-based schemes were aware of DWP's default option guidance at the time they reviewed their pension scheme.
- Two-thirds of trust-based schemes and more than half of contract-based schemes reported that they used the guidance when conducting their review.
- Overall, the guidance was typically reported as being 'fairly influential' in their decision-making process.

In 2011, the Government published guidance that was designed to assist schemes in offering a default option for DC pensions. This year, we asked all interviewees if they were already aware of this guidance at the time when they reviewed the scheme, as well as whether they used the guidance, and the extent to which it was influential in their decision-making process. As Table 8.5 shows, three-quarters of all trust-based schemes said they were aware of default option guidance, and two-thirds said that they had used this guidance.

**Table 8.5 Use of default option guidance: trust-based**

| | All trust-based schemes (column percentages) | |
|---|---|---|
| | **Awareness of default option guidance** | **Of those that were aware, did they use the guidance?** |
| Yes | 74 | 66 |
| No | 22 | 27 |
| Don't know | 4 | 7 |

*G10. Were you aware of the guidance when you reviewed the scheme?*
Base: All who reviewed provider in last two years, including AE (trust-based 412).
*G11. Did you use the guidance when you reviewed the scheme?*
Base: All aware of guidance on reviewing provider (trust-based: 317).

Employers with contract-based schemes were less likely to be aware of default option guidance than trust-based schemes, as Table 8.6 shows. Almost two-thirds (59 per cent) or contract-based schemes were aware of default option guidance, and of those that were aware, slightly more than half said they actually used the guidance.

**Table 8.6 Use of default option guidance: contract-based**

| | All contract-based schemes (column percentages) | |
|---|---|---|
| | **Awareness of default option guidance** | **Of those that were aware, did they use the guidance?** |
| Yes | 59 | 56 |
| No | 33 | 38 |
| Don't know | 8 | 6 |

*G10. Were you aware of the guidance when you reviewed the scheme?*
Base: All who reviewed provider in last two years, including AE (contract-based 508).
*G11. Did you use the guidance when you reviewed the scheme?*
Base: All aware of guidance on reviewing provider (contract-based: 320).

Of those schemes that used the guidance, almost two-thirds (65 per cent) of both trust-based and contract-based schemes said that the guidance was either 'very' or 'fairly' influential. The vast majority of these, however, only reported that it was fairly influential. In total, just five per cent of trust-based schemes and ten per cent of contract-based schemes said that the guidance was very influential.

# 9 The relationship between charges and scheme quality

This report so far has focused primarily on the charges that applied to defined contribution (DC) workplace schemes, based on employers' responses to our quantitative survey. As part of this research, we also carried out qualitative interviews with industry stakeholders: providers, employee benefits consultants (EBCs), the largest advisers in the market) and smaller independent financial advisers (IFAs), in order to understand how they believed charges and other factors impacted member outcomes. These final two chapters will explore the findings from this element of the research.

In this chapter, we will discuss how charges and scheme size can impact upon scheme quality, and member outcomes. In Chapter 10, we will then explore other factors that respondents considered to be influential in determining scheme quality.

## 9.1 How scheme charges can drive member outcomes

### Key findings

- Providers and advisers agreed that high charges could have a major impact on member outcomes over the lifetime of a pension, particularly in an environment of low investment returns.
- However, most providers insisted that charges on new schemes were now at an historic low and argued against lowering them further, except on older schemes with very high charges.
- Providers felt that charging more enabled them to offer a range of higher quality services, which could help them to drive member engagement.
- Many advisers felt that charging structures were too complex, and that creating a straightforward way to compare charges across providers would help members.

Providers and advisers agreed that charges were a very important factor to consider when judging whether a particular pension scheme is an appropriate choice for a member. They felt that because charges were one of the most tangible aspects of a scheme – visible to the customer, and comparable between different providers – it was one of the first things on which schemes would be judged. The majority of respondents acknowledged that even very low charges tended to erode the value of a pot, partly because they were set against currently low rates of growth, and also because they were applied every year, over what was usually a long investment period.

> *'That is the thing that impacts the fund value at the end of the day. It is the biggest thing because … it is the amount that has been taken off every year over 20 or 30 or 40 years.'*
>
> (IFA)

A few providers felt that when relatively high charges were set against an environment of low returns, there might be an impact not only on the immediate value of members' pots, but also on members' longer-term confidence in pensions as a savings vehicle. One provider was concerned that the media might point to the low value of returns relative to charges, encouraging members to believe that pensions were bad value for money:

> *'There is a danger – and we have seen it in the press over the weekend – of giving a lot of focus and media attention to high charging arrangements which clearly still exist in the market, but are by far, far from the norm and actually ending up scaremongering and turning people off, and then they choose not to bother saving into their pension plan.'*
>
> (Provider)

Advisers stressed that they always assessed charging levels before deciding which scheme to recommend to a client. Providers and advisers alike emphasised that it was important for employers not simply to go straight for the most cheaply-priced product, but to consider whether a certain higher-priced schemes might in fact serve their or their members' interests better.

> *'Not all propositions in the market are equal and the temptation is to go "Well, one per cent is less than two per cent." Everybody knows one is less than two, but you have got to make sure what one gives and what two gives.'*
>
> (Provider)

The majority of respondents felt that charges on new schemes were currently at an historic low, an assertion which was supported by the evidence from our Charges survey.[28] Some were concerned that there might, nevertheless, be political or competitive pressure on them to lower charges further and felt that it would do more harm than good to drive charges down further without considering the quality that differently-charged schemes delivered. A few providers felt that as long as the market operated freely, it would naturally provide a range of solutions at different prices, whereas fixing a cap at a restrictively low level would produce 'a race to the bottom.'

They reported that virtually all new workplace pension schemes had an annual management charge (AMC) of between 0.3 and one per cent (or the equivalent), and attributed this partly to competitive pressure. Several providers also made reference to the Financial Conduct Authority's (FCA) Treating Customers Fairly (TCF) guidance: while this research was not designed to explore this guidance in detail, these providers felt that it obliged them to ensure that charges were appropriate and the level of charge was set relative to the expected outcome.[29]

A few providers were concerned that continued pressure on lowering charges might eventually have an impact on their ability to survive in the marketplace.

> *'One of the problems that we have always had with charges is the fact that it is such a heavily intermediated proposition that all of the intermediaries focus too heavily on the charges. So there is an awful lot of buying a business unprofitably by providers in order to win new business share. It is kind of unsustainable.'*
>
> (Provider)

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28 See, for example, Section 4.4.5 of this report.

29 See the FCA website, http://www.fca.org.uk/firms/being-regulated/meeting-your-obligations/fair-treatment-of-customers

Opinion was split as to how important charges were to employers and members, with some respondents saying that both parties were highly concerned with getting the lowest charge possible. However, a few IFAs felt that employers were not usually particularly price-sensitive. They said that, from their experience, employers tended to be more concerned with getting a simple, streamlined service that would require the minimum of input from them.

### 9.1.1 When might higher charges be justified?

Advisers shared the providers' view that there was much more to picking an appropriate scheme than identifying the one with the lowest charges. One EBC reported that they would start by looking at the contributions that could be expected and the objectives for the scheme, and would use this information to decide upon a type of investment vehicle. They would then look at the different fund managers who could provide that investment vehicle, often admitting that they would rather pay a bit more for somebody whom they trusted more. The IFAs likewise stated that while they were price-conscious, they would assess charges in terms of what they were getting for their money.

> *'I think it is a bit narrow to say "charges that are more than X are bad and charges of less than X are good," because there are good and bad charges. There are things worth paying for, and there are things that are not worth paying for.'*
>
> (EBC)

The majority of providers stressed that the best way of securing good member outcomes was for the employer and member to pay in high contributions, and in some cases to remain engaged in selecting the right funds at the right time to suit their profile. A few providers explicitly stated that charging a bit more allowed them to devote more resources to nurturing this relationship, for example spending more money on producing high-quality communications.

> *'[It's about] optimising engagement because if we did everything at the lowest possible price then we wouldn't be able to afford to do anything, which would be encouraging further contributions and/or greater engagement with the product itself.'*
>
> (Provider)

Some providers added that regular, high-quality communications should be backed up with helplines and good on-line communications: arguing that since pensions could be a highly valuable product, but also difficult to understand for many people, customers might feel more comfortable if the provider was on hand to answer questions directly.

Some providers said that providing a wide range of different investment options from around the world required a more sophisticated infrastructure, which was more expensive to set up and maintain. More broadly, providers occasionally claimed that if the industry was restricted too far in how much it could charge, they would end up taking an overly mechanical approach to delivering pensions, and would lack the budget or time to explore better ways of providing pensions, or to recruit high-quality staff.

> *'Product providers continually have to develop, refresh and improve their systems, their people, their governance – and all of these things cost money. There is a lot of regulatory change and all of this costs money and none of this stuff is factored in.'*
>
> (Provider)

Several respondents felt that certain investment strategies could be more expensive than others, but could nevertheless prove to be better value for certain members, particularly if they had a higher capacity for risk. In these cases options might include the following:

- higher-risk funds;
- actively-managed funds: a few pointed out that although actively-managed funds usually cost more than passive ones, the return would often be greater:
  - although one EBC stated that they would normally only recommend active funds on larger schemes, which had more capacity for absorbing extra costs (as we will examine in Section 9.2);
- diversified growth funds: another EBC felt that the return on these was not only often higher, but also smoother.

A few providers emphasised that there was no certain way of predicting how the market would perform for either cheaper or more expensive funds.

> *'Low cost doesn't necessarily mean higher value. The higher cost doesn't necessarily mean better value either. You can only judge it after the event when you have actually said "Did it actually perform in the way that I thought it would, and are the outcomes the way that I thought they ought to be?"'*
>
> (Provider)

### 9.1.2 Charges: recommendations for best practice

Respondents agreed that while it was now very rare to find unreasonably high charges, there were still occasional examples of these, and eliminating such charges should be a priority. Both advisers and providers typically accepted that charges were subject to a law of diminishing returns, and suggested that an annual charge of more than 1.5 per cent was very unlikely to provide the member with further additional services that justified the cost.

Apart from these exceptionally high levels of charge, most providers saw little need for any further capping of charges, since this would restrict their flexibility in tailoring services to suit different clients. Instead, providers and advisers recommended that best practice should be to spell out clearly what services members would get in return for different charges.

Advisers felt that some providers now used complex and differing charging structures, and that this led to a lack of transparency around the value that different levels of charge would deliver. A few IFAs felt that if they themselves sometimes struggled to understand how different charges would impact pot values, they had very little chance of communicating that information clearly to the employer or member.

> *'I might just about get my head around how it is charged – but conveying that to a member, and a member understanding that, that's very hard because everybody typically starts with a standard fee, and then has lots of different discounts attached to it, rather than starting with a base level.'*
>
> (IFA)

A minority of respondents mentioned that automatic enrolment had further complicated the picture when it came to charging – while previously most schemes had charged a flat AMC, it was now common for both traditional providers and the new large-scale entrants to the market to have each adopted their own charging structures.

Some providers also referred to Active Member Discounts (AMDs), with opinion split as to whether this practice was justified. While some providers felt that AMDs helped to encourage persistency and members' continuing to save, most providers and intermediaries felt that ex-employees should not pay higher charges if they were no longer receiving the same level of service. A number of advisers reported that members were not always aware that their charges could go up if they left their employer and considered this kind of discount to be increasingly problematic, given that there was a growing trend of people changing employers multiple times during their working life. Most, therefore, felt that the majority of people would end up being penalised by the current system.

Nevertheless, one provider argued that many employers using AMDs were large, and would have used their greater bargaining power to negotiate better charges for their employees. They therefore suggested that it might not be reasonable for someone who had left that employer to continue benefiting from their negotiating power by continuing to receive these lower charges.

## 9.2 The relationship between charges and employer size

### Key findings

- Providers and intermediaries agreed that charges were heavily dependent on the size of the employer, with members at larger employers more likely to benefit from lower charging levels. The vast majority felt that it would be unworkable to change this situation.
- Choosing a larger scheme was seen as likely to be beneficial for smaller employers that did not want to set up a trustee board; although industry-wide master trusts were not always thought to benefit from economies of scale more than large group personal pensions (GPPs).
- Some felt that single employer trust-based schemes represented an opportunity for an employer to take ownership of the scheme and drive engagement through their closer relationship with members.

Both providers and advisers emphasised that the main determinant of what charges an employer would pay was the size of the scheme they used. Most providers stated that the larger the scheme, the better the value they could provide and the better the scheme would be likely to perform.

> *'In terms of product design, scalability is incredibly important. That is a big buzzword.'*
>
> (Provider)

> *Providers pointed out that when they set up a scheme for an employer, there were certain fixed costs, regardless of the number of workers joining the pension – costs that could be shared among more members, the larger the employer happened to be. From their point of view, this meant that they could offer lower prices due to the money they saved by doing administration in bulk 'because it is cheaper to process a lot of members than it is process a few on a member-by-member basis.'*
>
> (Provider)

Some providers indicated that they competed strongly for larger employers, since they felt that they could make more profit as a result. A few providers defined themselves from the outset as either not being interested in employers below a certain size, or having a policy of quoting such high prices that the employer would not be interested in them.

Several providers stated explicitly that a reason they were not in favour of capping charges was because it would make it very difficult for them to cater for smaller employers. A few providers felt that the only way of lowering charges for smaller schemes would be to require larger schemes to cross-subsidise them, which some respondents saw as unfair on the larger employers. Another provider felt that if they adopted a policy of cross-subsidising smaller employers, they would simply end up losing out on the more profitable large employers.

> *'We couldn't as an organisation charge one price, because the commercial market doesn't operate like that. If we charged one price, the reality is that we would be overcharging the better quality arrangements and we would be undercut.'*
>
> (Provider)

Conversely, however, one provider argued that advances in technology had substantially reduced the costs of setting up individual employers. They recalled how they used to have to physically retrieve paper files and check through paperwork manually for each new employer, and contrasted this to the much faster computer-based processes they used nowadays.

Both providers and advisers agreed that there were advantages to smaller employers 'going it alone' by using their own trust-based scheme, which will be described in Section 9.2.1 below. In contrast, the advantages enjoyed by larger employers, regardless of the scheme they chose, will be explored in Section 9.2.2.

Section 9.2.3 goes on to explore the relative attractiveness of master trusts and GPPs as options for smaller employers.

### 9.2.1 Why might smaller employers set up their own trust-based scheme?

Providers and advisers agreed that there were both advantages and disadvantages to a smaller employer setting up their own trust-based scheme. Several respondents thought that a single employer with their own scheme was more likely to take ownership and promote the success of that scheme: trustees tended to be more engaged, put more money in and put more effort into communicating the benefits of pensions to their workers.

> *'So if the employer has a large involvement with a pension scheme, what we have invariably found is that a) it encourages them to put more money in; and b) they take more interest in it, and they will actually promote it more widely out into the workforce. An engaged employer is absolutely, fundamentally critical.'*
>
> (Provider)

Some respondents mentioned that if an employer was interested in their own trust-based scheme, they were in a stronger position to persuade their employees also to take an interest. A few advisers argued for example that members had little reason to believe a provider who told them to pay more into their pension, since they had only a distant relationship with that provider, and the provider had a vested interest in receiving more of their money. In contrast, they felt that an employer who gave them similar messages would seem more engaged and credible.

> *'I think one of the strongest levers that people have are contributions, and where my employer says, "I think you should think about paying higher contributions," I might listen to that. If my pension provider says "I think you might want to think about increasing contributions," well, they would say that wouldn't they?'*
>
> (EBC)

Advisers typically pointed out that smaller schemes had the potential to be more bespoke, on the basis that fewer employees often meant a narrower range of ages, earning brackets or capacity for risk. They felt that this would make it easier for them to research the workforce and work with the employer to design a scheme that would suit more people's needs more closely.

> *'If an employer of only 200 people is willing to put that level of effort in, then actually they could well get a better outcome, because they can make it more focused on their 200 people rather than on two million people.'*
>
> (EBC)

A few other providers felt that, even with the best intentions and abilities, smaller trusts would still lack the resources to maintain high standards of quality in their scheme. They suggested that these smaller employers would lack the time and money to hire more experienced trustees, advisers or consultants, or to do more research about their workforce profile or the market more generally. This is explored further in Section 10.1.1.

> *'They just don't have the scale. They don't have access to the kind of quality of the people … Most trust-based arrangements could never hope to even get a few of these people onto their board, so they are just not able to give that investment overview and you can take that right through their offering.'*
>
> (Provider)

### 9.2.2 The advantages for members at larger employers

Providers and intermediaries both reported that larger employers could generally get a better deal for their workforce from the time they first set up their scheme. Advisers reported that they were usually able to negotiate with the provider in regard to charges if the client was a relatively large employer. EBCs felt that the advantage of collective bargaining applied not only to the size of the employer, but also to their size as an intermediary. One EBC felt that as well as negotiating better rates, larger employers would have a stronger incentive to ensure that their scheme was governed well, due to the potential damage that poor performance could do to their reputation.

> *'In general, the larger the scheme, the more likely it is to be well-governed, mainly because it is likely to be with a larger employer or a large provider who has got a reputation to hold up … we don't have one big scheme, but we have big buying power in the market in terms of placing business, so therefore we are able to negotiate on behalf of all of our clients' service level agreements.'*
>
> (EBC)

The majority of respondents felt that larger employers would often be in a better position to drive engagement and understanding of pensions, particularly if it was their own scheme, as this could then be strongly identified with their brand. These respondents thought that larger employers were more likely to pay for good consultants or offer seminars or advice to employees.

> *'You can get some fairly bespoke communications campaigns, because they have big HR departments, big corporate comms departments, and these guys tend to be much more sophisticated in terms of rolling out messages about the value of joining the pension scheme, and why the employer contributions is a valuable benefit etc.'*
>
> (Provider)

### 9.2.3 The suitability of GPPs versus master trusts for smaller employers

When asked for their views on master trusts, providers and advisers focused on the approach most commonly sold at present, whereby the trustees are appointed by the pension provider, or by an independent body associated with the provider.[30]

Providers felt that members at smaller employers were disadvantaged compared to larger employers, since the majority of providers would be less keen to win their business. While most providers emphasised that any client they took on would benefit from the same governance and administration regardless of their size, they did acknowledge that smaller employers might have fewer providers willing to take them on in the first place.

> *'They may want a provider who has all the web services, and supports them in their auto-enrolment duty, and does all the communications and enrolment information for them, but they can't get one. So it will be that. The market forces will decide what size scheme a provider takes.'*
>
> (Provider)

Some providers therefore suggested that master trusts might be a good solution for members at smaller employers. Because the economies of scale would be defined by the size of the provider, they felt that large and small employers would access the same benefits and be serviced in a very similar way.

> *'If it is a scheme of 100 people or it is a scheme of 1,000 people, they would get the same governance. They would get the same administration report. So every quarter we would tell them what is happening with their scheme irrespective. They would get the advantage of the fact that we are a big provider so we pay less for our funds.'*
>
> (Provider)

A few respondents also felt that where a traditional trust was under-performing, their members would benefit from being in a master trust. They reasoned that a provider would probably provide better governance than a smaller trust board which lacked the skill or interest to govern its scheme effectively. We explore this idea further in Chapter 10.

> *'Members of schemes which have no governance would be better off in master trusts, because there is a level of governance provided. I am certain that some governance is better than no governance.'*
>
> (EBC)

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30 For example, in the case of National Employment Savings Trust (NEST), trustees are appointed by the Secretary of State.

Most providers and intermediaries did not believe, however, that master trusts necessarily offered employers lower levels of charge than GPPs did. Several master trusts offered members a flat-rate AMC regardless of employer size: these schemes were therefore perceived by both providers and advisers to be relatively attractive to smaller employers, who would otherwise be charged more than larger ones.

However, some master trusts did charge members at smaller employers more, reportedly because the provider incurred fixed costs in setting up a new employer to use a master trust, and in operating a trust-based governance structure. This meant that, for these schemes, the cost of trust-based governance tended to be high when shared among a smaller workforce.

Providers disagreed as to whether the system of charging a flat rate was fairer: while some felt that members should not be penalised because they happened to work for a smaller employer, others argued that since it was cheaper to process a large membership en masse, the larger employer should be able to reap the rewards of this.

> *'There is no perfect way of charging either. The flat rate penalises people who haven't got very big funds compared to those that have. Percentages penalise probably those with larger funds compared to smaller funds. Initial service charges penalises those contributing to those. What is the best way of charging?'*
>
> (Provider)

Some respondents felt that an advantage of GPPs and other contract-based schemes over master trusts was that they would fall under FCA regulation. This meant that the provider of those schemes should adhere to the FCA's general guidance around TCF. One provider therefore argued that master trusts in fact represented 'the worst of both worlds', insofar as they would lose the stringent regulation by the FCA from which contract-based schemes benefited, but would also lose the closer relationship that could potentially be built up between trustees and workers, where these were both based at a small employer.

> *'You escape all of the consumer protection and oversights and scrutiny and disclosure standards of the contract-based world – and that saves you a bit of cost so you can make more profit if you are operating there – but you lose the trust-based bit. So you don't have the trust around your local employer.'*
>
> (Provider)

As we explain in Section 10.1.2, however, some older GPPs did not appear to benefit from the FCA's TCF principles, even though they were regulated by the FCA.

# 10 How governance and administration impact upon scheme quality

This chapter examines the other factors that providers and intermediaries believed had an impact on pension scheme quality, which fall into three broad categories: scheme governance; investment governance; and scheme administration.

Scheme governance refers to the overarching management processes that are in place to ensure that members' interests are met and this will be examined in Section 10.1. Investment governance describes the management processes that are specifically in place to ensure that a scheme is invested appropriately, with a particular focus on the default option (see Section 10.2). Finally, Section 10.3 will examine scheme administration – in other words, the process in which members' data is checked, processed and updated.

## 10.1 Scheme governance

### Key findings

- Providers and employee benefits consultants (EBCs) saw scheme governance as key to ensuring good member outcomes; whereas independent financial advisers (IFAs) saw scheme governance as a hygiene factor and rarely questioned providers' governance processes.
- Respondents felt that trustees have a clear responsibility for ensuring schemes are governed according to members' interests, something that can be used to drive member engagement.
- Providers were concerned that, while trustees were usually engaged and diligent, the lack of regulation around employer-based trustee boards meant that the quality of governance varied widely.
- Master trusts were often perceived to be a good alternative for members at smaller employers, as they could offer the levels of governance and expertise available to larger employers.
- Providers of contract-based schemes also said that the schemes they actively marketed now offer high levels of governance, backed by Financial Conduct Authority (FCA) regulation. However, members of older schemes were probably not benefiting from the same level of systematic and regular governance.

We use the term 'scheme governance' to refer to the management processes that are in place to ensure that members' interests are met; schemes are run and monitored well; records are up-to-date; data processes are audited; charges are monitored; and any issues are addressed promptly as and when they arise. Providers and EBCs agreed that scheme governance was key to ensuring good outcomes for members.

> *'The most important feature in any pension scheme is how well it is governed, because if somebody is looking at how well that scheme is doing on an ongoing basis, then you have got a good chance that if the investments are under-performing or the members are not paying enough, that somebody will do something about that; or if the administration is poor, someone will do something about that.'*
>
> (Provider)

On the other hand, smaller IFAs typically considered scheme governance to be a hygiene factor, which in itself did not determine what pension provider they would recommend to their clients. The IFAs included in this research tended to work mostly, or even entirely, with pension providers who were large, leading insurance companies. They would therefore work on the assumption that these providers would have good governance processes in place and found it difficult to imagine the possible consequences of bad governance.

> *'You would just assume that if you were using Standard Life or Scottish Life or whatever, you would never ask the question about governance. You would just assume otherwise you wouldn't be using the company.'*
>
> (IFA)

The way in which scheme governance was carried out depended heavily on the type of pension scheme: in other words, on whether the scheme was a traditional trust-based scheme (see Section 10.1.1), contract-based (Section 10.1.2), or a master trust (Section 10.1.3).

### 10.1.1 Governance of trust-based schemes

A trust-based pension is a pension scheme taking the form of a trust arrangement: in other words, a board of trustees is set up to govern the scheme. Providers and intermediaries agreed that the raison d'être of a trustee board was to ensure that the scheme was being run in the best interests of members and to hold the pension provider to account in working towards good member outcomes. Trustees should *'provide rigorous oversight to our administration, investment approach and ensure that the right things are being done for members'* (Provider).

Trustees were typically based at the employer, and could be senior representatives of the organisation, such as a finance or human resources director, perhaps with some level of expertise in pensions, or indeed an employee who had been nominated by the workforce to represent their interests. Government legislation in fact requires that a minimum of one-third of trustees be nominated by members.[31] In some cases professional trustees could serve as independent members on trusts as well.

Some providers stated explicitly that they welcomed input from trustees in safeguarding or defending their members' interests, as they considered the trustees to be in the best position to understand the members' needs. Providers worked on the assumption that trustees would scrutinise their scheme's structure and performance on a continuous basis, and would inform them if they wanted them to do anything differently.

31 See The Pensions Regulator (TPR) website: http://www.thepensionsregulator.gov.uk/codes/code-related-mnt-mnd.aspx

*'You want people to come back and to challenge us … we don't want to sit there and think that people are passively accepting everything we do without any comeback on us, because that puts us in a dangerous position of actually assuming that everything is okay when in fact sometimes it won't be.'*

(Provider)

Providers and advisers also felt that having the trustees based at the same employer as members could often help to nurture engagement with the pension scheme, for example by enabling trustees to be on hand to answer members' queries, or simply to circulate documents to members easily. The relationship members have with an employer-based trustee would normally be more personal than one with a provider, and this relationship could help to build trust and engagement with the scheme.

*'People trust that their employer and their colleagues are going to do a good job for them. Whether they have the competence and the expertise is a different matter, but people have that trust and that could encourage people to join and put their money in.'*

(Provider)

Alongside this, however, providers in particular identified an associated risk: it was difficult to balance the need for trustees to be both representative of members' profiles and interests, and to have sufficient understanding of pensions to carry out their responsibilities. This could mean that not all trustee boards were equally well-qualified to carry out their duties.

*'If you are there to be an engineer or whatever, you are not there to be an investment adviser. You are there to make whatever it is that you are making. So you are getting people who are lay people to be on trustee boards to some respect.'*

(Provider)

Some also pointed out that conflicts of interest could arise: even if trustees were skilled and engaged, their position as a company employee could also oblige them to consider the interests of the employer, as well as those of the members. In situations where the employer's and members' interests were not aligned, the trustees might face some difficult choices. One provider gave the example of an employer who held both defined benefit (DB) and defined contribution (DC) schemes – in this case, they said that the employer had exerted pressure on the trustees to focus most of their time and energy on the far more expensive (to the employer) DB scheme, potentially to the detriment of members of the DC scheme.

When asked to identify areas for improvement in scheme governance, the most consistently named issue was the variance in performance by trustees. Several providers were keen to point out that many trustees did a very good job, and a skilled and engaged trustee board would be likely to provide better governance than that of a contract-based scheme. However, almost all were concerned that there were some less competent, or less engaged trustees.

Some providers were concerned that the lack of regulation of trusts made it too easy for anybody to set up a trust, and felt that there should be some kind of regulation in place to monitor the quality of the schemes being set up, and the skills and engagement of the people setting them up.

*'This is where again you want the regulators to regulate: it takes two years to establish a bank, and it takes two hours to establish a pension scheme. How can that be right? It is supposed to be providing an income for 30 years for people.'*

(Provider)

A few respondents expressed concern that the quality of trust-based governance was at least partly related to the size of the employer, with smaller trusts tending to harbour more examples of poor governance. They felt that smaller employers tended to have less time, money and expertise to drive engagement and contribution levels for their pension scheme.

Nevertheless, while providers and advisers agreed strongly that it was important for anyone governing a pension scheme to have a minimum level of skill, only a minority of providers felt that implementing a minimum official qualification was the best way of addressing this issue. One EBC felt that good governance was not so much a question of hard-and-fast rules as having good judgement when responding to different scenarios.

> *'Just because you are qualified to do something, it doesn't mean to say you are necessarily good at it. So you are talking here about areas of subjectivity, which I think is very difficult to enforce. You can talk about doing what is in the member's best interest, or having investments which are appropriate for members, but they are words that you look up in the dictionary and you can't measure that to the nth degree.'*
>
> (EBC)

## 10.1.2 Governance of contract-based schemes

A contract-based pension is a DC pension scheme purchased by an individual, either through their employer or individually, from a pension provider. Since there is no trustee body, it is owned entirely by the individual, with the contract existing between the individual and the pension provider. The scope of this research was limited to workplace schemes and excluded individual personal pensions.

Providers reported that they would typically set up internal committees that would ensure that the scheme is serving the needs of its members and is run in compliance with the relevant laws and regulator guidance. This would involve monitoring all aspects of the scheme, including its funds, charges and administration procedures, and supervising any checks and balances that had been put in place for the scheme.

> *'Senior managers in businesses like this are required to put in place the appropriate systems and controls to ensure that the end product is a product which meets the customer's needs … what they will look at in the first instance is whether they should allow a fund manager to put their funds onto our GPP in the first place. So is that fund manager skilled enough, fit and proper, financially sustainable as a business, around for the long term?'*
>
> (Provider)

Some providers put at least one or two people on these committees who were independent – i.e. not employed within their organisation. The independent members often included actuaries who would be mandated to represent the interests of members rather than those of shareholders. Much like a trust board, their responsibilities included checking that the provider's systems and controls were working to deliver the best possible end product: their specific duties would include looking at investments and charges, and ensuring that the provider's communications were clear and not misleading. The committees would then also ensure that the provider was adhering systematically to its own procedures.

> *'Someone independent to review those controls and those audits and a report on that to make sure that everything is in place, that your data is clean, that your processes are followed, and any unusual events are reported and followed through. Also that you report to the right places.'*
>
> (Provider)

Some providers and advisers suggested that contract-based schemes had an advantage over trust-based schemes, insofar as they were regulated by the FCA, which held them to consistent standards in terms of scheme governance. Providers saw the role of the FCA as similar to that of an independent trustee who would 'ask difficult questions,' but argued that the FCA did more: having laid down a systematic set of rules for good practice, they would police the providers to ensure that they abided by those rules, and had the power to punish them if they did not.

> *'I think the FCA are a much, much more robust taskmaster than the trustees for example. Much larger scale and much more expertise and certainly much more clout. You can see what they are doing with PPI, where the banks are forking out billions and billions in compensation, so the clout that they have is enormous.'*
>
> (Provider)

However, some providers noted that older contract-based schemes that had been set up several years in the past and were no longer open to new members would often be reviewed by providers less frequently. Even though these older schemes also fell under FCA regulation, it therefore seems unlikely that they were benefiting from the same level of systematic and regular governance. One adviser reported that some older schemes had penalties that might deter employers from leaving, even if they believed it might be possible to benefit from better governance elsewhere.

In addition, one trust-based scheme provider was sceptical that any committee based at a provider could really scrutinise that provider's contract-based schemes from a sufficiently independent perspective. They argued that a trust board could eventually decide to move their scheme to another provider if they became dissatisfied with the incumbent's administration. In contrast, they felt that in the case of a committee based at the provider that reviewed the administration of a contract-based scheme, *'they are kind of auditing themselves a little bit'* (Provider). A minority noted that when running contract-based schemes, providers also had responsibilities to uphold with regard to their shareholders, potentially to the detriment of pension scheme members.

### 10.1.3 Governance of master trusts

A master trust is a multi-employer trust-based scheme, which a pension provider manages under a single account. The trustees of the scheme are professionals that are usually employed by the provider.[32]

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[32] NEST (The National Employment Savings Trust) is an example of a master trust, and some of the largest providers offer these as well.

Some providers and intermediaries suggested that master trusts might be a good alternative to traditional trust-based schemes for members at smaller employers. In particular, those master trusts whose charges were the same across the entire membership were seen to offer the high quality governance of a large provider, which a small employer might not otherwise be in the position to afford. They reasoned that a provider would be likely to offer better governance than a smaller trust board that lacked the skill or interest to govern its scheme effectively. As one EBC put it,

> *'Quite a lot of employers, because of the recent history of DB schemes, want to be as far away from pensions as they can be. So they would like to set something up that they pay money into and that is the beginning and the end of their responsibilities, and that is when master trust appeals.'*
>
> (EBC)

Some respondents were nevertheless concerned that if the trustees were appointed by the same provider that they were responsible for overseeing, there was a risk of losing the element of independent scrutiny that employer-based trustee bodies should offer. A few felt that those companies which ran both a master trust and their own investment funds would be motivated to keep pensions invested in their own funds, whether or not these were run efficiently or were best suited to the membership profile. Some providers felt that even though a provider-based trustee body may in theory be able to sack that provider, it was unlikely that they would ever do that in practice.

'You find that in some of the master trust schemes, the trustees have been appointed by the investment manager or the administrator and therefore there is an immediate conflict of interest there, because if they are on the payroll of the service providers, then they are not going to sack the service providers.'

Provider

One EBC remained sceptical that master trusts offered a good compromise position between the two traditional types of scheme. Their main concern was that master trusts were generally so large that they would contain very diverse workforces, which would make it difficult to act in the best interests of everybody who was a member of the scheme.

> *'If you take two extremes, you take a retailer and a bank, and you put the staff who work on checkouts in the supermarket in the same scheme as investment bankers, to exaggerate the effect, do they benefit by having the same investment profile? … So if we put those together and we put together an investment default that makes sense to that average member, the average member doesn't exist. So you get charges down and you get economies of scale, but do you get a product that is meaningful to either of those poles?'*
>
> (EBC)

## 10.2 Investment governance and default options

### Key findings

- Most default options actively marketed by providers were now seen as a safe and appropriate approach for most members, and were heavily influenced by the Department for Work and Pensions' (DWP's) default option guidance; although some older schemes were seen as offering greater risks to members.
- Traditional and master trusts were seen to offer a key regulatory advantage: the trustees could take the decision to move members out of a particular default fund if this was deemed appropriate; in a contract-based scheme, this could not be done without the member's permission.
- The most commonly recommended investment strategies included diversifying assets, and using a flexible and defensive approach to lifestyling.
- The majority recommended that those governing should meet at least quarterly to assess investment performance and review the overall scheme objectives at least every three years; but warned against reacting over-sensitively to market fluctuations.

In this section, we will examine the industry's views on the management processes that are in place to ensure that a scheme is invested appropriately, with a particular focus on the default option. The majority of respondents felt that good investment governance was crucial in driving good member outcomes, because the return to members depended upon how much money was put in, and how that money was invested.

> *'That is the engine. To get a positive real rate of return on the contributions that are paid into the plan, it really is driven by the investment design and the investment options that those contributions go into, and how well or otherwise those investment options perform.'*
>
> (Provider)

Investment governance falls under the same lines of responsibility as scheme governance: for contract-based schemes, it is handled by an investment governance committee, which is based at the provider, while trustees take on this responsibility for their schemes. Each provider interviewed described having either a board or committee responsible for general governance, or a subcommittee whose remit was to deal specifically with governing investments for their contract-based schemes. These committees would meet regularly, review the performance of their investments and discuss any issues that had been brought to their attention. They would then take any action that was agreed and publish a report detailing their actions. One provider noted that the approach to investment governance would vary between one provider and another.

> *'The vast majority of large providers, if not all, have a management committee … [but] they all do slightly different things potentially. So there is no set of hard and fast rules about: this is what this committee does. Each one will have its own remit and say what it does, but across the industry there is no one-size-fits-all approach.'*
>
> (Provider)

### 10.2.1 Investment governance for default funds

Both providers and advisers frequently mentioned the governance of default funds as one of the top factors in driving member outcomes, and some emphasised that the role of default funds would become even more influential with the advent of automatic enrolment, as the vast majority of members would never choose their own funds.

> *'We accept now that 85 per cent or 90 per cent of people will go into the default fund, and whatever we need, that is what is going to happen, so you might as well spend the time and effort getting the default fund right.'*
>
> (EBC)

#### Choosing an approach that meets most members' needs

Providers and advisers were in agreement that the majority of default funds that were currently being actively marketed by providers were a safe and appropriate approach for most members. At the same time, the majority of respondents acknowledged that it was difficult to design a default fund that was properly tailored to all of the members who would end up in it: firstly because the default fund would have to cater for a variety of risk profiles and would, therefore, usually be designed with medium-risk funds that might be inappropriate for the extreme poles of the membership.

> *'A problem that a lot of people have on a personal level is the default fund that they are in doesn't actually map to their risk profile. So a lot of people are in default funds assuming that perhaps it is very cautious or conversely that it is actually quite aggressive, and it is probably neither, because obviously they have tried to achieve something which is middle of the road.'*
>
> (IFA)

They nevertheless agreed that it was necessary to take this 'middle-of-the-road' approach to ensure that the needs of those members with the greatest and least capacity for risk were balanced. A few respondents pointed out that members in the default fund were by definition not engaged with the process of selecting funds that were suitable for them. This meant that neither providers nor advisers would necessarily be able to have a detailed conversation with all of these members to understand their capacity for risk or to explain to them the level of risk built into the default fund.

> *'The reality is that a default fund has to be bad for nobody, which means that it is not necessarily great for anybody, by definition … There are a lot of people in default funds that aren't the best fund for them, I would imagine, but that is because in order to have the best fund for you, you need to actually be involved in the decision and you don't want a default fund.'*
>
> (Provider)

A few providers felt that traditional trust-based schemes had an advantage here, since the role of the trustee was to understand the members' risk profiles and to take decisions on their behalf where the members were not doing so.

In contrast, several providers noted that one difficulty they faced when managing contract-based schemes was that their board or committee could not take the decision to move existing members out of a particular default fund if it was deemed to be inappropriate for them. Because the contract was undertaken between the provider and the individual member, the provider could not make any changes to the fund that the member signed up to as part of that contract, without seeking their permission. Respondents noted in contrast that trustees at both traditional and master trusts had been legally entrusted with the power to make these decisions on their members' behalf, including moving them out of an under-performing fund. Some reported that since they did not have this power over contract-based schemes, if a fund in one of these schemes under-performed, they would find themselves in the awkward position of having to tell members the facts without advising them that they should move out of that fund.

> *'If they are no good, all you can do is write to members and say "Please you should think about switching," but make sure you are not giving advice. Well, it just can't be done. It is a tightrope. You don't want to give advice but you want people to act upon it.'*
>
> (EBC)

## Choosing the correct fund type

The majority of advisers felt that it was important when designing a default fund to bear in mind that higher return funds also tended to involve higher risk, and so the funds that they selected for the default would be conditioned by the members' appetite or capacity for risk. Some members, due to their age or personality, might be more willing or able to ride out fluctuations in the markets.

> *'If you are trying to maximise the outcome, then that probably means that you are going to be investing in assets that have got the biggest expected rate of return. If you do that then you are going to have the highest variability in what those outcomes are actually going to be.'*
>
> (EBC)

Some providers and EBCs also recommended greater use of passive over active funds, since active funds sometimes did not bring greater returns and were seen as more risky; while also attracting higher charges. One provider suggested that if an active fund was to be used, the trustees should assess the charges and feel confident that the predicted growth would outweigh the charges that the fund would attract. Providers typically stated that the best approach to the trade-off between minimising risk and maximising returns was to diversify the funds used in the default. By spreading investment over a range of different assets, providers sought to avoid the danger of putting all their eggs in one basket, while also aiming to balance out the often higher volatility of high-return funds with the smoother return of more cautious funds.

> *'Investments that are spread across a wide range of different asset classes: I would say that at the moment is best practice, diversified funds. So you are still getting reasonable levels of return but with lower levels of volatility than, let's say, equities.'*
>
> (EBC)

One provider reported, however, that diversified funds tended to attract higher charges and felt for this reason that it was important to scrutinise the way these funds were adding value through their management of risk exposure.

### Lifestyling

All providers interviewed reported using some kind of lifestyling or target-dating process to transition a member's assets into lower-risk funds the closer they got to retirement, in order to protect the pot that they had built up over the years.

> *'So if the stock market crashes prior to retirement, most people would have most of their money in cash and bonds by then, so it wouldn't hurt them. But you have to sacrifice a bit of potential upside that you might get from equity markets in those later years in order to get that protection.'*
>
> (Provider)

Some respondents reported that lifestyling tended to begin earlier now than it had done in the past: while it had been common around a decade ago to begin this process around three to five years before retirement, providers now tended to adopt a de-risking strategy between ten and 15 years before the member's retirement. One EBC felt that the possibility of the stock market collapsing shortly before a member's retirement felt more real now than it had done in the past, and saw this as a reason for why providers were now taking a more defensive approach to risk strategy.

## 10.2.2 Risks to members in older schemes that are closed to new members

A few respondents identified older schemes as being more likely to suffer from poor investment governance, as these schemes had a tendency not to keep up with current thinking as to what constituted good practice. They felt that the greatest risk lay in 'zombie funds': that is, funds that were no longer actively sold by providers. While respondents acknowledged that these funds were still regulated by the FCA, they felt that since their providers were no longer competing for new business, they would not feel the same incentive to demonstrate high standards of investment governance. Consequently, the default options might be invested in categories that would now be considered inappropriate (entirely in UK equities, for example), and might be subject to less frequent, or simply different, governance processes to what current good practice dictated.

> *'What would be bad is if you have created a pension scheme where nobody ever looks at the funds and they are totally inappropriate to the underlying investors, or they are not regularly reviewed and they have got high charges on them. That would be a terrible strategy, but it exists, at least on some legacy schemes.'*
>
> (Provider)

One EBC suggested that some schemes that were set up some time ago may not in fact be receiving any ongoing governance. As an example, they reported that GPPs were often sold to employers ten to 15 years ago on the understanding that the employer would not need to govern them. Even if they advised employers that governance was now considered necessary, given that they may no longer represent the best value for members, they did not feel confident that all employers would be willing or able to shoulder that responsibility.

A small number of providers admitted that among their schemes that were still open for new business, there might also be members who were not benefiting from current best practice. As mentioned in Section 10.2.1, providers cannot make changes to contract-based schemes without the member's permission, meaning that if a fund no longer complied with current standards of good practice, any member in that fund would fail to benefit from best practice unless they specifically requested to move out of it.

*'They will certainly make changes for new people coming in. They may even make changes for future contributions, but they are very loath to make changes to money that has been paid in already. That clearly means that there is going to be a chunk of people for whom no one is taking that responsibility to say "We said this was a good idea. It was, but here is a better one and you should be doing this."'*

(EBC)

### 10.2.3 Reviewing investment performance and objectives

The majority of providers and intermediaries agreed that best practice in terms of what constituted good investment governance had evolved significantly in recent years. Consequently they stressed how important it was that those responsible for governance met regularly to assess their schemes – not just to monitor the value of the funds, but also the wider changes in the market and the overall investment objectives.

*'We will always design it so it is appropriate at the time we design it, but we have got to govern it and make sure it stays appropriate. That might be because external factors are changing like the type of members, or it may be because the funds within it aren't performing well, or are no longer appropriate, or there have been take-overs in the market or whatever.'*

(Provider)

When asked how frequently the investment committee or trustees should assess how funds were performing, most respondents agreed that this should be done at least quarterly, while two or three thought it should be done monthly. At the most basic level, providers and advisers agreed that those governing should look at whether the fund was matching or beating the index. But in addition to this, most respondents emphasised that it was equally important to review the wider strategy of the pension scheme and assess the suitability of the funds selected for the membership profile.

While fund managers might be responsible for reporting on performance or asset allocation, some providers stated that it should be the responsibility of the committee or trustees to examine fund managers' decisions and question them according to their understanding of the scheme's objectives. One EBC was sceptical as to whether many contract-based schemes were in fact considering how appropriate different asset classes were for achieving the overall objectives for the scheme.

*'A fund might be meeting its target, but if we have said "Why are we putting this fund in place?" We are putting this fund in place to do XYZ and that might be related to producing a certain level of outcome for members, not only in terms of investment performance but in terms of long-term pension.'*

(EBC)

Most respondents felt that these 'higher-level' objectives for a pension scheme should be reviewed at least every three years, with a few stating that they would review objectives at least on an annual basis.

> *'I would say once every three years. So fairly frequently, but every quarter would be too frequent. It is about taking a regular measure, a regular check that the funds are continuing to be appropriate for the scheme in the general course of events. The exception to that might be if there is some material change in the market or in legislation or for that particular employer that would lead you to undertake an ad hoc review.'*
>
> (Provider)

Some felt that if the performance of funds were measured too frequently against their objectives, there was a risk of reacting over-sensitively to minor fluctuations in performance. One provider felt that a potential consequence of this was that they could end up putting members off by communicating with them too frequently and thus over-burdening them with too much detail on minor movements in fund values. Another provider suggested that if either the member or the provider focused too much on the fund hitting a straightforward target, they might end up taking inappropriate risks.

> *'Under-performance could happen for a number of different reasons, including doing the right thing. It could be that they are doing the right thing by not taking very high levels of risk … Performance alone is definitely not the only criteria because you could be selling out at potentially the worst possible time.'*
>
> (Provider)

Some providers felt, however, that 'simplistic' objective indicators, such as how frequently the committee or trustees were meeting to review the funds, would only ever tell half the story, and suggested that the skill and diligence with which they undertook these reviews would be a better indicator of quality. These providers felt that the question of whether to take action, and what action to take, would often be a judgement call, and therefore it would be difficult to prescribe standards of quality. Other providers mentioned putting independent actuaries on their committees, who they felt would be in a better position to make impartial decisions as to asset allocation. A few providers felt that smaller organisations were more likely to lack the appropriate skills for governing investments.

> *'The worst practice is probably in advisers who didn't really know what they were doing and have put in things like 100 per cent cash …* [or] *very small trustee boards where there isn't the right level of expertise on there, where they are completely out of their depth. They might be missing warning signs within the portfolio of assets that they have got.'*
>
> (Provider)

### 10.2.4 Impact of default option guidance on the industry

In 2011, DWP published official guidance on selecting appropriate default options for DC workplace schemes.[33] As part of this research we asked all providers and intermediaries about their awareness and usage of this guidance. The majority of providers interviewed, as well as the large EBCs, were using the guidance extensively to aid them in the design of default options.

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33 DWP (2011), Guidance for offering a default option for defined contribution automatic enrolment pension schemes, available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/185056/def-opt-guid.pdf

Indeed, the majority of providers felt that they were already acting in accordance with the guidance before it came out. Some providers also described working the guidance in a proactive way to shape the design of new default options going forwards.

> *'We have got a default fund checklist. All our defaults are monitored against the checklist. It is nothing more than we were already doing … The FCA goes way beyond it anyway, so from our perspective it has just provided a format to do things in as opposed to do things differently.'*
>
> (Provider)

Smaller IFAs, in contrast, were usually aware of its existence, but not of its content, although this may be due to the fact that the design of default options lay beyond their remit, as they saw it. They worked predominantly with large, well-established providers whom they felt could be relied upon to follow the most up-to-date DWP guidance.

> *'We didn't actually need to read that directly, because they are the provider of those default strategies. We don't randomly make things up and call it the default.'*
>
> (IFA)

Only a minority of respondents felt that the guidance should become legislation. One EBC felt that moving from guidance to legislation would hamper the industry in the pursuit of good practice, which might sometimes have to be decided on a subjective basis. They felt that any laws on default options would not just target a minority of bad practice, but also effectively impose restrictions on the ability of the majority of providers to make the appropriate judgement call.

> *'I am nervous about legislating on some of this stuff because a lot of it is subjective, and it makes it inflexible but also gives the wrong answer for some people … what you are doing is you are trying to limit very bad practice, and that potentially could have an impact on all the other schemes that are doing their best and doing a reasonable job.'*
>
> (EBC)

Nevertheless, one provider argued that while the vast majority of larger providers were observing good practice already in this area, the guidance did not go far enough in terms of identifying, and responding to bad practice.

> *'I think that DWP should probably be a little bit more forceful if they see bad practice – they should actually have the power to remove permission to trade from certain default funds or certain forms of default. They should actually be able to say "That is unacceptable."'*
>
> (Provider)

## 10.3 Scheme administration

### Key findings

- Most providers were confident that their own administration processes were effective, and tended to attribute any problems that occurred to employers.
- However, EBCs and IFAs perceived a minority of providers' administrative processes to be poor, particularly those that were closed to new members: in such cases, errors had led to negative consequences for members.
- The majority warned that poor communication with employers or members could have an impact on administrative data, while mistakes in administration could also undermine the provider's ability to communicate and build trust with the member.
- Almost all agreed, however, that increased use of electronic processing of data means that such issues are becoming rarer, and had improved transparency and communication with members.

For the purposes of this research, we define scheme administration as the process of keeping track of all member data that is important to the functioning of a pension scheme, and identifying and correcting any errors in the data. One provider defined what good administration means to them:

> *'People get statements when they would expect. They can get through to us. They always get their questions answered … If we are not giving the right level of service, it just gives the adviser community an excuse to go "You are not providing an adequate level of service, so we will move it to someone that can."'*
>
> (Provider)

Both EBCs and IFAs underlined the importance of good administration in driving positive member outcomes: while the majority of providers felt confident that their own administration processes were effective, and were generally more likely to attribute any problems that occur to employers, many were able to cite examples of where there was room for improvement in other providers' administration. One EBC felt that members and providers alike tended to perceive good administration as a hygiene factor, but for that very reason, both parties could underestimate the consequences if it was not done properly.

> *'It should just all happen in the background, but it is critically important that it does. It is the sort of thing that is actually quite visible to members … It doesn't matter if the investments are great and the contributions are high if the admin is poor. If you get a statement and it says you put in £50 last year and you put in £5,000, it just blows everything out of the water.'*
>
> (EBC)

### 10.3.1 Areas where scheme administration is done successfully

The majority of providers mentioned having checks and balances in place to maintain the integrity of their data and record-keeping, and most were able to give one or more examples of ways in which they strove to minimise the risk of missing or inaccurate data in their practices. A few providers felt that the long-term nature of pensions as a financial product made it all the more important to use administrative processes to create an audit trail, giving clear evidence of what action was taken when, and improving the chances of the provider being able to take any corrective action in a timely fashion.

> *'You are saving for 40 years. You need to be able to at least go back and have some kind of audit trail through some of this … you need to make sure you can document exactly where you are in that, and what you did and what you didn't do. When things go wrong …* [the risk is that] *you can't sort out what actually happened.'*
>
> (Provider)

Several respondents cited the importance of confirming personal details such as names, addresses and birthdates, and recording contributions promptly and accurately against the appropriate member's name. Providers felt that advances in technology had helped to facilitate the gathering of accurate and complete data. They mentioned that computerised forms reduced the risk of misreading a member or adviser's handwriting, and could also potentially make it impossible to send through instructions with certain fields in the form incomplete.

> *'Our processes are strict enough that there is validation on the system, so if a transfer is trying to be made with only partial information, we can't accept it onto the system.'*
>
> (Provider)

Some respondents felt that advances in technology had also improved transparency between the provider or adviser and the member, while at the same time stressing that the member might then have higher expectations for greater transparency.

> *'If they are able to look up on their PC where the money has been invested, they should be able to see when it was invested. So if pay day is the 25th, and it is the 8th of the following month before it is invested, you are rightly asking "What has happened to my money for the last 13 days? Who has been earning interest on that?"'*
>
> (EBC)

A few providers mentioned using tracing partners, such as Experian, to track down inactive members, conscious of the importance of keeping their member data up-to-date. Some providers felt that this problem was often caused by the employer failing to send them up-to-date data, and stated that if they repeatedly received poor data, they would raise it with the employer or perhaps pass the cost on to them. One provider also described the potential impact on the member of poor communication: failing to keep in touch with regular and correct information would probably erode their level of engagement with the pension, and at its worst, could mean the provider losing track of the member and therefore failing to pay out the pension pot to them.

> *'Your poor records mean that people don't get the outcomes that they were expecting, or they get little or no information, or the information they receive is in some way incorrect. The person who bears the general cost of it is either the member through complete disengagement …* [or] *ourselves because we then suffer the cost of putting everything right.'*
>
> (Provider)

A few providers considered it important to go further than this, and develop a communication strategy that would actively encourage members to take an interest in growing their pension. These providers saw administration not merely as a passive process of recording information, but also as an opportunity for fostering dialogue with the member.

> *'The design of the proposition needs to take account of how we can engage with the scheme member to try and encourage them to maximise the amount of contribution … We then think about the key touch points throughout the customer journey … at key events throughout the lifetime of the plan, particularly in the period leading up to the member approaching their retirement date.'*
>
> (Provider)

However, some IFAs felt that it was best to use communications sparingly and were concerned that a little knowledge might be a dangerous thing for members, potentially causing misunderstandings or unnecessary alarm. An EBC recommended communicating once every year or two, 'such that members are reminded "This is for your benefit, and it is in your control, and you might need to reset your course."'

### 10.3.2 Areas where scheme administration can go wrong

Several providers pointed out the potential negative consequences for them if they failed to maintain a high standard of administration. As well as undermining their relationship with the member, or wasting time and money putting the mistake right, one or two providers also mentioned that in serious cases they could face a fine by the FCA, which would also have an impact on their reputation. This provided a strong incentive to keep their standards of administration as high as possible.

However, both EBCs and IFAs felt that there was more room for improvement. While they agreed that some of the large providers consistently provided good administration, they felt that other providers could be worse. Occasionally advisers pointed out that providers' margins had fallen in recent years to the point that they were under pressure to cut costs, and speculated that administration would be one of their top priorities for reducing costs.

The intermediaries interviewed reported that poor administration was more common among small providers, and schemes that were closed to new members, but did not exclude some large providers from their criticism either. These advisers (and a minority of providers) felt that if a provider was not seeking new business, they were not sufficiently motivated to improve their administration processes.

> *'If you are going into a smaller occupational scheme or it is a provider that used to be open years ago, but it is not open to new business any more, and they are just trying to minimise costs etc., getting records of the closed books … They tend to be more cottage-industry, so their record-keeping is a bit more sporadic.'*
>
> (Provider)

Paper-based processes

Several respondents felt that paper-based processes, particularly when receiving membership data, could often lead to data entry errors. They again singled out providers whose schemes are closed to new business as committing this kind of error more frequently, as they lacked an incentive, or indeed the budget, to modernise their procedures.

> *'Some are very good. Some are still in the 19th century, almost with stuff being done by paper it would appear, and records that are poor. With older arrangements, you probably need to start from the assumption that the administration is almost non-existent. There are actually insurance companies where they have got members' names and that is it.'*
>
> (EBC)

The EBCs interviewed suggested that inertia among many employers and members tended to make them reluctant to switch provider, and consequently they had a high tolerance of poor administration. This could make it relatively easy for such a provider to neglect scheme administration.

> *'There is a psychological barrier that moving is hard. So if you have a provider and they have not kept up pace with what is going on in the marketplace … if there is no governance going on, no one is monitoring this or there is no one knocking on the employer's door saying "XYZ insurance company are really, really bad now."'*
>
> (EBC)

## Customer service

A few providers mentioned that they were conscious of the importance of being accessible to members and ensuring that those members could communicate with them easily and get the information they wanted, whether that was on the phone, online or through another channel. However, several IFAs reported experiencing some difficulties with getting quick and responsive customer service when they called a provider.

> *'It is having somebody to speak to and that person able to take on the responsibility to do the task … I am guessing somebody higher up is saying you mustn't take responsibility because it is a liability if something goes wrong perhaps. So it's the way that people are trained…'*
>
> (IFA)

## Errors by intermediaries and employers

Several providers felt that administrative errors were often the result of employers failing to give them complete and up-to-date information. Some EBCs confirmed that problems often resulted from failures at the employer's end, such as the payroll department not allocating contributions properly. One provider reported that issues could sometimes arise from the employer or the member not necessarily understanding what kind of information had to be relayed to the provider. The provider could then make wrong assumptions due to not being aware of the existence of an information gap.

> *'We do send out letters at that time saying "You have just gone onto lifestyle and this is what it means to you." If you are going to retire at a later date, then you have to tell us. But that could go wrong. It could go wrong simply because the customer doesn't understand it or has decided to do something completely different.'*
>
> (Provider)

Both providers and advisers were aware that small mistakes in administration – such as writing down a member's birthdate wrongly – could potentially have much larger consequences, such as the failure to calculate an individual's retirement age correctly. The advisers interviewed felt that if mistakes were made in administration, it had the potential to undermine a level of trust that might already be quite low in regard to the pensions industry. Some advisers also pointed out that as the customer-facing organisation, it was they who would have to manage the customer's reaction to the provider's error, not the provider.

*'It reflects on us. If you are advising on a scheme and the administration is wrong, the employee's date of birth is wrong, there are all sorts of things that happen. And you are the adviser, aren't you, so you are the person in front of the employer when they ask "Why has this gone wrong?"'*

(IFA)

### 10.3.3 Unit reconciliation

Unit reconciliation is the process of ensuring that the number of units that an individual has purchased in a particular pension fund matches the number of units attributed to them by the provider. We specifically discussed unit reconciliation with all providers and intermediaries, and some specifically raised the topic themselves. The majority of providers and EBCs stated that it should happen on a daily basis, while others defined the process instead as one that happens constantly, or whenever a transaction takes place.

Providers said that discrepancies in unit reconciliation were extremely rare or even non-existent, but that if and when they occurred, the provider would have to report any errors to the FCA immediately, together with the corrective action they were taking. Advisers agreed that problems only arose very rarely, but most respondents felt that if something did go wrong, the consequences could potentially be far-reaching. Several respondents could quote examples of unit reconciliation going wrong from their own experience.

Respondents identified a number of things that could go wrong if unit reconciliation were not carried out frequently and promptly. Firstly, contributions might be entered into the wrong member's account, or secondly, the provider might invest their contributions in one fund rather than another.

*'The insurance company had taken £1,000 and allocated it more or less randomly between the members and put it into whatever fund they saw fit … You think you have got a fund of X but in reality it could be 2X or it could be half X. That is extreme but it does happen.'*

(EBC)

A few providers suggested that errors in unit reconciliation tended to result from technical glitches in the system or from mistakes made by fund managers when quoting unit prices. One provider stated that they had processes in place to check the prices quoted by external fund managers on a daily basis, but errors could still occur.

*'Pricing units is complex. There are quite often times when a price has been misquoted, and then we have to go back through all the records and actually correct all the transactions … Given the fact that most of our fund managers are actually within the same company, it is difficult for us to rob Peter to pay Paul, but it is a risk we take in running the business.'*

(Provider)

Providers were generally quick to stress that where occasional discrepancies in unit reconciliation were identified, they would always make complete restitution promptly to the member, and report the issue to the regulator. Advisers confirmed that even though errors were often identified long after the event, the member would always be compensated quickly and without fuss.

> *'We don't spot these things all the time and you will get a letter through four years later: "We have had an audit and we realise that actually you short-changed your member by 37.9843 units" … We didn't realise it was gone, and he didn't realise it was gone, and he was nicely retired and let's give him a cheque.'*
>
> (IFA)

A few respondents reported that normally the damage to the member would consist of the value of their fund being reported temporarily lower while the provider investigated and rectified the problem, but in extreme cases, it was possible that the member might be unable to move out of a particular scheme, or might have to delay their retirement while awaiting resolution of the issue. One provider pointed out that if the member had already retired before the error was identified, it might be too late to correct the mistake:

> *'Ultimately, members can end up retiring on benefits that are significantly less than they are entitled to, or more than they are entitled to. Both are equally bad.'*
>
> (Provider)

In any of these scenarios, these respondents recognised that the member's faith in the provider or in pensions more broadly might be harmed by the mistake.

Providers felt that FCA regulations and penalties already created a strong incentive for them to keep a firm grip on unit reconciliation. Some providers felt confident that technological advances were continually reducing the need for human intervention in carrying out transactions, and thereby minimising the opportunities for human error.

> *'In the old days, you had a paper premium floating around and margins for errors, but it is now all end-to-end automated. It is an electronic file that comes directly off their payroll and HR systems, which gives us certainty that unless there is a problem in their system, we have got accurate data.'*
>
> (Provider)

### 10.3.4 Improving current practices in scheme administration

While most providers were confident that their own standards of scheme administration were high, in the course of the interview, both they and the advisers were able to identify a number of areas where there might be room for improvement across the market as a whole.

Providers and administrators agreed in general that the more processes were automated, the better their chances for maintaining high standards of administration would be. One provider recommended taking advantage of digital technology to 'minimise multiple touch points or any form of manual intervention,' since they felt that this reduced the changes of information being recorded or transmitted incorrectly. The EBCs typically agreed with this, suggesting that the risks of paper-based processing included handwriting being misread or misinterpreted, or forms getting delayed or lost in the post.

> *'Straight through processing – the data just gets pushed in one end and processes take it along to wherever it needs to go. No interference and no human contact and less likely for things to go wrong. So what we would like in the ideal world is for all employers to be electronic.'*
>
> (Provider)

Several respondents felt that member communications had the greatest potential to benefit from technological advances. For example, one provider felt that it was important for members to have online access to their account, enabling them, for example, to request and view transfers between funds quickly and easily. Another provider thought that allowing members to access their data on their mobile phones might encourage member engagement and understanding of their pensions. These providers felt that members were in the best position to notice and signal any errors in their personal details or contribution levels, while at the same time, regular communication might nurture transparency between the member and provider, and improve the members' interest in growing their pension.

However, one EBC warned against getting carried away with the potential offered by technology for member communications, since they were concerned that if members monitored every little fluctuation in their funds, they might take investment decisions too hastily.

> *'We are not too far from where we are going to be able to get our pension figures on a second-by-second basis on our phones. Madness in my view. We don't need it. We don't need to know what is going on on a day-to-day basis. You shouldn't be making those decisions on a day-to-day basis. You make a long-term strategy, and that is it.'*
>
> (EBC)

A minority of respondents suggested that a quality mark could be created to show that certain schemes met minimum standards of quality in their administrative procedures and had consequently been approved by the regulator as fit for purpose. These respondents acknowledged that such a mark would not be able to indicate how appropriate a scheme was for a potential member, or how it compared to other schemes, but the quality mark could at least demonstrate minimum compliance.

> *'It is bit like an ABTA* [Association of British Travel Agents] *recommendation in the travel industry. I know that I am not going to get ripped off going into this scheme. I know that somebody has said it is okay.'*
>
> (Provider)

# Appendix A
# Materials used in conducting the research – charges research with employers

## A.1 Introductory letter and fact sheet to the employer

ERSP Research Team

Workplace Pension Reform Division

Department for Work and Pensions

7th Floor Caxton House

Tothill Street

London SW1H 9NA

Framework Ref: XXXXX

Tel: XXXXX

Email: XXXXX

[PSR] [EMPLOYER NAME]

[DATE]

Dear [NAME]

Pension Scheme Charges Research

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

The government is committed to ensuring that people get maximum value from their pension savings. To help us do this, DWP has commissioned a survey of employers to help us understand charging structures, types and levels in pension schemes across the UK. Only if participated in 2011: You kindly participated in an earlier wave of this research programme in 2011, and you can find the full results of the 2011 study on DWP's website: http://research.dwp.gov.uk/asd/asd5/report_abstracts/rr_abstracts/rra_804.asp

The research is being conducted on DWP's behalf by RS Consulting and Critical Research, who are independent research organisations. You will be contacted by Critical Research to take part in a telephone survey which it is estimated will last 10-15 minutes, depending on your answers.

One important piece of information that we will request from you is the level of annual management charge (AMC) paid by a typical active member of your pension scheme: this information will only be used to calculate the average levels of AMC paid by scheme members. If you do not have this information to hand, we would be very grateful if you could ask your pensions adviser or provider about this before we interview you. The attached fact sheet explains more.

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

If you have any questions about the research or do not want to take part you can contact the project team at Critical Research on XXXXX (between 9am and 5pm Monday to Friday).

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

Yours sincerely,

XXXXX

ERSP Research Team

Workplace Pension Reform Division

Department for Work and Pensions

## A.2 Employer questionnaire

**Introduction for switchboard/gatekeeper: trust-based**

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

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

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

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

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

**If necessary, offer to send letter from DWP, either by post or by email. Confirm contact details and send.**

**Introduction for potential respondent: trust-based**

Hello my name is... and I'm calling from Critical Research on behalf of the Department for Work and Pensions. We would like to ask you about costs and levels of charges involved in the [EMPLOYER] pension scheme. The information you give will form part of the DWP's ongoing research into pension provision to enable it to be fully informed about the pensions market.

Your participation in the research is entirely voluntary and will not affect your future dealings with the Department. You can withdraw from the research at any time.

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

**Ensure that respondent is clear on this, and allow them to ask any questions.**

**If respondent asks where we got their contact details**: Details were provided by The Pensions Regulator solely for the purposes of this research. The details indicated that you are responsible for dealing with pension scheme administration for [EMPLOYER]?

We would very much like to interview [EMPLOYER] as part of this study. The interview would take approximately 15 minutes depending on your answers, and would be conducted over the phone.

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

Do you consent to take part in this research?

I will send you a letter from the Department for Work and Pensions, which gives you more information about the research, and the subjects we would like to discuss. If you do not wish to participate in the research you can let Critical Research know at any time; the letter includes a number and email address you can use for this. **Confirm contact details and send. Arrange a suitable time to recontact respondent. If no firm appointment agreed, allow at least 3 days before recontacting.**

**Introduction for switchboard/gatekeeper: contract-based**

Good morning/afternoon. Please could I speak to…

**1-4 employees**: the owner of your company?

**5-249 employees**: your Finance Director?

**250+ employees**: your Pensions Manager? If not: In that case, could I please speak to your Finance Director?

**If positions do not exist**: In that case, could I speak to the most senior person responsible for employee salaries and benefits?

**If asked**: My name is….. and I'm calling you from Critical Research, on behalf of the Department for Work and Pensions. The DWP is currently conducting research into company pension schemes.

**If necessary, offer to send letter from DWP, either by post or by email to explain the purpose of the research. Confirm contact details and send.**

**Introduction and screening questions for potential respondent: contract-based**

Hello my name is... and I'm calling from Critical Research on behalf of the Department for Work and Pensions. The DWP is currently conducting research into company pension schemes. The information you give will form part of the DWP's ongoing research into pension provision to enable it to be fully informed about the pensions market.

Do you mind if I ask you a couple of questions first of all about pension provision at [EMPLOYER]?

**Read reassurance on confidentiality**: I can assure you that anything you tell us during the course of the research will be treated in confidence by the project team. It will not be attributed to you, or your organisation, either in our presentations or in the final project report which will be published by DWP. We will not tell DWP which organisations participated in this research. **Ensure respondent is clear on this and allow them to ask any questions.**

**If respondent asks where we got their contact details**: Your company was selected at random from a database of all UK businesses.

S1 Can I just check that you are the best person to speak to regarding employee pensions and benefits at [EMPLOYER]?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | GO TO S2 |
| 2 | No | SEEK REFERRAL |
| 99 | Refused | THANK & CLOSE |

S2 Does [EMPLOYER] offer any pension scheme that is open to new members?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | GO TO S3 |
| 2 | No | THANK & CLOSE |
| 98 | Don't know | |
| 99 | Refused | |

S3 And does [EMPLOYER] make a contribution to any employees' pensions?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | GO TO S4 |
| 2 | No | THANK & CLOSE |
| 98 | Don't know | |
| 99 | Refused | |

S4 And finally, does [EMPLOYER] have a pension scheme that has 6 members or more in total? If unclear: please include all active and deferred members.

Interviewer note: 'active member' is a member who is building up pension benefits from their present job. 'Deferred member' is a member who has left a scheme, but will get the pension benefits when they retire. This would usually be because they have left your organisation.

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | QUALIFIES |
| 2 | No | THANK & CLOSE |
| 98 | Don't know | |
| 99 | Refused | |

**If thank and close**: I am sorry to say that you actually fall outside of the range of companies that we need to recruit as part of this study. **Apologise for taking up respondent's time**.

**Otherwise**: We would very much like to interview [EMPLOYER] as part of this study. The interview would take no more than 10-15 minutes depending on your answers, and would be conducted over the phone.

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

Do you consent to take part in this research?

I will send you a letter from the Department for Work and Pensions, which gives you more information about the research, and the subjects we would like to discuss. If you do not wish to participate in the research you can let Critical Research know at any time; the letter includes a number and email address you can use for this. **Confirm contact details and send. Arrange a suitable time to re-contact respondent. If no firm appointment agreed, allow at least 3 days before re-contacting.**

ALL SCHEMES: Pilot phase note for interviewers

Throughout the interview, if a respondent cannot give an accurate answer, you can allow a best estimate, or sometimes a range to be entered.

However, please use your best judgement as to whether a respondent can answer a particular question: if a respondent is genuinely unsure, please code 'don't know' rather than encouraging a respondent to guess the answer.

If respondents are unclear of the meaning of particular questions, even with the explanations provided, please report these instances back to RS, along with the reason for the confusion if possible.

## Section A: Scheme classification

**ASK A1a & A1b TO TRUST-BASED ONLY.**

**CONTRACT-BASED AUTO-CODE FROM S1 & S2**

A1 Can I just check that you are the best person to speak to regarding the details of your pension scheme's costs and charges?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | GO TO A1a |
| 2 | No | SEEK REFERRAL |
| 99 | Refused | THANK & CLOSE |

A1a Do you have any pension schemes that are open to new members?

| | | |
|---|---|---|
| 1 | Yes | GO TO A2 |
| 2 | No | THANK & CLOSE |
| 99 | Refused | THANK & CLOSE |

IF FROM TRUST-BASED SAMPLE AND A1a=2

A1b According to The Pensions Regulator records, the [Named Scheme] is open to new members. Is this correct?

| | | |
|---|---|---|
| 1 | Yes | GO TO A2 |
| 2 | No, the TPR record must be wrong | THANK & CLOSE |
| 98 | Don't Know | SEEK REFERRAL |
| 99 | Refused | THANK & CLOSE |

A2 Can you please confirm which types of pension you offer to your staff?

**Initially, do not read out. If unclear or if categories below not given, prompt for contract-based**: Is it, for example, a group stakeholder pension, a group personal pension, or a trust-based defined contribution scheme? Prompt for trust-based: Is it, for example, a trust-based defined contribution scheme run by a board of trustees?

**Explain definitions if necessary.**

**If scheme type is described only as 'DC' confirm whether it is a trust-based DC scheme.**

**DO NOT FORCE INTO A SCHEME TYPE – IF RESPONDENT DOES NOT KNOW SEEK REFERRAL**

**Immediately after each answer coded**: Is the scheme open to new members? Prompt after answers: Do you offer any other types of pension to any other staff?

**IF MORE THAN ONE IN EACH CATEGORY**: Please focus on the larger of the schemes.

MULTICODE; ONLY OPEN SCHEMES CAN QUALIFY

| | **Scheme** | **Definition** | **Open to new members?** | |
|---|---|---|---|---|
| 1 | Trust-based defined contribution (DC)/ Trust-based money purchase/ Multi-employer master trust | A scheme run by a board of trustees. The size of pension that members receive is not guaranteed by the employer: it will depend on the contributions invested and the returns received on the investment. | Y/N | IF ONLY QUALIFYING SCHEME GO TO A3, OTHERWISE GO TO A2c |
| 2 | Defined benefit/ Final salary/ Career average | A scheme run by a board of trustees. Members receive a guaranteed pension depending on how much they are paid and the length of time they have been in the scheme. | Y/N | NOT A QUALIFYING SCHEME: THANK AND CLOSE IF ONLY SCHEME |
| 3 | Group personal pension (GPP) | A type of contract-based pension. It is set up by the employer, but the contract is between the individual member and the pension provider. | Y/N | IF ONLY QUALIFYING SCHEME GO TO A3, OTHERWISE GO TO A2c |

| | | | | |
|---|---|---|---|---|
| 4 | Group stakeholder pension (SHP) | A contract-based pension that must meet certain legislative conditions set by the government. | Y/N | IF ONLY QUALIFYING SCHEME GO TO A3, OTHERWISE GO TO A2c |
| 5 | Group self-invested personal pension (SIPP) | A special type of contract-based pension under which the members may choose to have additional freedom to control their own investments. | Y/N | IF ONLY QUALIFYING SCHEME GO TO A3, OTHERWISE GO TO A2c |
| 6 | Small, self-administered scheme (SSAS) | A scheme usually set up exclusively for a group of directors, all of whom are trustees of the scheme. | Y/N | ASK A2b |
| 7 | Hybrid scheme | A scheme that provides both defined benefit and defined contribution benefits. | Y/N | NOT A QUALIFYING SCHEME: THANK AND CLOSE IF ONLY SCHEME |
| 8 | NEST/The People's Pension/ NOW: Pensions | DC pension schemes that were designed specifically for employers that have begun to use automatic enrolment. | Y/N | IF ONLY QUALIFYING SCHEME GO TO A3, OTHERWISE GO TO A2c |
| 97 | Other | | | THANK & CLOSE |
| 98 | Don't know | | | |
| 99 | Refused | | | |

**IF FROM TRUST-BASED SAMPLE AND A2=3-5 ONLY**

A2a Is the [SCHEME FROM A2] managed by a board of trustees?

| | | |
|---|---|---|
| 1 | Yes | GO BACK AND RE-CODE AS TRUST-BASED SCHEME |
| 2 | No | CONTINUE AS CONTRACT-BASED SCHEME |
| 98 | Don't Know | |
| 99 | Refused | |

**IF FROM CONTRACT-BASED (D&B) SAMPLE AND A2=1**

A2a And just to confirm, this is a trust-based DC scheme, and not a hybrid scheme?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes, it is trust-based DC scheme | CONTINUE AS A TRUST-BASED DC SCHEME |
| 2 | No, it is in fact hybrid | GO BACK AND RECODE AS HYBRID SCHEME I.E. NOT A QUALIFYING SCHEME |
| 98 | Don't know | |
| 99 | Refused | |

**IF A2=6 (SSAS)**

**A2b** You mentioned that you have a small, self-administered scheme, or SSAS. This is a scheme usually set up for a group of directors, all of whom are trustees of the scheme. Is this correct?

IF IN DOUBT: If your scheme has any members who are not trustees, it is not a SSAS.

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes – SSAS | NOT A QUALIFYING SCHEME: THANK AND CLOSE IF ONLY SCHEME. OTHERWISE FOLLOW RULES FOR OTHER SCHEMES AT A2 |
| 2 | No | GO BACK TO A2 TO RECODE AS NO |
| 98 | Don't know | |
| 99 | Refused | |

**IF HAVE MORE THAN ONE QUALIFYING SCHEME AT A2**

A2c You mentioned that [EMPLOYER] has [QUALIFYING ANSWERS FROM A2] schemes that are open to new members. Just looking at these schemes, could you tell us approximately what percentage of members are in each type of scheme?

ONLY SHOW QUALIFYING ANSWERS FROM A2; MUST ADD TO 100%

1 Trust-based DC scheme _______%

3 Group personal pension _______%

4 Group stakeholder pension _______%

5 Group SIPP _______%

8 Scheme set up for automatic enrolment _______%

98 Don't know OBTAIN REFERRAL OR THANK & CLOSE

99 Refused

READ OUT: For the reminder of the interview, let's focus only on the [REFERENCE SCHEME: FOR TRUST-BASED SAMPLE CODING 1 @ A2, PRIORITIZE CODE 1. FOR ALL OTHERS: USE SCHEME WITH HIGHEST PROPORTION OF MEMBERS AT A2c].

**ASK ALL**

A3 Approximately how many active members does your [ANSWER FROM A2/A2c] scheme have? PROBE FOR BEST ESTIMATE

Interviewer note: 'active member' is a member who is building up pension benefits from their present job. Retired members should not be included.

| | | |
|---|---|---|
| 1 | NUMBER:_______________ | GO TO A4 |
| BAND | | |
| 2 | Fewer than 6 | |
| 3 | 6 to 11 | |
| 4 | 12 to 99 | |
| 5 | 100 to 249 | |
| 6 | 250-499 | |
| 7 | 500-999 | |
| 8 | 1,000 or more | |
| 98 | Don't know | OBTAIN REFERRAL OR THANK & CLOSE |
| 99 | Refused | |

A4 Approximately how many deferred members does your [ANSWER FROM A2/A2c] scheme have? PROBE FOR BEST ESTIMATE

Interviewer note: 'deferred member' is a member who has stopped contributing to a scheme, but will get the pension benefits when they retire. This would usually be because they have left your organisation. Retired members should not be included.

| | |
|---|---|
| 1 | NUMBER:_______________ |
| BAND | |
| 2 | Fewer than 6 |
| 3 | 6 to 11 |
| 4 | 12 to 99 |
| 5 | 100 to 249 |
| 6 | 250-499 |
| 7 | 500-999 |
| 8 | 1,000 or more |
| 98 | Don't know |
| 99 | Refused |

**IF A3 and A4 both coded 2 or DK/Ref, with no exact number given to at least one of the questions (i.e. the total number of members may be less than 6, but this is unclear), ask A5a. Otherwise go to A5b.**

**A5a** In total does your scheme have 6 or more members?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes – SSAS | GO TO A6 |
| 2 | No | NOT A QUALIFYING SCHEME: THANK AND CLOSE IF ONLY SCHEME. OTHERWISE FOLLOW RULES FOR OTHER SCHEMES AT A2 |
| 98 | Don’t know | |
| 99 | Refused | |

**A5b** Can I confirm that, in total, the scheme has **[A3 + A4] or if only bands were used @ A3/4**, approximately **[A3 midpoint + A4 midpoint]** members?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | GO TO A6 |
| 2 | No | GO BACK TO A3 AND A4 TO CORRECT |
| 98 | Don’t know | GO TO A6 |
| 99 | Refused | |

**IF (A3+A4) <6 – THANK and CLOSE**

**ASK ALL**

**A6** Can I just check whether your organisation pays an employer contribution to employees who are active members of this scheme?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | GO TO A7 |
| 2 | No | NOT A QUALIFYING SCHEME: THANK AND CLOSE IF ONLY SCHEME. OTHERWISE FOLLOW RULES FOR OTHER SCHEMES AT A2 |
| 98 | Don’t know | |
| 99 | Refused | |

READ OUT: For all the following questions, I would like you to base your answers on your **[reference scheme]** only, over the last 12 months.

Can we confirm the name of the **[reference scheme]** is **[scheme/employer name from sample data]**? **If not, amend scheme name**.

**INTERVIEWER NOTE: Please monitor for, and record, any responses where last 12 months not an appropriate period. Note the period respondents’ answers will be provided for.**

**A7** What was the average employer contribution in the last 12 months as a percentage of employees' gross pay?

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

IF MENTION SALARY SACRIFICE: Please include the salary sacrifice element as part of the average employer contribution.

*Interviewer note: 'salary sacrifice' is where an employee agrees to give up the right to receive part of their salary, in return for a higher employer pension contribution.*

| | | |
|---|---|---|
| 1 | %:_______________ | |
| 2 | % RANGE:_________ | |
| 98 | Don't know | |
| 99 | Refused | |

**A8** And what was the average **employee** contribution in the last 12 months as a percentage of their gross pay?

IF NECESSARY If the percentage varies greatly between employees please just give your best overall estimate. If don't know, ask for a range.

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

**Trust-based only:**

**A9** And is your scheme a multi-employer scheme or a single employer scheme?

Multi-employer schemes are also known as Master Trusts.

*Interviewer note: a multi-employer scheme is a single scheme run by a provider, which is shared between multiple employers.*

SINGLE CODE

| | | |
|---|---|---|
| 1 | Multi-employer | |
| 2 | Single employer | |
| 98 | Don't know | |
| 99 | Refused | |

**ASK ALL**

**A10a If reference scheme @ A2 = 8, then auto-code A10a and A10b as 1 and skip to A10e.**

You might know that over the next five years, every employer will need to automatically enrol certain workers into a qualifying workplace pension scheme and make contributions towards it. The largest employers were required to do this from October 2012, and the smallest will do this by 2017. Has [EMPLOYER] begun automatic enrolment yet?

*Interviewer note: If employer was required to do this already they will have received a letter from The Pensions Regulator several months in advance – in all other cases they will not have been required to do this yet.*

*If necessary refer respondent to The Pensions Regulator website: www.thepensionsregulator.gov.uk*

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | CONTINUE |
| 2 | No | SKIP TO A10c |
| 98 | Don't know | |
| 99 | Refused | |

**A10b** Do you use your **[reference scheme]** for automatic enrolment?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | SKIP TO A10e |
| 2 | No | |
| 98 | Don't know | |
| 99 | Refused | |

**A10c** Has [EMPLOYER] discussed whether it intends to use the **[reference scheme]** for automatic enrolment?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | CONTINUE |
| 2 | No | SKIP TO A10e |
| 98 | Don't know | |
| 99 | Refused | |

**A10d** And does [EMPLOYER] intend to use the **[reference scheme]** for automatic enrolment?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes – does expect to use | |
| 2 | Not yet decided | |
| 3 | No – does not expect to use | |
| 98 | Don't know | |
| 99 | Refused | |

**A10e** In what year did membership of the [EMPLOYER] scheme start?

*Interviewer note: an estimate is acceptable. If respondent not able to give an estimate offer bands; code answer below.*

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

**IF A10e=2-3**

**A11** When the scheme was first set up, was there a set-up fee paid to the scheme provider?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | GO TO A12 |
| 2 | No | GO TO SECTION B |
| 98 | Don't know | |
| 99 | Refused | |

**IF A11=1**

**A12** How much was this fee?

PROBE FOR BEST ESTIMATE

| | | |
|---|---|---|
| 1 | FIGURE:________________ | |
| 98 | Don't know | |
| 99 | Refused | |

## SECTION B: Scheme administration and trustees

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

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes- internal | Go to B2 |
| 2 | No- external | Go to B4 |
| 98 | Don't know | GO TO NEXT SECTION |
| 99 | Refused | |

**ASK IF B1=1 (INTERNAL), ANY SCHEME:**

**B2** And what is your job title?

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

SINGLE CODE

| | | |
|---|---|---|
| 1 | Accountant/book-keeper | |
| 2 | Administrator | |
| 3 | Company secretary | |
| 4 | Director | |
| 5 | Finance Director | |
| 7 | HR Director | |
| 8 | Pensions Manager/ Administrator | |
| 9 | Owner/Managing Director | |
| 10 | Payroll Manager | |
| 97 | Other (specify)___________ | |
| 98 | Don't know | |
| 99 | Refused | |

**ASK IF B1=1 AND TRUST-BASED SCHEMES ONLY:**

**B3** Are you also a trustee of the scheme?

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

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | |
| 2 | No | |
| 98 | Don't know | |
| 99 | Refused | |

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

**B4** And what is your job title?

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

SINGLE CODE

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

## Section C: Overall scheme charges

I would now like to understand the total charge paid by members of the [reference scheme], and by [EMPLOYER], over the past 12 months.

Looking at the charges paid by members first. For all schemes except group SIPPs: Please just focus on existing members invested in the scheme's default fund.

C1a Have the scheme members themselves paid any charges relating to the pension scheme in the past 12 months?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | GO TO C1b |
| 2 | No | CONTINUE |
| 98 | Don't know | |
| 99 | Refused | |

**C1ai** Can I just double check: it is quite unusual for pension scheme members to pay no charges at all. Usually annual management charges are deducted from a member's pension fund, or from the contributions that they pay, by the pension provider. I wonder if this is information that you might be able to find out for us?

*If necessary: Your pensions adviser or provider should be able to tell you this information. Pension providers often have a website for employers, which gives details of the AMC; or alternatively they should provide a telephone number to contact.*

SINGLE CODE

| | | |
|---|---|---|
| 1 | Members do pay charges – I have this information to hand now | RECODE C1a AS 1 THEN CONTINUE |
| 2 | I will check with my adviser/ provider | SUSPEND INTERVIEW AND RESTART @ C1a |
| 3 | No – members definitely pay no charges | GO TO C4 |
| 98 | Don’t know | |
| 99 | Refused | |

**C1b** Over the past 12 months were the fees paid by active members structured as a single annual management charge, or were there a number of separate charges?

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

SINGLE CODE

| | | |
|---|---|---|
| 1 | Single annual management charge | GO TO C2a |
| 2 | Broken down into separate charges | GO TO C2b |
| 98 | Don’t know | GO TO C2b |
| 99 | Refused | |

**IF C1b=1**

**C2a** Was the annual management charge, or AMC, paid as a percentage of members’ pension funds, or in some other way?

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

MULTICODE POSSIBLE

| | | |
|---|---|---|
| 1 | % of pension fund | ASK C3a |
| 2 | % of contribution | ASK C3b |
| 3 | Flat fee per member | ASK C3c |
| 97 | Other (specify):_________ | ASK C3d |
| 98 | Don’t know | ASK C2ai |
| 99 | Refused | |

**C2ai** Usually annual management charges are deducted from a member’s pension fund, or from the contributions that they pay, by the pension provider. I wonder if this is information that you might be able to find out for us?

*If necessary: Your pensions adviser or provider should be able to tell you this information. Pension providers often have a website for employers, which gives details of the AMC; or alternatively they should provide a telephone number to contact.*

SINGLE CODE

| | | |
|---|---|---|
| 1 | I have this information to hand now | GO BACK TO C2a |
| 2 | I will check with my adviser/ provider | SUSPEND INTERVIEW AND RESTART @ C2a |
| 98 | Don't know | GO TO C4 |
| 99 | Refused | |

**IF C1b=2, 98, 99**

**C2b** I would like you to estimate, if possible, the total charges relating to the pension scheme paid in the last 12 months by a typical active scheme member.

**If respondent asks what is a typical member**: Please take an existing member invested in the scheme's default fund, with a £5,000 pension pot, who pays around a £50 contribution a month.

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

MULTICODE POSSIBLE

| | | |
|---|---|---|
| 1 | Yes, as a % of pension fund | ASK C3a |
| 2 | Yes, as a % of contribution | ASK C3b |
| 3 | Yes, as a flat fee per member | ASK C3c |
| 97 | Other (specify):_______ | ASK C3d |
| 98 | Don't know | ASK C2bi |
| 99 | Refused | |

**C2bi** Usually annual management charges are deducted from a member's pension fund, or from the contributions that they pay, by the pension provider. I wonder if this is information that you might be able to find out for us?

*If necessary: Your pensions adviser or provider should be able to tell you this information. Pension providers often have a website for employers, which gives details of the AMC; or alternatively they should provide a telephone number to contact.*

SINGLE CODE

| | | |
|---|---|---|
| 1 | I have this information to hand now | GO BACK TO C2b |
| 2 | I will check with my adviser/ provider | SUSPEND INTERVIEW AND RESTART @ C2b |
| 98 | Don't know | GO TO C4 |
| 99 | Refused | |

**ASK ALL CODING 1 @ C2a/b**

**C3a** And what percentage was the average annual management charge of an active member over the last 12 months?

**If respondent asks what is a typical member**: Please take an existing member invested in the scheme's default fund, with a £5,000 pension pot, who pays around a £50 contribution a month.

| | | |
|---|---|---|
| 1 | %:_______________ | |
| 98 | Don't know | ASK C3ai |
| 99 | Refused | |

**C3ai** I wonder if this is information that you might be able to find out for us?

*If necessary: Your pensions adviser or provider should be able to tell you this information. Pension providers often have a website for employers, which gives details of the AMC; or alternatively they should provide a telephone number to contact.*

SINGLE CODE

| | | |
|---|---|---|
| 1 | I have this information to hand now | GO BACK TO C3a |
| 2 | I will check with my adviser/ provider | SUSPEND INTERVIEW AND RESTART @ C3a |
| 98 | Don't know | GO TO C4 |
| 99 | Refused | |

**ASK ALL CODING 2 @ C2a/b**

**C3b** What percentage of their contributions did active members pay on average over the last 12 months?

**If respondent asks what is a typical member**: Please take an existing member invested in the scheme's default fund, with a £5,000 pension pot, who pays around a £50 contribution a month.

| | | |
|---|---|---|
| 1 | %:_______________ | |
| 98 | Don't know | ASK C3bi |
| 99 | Refused | |

**C3bi** I wonder if this is information that you might be able to find out for us?

*If necessary: Your pensions adviser or provider should be able to tell you this information. Pension providers often have a website for employers, which gives details of the AMC; or alternatively they should provide a telephone number to contact.*

SINGLE CODE

| | | |
|---|---|---|
| 1 | I have this information to hand now | GO BACK TO C3b |
| 2 | I will check with my adviser/ provider | SUSPEND INTERVIEW AND RESTART @ C3b |
| 98 | Don't know | GO TO C4 |
| 99 | Refused | |

**ASK ALL CODING 3 @ C2a/b**

**C3c** What was the average fee per member over the last 12 months?

**If respondent asks what is a typical member**: Please take an existing member invested in the scheme's default fund, with a £5,000 pension pot, who pays around a £50 contribution a month.

| | | |
|---|---|---|
| 1 | £:_______________ | |
| 98 | Don't know | ASK C3ci |
| 99 | Refused | |

**C3ci** I wonder if this is information that you might be able to find out for us?

*If necessary: Your pensions adviser or provider should be able to tell you this information. Pension providers often have a website for employers, which gives details of the AMC; or alternatively they should provide a telephone number to contact.*

SINGLE CODE

| | | |
|---|---|---|
| 1 | I have this information to hand now | GO BACK TO C3c |
| 2 | I will check with my adviser/ provider | SUSPEND INTERVIEW AND RESTART @ C3c |
| 98 | Don't know | GO TO C4 |
| 99 | Refused | |

**ASK ALL CODING 97 @ C2a/b**

**C3d** What was the cost per member over the last 12 months?

**If respondent asks what is a typical member**: Please take an existing member invested in the scheme's default fund, with a £5,000 pension pot, who pays around a £50 contribution a month.

| | | |
|---|---|---|
| 1 | WRITE IN:_______________ | |
| 98 | Don't know | ASK C3di |
| 99 | Refused | |

**C3di** I wonder if this is information that you might be able to find out for us?

*If necessary: Your pensions adviser or provider should be able to tell you this information. Pension providers often have a website for employers, which gives details of the AMC; or alternatively they should provide a telephone number to contact.*

SINGLE CODE

| | | |
|---|---|---|
| 1 | I have this information to hand now | GO BACK TO C3d |
| 2 | I will check with my adviser/ provider | SUSPEND INTERVIEW AND RESTART @ C3d |
| 98 | Don't know | GO TO C4 |
| 99 | Refused | |

**TRUST-BASED SCHEMES ONLY; CONTRACT-BASED SKIP TO C5a**

**C4** Is the pension scheme offered through a single pension provider or insurance company, or do the trustees work with a range of providers or investment managers?

*Interviewer note: 'investment manager' is the person or organisation responsible for implementing a fund's investing strategy and managing its assets.*

SINGLE CODE

| | | |
|---|---|---|
| 1 | Single pension provider/ insurance company | GO TO C5a |
| 2 | Multiple providers/ investment managers | GO TO C6a |
| 98 | Don't know | |
| 99 | Refused | |

**IF C4=1 OR ALL CONTRACT-BASED**

**C5a** Has [EMPLOYER] paid any fees to its pension provider in the last 12 months? Please exclude any charges or commission paid to an intermediary.

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | GO TO C5b |
| 2 | No | GO TO C5c |
| 98 | Don't know | |
| 99 | Refused | |

**IF C5a=1**

**C5b** How much did [EMPLOYER] pay in total to the pension provider in the last 12 months? Please exclude any charges or commission paid to an intermediary.

| | | |
|---|---|---|
| 1 | £:_______________ | |
| 98 | Don't know | |
| 99 | Refused | |

**C5c** Who is the provider of the pension scheme?

DO NOT READ OUT, SINGLE CODE:

| | | |
|---|---|---|
| 1 | Aegon | |
| 2 | Aviva | |
| 3 | B&CE | |
| 4 | Co-operative (CIS) | |
| 5 | Fidelity | |
| 6 | Friends Life | |
| 7 | HSBC | |
| 8 | Legal & General | |
| 9 | NEST | |
| 10 | National Farmers' Union (NFU) | |
| 11 | Now: Pensions | |
| 12 | The People's Pension | |
| 13 | Prudential | |
| 14 | Scottish Life | |
| 15 | Scottish Widows | |
| 16 | Skandia | |
| 17 | Standard Life | |
| 18 | Virgin Money | |
| 19 | Zurich | |
| 97 | Other (Specify) | |
| 98 | Don't know | |
| 99 | Refused | |

**ASK ALL**

**C6a** Has [EMPLOYER] used the services of an employee benefit consultant, adviser or intermediary in relation to the **[reference scheme]** in the last 12 months?

*Interviewer note: EBCs and intermediaries both provide regulated financial advice on the use of pensions and other financial products. EBCs also provide employers with advice on a wider range of employee benefits packages.*

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | GO TO C6b |
| 2 | No | GO TO INSTRUCTION BEFORE C7 |
| 98 | Don't know | |
| 99 | Refused | |

**ASK IF C6a= 1**

**C6b** Did they charge on a commission basis – in other words the provider was entirely responsible for paying their fee – or did they charge in some other way?

*Interviewer note: If an intermediary charges commission they receive payment from a pension provider when they sell one of their schemes – the commission covers the cost of the advice they give. If an intermediary does not charge commission, then their fees would need to be paid by the employer, the scheme members or both.*

MULTI-CODE POSSIBLE

| | |
|---|---|
| 1 | Commission |
| 2 | Other way |
| 3 | Information not held |
| 98 | Don't know |
| 99 | Refused |

**ONLY ASK IF 2 CODED @ C6b (irrespective of other answers). OTHERWISE SKIP TO INSTRUCTION BEFORE C7:**

**C6c** On what basis did the adviser charge? **If 1 coded @ C6b**: Please exclude commission.

READ OUT ONLY IF NECESSARY; MULTI-CODE POSSIBLE

**C6d Wording for C6c = 1 or 2**: How much was paid in total as a [answer from C6c] in the last 12 months? If 1 coded @ C6b: Please **exclude** commission.

**Wording for C6c = 3-5**: What [answer from C6c] was charged in total in the last 12 months? **If 1 coded @ C6b**: Please exclude commission.

| | **C6c** | **C6d** |
|---|---|---|
| 1 | Flat or hourly fee/annual retainer | £______________ |
| 2 | Fee per member | £______________ |
| 3 | Percentage of the total pension fund | %______________ |
| 4 | Percentage of **all** contributions | %______________ |
| 5 | Percentage of **member** contributions | %______________ |
| 97 | Other (specify):_________ | |
| 98 | Don't know | GO TO INSTRUCTION BEFORE C7 |
| 99 | Refused | |

**C6e** Was any of this paid for by or recharged to the pension scheme members, or did [EMPLOYER] cover the entire cost?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Some recharged | GO TO C6f |
| 2 | Employer covered entire cost | GO TO INSTRUCTION BEFORE C7 |
| 98 | Don't know | |
| 99 | Refused | |

**C6f** What percentage of the total amount charged was paid for by or recharged to the pension scheme members?

| | | |
|---|---|---|
| 1 | _______ % | |
| 98 | Don't know | |
| 99 | Refused | |

**TRUST-BASED ONLY; CONTRACT-BASED SKIP TO C11**

**C7** Has [EMPLOYER] used and paid for any of the following services in the last 12 months in respect to this pension scheme? **IMPORTANT**: Please don't include any services we have talked about already.

MULTICODE POSSBILE

| | | |
|---|---|---|
| 1 | Third party administrators | ASK C8a/b |
| 2 | Investment consultants | |
| 3 | Investment managers | |
| 4 | Professional/Independent trustees | |
| 5 | Auditors/Accountants | |
| 6 | Solicitors/Legal advisers | |
| 97 | Other (specify)________ | |
| 98 | Don't know | GO TO C11 |
| 99 | Refused | |

**IF NONE USED GO TO C11**

**LOOP C8a-C10 FOR EACH MENTIONED AT C7**

**C8a** You said that you used [ANSWER FROM C7]. On what basis was the fee paid? READ OUT ONLY IF NECESSARY; MULTI-CODE POSSIBLE

**C8b Wording for C8a = 1 or 2**: How much was paid in total as a [answer from C8a] in the last 12 months?

**Wording for C8a = 3 or 4**: What [answer from C6a] was charged in total in the last 12 months?

IF MORE THAN ONE USED ASK FOR TOTAL

| | **C8a** | **C8b** |
|---|---|---|
| 1 | Flat or hourly fee/annual retainer | £______________ |
| 2 | Fee per member | £______________ |
| 3 | Percentage of the total pension fund | %______________ |
| 4 | Percentage of contributions | %______________ |
| 97 | Other (specify):_________ | |
| 98 | Don't know | **LOOP END** |
| 99 | Refused | |

**C9** Was any of this paid for by or recharged to the pension scheme members, or did [EMPLOYER] cover the entire cost?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Some recharged | GO TO C10 |
| 2 | Employer covered entire cost | LOOP END/GO TO C11 |
| 98 | Don't know | |
| 99 | Refused | |

**C10** What percentage of the total amount charged by the [ANSWER FROM C7] was paid for by or recharged to the pension scheme members?

| | | |
|---|---|---|
| 1 | ________ % | |
| 98 | Don't know | |
| 99 | Refused | |

**LOOP END**

**ASK ALL**

**C11** Is there a one-off joining fee when a new member joins the scheme?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | GO TO C12 |
| 2 | No | GO TO C15 |
| 98 | Don't know | |
| 99 | Refused | |

**C12** How much is this fee?

PROBE FOR BEST ESTIMATE

| | | |
|---|---|---|
| 1 | FIGURE:_______________ | |
| 97 | Something else (Specify): ________ | |
| 98 | Don't know | |
| 99 | Refused | |

**C13** Is this fee paid by the employer, by the scheme members or by both?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Employer | GO TO NEXT SECTION |
| 2 | Scheme members | |
| 3 | Both | GO TO C14 |
| 97 | Other (specify)________ | GO TO NEXT SECTION |
| 98 | Don't know | |
| 99 | Refused | |

**IF C13=3**

**C14** What proportion is paid by the scheme members and what proportion is paid by the employer?

| | | |
|---|---|---|
| 1 | % SCHEME MEMBERS:____________ | MUST ADD UP TO 100% |
| 2 | % EMPLOYER:____________ | |
| 98 | Don't know | |
| 99 | Refused | |

**IF C1A IS NOT 1 [MEMBERS DO NOT PAY ANY CHARGES] – SKIP TO SECTION D**

**C15** Has your pension provider informed you about the Total Expense Ratio in regard to charges you pay for members invested in the scheme's default fund?

IF NECESSARY: The Total Expense Ratio includes the fund's annual management charge plus any audit, custodian, registration or compliance fees paid out of the fund's assets.

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | GO TO C15a |
| 2 | No | GO TO C16 |
| 98 | Don't know | |
| 99 | Refused | |

**C15a** What is the Total Expense Ratio for your scheme?

PROBE FOR BEST ESTIMATE

| | | |
|---|---|---|
| 1 | %:______________ | |
| 98 | Don't know | |
| 99 | Refused | |

**C16** Has your pension provider informed you about the Portfolio Turnover Rate in regard to charges you pay for members invested in the scheme's default fund?

IF NECESSARY: Portfolio Turnover Rate is a measure of how frequently assets within a fund are bought and sold by the managers.

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | GO TO C16a |
| 2 | No | GO TO NEXT SECTION |
| 98 | Don't know | |
| 99 | Refused | |

**C16a** What is the Portfolio Turnover Rate for your scheme?

PROBE FOR BEST ESTIMATE. ALLOW INTEGER PERCENTAGES UP TO 1,000%.

| | | |
|---|---|---|
| 1 | %:______________ | |
| 98 | Don't know | |
| 99 | Refused | |

## SECTION D: Additional scheme charges – fund switching and transfers out

ADDITIONAL CHARGES FOR FUND MANAGEMENT

**ASK ALL**

**D1** Do members have a choice of funds that they can invest their pension in?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes – choice of 2 or more funds | GO TO D2 |
| 2 | No – there is just one fund | GO TO D11 |
| 98 | Don't know | |
| 99 | Refused | |

**IF D1=1**

**D2** Now looking at the funds that members of the [reference scheme] can choose to invest in:

Do any fund choices carry an additional charge to scheme members, over and above the charges applied to the default fund?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes – there are charges | |
| 2 | No – there are no charges | |
| 98 | Don't know | |
| 99 | Refused | |

ADDITIONAL CHARGES FOR FUND SWITCHING

**ASK ALL**

**D6** Are there any charges to members for switching funds?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes – there are charges | GO TO D7 |
| 2 | No – there are no charges | GO TO D11 |
| 98 | Don't know | |
| 99 | Refused | |

**IF D6=1**

**D7** Is this charged for all switches or just for above a certain number of switches per year?

SINGE CODE

| | | |
|---|---|---|
| 1 | For all switches | GO TO D9 |
| 2 | Above a certain number of switches per year | GO TO D8 |
| 98 | Don't know | GO TO D9 |
| 99 | Refused | |

**IF D7=2**

**D8** In a year, what is the maximum number of switches allowed before charges are made?

PROBE FOR AN AVERAGE OR ALLOW A RANGE

| | | |
|---|---|---|
| 1 | FIGURE:_______________ | |
| 2 | RANGE:__________ | |
| 97 | Other (specify)_________ | |
| 98 | Don't know | |
| 99 | Refused | |

**D9** Is the charge for switching funds a percentage of the total value of the fund or a flat fee? SINGLE CODE

**D10 For relevant answer @ D8**: And what is the typical charge for switching funds?

| | **D9** | **D10** |
|---|---|---|
| 1 | As percentage of fund | ________% |
| 2 | As a flat fee | £_______________ |
| 97 | Other (specify)________ | |
| 98 | Don't know | |
| 99 | Refused | |

**ADDITIONAL CHARGES FOR TRANSFERS OUT**

**D11** Are there any charges to members for transferring funds out of the scheme?

*Interviewer note: this does not include when the member retires.*

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes – there are charges | GO TO D12 |
| 2 | No – there are no charges | GO TO D14 |
| 98 | Don't know | |
| 99 | Refused | |

**D12** Is the charge for transferring funds out: a percentage of the total value of the fund or a flat fee? SINGLE CODE

**D13 For relevant answer @ D12**: And what is the typical charge for transferring funds out?

| | D12 | D13 |
|---|---|---|
| 1 | As percentage of fund | ________% |
| 2 | As a flat fee | £_______________ |
| 97 | Other (specify)________ | |
| 98 | Don't know | |
| 99 | Refused | |

ADDITIONAL CHARGES FOR TRANSFERS IN

**D14** Are there any charges to members for transferring funds into the scheme?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes – there are charges | GO TO D15 |
| 2 | No – there are no charges | GO TO E1 |
| 3 | Not an option for this scheme/Not applicable | |
| 98 | Don't know | |
| 99 | Refused | |

**D15** Is the charge for transferring funds in: a percentage of the total value of the fund or a flat fee? SINGLE CODE

**D16 For relevant answer @ D15**: And what is the typical charge for transferring funds in?

| | D15 | D16 |
|---|---|---|
| 1 | As percentage of fund | _______% |
| 2 | As a flat fee | £_____________ |
| 97 | Other (specify)_______ | |
| 98 | Don't know | |
| 99 | Refused | |

## Section E: Miscellaneous scheme charges

**ASK ALL**

**E1** Have any charges been incurred for any other services relating to your **[reference scheme]** in the last 12 months that we have not covered here already? These could include:

DO NOT READ OUT; MULTICODE

| | | |
|---|---|---|
| 1 | Advisory/consultancy | GO TO E2-E5 LOOP |
| 2 | Accounts preparation | |
| 3 | Actuary | |
| 4 | Administrative | |
| 5 | Annuity | |
| 6 | Audit | |
| 7 | Death benefits | |
| 8 | Life insurance | |
| 9 | Loans/borrowing | |
| 10 | Management | |
| 11 | Property purchase | |
| 12 | Transactions | |
| 97 | Other (specify)_______ | |
| 96 | None | GO TO F1 |
| 98 | Don't know | GO TO F1 |
| 99 | Refused | |

**LOOP E2-E5 FOR EACH MENTIONED AT E1**

**E2** You mentioned [ANSWER FROM E1] charges. On what basis were these charges paid? READ OUT ONLY IF NECESSARY; MULTI-CODE POSSIBLE

**E3 Wording for E2 = 1 or 2**: How much was paid in total as a [answer from E2] in the last 12 months?

**Wording for E2 = 3 or 4**: What [answer from E2] was charged in total in the last 12 months?

IF USED MORE THAN ONCE ASK FOR TOTAL

| | **E2** | **E3** |
|---|---|---|
| 1 | Flat or hourly fee/annual retainer | £_____________ |
| 2 | Fee per member | £_____________ |
| 3 | Percentage of the total pension fund | %_____________ |
| 4 | Percentage of contributions | %_____________ |
| 97 | Other (specify):_________ | |
| 98 | Don't know | |
| 99 | Refused | |

**E4** Was this paid by [EMPLOYER], scheme members or both?

SINGLE CODE

| | | |
|---|---|---|
| 1 | The employer | LOOP END |
| 2 | Scheme members | LOOP END |
| 2 | Both | GO TO E5 |
| 98 | Don't know | LOOP END |
| 99 | Refused | LOOP END |

**E5** What percentage of [service from E1] was paid for by [EMPLOYER]?

| | | |
|---|---|---|
| 1 | _______ % | |
| 98 | Don't know | |
| 99 | Refused | |

LOOP END

## Section F: Charge variation

Now let's move on to questions about possible charge variations.

DEFERRED AND ACTIVE MEMBER CHARGES

**IF C1A IS NOT 1 [MEMBERS DO NOT PAY ANY CHARGES] – GO TO SECTION G**

**F1** Do active scheme members pay lower charges than deferred scheme members?

*Interviewer note: 'active member' is a member who is building up pension benefits from their* present job. Retired members should not be included.

*Interviewer note: 'deferred member' is a member who has stopped contributing to a scheme, but will get the pension benefits when they retire. This would usually be because they have left your organisation. Retired members should not be included.*

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | GO TO F2 |
| 2 | No | GO TO F3 |
| 98 | Don't know | |
| 99 | Refused | |

**IF F1=1**

**F2** On average, by how many percentage points are the active members' charges lower?

*Interviewer note: e.g. if active members pay 0.7%, and deferred members pay 1%, then enter 0.3.*

| | | |
|---|---|---|
| 1 | PERCENTAGE:______________% | **If > 5% WARN: 'that is a very large difference between different members' charges. Are you sure that this is correct?'** |
| 98 | Don't know | |
| 99 | Refused | |

ASK ALL

**F3** Do members with **larger funds** pay lower charges than other scheme members?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | GO TO F4 |
| 2 | No | GO TO F7 |
| 98 | Don't know | |
| 99 | Refused | |

**IF F3=1**

**F4** What value of fund leads to a reduced rate?

PROMPT FOR BEST ESTIMATE

CATI NOTE: ALLOW FOR UP TO 999,999,999

| | | |
|---|---|---|
| 1 | FIGURE:<br>£_______________ | |
| 2 | Alternative approach (e.g. sliding scale): please give details (open-end) | |
| 98 | Don’t know | |
| 99 | Refused | |

**F5** On average, by how many percentage points are the charges lower for members with larger pension funds?

*Interviewer note: e.g. if members with larger funds pay 0.7%, and other members pay 1%, then enter 0.3.*

| | | |
|---|---|---|
| 1 | PERCENTAGE:_______________% | **If > 5% WARN: ‘that is a very large difference between different members’ charges. Are you sure that this is correct?’** |
| 2 | Alternative approach: please give details (open-end) | |
| 98 | Don’t know | |
| 99 | Refused | |

**ASK ALL**

**F7** Do members that pay higher contributions pay lower charges than other scheme members?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | GO TO F8 |
| 2 | No | GO TO F10 |
| 98 | Don’t know | |
| 99 | Refused | |

**IF F7=1**

**F8** What level of contribution leads to a reduced rate?

ALLOW EITHER A FIGURE OR A PERCENTAGE

| | | |
|---|---|---|
| 1 | FIGURE: £______________ | |
| 2 | PERCENTAGE:______________% | |
| 98 | Don't know | |
| 99 | Refused | |

**F9** On average, by how many percentage points are the charges lower for members paying larger contributions?

*Interviewer note: e.g. if members paying larger contributions pay 0.7%, and other members pay 1%, then enter 0.3.*

| | | |
|---|---|---|
| 1 | PERCENTAGE:______________% | **If > 5% WARN: 'that is a very large difference between different members' charges. Are you sure that this is correct?'** |
| 98 | Don't know | |
| 99 | Refused | |

FRONT LOADED CHARGES

**ASK ALL**

**F10** Do members pay higher charges in their first years of scheme membership?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | GO TO F11 |
| 2 | No | GO TO G1 |
| 98 | Don't know | |
| 99 | Refused | |

**IF F10=1**

**F11** On average, by how many percentage points are the charges higher for members within the first few years of scheme membership?

*Interviewer note: e.g. if members in their first years pay 1%, and other members pay 0.7%, then enter 0.3.*

| | | |
|---|---|---|
| 1 | PERCENTAGE:______________% | **If > 5% WARN: 'that is a very large difference between different members' charges. Are you sure that this is correct?'** |
| 98 | Don't know | |
| 99 | Refused | |

## Section G: Funds under management

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

**ASK TRUST BASED ONLY**

**G1** What do you estimate is the total value of the funds under management for the **[reference scheme]**?

PROBE FOR BEST ESTIMATE, TO NEAREST £

| | | |
|---|---|---|
| 1 | FIGURE:______________ | |
| 98 | Don't know | |
| 99 | Refused | |

**ASK TRUST BASED ONLY**

**G2** So given the number of scheme members, can you confirm that the average pension fund of each member is approximately:

CATI SPEC SHOW FIGURE G1/A3+A4 [OR MID-POINTS] AS £ PER MEMBER: APPROXIMATION SHOULD BE ROUNDED TO THE NEAREST 1,000

READ OUT SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes, correct | GO TO G3 |
| 2 | No | RE DO G1, A3 or A4 |
| 98 | Don't know | GO TO G3 |
| 99 | Refused | |

**ASK ALL**

**G3** What is the average gross pay of your active scheme members?

PROMPT FOR BEST ESTIMATE

| | | |
|---|---|---|
| 1 | FIGURE:_______________ | |
| 98 | Don't know | |
| 99 | Refused | |

**G4** Could you tell me what percentage of the active scheme members are women?

| | | |
|---|---|---|
| 1 | % Women:_______________ | MUST ADD UP TO 100% |
| 2 | % Men:_______________ | |
| 98 | Don't know | |
| 99 | Refused | |

**G5** What percentage of active scheme members belongs to the following age groups?

READ OUT

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

And just some final questions to round off…

**G6** **Ask if A10a = 1, otherwise skip to G7**: You mentioned earlier that you have now begun automatic enrolment. Did you review or change [**if C4 = 2**: any investment managers **otherwise**: your pension provider] as a result of this?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Reviewed and changed | SKIP TO G9 |
| 2 | Reviewed but did not change | |
| 3 | Did not review | CONTINUE |
| 98 | Don't know | |
| 99 | Refused | |

**G7** When did your organisation last review whether your current pension scheme is suitable for your members' needs?

SINGLE CODE

| | | |
|---|---|---|
| 1 | 12 months ago or less | CONTINUE |
| 2 | 13 to 24 months ago (i.e. up to 2 years) | |
| 3 | 3 years ago | |
| 4 | 4 years ago | |
| 5 | 5 years ago | |
| 6 | 6 years ago or more | |
| 7 | Never | SKIP TO SECTION H |
| 98 | Don't know | |
| 99 | Refused | |

**G8** And did you change [**if C4 = 2**: any investment managers otherwise: your pension provider] as a result of this?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | CONTINUE |
| 2 | No | |
| 98 | Don't know | SKIP TO G9c |
| 99 | Refused | |

**G9** And did the scheme charges paid by members play any role in the decision to [**if G6 or G8 = 1**: change your **otherwise**: retain your current] [**if C4 = 2**: investment managers **otherwise**: pension provider]? Would you say member charges were …

READ OUT 1-4, SINGLE CODE

| | | |
|---|---|---|
| 1 | Very important | |
| 2 | Fairly important | |
| 3 | Not very important | |
| 4 | Not at all important | |
| 98 | Don't know | |
| 99 | Refused | |

**G9b Ask if (G6 or G8 = 2) and G9 <> 4, otherwise skip to G9c**: Were you able to renegotiate the level of charge paid by members as a result of the review?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | CONTINUE |
| 2 | No | |
| 98 | Don't know | |
| 99 | Refused | |

**G9c** Overall, how often would you say you conduct reviews such as this?

READ OUT IF NECESSARY, SINGLE CODE

| | | |
|---|---|---|
| 1 | At least annually | |
| 2 | At least once every 3 years | |
| 3 | Less frequently than every 3 years | |
| 4 | Never | |
| 98 | Don't know | |
| 99 | Refused | |

**G10 Ask if G6=1-2 or G7 = 1-2, otherwise skip to Section H**: In 2011, the government published guidance that was designed to assist schemes in offering a default option for DC pensions such as yours. Were you already aware of this guidance at the time when you reviewed the scheme?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | CONTINUE |
| 2 | No | SKIP TO SECTION H |
| 98 | Don't know | |
| 99 | Refused | |

**G11** And did you use the government guidance when reviewing your pension scheme?

SINGLE CODE

| | | |
|---|---|---|
| 1 | Yes | CONTINUE |
| 2 | No | SKIP TO SECTION H |
| 98 | Don't know | |
| 99 | Refused | |

**G12** And how influential was the government guidance in making decisions about the default option? Would you say the guidance was …

READ OUT 1-4, SINGLE CODE

| | | |
|---|---|---|
| 1 | Very influential | |
| 2 | Fairly influential | |
| 3 | Not very influential | |
| 4 | Not at all influential | |
| 98 | Don't know | |
| 99 | Refused | |

## Section H: Demographics

ASK ALL

**H1** RECORD RESPONDENTS' NAME

Write in: ______________________

**H2** Would you like to be e-mailed a summary of key findings when it is available?

PRE-POPULATE EMAIL BY DEFAULT

| | | |
|---|---|---|
| 1 | Yes, write in email address:_______________ | |
| 2 | No | |

**H3** Would you be happy for Critical Research to hold your details and recontact you in the next few months if we need to get clarification about any of your answers?

| | | |
|---|---|---|
| 1 | Yes | |
| 2 | No | |

**H4** Finally, The Pensions Regulator, a UK body that works with the DWP, may wish to conduct some further research on pension scheme charges at some point in the future. This would be to further explore the detail of charges and how they are communicated to members. This would mean someone contacting you again in the future to ask if you might participate in further research. If you are recontacted, you will still be able to decline to participate if you wish.

Would you be happy for The Pensions Regulator to keep your contact details and for someone to recontact you if more research takes place in the future?

IF ASKED:

The Pensions Regulator is a UK body that was set up to support DWP in working with trustees, employers and pension specialists to encourage high standards in running pension schemes.

| | | |
|---|---|---|
| 1 | Yes | |
| 2 | No | |

**Thank and close.**

**Interviewer notes and feedback on respondent:** __________________________

# Appendix B Materials used in conducting the research – charges research with providers

## B.1 Introductory letter to the provider

XXXXXX

Director of Private Pensions

Department for Work and Pensions

7th Floor Caxton House

Tothill Street

London SW1H 9NA

Framework Ref: XXXXX

**[PROVIDER NAME]**

[DATE]

Dear **[NAME]**

### Pension scheme charges research

I am writing to you to ask for your help with a research study that has been commissioned by the Department for Work and Pensions. The aim of this research is to explore the charging structures, types and levels, as well as scheme turnover, in trust-based pension schemes and work-based personal pension schemes.

As you probably know, with the co-operation of several providers in 2011, the DWP produced a report into the pensions landscape and charging, which showed that the average AMC for trust-based schemes was 0.71%, and the average AMC of contract-based pensions was 0.95%. You can find the full results of the 2011 study on DWP's website: http://research.dwp.gov.uk/asd/asd5/report_abstracts/rr_abstracts/rra_804.asp

With automatic enrolment now having begun for the largest employers, we would like to ask for your help again. This year's research will consist of interviews with approximately 1,300 employers with pension provision and key pension providers: we would welcome your input, to ensure our evidence reflects your views and experiences.

As in 2011, the research is being conducted on DWP's behalf by RS Consulting, an independent research organisation. A researcher from RS Consulting will be in touch with you to ask if you are willing to participate. If you choose to take part, a self-completion questionnaire will be sent to you; this will be followed up by a face-to-face interview which should take approximately one hour, and will take place at a location convenient for you.

Any information you provide will be held in the strictest of confidence and will be handled securely throughout the study. The research findings will not identify you, and no personal information will be shared with any third parties. DWP will not know the identity of any of the providers who take part in this study.

If you do not want to take part please let RS Consulting know by **[DATE]**. You can contact **[RS TEAM MEMBER]** at RS on XXXXX or via email **XXX**@rsconsulting.com

If you have any questions about the research at all, please do not hesitate to get in touch with RS Consulting on the number above or DWP's Project Manager, XXXXX on 020 XXXXX or via email XXXXX

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

Yours sincerely

XXXXX

Director of Private Pensions

## Pension Scheme Charges Research – fact sheet

Our research with you will consist of two separate elements:

**1) A self-completion questionnaire in Word**

- This will ask for information on the charging levels within the pensions you have sold in the past 12 months – see below for the subjects to be covered.
- We would like to give you as long to complete this process as you feel is necessary: if possible we would like to receive the completed questionnaire back from you by **Friday [FRIDAY +/- 3 WEEKS' HENCE].**

**2) An in-person interview**

- The aim of the in-person interview is to discuss your completed questionnaire in the context of your own circumstances and product portfolio.
- After you have seen the self-completion questionnaire, we will aim to arrange a time and date for a 1-hour in-person interview, with you and any colleagues you feel may be able to assist, at your workplace or an alternative location if you prefer.
- It is important that the interview takes place soon after you have been able to complete the self-completion questionnaire.

## Subjects to be covered in the research

The self-completion questionnaire will cover the following areas, in all cases focusing only on new schemes sold in the last 12 months:

- Types of DC schemes sold.
- Breakdown of levels of basic annual management charge, including schemes sold with commission and/or consultancy charging.
- Any active member/large fund discounts offered.
- Any front-loaded charges.
- Percentage of members invested in funds that attract additional fund management charges.
- Any Group SIPP or other self-investment charges.

During the in-person interview, we will cover any variations, exceptions or additional contextual information that you were not able to supply in the self-completion questionnaire.

Nothing you tell us at any stage will be attributed to you, or your organisation, either in our presentations or in the final project report, which will be published by DWP. DWP will not know the identity of any of the providers who take part in this study.

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

# B.2 Provider data collection template

## Department for Work and Pensions: Pension scheme charges research 2013

PROVIDER NAME

Thank you for agreeing to complete this questionnaire. This research is being carried out by RS Consulting on behalf of the Department for Work and Pensions. You should have received a [letter/email] about this project, which will form part of the DWP's ongoing research into pension provision: the Government has made a public commitment to support existing pension provision, and the information collected will enable the DWP to measure the potential impact of the reforms.

Your participation in this research is entirely voluntary and will not affect your future dealings with the Department. You can withdraw from the research at any time by contacting:

**[RS team member]**, RS Consulting

020 762777**XX**

**xxxx**@rsconsulting.com

Any information you provide will be held in the strictest confidence and will be handled securely throughout the study in line with the requirements of the Data Protection Act (2008). The information you provide will be used only for research purposes and for the purpose of analysis and reporting will merge together information collected from all providers in aggregate form. No information identifying you, your company or any individual schemes will be reported or passed to the DWP or any other organisation.

We have attempted to keep the type of information we require as simple as possible, and we hope the information required in the questions below is self-explanatory; however, if you require further clarification, please contact **[RS team member]**. After you have completed this questionnaire we hope to discuss the information in detail in a face-to-face interview with you.

Please return completed documents by email to **[RS team member]** by **[deadline]**. Please call us in advance to discuss your preferred method for emailing an encrypted/secure version of this document to us once it has been completed.

### Schemes sold

This section looks at how many DC workplace schemes you have sold: Please base all your answers on the last 12 months.

## Question 1: Schemes sold

Please fill in the table below to indicate the types of defined contribution workplace pension schemes you sold in the **last 12 months**.

| | % of DC schemes sold | Total number of schemes sold |
|---|---|---|
| A trust-based defined contribution scheme | | |
| A master trust* | | |
| A group personal pension (GPP) without a self-investment option | | |
| A group stakeholder pension (SHP) | | |
| A GPP with a self-investment option | | |
| A group self-invested personal pension (SIPP) | | |
| Any other contract-based schemes (please describe):____________________ | | |

Should add to 100%

**Please indicate the number of employers the trust was sold to*

## GPP and SHP Charges

### Question 2: Group personal and group stakeholder pensions

Please indicate the **total number of new schemes sold** in the last 12 months. Please break down your answer by:

The level of basic annual management charge (AMC)

The average number of active scheme members (member groupings are 1-5; 6-11; 12-99; 100-249; 250+ members)

If you accepted commission-based business prior to 31 December 2012 please also show how many schemes were sold on this basis.

**Instructions for completion**

*The table shows the AMC as a percentage of the total fund (Up to 0.39%; 0.4% – 0.59%; 0.6% – 0.79%; 0.8% – 0.99%; 1% – 1.49%; 1.5% +)*

*If you charge on a different basis, please attempt to convert this to an AMC-equivalent charge*

*Please include only basic charges applied to active members that do not make investment choices*

*Please do not include the impact of any consultancy charging, even if this is paid through the pension scheme*

*Charges may be based on actual sales data or on prospective charges quoted to employers*

**Table to be found overleaf.**

- **Answer sheet for question 2**. Please input the information as absolute numbers rather than percentages.

*Please **exclude** any consultancy charges from the basic AMC.*

| Standard basic AMC | No. of GPP/SHP sold where active scheme membership was **1-5** | | No. of GPP/SHP sold where active scheme membership was **6-11** | | No. of GPP/SHP sold where active scheme membership was **12-99** | | No. of GPP/SHP sold where active scheme membership was **100-249** | | No. of GPP/SHP sold where active scheme membership was **250+** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Total** number sold | Number sold **with commission** | Total number sold | Number sold **with commission** | Total number sold | Number sold **with commission** | Total number sold | Number sold **with commission** | Total number sold | Number sold **with commission** |
| Up to 0.39% | | | | | | | | | | |
| 0.4% – 0.59% | | | | | | | | | | |
| 0.6% – 0.79% | | | | | | | | | | |
| 0.8% – 0.99% | | | | | | | | | | |
| 1% – 1.49% | | | | | | | | | | |
| 1.5% + | | | | | | | | | | |
| TOTAL | | | | | | | | | | |

### Charge Variations – SHP and GPP

We would now like to ask you about some types of charge variation and ad hoc charges for any SHPs and GPPs you sold in the last 12 months.

### Questions 3a-c: Consultancy charging

**Question 3a**: How many SHP and GPP schemes have you sold in the last 12 months where you have facilitated the payment of **consultancy charging**?

| **Question 3a** | Number of schemes sold with consultancy charging |
|---|---|

Question 3b: Of these, how many schemes were sold where consultancy charging was calculated on the basis of:

- percentage of funds under management
- percentage of contributions
- a monetary amount?

**Question 3c**: What was the average level of consultancy charge in each case?

| | **Question 3a** How many schemes sold on this basis? | **Question 3b** Average level of consultancy charge |
|---|---|---|
| % of funds under management | | _____% of funds under management |
| % of contributions | | _____% of contributions |
| Monetary amount | | £_____ |

**Questions 4a-b: Active member discounts**

**Question 4a**: How many SHP and GPP schemes have you sold in the last 12 months where an active member discount (i.e. reduced AMC levels for members who are actively contributing) has been applied?

| | |
|---|---|
| **Question 4a** | Number of schemes sold with active member discount |

**Question 4b**: Where you have given a discount to active members, we would like to understand the level of discount typically offered.

If possible please quote the typical minimum; the average; and the typical maximum discount offered.

| | | Typical minimum discount applied to AMC (e.g. 0.1%) | Average discount applied to AMC (e.g. 0.2%) | Typical maximum discount applied to AMC (e.g. 0.3%) |
|---|---|---|---|---|
| **Question 4b** | Please give the typical level of discount offered (**not** the AMC itself) | | | |

**Questions 5a-b: Discounts for members with larger funds**

**Question 5a**: How many SHP and GPP schemes have you sold in the last 12 months where a charge discount has been applied for members with large(r) funds under management?

| | |
|---|---|
| **Question 5a** | Number of schemes sold with a discount for members with larger funds |

**Question 5b**: Please provide the typical fund size range accompanied by the typical rebate for this fund size.

*We have included an example answer in the table below.*

| | Fund size | Typical rebate |
|---|---|---|
| Example | 0-£100,000 | 0% |
| | £100,000+ | 0.15% |
| **Question 5b** | | |
| | | |
| | | |
| | | |
| | | |

**Questions 6a-d: Front-loaded charges**

How many SHP and GPP schemes have you sold in the last 12 months where front-loaded charges have been applied (e.g. higher charges in the first year of membership or longer, reducing thereafter)?

*Please **exclude** any consultancy charges that are applicable, and only include cases where you as a provider levy a higher AMC in the first years of a member joining the scheme.*

| | | |
|---|---|---|
| **Question 6a** | Number of schemes sold with front-loaded charges | |
| **Question 6b** | Typical period of time over which front-loaded charges apply (e.g. first 5 years) | |
| **Question 6c** | Basis on which front-loaded charge is levied (e.g. as percentage of member contributions; or of the total value of the fund) | |
| **Question 6d** | Typical additional front-loaded charge applied to new members, over and above that paid by other members (e.g. 5%) | |

### Question 7: Funds subject to additional charges

**Question 7**: We would like to understand what percentage of all SHP/GPP members are **invested in funds that are subject to additional fund management charges, over and above the basic AMC.**

*If it is easier, you could provide this information as a percentage of the total funds invested on behalf of all members of SHPs and GPPs. Please indicate below if you intend to answer as a percentage of all SHP/GPP members or as a percentage of the total funds invested.*

| | Tick one box only |
|---|---|
| Please tick if you intend to answer as a percentage of all SHP/GPP members | |
| Please tick if you intend to answer as a percentage of the total funds invested | |

| | | |
|---|---|---|
| **Question 7** | Percentage subject to additional fund management charges: | _________ % |

### Question 8: Total Expense Ratio

Have you calculated the **Total Expense Ratio** on an annual basis for the funds invested in by the majority of members that do not make investment choices? If so, please give the typical minimum; the average; and the typical maximum TER.

| | | Typical minimum TER | Average TER | Typical maximum TER |
|---|---|---|---|---|
| **Question 8** | TER (percentage of fund) | | | |

## GROUP SIPP CHARGES (AND GPPs WITH SELF-INVESTMENT OPTION)

In question 9 we would like you to focus only on the **Group SIPPs** that you have sold in the last 12 months, as well as any **GPPs that have a self-investment option**. If you have not sold any, please skip to the end of this questionnaire.

Please focus only on charges for members that choose the self-investment option.

**Question 9: Group SIPP and GPPs with self-investment option**

Please indicate which of the following charges have applied to the schemes sold in the last 12 months.

*Please exclude any charges for direct investment in property.*

| Group SIPP charges/GPPs with self-investment option | Does this charge apply? (yes/no) | How was charge levied: e.g. flat fee/ contribution charge/ percentage of funds | What was the typical minimum rate/amount charged? | What was the average rate/amount charged? | What was the typical maximum rate/amount charged? |
|---|---|---|---|---|---|
| Initial charges for scheme setup or conversion to self-investment | ☐ Yes ☐ No | | | | |
| Provider scheme administration charges | ☐ Yes ☐ No | | | | |
| Standard fund management charges | ☐ Yes ☐ No | | | | |
| Consultancy/adviser charges | ☐ Yes ☐ No | | | | |
| Additional charges for specific fund choices made by the members: in-house funds | ☐ Yes ☐ No | | | | |

**Question 9 (continued)**

| Group SIPP charges/GPPs with self-investment option | Does this charge apply? (yes/no) | How was charge levied: e.g. flat fee/ contribution charge/ percentage of funds | What was the typical minimum rate/amount charged? | What was the average rate/amount charged? | What was the typical maximum rate/amount charged? |
|---|---|---|---|---|---|
| Additional charges for specific fund choices made by the members: externally-managed funds | ☐ Yes<br>☐ No | | | | |
| Charges for switching to another in-house fund | ☐ Yes<br>☐ No | | | | |
| Charges for switching to an externally-managed fund | ☐ Yes<br>☐ No | | | | |
| Charges for changes to contributions | ☐ Yes<br>☐ No | | | | |
| Charges for transfers out (i.e. transferring funds out of the scheme, e.g. to another pension scheme) | ☐ Yes<br>☐ No | | | | |
| Charges for transfers in | ☐ Yes<br>☐ No | | | | |
| Charge for transferring to an alternatively secured pension or for transferring prior to buying an annuity | ☐ Yes<br>☐ No | | | | |
| Drawdown charge | ☐ Yes<br>☐ No | | | | |

**Question 9 (continued)**

| Group SIPP charges/GPPs with self-investment option | Does this charge apply? (yes/no) | How was charge levied: e.g. flat fee/ contribution charge/ percentage of funds | What was the typical minimum rate/amount charged? | What was the average rate/amount charged? | What was the typical maximum rate/amount charged? |
|---|---|---|---|---|---|
| Annuity purchase charge | ☐ Yes<br>☐ No | | | | |
| Refund charge (i.e. for refunds pension contributions e.g. if a member leaves after only a short time in the scheme) | ☐ Yes<br>☐ No | | | | |
| Charges for pensions on divorce and implementation of court orders | ☐ Yes<br>☐ No | | | | |
| Others (please describe):______________ | ☐ Yes<br>☐ No | | | | |
| Others (please describe):______________ | ☐ Yes<br>☐ No | | | | |
| Others (please describe):______________ | ☐ Yes<br>☐ No | | | | |
| Others (please describe):______________ | ☐ Yes<br>☐ No | | | | |

This is the end of the questionnaire. Thank you very much for your assistance.

We will confirm a face-to-face appointment to discuss this document shortly.

If you have any queries or would like to reschedule your appointment please contact us using the details on the front page.

# B.3 Provider discussion guide

My name is ………………….. from RS Consulting. Thank you very much for agreeing to take part in this study.

As you know, we are conducting this research on behalf of DWP.

We are talking to the UK's leading pension providers, to understand the different charging structures in contract-based pension schemes, with a few additional questions on master trusts.

As you know, DWP is committed to supporting existing pension provision as the reforms are introduced. Part of the aim of this research then is to understand whether these charges change each year, and how.

**Confidentiality**: I can assure you that anything you tell me will be treated in confidence by the RS Consulting project team. It will not be attributed to you, or your organisation, either in our presentations or in the final project report which will be published by DWP. Your participation in the research is entirely voluntary and will not affect your future dealings with department. You can withdraw from the research at any time.

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

The discussion will take approximately 1 hour.

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

0.1 Could I first of all re-confirm your job title? And could you summarise your role within your organisation?

## Section 1: Background and charges in general

Thank you very much for completing this document. I would now like to go through your answers.

1.0. Thinking about question 1, in the last 12 months you have sold:

**SUMMARISE ANSWERS @ Q1**

- What trends are you seeing in the sale of these products? Which ones are increasing in market share and which are declining? Why is that?

1.1. What are the characteristics of employers you sell new schemes to? How do you assess employers' likely profitability? Are there any particular types of employers you consider more profitable/seek business with? Probe on:

- Employer size
- Industry sector
- Types of employees (age, profession, earnings)
- Staff turnover
- Any other characteristics?

1.2. Are there any areas of the market that you do not take on in terms of new business? What are they? What type of employees would you be less likely to serve (age, profession, earnings)?

1.3. Typically, what kind of charging structure do you apply to new pension schemes that you sell? Do usually use an annual management charge (AMC) or do you have other structures? What are they? Why do you charge members in this way?

- What is the role of the intermediary in this? Why?

1.4. What do the AMC costs charged to the member cover? **Probe on**:

- Intermediary commission prior to 31 December 2012
- Provider set up and admin costs
- Fund management costs

1.5. What kinds of factors would cause a charge to vary for members? Why? **If so**, how, and by how much

- **Probe if necessary on**: employer size; member fund size; level of contributions; staff turnover; level of provision in setting up and maintaining scheme; any other factors?

1.6. What was the average difference between the AMC on a scheme sold with, and without, commission before 31 December 2012?

## Sections 2-7: GPP and SHP

2.0. Looking at **question 2** and thinking about group personal pensions and group stakeholder pension schemes only, do you have any comments on this breakdown?

- **IF no AMC used**: Please tell me a bit more about your typical charging structures. Why do you use these charging structures, rather than a single AMC? How did you convert your charges to an AMC in the questionnaire?

2.1. Could you summarise the impact of employer size on the AMC? How do you calculate the different levels of charging in relation to employer size?

- **IF no AMC used**: How does the employer size impact your charging structures? How do you calculate the different levels of charging in relation to employer size?

2.2. Are there any differences between how charges are structured in your SHP and GPP schemes? What are these? What are the reasons for this?

Now thinking about charge variations and looking at questions 3 to 7.

**ASK IF APPLICABLE**

3. You indicated that you facilitate consultancy charging.

- Since when have you used it? In what circumstances is it used? Do you expect to offer it more in the future?
- What is the impact of consultancy charging on scheme charges?
- How are consultancy charges typically structured? (Percentage of funds under management? Percentage of contributions? Monetary amount?) What determines the basis of the charge?

- Does anything else impact the level of consultancy charge? E.g. do employees in larger organisations pay more?
- Has the switch from commission to consultancy charging led to an overall increase or decrease in member charges?

4. You indicated that your organisation applies an **active member discount** (question 3). Are there different levels of discount applied? What would this depend on? What factors would influence an increase or a decrease in charge levels?
5. You indicated that your organisation applies a **discount for larger funds under management** (question 4). Are there different levels of discount applied? What would this depend on?
6. You indicated that your organisation applies **front-loaded charges** (question 5). Can these charges vary? Why? What factors would influence an increase or a decrease in charge levels?
7. You indicated that your organisation applies **additional charges for specific fund choices** (question 6). What kinds of funds trigger additional charges? How are the decisions made regarding what charge is made for these funds? What factors would influence an increase in charge levels?
8. Could you take me through your **Total Expense Ratio** levels (question 7)? What do these depend on? Do you share these with your clients?

**ASK ALL**

- Are there any other ways that the charges that different members pay can vary? What are these? **Prompt**: Can charges vary depending on the level of contribution paid? Under what circumstances do you do this?
- Are there any other additional ‘costs’ that might be borne by members, over and above those that we have discussed already? For example, any other ‘market facing’ or trading costs? **Prompt**: What is the level of charge for a typical member? What drives these charges? Are there particular types of scheme that are more likely to face such charges?
- Do you publish the portfolio turnover rate (PTR) for the funds that your members invest in? **If so**: Does this tell members the impact the PTR has on the overall charge? **If so**: What is the typical impact on member charges? **If not/unclear**: Is it possible for members to find out the impact of the PTR on charges? **Obtain full details, especially if seen as complex.**

## Section 8: Group SIPP charges (and GPPs with self-investment option)

**Ask if applicable**

Now thinking about group SIPPs and GPPs with a self-investment option, and looking at **question 8**.

9.0. Do these charges represent group SIPPs, GPPs with a self-investment option, or both? **If both**: How do the two differ? How do you describe and market each product?

9.1. Thinking about the last 12 months, what was the typical size of group SIPP/GPP your company has sold in that period?

9.2. Now thinking about charges associated with group SIPPs/GPPs, how do you structure these charges overall?

9.3. What do the charges in a group SIPP/GPP depend on overall? Do they vary by scheme size? How? What else do the charges depend on?

9.4. If we take two scenarios: one member who is an active investor in a range of different assets and makes several switches per year; versus a member who doesn't use the flexibility typically associated with a SIPP and thus effectively uses the group SIPP as a standard GPP?

- How would the two members' charges vary? How much would each pay, on average?
- Is the member who does not use the flexibility of a group SIPP paying more or less than if they were invested in a GPP? What is the difference?

9.5. Now thinking about the specific charges your organisation applies (question 8). **Ask for each**:

- What were the typical minimum and maximum rates in the last 12 months?
- What factors affect how this charge can vary? What would trigger an increase in charges?
- What proportion of the members invested in a group SIPP/GPP actually pay this charge? **Understand whether charge is paid by all/most/some/very few members, and why.**

9.6. Are group SIPPs/GPPs typically sold through an intermediary? On what basis does the intermediary typically charge? **Understand split between fee/commission/ consultancy charging.**

## Section 9: Auto-enrolment schemes

10.1. Are all of the schemes you have sold in the last year suitable for automatic enrolment? **If not**: which are/which aren't?

10.2. What proportion of these schemes are already being used by employers that have staged in?

- Does whether or not a scheme is used for auto-enrolment impact your own administration costs as an employer?
- Are annual management charges different for schemes that are used for auto-enrolment? **If so**: In what way? **Explore in depth**

10.3. Looking further ahead, as smaller firms begin automatic enrolment over the coming years the volume of employers that you might need to handle could increase exponentially, particularly from 2014. Have you considered how you will meet this demand? **Explore full range of options in depth**

- **If not mentioned**: Might you provide a 'self-service', low-cost solution for employers? **If so**: How would this work? **If not**: Why not?
- Could there be capacity issues?
- How will you decide what business you want to take on?
- **If not mentioned**: Might one approach be to increase prices?

## Section 10: Trends and future

Finally, I would like to ask you about any changes to charges or costs that have already happened or you feel might happen in the future.

10.1 Do you offer multi-employer Master Trusts? **If so**: Do the charging structures in Master Trusts differ from your charges for contract-based schemes? How? **Probe in depth.**

10.2 In the last 12 months, have any other factors led to a change in the administration costs of pension schemes? What were these? **Explore in depth**.

- Have these impacted upon the level of charges? How?
- **Probe on pension reforms and NEST if not mentioned**

10.3 Have there been any other changes to your charging structures over that period? **If yes**:

- What were the specific changes? Why did they occur?
- Have there been any changes in who pays for these?
- What factors have influenced these changes?
- **Probe on pension reforms and NEST if not mentioned.**

10.4 Do you have plans to amend your charging structures in the coming years? **If so, what are the changes?** Why is this?

- Are there any other factors that would make you likely to introduce changes in charge levels and structures in the future? What are they?

10.5 Are the different charging options that face employers and members getting more complex?

- Do you feel employers will need more guidance to understand the options that they face in the coming years?
- **If so**: Do you have any plans to ‘steer’ employers or members through the different charging options that they might face? **If so**: Obtain full details.

10.6 Finally, do you have any other comments on any of the subjects we discussed today?

Would you be happy for RS Consulting to keep your contact details and for someone to recontact you if more research takes place in the future?

Yes

No

**Thank and close.**

# Appendix C Materials used in conducting the research – scheme quality research with providers and intermediaries

## C.1 Introductory letter

XXXXX

Director of Private Pensions

Department for Work and Pensions

7th Floor Caxton House

Tothill Street

London SW1H 9NA

Framework Ref: XXXXX

**[PROVIDER/ADVISER NAME]**

**[DATE]**

Dear **[NAME]**

Pension scheme quality research

I am writing to you to ask for your help with a research study that has been commissioned by the Department for Work and Pensions. The research will explore the question *what are the features that define a high quality, value for money DC pension scheme?*

As you know, the Minister of State for Pensions recently published a strategy setting out the key elements needed for a future private pensions system that delivers good outcomes for those who save. The full document, *Reinvigorating workplace pensions*, is available on DWP's website:
http://www.dwp.gov.uk/docs/reinvigorating-workplace-pensions.pdf

We are hoping to speak to the major UK pension providers, employee benefits consultants and other professional pensions advisers as part of this study.

The research is being conducted on DWP's behalf by RS Consulting, an independent research organisation. A researcher from RS Consulting will be in touch with you to ask if you are willing to participate in a face-to-face interview which should take approximately one hour, and will take place at a location convenient for you.

We would like to cover the following broad topics:

- What DC scheme features maximise the chance of better outcomes for members, particularly members that are invested in the scheme's default fund?
- What is 'best practice' in the market at the moment – and how does this compare to the schemes that most members are invested in?
- How can more members benefit from the features of best practice schemes?

Any information you provide will be held in the strictest of confidence and will be handled securely throughout the study. The research findings will not identify you, and no personal information will be shared with any third parties. DWP will not know the identity of any of the organisations who take part in this study.

If you do not want to take part please let RS Consulting know by **[DATE]**. You can contact **[RS TEAM MEMBER]** at RS on 020 7627 77**XX** or via email **XXX**@rsconsulting.com

If you have any questions about the research at all, please do not hesitate to get in touch with RS Consulting on the number above or DWP's Project Manager, XXXXX on XXXXX or via email XXXXX

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

Yours sincerely

XXXXX

Director of Private Pensions

## C.2 Discussion guide

My name is ………………….. from RS Consulting. Thank you very much for agreeing to take part in this study.

As you know, we are conducting this research on behalf of DWP.

We are talking to providers and intermediaries, to try to understand:

- What DC scheme features maximise the chance of better outcomes for members, particularly members that are invested in the scheme's default fund?
- What is 'best practice' in the market at the moment – and how does this compare to the schemes that most members are invested in?
- How can more members benefit from the features of best practice schemes?

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

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

The discussion will take approximately 1 hour.

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

## Section 1: Adviser profile

- Could I first of all reconfirm your job title? And could you summarise your role within your organisation?
- How would you sum up your position in the pensions marketplace?
- What proportion of your new business is accounted for by workplace pensions?
- I'd like to understand the relative importance to your business of the different types of workplace DC pension. And what percentage of the new business that you have won in the last year is accounted for by…

| | **Percentage of NEW business NEW** |
|---|---|
| Trust-based (single employer) | |
| Trust-based (multi-employer/master trusts) | |
| SHPs/GPPs | |
| Group SIPPs | |
| Any others? | |

- Do you primarily work with specific types or sizes of business?
- **If necessary**: What type of employer do you typically provide schemes to?

## Section 2: First reactions

- When you design a workplace DC pension product, is the sole aim to maximise the value of members' pension pots at retirement? **If not**: What else should a good quality pension scheme achieve for its **members**?

From now on, when I refer to achieving 'better outcomes for members', I am specifically referring to how to maximise the value of an individual's DC pension pot at retirement.

- What are the first characteristics you consider when designing or configuring a workplace DC pension product? What features of schemes maximise the chance of better outcomes for members? **Note down list of 5 top features: clarify that we will discuss each one in turn**

**For each of the areas below, cover Section 3 (generic questions) alongside the relevant section-specific questions.**

**Ask the sections in the order in which they were mentioned by the respondent. If any of the areas were not mentioned, cover these afterwards.**

- SECTION 4: Scheme GovernanceSECTION 4: Scheme GovernanceSECTION 4: Scheme Governance

- SECTION 5: Investment Governance and Default FundsSECTION 5: Investment Governance and Default FundsSECTION 5: Investment Governance and Default Funds
- SECTION 6: Scheme Administration & Record-keepingSECTION 6: Scheme Administration & Record-keepingSECTION 6: Scheme Administration & Record-keeping
- SECTION 7: Member ChargesSECTION 7: Member ChargesSECTION 7: Member Charges
- SECTION 8: Scheme SizeSECTION 8: Scheme SizeSECTION 8: Scheme Size

## Section 3: Generic questions

- Why did you mention this as being important?
- What would you describe as ‘best practice’ in this area, across the entire market?
- Do you offer this? To what extent do other providers offer this already?
- What proportion of all members benefit from this good practice already?
- Do particular types of employer offer such schemes?
- What do the remainder do? What is ‘the norm’ for most pension scheme members?
- Why do some schemes lack these ‘best practice’ features?
- Does this act to the detriment of particular types of member? Which?
- How could more scheme members benefit from these features? What would need to happen?
- Are there any barriers to employers ensuring their schemes benefit from such features?
- **If appropriate**: How could we measure whether or not a scheme has these features? Who should be responsible for demonstrating this?
- How should a provider communicate to employers that a scheme has these features? And to members?
- If this was successfully achieved, would all types of member benefit equally? What about members that are invested in the scheme’s default fund?
- Is there a minimum standard that you feel schemes should reach in this area?
- What would schemes need to do to reach this minimum standard?

## Section 4: Scheme governance

- **If scheme governance not mentioned**: Do you think scheme governance can have an impact on member outcomes?
- Why did you not mention this earlier when you listed the characteristics of a suitable pension?
- What does good scheme governance mean for you?
- Overall.
- Specifically for trust-based schemes.
- Specifically for contract based schemes.

**Cover the next 2 bullets for trust-based and then contract-based:**

For trust-based/contract based schemes …

- Who is responsible for ensuring good governance?
- What constitutes good governance? What examples of best/worst practice are there? How does this impact upon members' outcomes?

**Summary:**

- To recap then, how would you describe the main differences between trust-based and contract-based schemes?
- Is one model preferable to the other? For whom?
- Might there be a 'compromise position' whereby contract-based schemes could benefit from some of the features of trust-based governance, and vice-versa?
- How might this work?
- What might the roles and responsibilities be?
- If there were to be a trustee body or a management committee, who should be on such a body?
- From which organisation? The employer/provider/independent professionals? What are the advantages of each?
- How could we ensure that such a body would always act in the best interests of members and not the [employer/provider]? Is there a risk of a conflict of interest?
- Should there be a minimum level of qualification required for an individual to be on such a body?
- How often should they hold formal meetings?
- How achievable do you think such a model is in reality?

## Section 5: Investment governance and default funds

- **If investment governance or default options not mentioned**: Do you think governance around investments and the choice of a default fund can have an impact on member outcomes?
- Why did you not mention this earlier when you listed the characteristics of a suitable pension?
- Whose responsibility is it to ensure that members are invested in an appropriate default fund?
- Do you as a provider have a role in making sure that appropriate options are available for selection as part of a default fund? How do you as a provider establish:
- What investment approaches are most appropriate for use in a default fund? (e.g. lifestyling/target date funds).
- What investment types are appropriate for use in a default fund? (e.g. equities/bonds/gilts/cash/other).

- What else needs to be considered in terms of good default fund governance? **Probe if not mentioned**:
- Setting clear investment objectives.
- Who should be responsible for this?
- What is best practice?
- What is the norm at the moment? How can more members benefit from best practice?
- Reviewing investment objectives over time
- How often should the objectives be reviewed?
- Who should be responsible for this?
- What is best practice?
- What is the norm at the moment? How can more members benefit from best practice?
- Reviewing investment performance.
- How often should investment performance be reviewed?
- Who should be responsible for this?
- Against what benchmarks should performance be monitored?
- What actions should be taken if performance is deemed insufficient?
- What is best practice?
- What is the norm at the moment? How can more members benefit from best practice?

## Section 6: Scheme administration and record-keeping

- **If admin/record-keeping not mentioned**: Do you think scheme administration and record-keeping can have an impact on member outcomes?
- Why did you not mention this earlier when you listed the characteristics of a suitable pension?

Explain: By record-keeping, I am referring to the process of keeping track of all member data that is important to the administration of a pension scheme, and identifying and correcting any errors.

- What would you say are the overall risks of poor record-keeping? Who bears these risks?
- Can poor record-keeping have a detrimental effect on member outcomes? How?
- Are you aware of any actual examples of this happening? **Be clear on type of data and whose responsibility.**
- Are there any particular types of data where mistakes, inconstancies or gaps can lead to risks for members?
- How can such risks be avoided? Any examples of best practice?
- What processes should be in place to identify and correct errors?

- Is unit reconciliation important? **If unclear**: Is it important for a scheme to reconcile the total number of units held by investment managers with the units allocated to members? Why/why not?
- Who should be responsible for this?
- How often should this happen? (e.g. monthly? Every time an investment is made by the fund manager?)
- What are the risks if this is not done frequently enough?
- What are the main changes you would make to current practices in this area to improve member outcomes?

## Section 7: Member charges

- **If charges not mentioned**: Do you think charges can have an impact on member outcomes?
- Why did you not mention this earlier when you listed the characteristics of a suitable pension?
- As a general rule of thumb, the more I pay for a product, the better quality I expect it to be. Is this true in the case of workplace pensions? Why/why not?
- How does price relate to member outcomes in the pensions industry?
- **If price & quality not related**: Does this mean that different members are paying different levels of charge for exactly the same product? Why is this? Do you see this as a problem?
- Are there circumstances where different charging levels are appropriate for different members? **Clarify why it might be appropriate for certain members to pay more for a high quality pension scheme.**

## Section 8: Scheme size

- Does scheme size impact likely returns for members? Why/how?
- Just through lower charges or other ways? Which members benefit?
- Are there any disadvantages of larger schemes for members? What are these?
- Are there advantages of smaller schemes?
- **If larger schemes considered preferable**: Would all members generally be better off in larger schemes? If not, for which types of member would this be more or less appropriate?
- **If not covered**: Would certain members benefit from being in master trusts? Which members? What are the benefits and drawbacks?
- **Probe if not mentioned**: What would be the impact of this on member charges? Would it lower charges overall? Would it ensure all members pay the same level of charge?
- Disregarding scheme size: does a master trust have advantages to members over a GPP of the same scale? What are these? And any disadvantages?

**ASK REMAINING SECTIONS TO ALL RESPONDENTS**

## Section 9: Providing guarantees for members

- At present the member bears the risks if the value of their fund falls. Could providing an element of insurance protection against rises and falls in the stock market be an indicator of a high quality scheme?
- How might such an approach work?
- What would be the costs?
- Do the potential benefits outweigh these?
- Which members are they most appropriate for?
- Are such products common in the market now? Who are they aimed at?
- Do you recommend such products? If not, why not?
- What level of guarantee is it appropriate to offer? Why? For which members?

**Prompt if not mentioned**:

- A 'money back guarantee' at retirement of the sum of the contributions paid into the scheme.
- A guarantee that secures a certain amount of savings or guarantees a certain investment return.
- A guarantee on your income in retirement, which builds up gradually as you save.
- Apart from insurance paid by the member to the provider, are there any other ways that it might be possible to provide some form of guarantee to members?

**For each one mentioned ask**:

- How might such an approach work?
- Which members are they most appropriate for?
- Would employers be likely to find the product attractive?
- Would members be likely to find the product attractive?
- Would you support such a product?

**If not mentioned prompt on each of the following**:

- Some form of 'risk-sharing' whereby the employer and employee share the costs of protection.
- A form of 'risk-sharing' whereby the employee and provider share the costs of protection.
- A central body, similar to the Pension Protection Fund, which would take a levy from members to fund any member shortfalls.
- A 'targeted DC' scheme, whereby employer and employee contributions might need to be varied to keep in line with a desired target.
- A simplified DB scheme, which removes some of the more 'onerous' requirements on employers associated with DB schemes. **Give following example if asked**: *for example, employers might only be required to guarantee funding a member's defined benefits for as long as they remain an employee, and once they leave, their fund is converted to a DC fund.*

## Section 10: Conclusions

- Now we have discussed each of these areas, would you make any changes to the list of key features we identified earlier?
- Which would you say are the Top 3 most important factors in maximizing the returns of members invested in the scheme's default fund? **Rank if possible**
- How would you describe the ideal pension scheme, again focusing on members in the scheme's default fund?
- Does such a scheme exist already?

## Section 11: Wider policy areas

- Are you aware of the DWP's default option guidance, which was launched in 2011?
- Have you acted on the guidance? In which ways?
- How effective is the guidance? Are there things which should be removed or added to the guidance?
- Is guidance alone sufficient or should it become legislation?
- Do you believe there is a problem at the moment with trust and confidence in the pensions industry? **Prompt as necessary**:
- What are the reasons for this? Are these reasons justified?
- What could be done to restore confidence? By whom? Is this happening already?
- What is your organisation doing is this regard?

Would you be happy for RS Consulting to keep your contact details and for someone to recontact you if more research takes place in the future?

Yes

No

**Introduce scheme charges research if appropriate.**

**Thank and close.**

# Appendix D
# Employer research: interview targets, response rates and weighting

This appendix describes the interview targets set at the start of fieldwork, the number of interviews achieved, and the weighting process carried out to ensure that the interviews were representative of all qualifying trust-based and contract-based pension schemes.

## D.1 Interview targets set

In designing the interview targets, we took into consideration the fact that the sample needed to be sufficient to report findings separately by a range of variables such as type of pension scheme, scheme size, member salary or type of charging structure, all to accepted levels of statistical precision.

In particular, in order to be able to report robust findings for the largest schemes (those with 1,000 or more members, of which there are few in the market), it was necessary to oversample that group. Consequently, stratified random sampling was used, whereby a minimum quota of interviews was set for four size bands within each of the two pension types (trust-based and contract-based). The initial quotas set are shown in Table D.1. Within each of the eight 'quota cells', qualifying employers were recruited at random.

**Table D.1 Initial interview quotas set for employer interviews**

| Scheme size band (number of members) | Trust-based target | Contract-based target |
|---|---|---|
| 6 to 11 | 100 | 120 |
| 12 to 99 | 200 | 250 |
| 100 to 999 | 250 | 250 |
| 1,000+ | 100 | 80 |
| **Total** | **650** | **700** |

# D.2 Interviews achieved

We conducted 593 Computer-Aided Telephone Interviewing (CATI) interviews with trust-based schemes. The distribution of interviews is shown in Table D.2.

### Table D.2 Total number of trust-based interviews conducted

| Scheme size band (number of members) | Total no. of schemes in SCORE database | % confirmed as qualifying in screening | Number of interviews conducted |
|---|---|---|---|
| 6 to 11 | 1,470 | 21% | 87 |
| 12 to 99 | 697 | 60% | 201 |
| 100 to 999 | 319 | 80% | 179 |
| 1,000+ | 148 | 94% | 126 |
| **Total** | **2,634** | | **593** |

We conducted 717 CATI interviews with employers with contract-based pensions. The distribution of interviews is shown in Table D.3.

### Table D.3 Total number of contract-based interviews conducted

| Scheme size band (number of members) | Total population of UK employers | % confirmed as qualifying in screening | Number of interviews conducted |
|---|---|---|---|
| 6 to 11 | 183,185 | 5% | 126 |
| 12 to 99 | 143,625 | 45% | 258 |
| 100 to 999 | 14,160 | 48% | 251 |
| 1,000+ | 1,455 | 46% | 82 |
| **Total** | **342,425** | **24%** | **717** |

# D.3 The weighting process for trust-based schemes

The final distribution of interviews with trust-based schemes was, deliberately, not in exact proportion to the total population of trust-based schemes, so that we could achieve minimum sample sizes across all cells. Therefore the completed interviews in each of the four size categories were assigned a relative weight. This adjusted for the imbalance, and so ensured that the survey results are representative of all open, trust-based defined contribution (DC) schemes with six or more members.

The Pensions Regulator (TPR) provided the research team with information about the total number of schemes that met all of the qualifying criteria that appeared in their database. The qualifying criteria were the following:

1 Scheme type – Trust-based

2 Benefit structure type – DC

3 Status – Open

4 Minimum number of scheme members – 6

TPR reported to us that there were 2,634 schemes in their database that met these criteria, and the breakdown for these is shown in Table D.4.

**Table D.4 Population of trust-based, DC, open schemes with six members or more, recorded in TPR's SCORE database**

| Scheme size band (number of members) | Population of schemes in TPR's SCORE database |
|---|---|
| 6 to 11 | 1,470 |
| 12 to 99 | 697 |
| 100 to 999 | 319 |
| 1,000+ | 148 |
| **Total** | **2,634** |

We knew, however, that not all of the schemes in the population would in fact qualify. There was no way for TPR to exclude small, self-administered schemes (SSASs) at source, for example, and it was possible that the data held by TPR had not recently been updated by the employer. Therefore, all employers that were contacted as part of the study were screened, and the following types of employer were removed from the population:

- SSASs;
- employers with no pension provision at all;
- employers with no open, trust-based scheme with six members or more;
- employers paying no employer contribution into that pension.

Table D.5 shows what percentage of schemes in each of the size bands actually qualified for the study. This gives us our 'revised' population of qualifying schemes, to which each of the interviews completed are weighted.

**Table D.5 Percentage of schemes in TPR's SCORE database that qualified, and revised population of qualifying trust-based schemes**

| Scheme size band (number of members) | Population of schemes in TPR's SCORE database | Qualification rate | Revised population of trust-based schemes |
|---|---|---|---|
| 6 to 11 | 1,470 | 21% | 310 |
| 12 to 99 | 697 | 60% | 417 |
| 100 to 999 | 319 | 80% | 255 |
| 1,000+ | 148 | 94% | 139 |
| **Total** | **2,634** | | **1,121** |

The weighting calculations for trust-based schemes are shown in Table D.6 below. The column 'revised population' shows how the actual population of qualifying trust-based schemes is distributed. The 'achieved sample spread' column shows how our own interviews were distributed. The third column therefore shows the weight that must be applied to each of our completed interviews in the four size categories, to ensure that they are representative of the population.

**Table D.6 Weighting calculations for trust-based schemes**

| Scheme size band (number of members) | Revised population (%) | Achieved sample spread (%) | Weight (= revised pop/achieved spread) | Unweighted sample size | Weighted sample size |
|---|---|---|---|---|---|
| 6 to 11 | 28% | 15% | 1.8856 | 87 | 164.0 |
| 12 to 99 | 37% | 34% | 1.0984 | 201 | 220.8 |
| 100 to 999 | 23% | 30% | 0.7538 | 179 | 134.9 |
| 1,000+ | 12% | 21% | 0.5813 | 126 | 73.2 |
| **Total** | | | | **593** | **593.0** |

The process of weighting has the design effect of slightly reducing the statistical confidence levels of any survey. In this case, the weighting approach adopted adjusts the actual sample size of 593 to a 'net effective sample' size of 505; it is this latter figure that was used when calculating confidence intervals in the estimation of sampling errors, and thus in indicating whether a finding is statistically significant or not. In this report we have focused on results that are statistically significant at the 95 per cent confidence level (see the reporting conventions, which appear before the summary of this report).

# D.4 The weighting process for contract-based schemes

Similar to trust-based schemes, the final distribution of interviews with contract-based schemes needed to be weighted, to ensure that they were representative of all open, contract-based schemes with six or more members, into which the sponsoring employer pays a contribution.

As Section 1.5 of the main report explained, there is no single database of contract-based pension schemes, and so we screened a publicly-available sample source of all UK private-sector employers to establish whether there was a contract-based scheme into which employer contributions were made.

Our 'starting population' for contract-based pensions is the population of all private sector enterprises in the UK. The Office for National Statistics (ONS) was able to provide us with data on this, which is shown in Table D.7.

**Table D.7 Population of private sector enterprises, from ONS data**

| Scheme size band (number of members) | Population of private sector enterprises |
|---|---|
| 6 to 11 | 183,185 |
| 12 to 99 | 143,625 |
| 100 to 999 | 14,160 |
| 1,000+ | 1,455 |
| **Total** | **342,425** |

As happened in the case of the trust-based schemes, all of the employers in this group were screened to establish whether they contributed to a contract-based pension with six or more members. The following were excluded:

- employers with no pension provision at all;
- employers with no open, contract-based scheme with six members or more;
- employers paying no employer contribution into that pension.

Table D.8 shows what percentage of employers in each of the size bands qualified for the study. This gives us our population of qualifying contract-based pensions, to which each of the interviews completed are weighted.

**Table D.8 Percentage of UK employers that qualified as having a contract-based pension, and revised population of qualifying contract-based schemes**

| Size category | Population of private sector enterprises | Qualification rate | Population of contract-based schemes |
|---|---|---|---|
| 6 to 11 | 183,185 | 5% | 9,030 |
| 12 to 99 | 143,625 | 45% | 65,076 |
| 100 to 999 | 14,160 | 48% | 6,782 |
| 1,000+ | 1,455 | 46% | 663 |
| **Total** | **342,425** | **24%** | **81,550** |

The weighting calculations for contract-based schemes are shown in Table D.9, calculated in exactly the same way as the trust-based schemes.

**Table D.9 Weighting calculations for contract-based schemes**

| Scheme size band (number of members) | Revised population (%) | Achieved sample spread (%) | Weight (= revised pop/achieved spread) | Unweighted sample size | Weighted sample size |
|---|---|---|---|---|---|
| 6 to 11 | 11% | 18% | 0.6301 | 126 | 79.4 |
| 12 to 99 | 80% | 36% | 2.2176 | 258 | 572.2 |
| 100 to 999 | 8% | 35% | 0.2376 | 251 | 59.6 |
| 1,000+ | 1% | 11% | 0.0711 | 82 | 5.8 |
| **Total** | | | | **717** | **717.0** |

The process of weighting has the design effect of slightly reducing the statistical confidence levels of any survey. In this case, the weighting approach adopted adjusts the actual sample size of 717 to a ‘net effective sample’ size of 385; it is this latter figure that was used when calculating confidence intervals in the estimation of sampling errors, and thus in indicating whether a finding is statistically significant or not. In this report we have focused on results that are statistically significant at the 95 per cent confidence level (see the reporting conventions, which appear before the summary of this report).

# D.5 Employer survey interview outcomes and response rates

Table D.10 gives the recruitment breakdown for all contact recruitment calls made as part of the Charges survey with employers, broken down by both of the sample sources used (TPR and Dun & Bradstreet).

**Table D.10 Interview outcomes and response rates**

| | TPR Sample | D&B Sample | Total |
|---|---|---|---|
| Full interview conducted & included in results | 527 | 783 | 1,310 |
| Qualified but out of quota | 22 | 166 | 188 |
| Failed screening (have no qualifying pension scheme) | 401 | 1,723 | 2,124 |
| Failed screening (pay no employer contribution) | 0 | 398 | 398 |
| Failed screening (have too few members) | 8 | 441 | 449 |
| Excluded at source – SSAS in scheme name | 77 | 1 | 78 |
| Multiple referrals – unable to locate respondent able to answer survey | 812 | 49 | 861 |
| Refusal – by email | 24 | 32 | 56 |
| Refusal – by phone | 444 | 771 | 1,215 |
| Refusals – company policy | 141 | 703 | 844 |
| Ineffective sample (e.g. number unobtainable; no contact details and no lookup possible) | 248 | 1,051 | 1,299 |
| No respondent available during fieldwork period | 81 | 188 | 269 |
| No outcome at end of fieldwork period | 192 | 2,594 | 2,786 |
| Total | 2,977 | 8,900 | 11,877 |
| | | | |
| **Qualification rate** | **53%** | **27%** | **33%** |
| **Refusal rate** | **37%** | **30%** | **32%** |
| **Response rate** | **63%** | **70%** | **68%** |

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