



Cabinet Office

Civil Service Pensions Defined Contribution Pension provider

Response to the consultation on the
appointment of a new provider for the Civil
Service Defined Contribution Pension
Schemes

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Background

1. On 25th September 2017, Cabinet Office issued the document “Consultation on the appointment of a new provider for the Civil Service Defined Contribution Pension Schemes.” The consultation closed on 25th October 2017 and can be found at:
<https://www.gov.uk/government/consultations/civil-service-pensions-defined-contribution-pension-provider>
2. This consultation response document sets out a summary of the responses received and the Cabinet Office’s decisions about the changes detailed in the consultation.

Consultation Questions

3. The consultation document outlined proposed changes to the providers of the Civil Service Defined Contribution (DC) pension schemes. Specifically it sought members’ comments as follows:

Q1: On the selection of Legal & General as the single provider for the DC pension schemes.

Q2: On the process of transition and what the member wished to see from the Scheme Manager and provider up to and immediately after the transition.

Q3: On the longer-term developments in fund provision and customer service that the member would like to see.

Consultation Responses

4. Cabinet Office is grateful to those who responded to this consultation.
5. A total of 38 individuals responded along with 3 responses from Trades Unions and a response from a Pensioners’ group.
6. A significant majority of the individual responses were from existing members of the Civil Service Defined Contribution pension schemes.

7. Most responses covered all questions, but some responses were limited to one of two questions.

8. The following section sets out the key decisions Cabinet Office has made in response to the consultation. A detailed analysis of the issues covered by the consultation responses and Cabinet Office responses is set out in the table later in this document.

Summary of questions set out in the consultation document and Cabinet Office decisions following consultation.

9. The selection of Legal and General as the preferred provider

Decision: The consultation revealed some misunderstanding amongst members as to the nature of the current DC arrangements but it did not reveal any material concerns about the appointment of Legal and General as the new provider. Cabinet Office therefore intends to appoint Legal & General as the new provider for the Civil Service DC Pension schemes.

10. Member requirements during the transition process

Decision: The consultation favoured the provision of regular and tailored communications to support scheme members through the transition process. This is in line with Cabinet Office expectations and we will work with key stakeholders to ensure this request is met.

11. Member requests for longer-term development of the fund developments and customer service.

Decision: A small number of respondents asked that Civil Service Pensions provide a Self-Invested Personal Pension plan. However Cabinet Office can confirm that this is not under consideration.

Other items suggested by respondents will be discussed with Legal & General and the outcome will be published prior to the transition.

Detailed consultation response to specific issues raised

12.

Consultation responses by consultation question	Cabinet Office comments
Q1: Please provide your comments on the selection of Legal & General as the single provider for the DC pension schemes.	
<p>(i) A single provider limits choice and does not act to moderate fees.</p> <p>(ii) How is the Master Trust going to provide a wide variety of investment options when you are reducing the number of schemes down from three providers to just one single provider?</p> <p>(iii) Concern was expressed about the handling of any financial difficulties of the single provider. Will the Government ensure that, ultimately, it shouldered responsibility for such occurrences, to ensure that individual contributors do not suffer loss.</p> <p>(iv) The consultation process doesn't provide any information on differences between the existing providers and the new provider. Please provide full details of the providers participating in the procurement, their procurement scores and the new deal.</p>	<p>(i) The current model does not provide for competition between our contracted providers. The two active providers charge the same Annual Management Charge and comparative performance details are not published by Civil Service Pensions.</p> <p>(ii) The aim of the provider review is to ensure that the investment options provided by the new provider are suitable for the membership population and meet the aims of each scheme. A decision on the investment proposition will be made following the completion of a demographic analysis of the current membership population and further information will be provided to each member in due course.</p> <p>(iii) Members of the DC schemes receive the same level of protection as other investors in DC schemes provided by private sector employers and no additional guarantees will be provided.</p> <p>(iv) The procurement exercise is subject to commercial confidentiality agreements and details of the participating providers and their scores cannot be published. The scoring matrix, which was used for considering the bids, is included under point 13 for information. Details of the agreement with Legal & General will be provided as soon as we are contractually able to do so (see comments under Q2 below) however we can confirm that only bids, which offered a charge level below that of the current providers, were accepted.</p>

<p>(v) From a general search of their service it doesn't read that it's a very good service they are offering.</p> <p>(vi) I was quite happy with the investment returns gained on my existing Partnership pension. Will we be offered equivalent investment terms for similar returns?</p> <p>(vii) Oh, Legal & General! What a surprise! We're doing LOTS of business with L & G at the moment and not much of it is very transparent.</p> <p>(viii) If you are considering that this increase in flexible benefit options will come at retirement I think the scheme manager fails to understand that at retirement the DC (Partnership) scheme allows you to take members funds to any annuity provider (this is enshrined in current pension laws). So I don't to see how the changes will improve any DC members benefit options.</p> <p>(ix) The ongoing administration of any DC (Partnership) scheme is with the pension providers themselves not with my employer, so I am unsure how the changes will simplify any administrative burden.</p> <p>(x) You wish to simplify governance but my worry with this is in past cases of public sector procuring an outside (private) provider to do work for them the choice is normally one main factor – reduced costs.</p>	<p>(v) Legal & General scored well in the bid assessment areas including the customer service considerations.</p> <p>(vi) The ability of bidders to deliver investment solutions including the quality of key funds was assessed, as part of the procurement process, however it should be noted that past performance is not a guide to future performance for investments and investments returns are not guaranteed.</p> <p>(vii) The procurement decision was made solely with reference to the Defined Contribution pension scheme requirements and all bids were considered on the same basis.</p> <p>(viii) The pension flexibilities referenced are those available at retirement and are wider than the annuity purchase option. Generally to access the flexible benefits members need to transfer to a different scheme or provider however in future a greater number of options will be available from the Civil Service Pension schemes themselves.</p> <p>(ix) Employers are required to transfer relevant data to the pension scheme to allow the payment of the pension contribution to be made. The monthly interface and payment cycle is complex and reducing the number of interfaces will reduce the employer's administration burden.</p> <p>(x) By reducing the number of providers we will be able to focus on the governance of the single provider, which will be of benefit to all parties. The change is not driven by a requirement for cost savings.</p>
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<p>(xi) Having not so long ago, transferred back into the PCSS under the fair deal scheme. I am somewhat disappointed to have not been made aware of this project earlier.</p> <p>(xii) This is a material change to my contract of employment and I would have hoped for significantly more information than this, and indeed an option to remain in the arrangements that I had selected for me when I joined and began the contract we have between us.</p> <p>(xiii) I welcome the choice of Legal and General as the provider, having previously found their equity index funds to be amongst the best for retail investors, with low cost and low index tracking error.</p>	<p>(xi) Scheme employers have been briefed on the project during 2017.</p> <p>(xii) The selection of a single new DC pension provider is not a contractual variation and formal consultation is not required. Cabinet Office notes this is a material change to the pension provision for existing members and therefore decided to consult existing members on the selection and will provide further information as the transition proceeds.</p> <p>(xiii) Cabinet Office will agree the investment proposition with Legal & General and confirm the funds that will be available to members in due course.</p>
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Q2: Please provide your comments on the process of transition and what you would like to see from the Scheme manager and provider up to and immediately after the transition.

<p>(i) Confirmation that the Scheme manager will cover the transaction fees on transfers or that there will no be transaction fees.</p> <p>(ii) A timeline of planned activity and communication.</p> <p>(iii) Full information on whether and how I will be impacted including details of the new charge structure and the investment fund range.</p> <p>(iv) Engagement and transparency in the considerations for the future investment strategy giving the changing landscape of DC pensions.</p>	<p>(i) Transaction fees may apply on transfer of the member's existing pension pot however all member's will have the choice of whether they transfer their pot and accept the transaction fees. The saving in on-going charges will soon be larger than any loss from transaction fees for most members.</p> <p>(ii) A timeline will be published on the civil service pension website in February 2018.</p> <p>(iii) All members will receive a letter outlining how the change impacts them individually in July 2018, ahead of the planned transition to the new provider in September 2018.</p> <p>(iv) The Government Actuary's Department will consider the suitability of the standard investment strategy offered by Legal & General for our membership group. Full details of</p>
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<p>(v) Explanation of how funds will be transferred between providers assuming the same funds may not be available.</p> <p>(vi) AVC Members will have the opportunity to opt-out of the automatic transfer. It is not explained what the consequences of such an opt-out might be or whether a member could opt in at a later date. Again, the provision of financial advice would be key in making an assessment whether to opt out or not.</p> <p>(vii) If this goes ahead there needs to be absolute transparency from Aon throughout the process and the guarantee that Aon or its shareholders will not benefit in any way from the potential millions of pounds worth of civil service transfers from Scottish Widows and Standard Life to Legal & General pension funds.</p> <p>(viii) I believe there should be some representation of public bodies (on the board of management of civil servant pension funds).</p> <p>(ix) I also wish to be able to access the funds at any time</p>	<p>the investment proposition will be made available to members approximately three months before the transition.</p> <p>(v) All members will receive a letter outlining how the change impacts them individually approximately 3 months before the transition to the new provider.</p> <p>(vi) Where a member opts-out of the transfer then their existing funds will remain with their existing provider, on the same terms as are currently in place. We would encourage members to take financial advice if they feel it would be of benefit and details of how to select a financial adviser will be provided.</p> <p>(vii) Aon Hewitt Ltd will not benefit as a result of the selection of Legal & General as the new DC provider.</p> <p>(viii) The Civil Service DC pension schemes are within the remit of the Civil Service Pension Board and this will not be affected by the transition to Legal & General. Details can be found at: http://www.civilservicepensionscheme.org.uk/about-us/civil-service-pensions-board/</p> <p>(ix) Access to pension benefits is defined by pension legislation and is outside the control of the Civil Service Pension Scheme. Details are available on the Pension Wise website at: https://www.pensionwise.gov.uk/en</p>
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Q3: Please provide your comments on the longer-term developments in fund provision and customer service that you would like to see.

- (i) Access to an online-account showing allowing the member to; update personal details, obtain a current fund value, change investments.
- (ii) I would have liked the opportunity to have the option to self-manage my own pension fund, a SIPP option maybe for my own contributions.
- (iii) A service where you can speak to someone and get some help with the information I need help with.
- (iv) I would like to see more transparency and be given a chance to decide any future change of provider by members' vote.
- (v) Why should we allow Legal & General and their investors to profit from our pensions when it shouldn't be too difficult to mutually manage things?
- (vi) Will the single provider be reviewed periodically to confirm that they remain the preferred provider in all of the key categories listed?
- (vii) Mention is made of employer contributions being unchanged but might employer be able to contribute more than at present if they choose?

- (i) Legal & General will provide these options to our members following transition.
- (ii) A Self-Invested Personal Pension (SIPP) is a specialist product and is not being considered by Cabinet Office at this time.
- (iii) Legal & General provide a telephone helpline service for member 's seeking information.
- (iv) Procurement exercises are governed by specific legal criteria and this precludes the option of a member vote on the selection of a new provider.
- (v) Cabinet Office considers that the use of specialist providers provides better value for money than an in-sourced arrangement.
- (vi) The Cabinet Office will review the performance of the provider under the contract on an annual basis.
- (vii) The schedule of employer contributions for the Partnership pension account is not under consideration. It should be noted that the employer will match member contributions up to 3% of your pensionable earnings and details are available here:
http://www.civilservicepensionscheme.org.uk/media/176829/ppa-1_dec2015.pdf

<p>(viii) What would Legal & General and the Civil Service provide by means of investment advice for members in the future?</p>	<p>(viii) Legal & General will provide information on the investment options available. Members who wish to obtain financial advice should refer to their own financial adviser.</p>
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13. Scoring Methodology Table

	Total Quality Score	Descriptors	Sub-weight	Quality Score	Multiplier	Adjusted Quality Score
Part A						
(i) Price of the proposition	45	Price of passive equities	25		1 x	
		Price of DGF/ multi asset	10		1x	
		Price of fixed interest	10		1x	
(ii) Price of the proposition – off the peg solutions	45	Price of off the peg solutions	45		1x	
(iii) Transition costs	5	Contribution towards funding of transition costs	5		1x	
Part B						
(i) Member experience	50	Quality and scope of management information	5		3x	
		Quality of materials and bespokeing	10		3x	

	Total Quality Score	Descriptors	Sub-weight	Quality Score	Multiplier	Adjusted Quality Score
Part B continued						
		Look, feel, functionality and security of new website	10		3x	
		Helpline	15		3x	
		Modeling tools – scope and functionality	5		3x	
		Benefit statements	5		3x	
(ii) Future plans to enhance the member experience	5	Consideration given to improve the member experience e.g. mobile apps	5		2x	
Part C						
Ability to deliver investment solutions	50	Range and commonality with legacy arrangements in relation to the funds on the platform	15		1x	
		Quality of key funds	15		1x	

	Total Quality Score	Descriptors	Sub-weight	Quality Score	Multiplier	Adjusted Quality Score
Part C continued						
		Ability to offer blended funds and flexibility over numbers of blends and lifestyle profile	15		1x	
		Investment governance	5		1x	
Part D						
Ability to manage asset and admin transition	50	Quality of project plans and demonstrated understanding of process	10		2x	
		Size and experience of admin and asset transition team	10		2x	
		Understanding of transition processes, risks and specific support for GPP transfer	10		2x	
		Ring-fenced resources – administration transition	10		2x	
		Ability to demonstrate the flexibility to work in conjunction with MyCSP	10		2x	

	Total Quality Score	Descriptors	Sub-weight	Quality Score	Multiplier	Adjusted Quality Score
Part E						
Quality of client team administration, experience etc.	50	Credentials of key players; admin. Team structure and experience	10		2x	
		Commitment to the project and Cabinet Office	10		2x	
		Quality and security of administration. Demonstrable high service standards, quality control procedures, data security procedures and administration employee engagement	10		2x	
		Post retirement solutions – availability, ease of access by members, fund size restrictions	5		2x	
		Experience of managing Master trust and contract based plans – evidenced by number of schemes managed of similar size.	15		2x	

	Total Quality Score	Descriptors	Sub-weight	Quality Score	Multiplier	Adjusted Quality Score
Part F						
Master Trust	50	Degree of flexibility to set own investment strategy	15		1x	
		Experience and composition of trustee board	15		1x	
		Master trust accreditation – actual and planned	20		1x	

