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Charges in defined contribution pension schemes

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Executive summary

In June 2020, the Government committed to undertake a review of the default fund charge cap and standardised cost disclosure by the end of the year following the last review of the charge cap in 2017. Findings from this research report have been used to inform recommendation in the review. This report measures the types and levels of charges across defined contribution (DC) trust-based and contract-based workplace pensions. To protect employees, workplace pensions are subject to a variety of rules, notably the government's charges measures introduced in 2015 and 2016.

One of these measures caps ongoing charges for pension schemes used for automatic enrolment (known as qualifying schemes) at 0.75%. All members in the qualifying schemes covered by this research are now below the cap, and the average charge of 0.48% across all members is significantly below the cap. Comparing the pension providers who took part in both the 2020 and 2016 studies, and new market entrants, the overall average charge for qualifying schemes has barely changed, up 0.01 percentage points.

Other workplace pensions (non-qualifying schemes) are also covered by this research to establish whether they have indirectly benefited from the cap. Charges for these non-qualifying schemes have fallen, and the average charge is now 0.53%. Again comparing the providers participating in the two research waves, this represents a reduction of 0.20 percentage points. As a result, 88 per cent of members of non-qualifying schemes are now below the level of the cap.

Charges for unbundled trust-based schemes – which work directly with separate administrators and investment managers to deliver the scheme – remain at 0.49% on average, with all members of qualifying schemes within the cap.

Workplace pensions may also be subject to other charges relating to the funds they invest in, which can be divided into fund manager expense charges (FMECs) and transaction costs, either for entering or remaining in the fund (also known as portfolio transaction costs or PTCs).

Seventy two per cent of funds under management faced no additional FMECs, a slight improvement from 70 per cent in 2016. The average FMEC (including funds with no FMEC) is slightly down from 0.025% to 0.022%. Excluding the funds with no FMEC does not alter the trend noticeably (down from 0.084% to 0.080%).

The average PTC (including funds with zero or negative charges) is 0.069%. Excluding the funds with zero or negative charges increases the average to 0.083%. In 2016, insufficient providers had been able to give an estimate to calculate an average PTC so it is not possible to report a trend.

Providers still find it difficult to provide data on transaction costs for fund entry. This is due to both difficulties in obtaining the data, and challenges in measurement. The research is therefore not able to quantify these costs.

The transaction costs for unbundled schemes were estimated at 0.26% on average, slightly lower than the 2016 estimate (0.35%). However, transaction costs will continue to remain outside the scope of the charge cap.

Approximately two thirds of providers reported that they had zero direct investments in illiquids in their default fund(s). About a third had a small proportion, typically between 1.5-7.0%. All providers investing in illiquids mentioned property as their main class of investment. A small number also mentioned infrastructure, private equity and debt. The main barriers to investing in illiquids related to the high costs associated with these investments, with the unpredictability of charges also a concern.

Contents

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Glossary of terms

Active member	For defined contribution pension schemes this is a member who is currently making contributions into the scheme.
Active Member Discount (AMD)	A charging model that some providers may apply to members of a particular pension scheme. Under this model, active members of that scheme pay a lower ongoing charge than deferred members. Since April 2016 these have been banned in qualifying DC workplace pension schemes.
Annuity	A form of insurance contract used as part of decumulation. In return for a lump sum paid by the member, an annuity provider will provide an annual income for the remainder of the member's life.
Automatic enrolment	Pension scheme enrolment legislation under which an employer enrols eligible jobholders into the workplace pension scheme 'automatically' – i.e. without the jobholder having actively agree to membership. Individuals who are automatically enrolled are free to opt out, but need to take action to do so.
Bid price	The price at which a unit of an investment fund can be sold by an investor (in this case, a pension fund member). This price may be slightly less than the value of that unit due to transaction costs.
Bundled scheme	A pension scheme that is offered through a single pension provider or insurance company.

Charge cap	One of DWP's charges measures introduced in April 2015. The charge cap applies to default funds of qualifying defined contribution schemes. The annual cap is set at 0.75% of funds under management, or an equivalent combination charge.
Charges measures	DWP's charges measures were implemented in stages from April 2015. The reforms are intended to provide greater protection for people who have been defaulted into private pension saving via automatic enrolment. They consist of a charge cap on default funds of qualifying defined contribution schemes, and a ban on commission, consultancy charges and Active Member Discounts in qualifying DC workplace pension schemes.
Closed scheme	A pension scheme that new members may not join, although existing members can still contribute.
Consultancy charge	In the context of workplace pensions, a concept introduced by the RDR. A consultancy charge is borne by members to cover the cost of intermediary advice given to the employer in the course of setting up and/or running a pension scheme. New consultancy charge arrangements were banned from most qualifying schemes used for automatic enrolment in legislation in 2013; all were banned from existing qualifying contract-based schemes in April 2015; and new arrangements were banned from all existing, qualifying trust-based schemes in April 2016.

Contract-based pension	A defined contribution pension owned by the individual with the contract existing between the individual and the pension provider. Contract-based pensions can be set up either by an employer on behalf of an individual, or by the individual themselves directly with a provider.
Contribution-based charge	Charges levied as a percentage of each contribution paid into an individual's pension pot. For the purposes of this research, contribution-based charges are converted to an equivalent ongoing charge.
Combination charge	A charging model most commonly used by master trusts which includes an ongoing charge and either a contribution-based charge or a flat fee.
Decumulation	The conversion of pension assets accumulated during a member's working life into pension income to be spent during retired life. The main options for decumulation are purchasing an annuity or pension drawdown.
Defined benefit (DB) scheme	A workplace pension scheme that provides benefits based on a formula involving how much a person is paid at retirement (or how much a person has been paid on average during their membership of the scheme) and the length of time they have been in the pension scheme.
Defined contribution (DC) scheme	A trust-based or contract-based pension scheme that provides pension scheme benefits based on the contributions invested, and the returns received on that investment (minus any charges incurred).

Defined Contribution Pensions Template (DCPT)	To ensure compliance with the Financial Conduct Authority's (FCA's) requirements, the Investment Association and the Association of British Insurers worked together to devise a standardised template to assist in the flow of cost information from asset managers to pension scheme operators.
Default fund	The investment funds used within a default arrangement.
Default arrangement	The pre-assigned fund or combination of funds into which a member's contributions are invested, if no decision is made by the individual regarding which funds they wish their contributions to be invested in. In the context of this study, these arrangements are used by employers to meet their automatic enrolment duties. Since April 2015 default arrangements in defined contribution qualifying schemes have been subject to a 0.75% annual charge cap.
Deferred member	A member who no longer contributes to the scheme, but who has not yet begun to receive retirement benefits from that scheme.
Drawdown	Introduced in April 2015, pension drawdown is a way of using a pension pot to provide a regular retirement income by reinvesting it in funds specifically designed and managed for this purpose.
Eligible Jobholder	Eligible jobholders are 'eligible' for automatic enrolment and are jobholders who are aged at least 22, but have not yet reached State Pension age, and earn above the earnings trigger for automatic enrolment.

Flat fee	A charge levied without reference to the funds under management or the funds contributed. For the purposes of this research, flat fees paid by members are converted to an equivalent ongoing charge.
Frozen scheme	A pension scheme that new members may not join, and which existing members may no longer contribute to.
Fund manager	A person or organisation appointed to implement the investment strategy for a pension fund, or oversee the investments within a portfolio.
Fund Manager Expense Charges (FMECs)	Any charges that members of a particular fund type typically pay, over and above the ongoing charge, to cover expenses incurred by the fund manager of a particular fund.
Governance	The management processes that are in place to ensure that a pension scheme is well managed and members' interests are met, and that a scheme is invested appropriately.
Independent Governance Committee (IGC)	A body that contract-based pension providers are required to have as part of the Financial Conduct Authority's (FCA's) rules for providers' governance and reporting. They are responsible for independently monitoring and reporting on the value delivered by their provider's schemes, and have to produce an annual report detailing the costs and charges incurred in managing the schemes.

Initial commission	Initial commission may be charged by an intermediary to a provider for services performed during the selling or setup of a pension scheme. It is payable for an initial period only, e.g. the first one to four years of a scheme being set up. Since April 2016 commission borne by members has been banned from most qualifying DC workplace pension schemes.
Intermediary	An adviser, or firm of advisers, that is in a position to review products and companies in the market as the basis for recommendations to clients.
Investment manager	See fund manager.
Investment pathways	An Financial Conduct Authority (FCA) requirement that firms offer ready-made investment solutions (investment pathways) to the estimated 100,000 customers that enter drawdown without taking advice each year. Customers choose from four objectives for their retirement pot and are offered a solution based on their choice.
Master trust	A trust-based pension scheme established by declaration of trust which is promoted to provide benefits to members who are staff of participating employers that need not be connected.
Member	A person who has joined a pension scheme and who is entitled to benefits under it.
Offer price	The price at which a unit of an investment fund can be purchased by an investor (in this case, a pension fund member). This price may be slightly less than the value of that unit due to transaction costs.

Ongoing charge	A charge levied on a member’s pension fund in relation to providing that pension scheme. In this report, our definition includes any active member discounts, consultancy charges, initial and trail commission and flat fees levied.
Open scheme	A pension scheme that admits new active members.
Pension drawdown	See drawdown.
Pension fund	The assets that form a pension scheme.
Pension pot	The total amount of pension contributions a member and their employer have made, together with any capital growth earned from the fund’s investments. Individuals may have more than one pension pot, if for example they have contributed to several workplace pension schemes.
Policy fee	A flat fee charged by some providers of older, non-qualifying pension schemes, in relation to providing that pension scheme. In this report, all flat fees such as this are included within the ongoing charge.
Portfolio transaction costs (PTC)	Costs incurred when a fund buys and sells investments which includes commission paid to brokers and taxes (direct costs). In addition to direct portfolio costs, there are indirect transaction costs caused by the fact many investments have a bid-offer spread which is the difference between the buying and selling prices of investments and their actual value.
Provider	An organisation, often a life assurance company, fund manager or bank that sets up and administers a pension scheme on behalf of an individual or trust.
Qualifying pension scheme	A pension currently used by an employer to meet their automatic enrolment duties.

Retail Distribution Review (RDR)	The RDR was launched in June 2006 by the Financial Conduct Authority (FCA) in response to problems in the market for retail investment advice. The RDR aims to ensure that consumers are offered a transparent and fair charging system for the advice they receive; consumers are clear about the service they receive; advisory firms are more stable and better able to meet their liabilities; and consumers receive advice from highly respected professionals. Most RDR-related rules took effect from 31 December 2012.
Trail commission	A fee which may be paid by a provider to an intermediary on an ongoing basis for selling their scheme to an employer, as well as for ongoing services that the intermediary may provide to the scheme. Since April 2016 commission borne by members has been banned from most qualifying DC workplace pension schemes.
Transaction costs for fund entry	Charges incurred when a member’s new contributions are used to purchase the underlying assets of a particular fund. Transaction costs associated with buying additional underlying assets may mean that the value of funds purchased can be lower than the total amount contributed. The effective reduction is expressed as a percentage of each member’s contribution.
Transaction costs for remaining invested	Charges incurred by the fund manager when buying and selling the underlying assets of the fund. These are passed onto the scheme member, usually as a reduction in the value of investments held. The reduction is expressed as a percentage of funds under management.

Trust-based pension	A pension scheme taking the form of a trust arrangement, with a board of trustees governing the scheme. Benefits can be either defined contribution or defined benefit.
Trustee	An individual or company appointed to govern a trust-based scheme, in accordance with the provisions of the trust instrument, the legal document that sets up, governs or amends the scheme, and general provisions of trust law as well as pensions legislation, for the benefit of scheme members.
Unbundled scheme	A trust-based scheme other than a master trust, in which the trustees work with a range of different service providers including administrators, intermediaries and investment managers to administer the scheme, as opposed to engaging a single pension provider.
Winding up scheme	A pension scheme that admits no new members and accepts no further contributions from existing members, and which is in the process of being closed down by its trustees.
Workplace pension	Any pension scheme provided as part of an arrangement made for the employees of a particular employer.

Abbreviations

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

Summary

Background

In March 2014, the Department for Work and Pensions (DWP) published a Command Paper, which announced a comprehensive range of charges measures designed to improve the value for money of defined contribution (DC) workplace schemes. The measures were mainly introduced in 2015 and 2016 and included a cap on ongoing charges for pension schemes used for automatic enrolment (known as qualifying schemes) at 0.75%.

In conjunction with these new charges measures, DWP commissioned the first wave of the Pension Charges Survey in 2015 to benchmark and monitor the impact of the charges legislation prior to the charge cap being implemented.

The research was designed to capture the full range of charges that were applied to qualifying DC workplace pension schemes. Other workplace pensions (known as non-qualifying schemes) were also covered by the research to establish whether they indirectly benefited from the cap.

A second wave of research using the same methodology was undertaken in 2016 which reported that:

- The charge cap had had the intended impact on qualifying schemes. Qualifying contract-based and trust-based scheme charges had fallen across the board in almost all size categories, with average figures below the cap
- Non-qualifying schemes had not benefitted to the same extent, with few changes since 2015. In particular, smaller non-qualifying schemes were not benefitting from scale, still paying annual fees as high as 0.92% on average

The 2016 research also covered unbundled pension schemes, in addition to the bundled schemes administered by a single provider. These are schemes where trustees, often based at a single employer, work directly with separate administrators and investment managers to administer the scheme, as well as commissioning other specialists such as auditors.

Unbundled schemes' charges varied depending on whether the scheme was open, closed or frozen, and transaction costs were rarely reported. However, on average, charges in unbundled schemes were typically comparable to their equivalent bundled trust-based schemes, although a relatively small number of closed, non-qualifying schemes charged markedly higher than the average.

The Parliamentary Work and Pensions Committee subsequently recommended that DWP review the level and scope of the charge cap, as well as permitted charging structures. The previous Government agreed to this review, which is taking place in 2020. To support the review, work on this third wave of research began in May 2020. The research has three main objectives:

- To measure average overall charge levels and the prevalence and level of different charge components
- To measure the proportion of charges (if any) over the cap
- To explore provider and trustee views of the current charge cap and whether the level of, or costs included within, the charge cap should change

Methodology

The survey incorporates the full range of DC schemes whether held directly with providers (bundled) or operated on an unbundled basis. Reflecting the two types of workplace pension, the research used two different approaches:

- We asked pension providers to report charges data using an Excel template designed by our research team with assistance from DWP and the Financial Conduct Authority (FCA).
- Telephone interviews with unbundled trust-based schemes, in which we collected information about each individual scheme's charges

Since 2016, a significant number of new providers have entered the market, largely offering master trusts. As a result, the number of pension providers returning completed templates increased from 14 in 2016 to 20 in 2020. The providers returning templates this wave accounted for 29.3m pension pots and included all of the ten largest providers.

A total of 35 qualifying unbundled schemes were also interviewed as part of the research, of whom 32 provided sufficiently complete data to include in the analysis. These unbundled schemes accounted for 432,000 members. Schemes accounting for 72 per cent per cent of these members were able to report upon the ongoing charge paid by the members and schemes accounting for 49 per cent of members were able to report transaction charges for funds invested.

In addition, follow-up telephone interviews taking approximately one hour were undertaken with all providers and a representative sample of unbundled schemes. These interviews clarified our understanding on charges and any challenges in their implementation and explored recent and future developments and the burden of study participation.

Key findings

Summary of ongoing charges paid by members

The ongoing charge is levied by the provider in relation to administering the scheme, and is expressed as a percentage of funds under management per year. It includes any contribution charges or flat fees levied on the members, although these are also discussed separately in the next section of this summary.

For members in qualifying bundled schemes the average charge of 0.48% is significantly below the cap. Comparing just the pension providers in both the 2016 and 2020 research and new market entrants, the overall average charge for qualifying schemes has barely changed, having risen by 0.01 percentage points.

All members of qualifying schemes now have ongoing charges that fall within the charge cap, an increase of one percentage point since 2016. This reflects the phasing out of the handful of legacy qualifying contract- and trust-based schemes that became inactive before 5 April 2015 and were, therefore, not subject to the cap.

In previous years, a higher level of ongoing charge was found among non-qualifying bundled schemes, which was attributed to them typically being older and sold in a less regulated and less competitive environment than qualifying schemes. In 2016, the average charge amongst members of non-qualifying schemes was still as high as 0.84%.

However, in 2020, charges for non-qualifying schemes have fallen sharply and the average charge is now 0.53%. Again comparing just the providers in the two research waves, this is a reduction of 0.20 percentage points. As a result, 88 per cent of members of non-qualifying schemes are now below the cap level.

In 2015 and 2016 larger schemes received lower fees, reportedly because employer costs for entry tend to be fixed, making larger schemes more economic per member and, secondly, having larger total funds often allowed larger schemes to leverage a lower ongoing charge.

This continues to be the case, with the notable exception of qualifying master trusts. While the very largest qualifying master trusts of over 1,000 members imposed a lower average ongoing charge than smaller qualifying master trusts, there was little variation in the average ongoing charge among qualifying master trusts smaller than 1,000 members. This is consistent with the findings in 2016 and is attributed to the fact that schemes cover multiple employers and, as such, the size of any individual employer has a much lower impact on the cost of running the scheme.

Charges for unbundled schemes remain consistent at 0.49% on average and all members of qualifying schemes are within the cap.

Combination charging structures for qualifying schemes

Combination charging is a model that includes an ongoing charge and either a contribution-based charge or a flat fee. While providers that made use of combination charging structures were still in the minority, their attractiveness to master trusts in particular has made them more common.

In 2016, one provider was using a combined contribution and fund-based charge and another was combining a fund-based charge with a member-borne flat fee. In 2020, this increased to two providers and four providers, respectively.

Two master trust providers used a combined charging structure that mixed a set contribution charge with a fund-based ongoing charge. When combined, these equate to a single ongoing charge of 0.48% to 0.5% (depending on assumptions made about the ratio of contributions to total pot size).

Four providers use flat fees, three for master trusts and one for contract based schemes. The highest charge is £36 per annum, with the average charge ranging between £13 and £20 per annum depending on the provider. These equate to an additional ongoing charge of 0.14% to 0.22% per annum.

Active Member Discounts (AMDs), consultancy charges, initial commission and trail commission

'Legacy' charges that were banned under the charges measures include AMDs, consultancy charges and member-borne commission. These had been eliminated from qualifying schemes by April 2016, and remained extremely rare even among non-qualifying schemes (where the charges measures did not apply). Their usage has further declined:

- **AMDs:** By April 2016 only one provider still used AMDs, for non-qualifying contract-based schemes only, and affecting around 1,000 members – a number that was said to be diminishing. No provider reported using them in the 2020 research
- **Initial commission and consultancy charges:** In 2016 only one provider passed on a charge for initial commission to members, down from three providers in 2015: this was levied on non-qualifying contract based schemes only. One provider still used consultancy charges, also for non-qualifying contract-based schemes only. In 2020, no providers reported any members subject to consultancy charges or initial commission in qualifying or non-qualifying schemes
- **Trail commission:** In 2016, while virtually eliminated from qualifying schemes, trail commission still persisted in some non-qualifying schemes. It has further declined and 2020 only two providers reported paying trail commission.

Neither provider identified the number of schemes affected nor their type. Providers are still paying commission for contractual reasons, and therefore on qualifying schemes they have to absorb the cost themselves, since it can no longer be passed onto members

Other fees paid by employers

This charging model can involve a fee per employee paid by the employer to reduce the member-borne charges. As such they are outside the cap, and give providers and/or employers the opportunity to reconcile higher charges with keeping their members below the cap. In 2016 only a handful of employers at two providers were paying these charges. The average charge per employee was £27 per annum.

In 2020 this increased to six providers, but in each case only a small minority of members were affected and the vast majority are with a single provider. Approximately 11,000 employers (or one per cent of the total) are affected and all types of scheme are involved. Charges range from £10 to £100, with an average of £37.

A small, but increasing, minority of employers are paying additional compulsory charges to set-up schemes. The only type of pension for which a material number of employers is affected are Qualifying Master Trusts. Normally charged to smaller employers, a total of 66,000 employers are affected (six per cent of the total). All but one provider charges between £250 and £500, and these charges are often lower when the employer comes via a third party, due to less 'handholding'.

A small minority of employers (approximately 14,000 in 2020 or one per cent of the total) pay a variety of other ongoing fees. These are mainly Qualifying Master Trust schemes and the amount paid varies widely depending on the number of members in the scheme.

The trustees of unbundled schemes work with a range of different administrators and intermediaries to administer the scheme, as opposed to engaging a single pension provider. While these schemes typically use a wide range of services for which they can pass costs onto the scheme members, the cost of these services is typically covered by the employer.

The main exception is the use of fund managers, whose fees are charged to members in the majority of cases. In 2016, just over half of unbundled schemes (51 per cent) passed all or some of the cost of fund management onto members. In 2020, this had increased to 63 per cent of schemes.

Fund management and transaction costs

Workplace pensions are also subject to a variety of charges relating to the funds they invest in, which can be divided into fund manager expense charges (FMECs) and transaction costs.

Since the commencement of the research, this data has been one of the most challenging items for both providers and trustees to report, although the position has improved considerably this wave.

FMECs are charges paid by a member who invests in a particular fund, over and above the ongoing charge, to cover additional expenses incurred by the fund manager. Not all funds have additional FMECs associated with them: they normally apply to funds that require more active management, which are typically self-selected arrangements not used in default strategies.

In the latest research, all 20 providers were able to provide data on the level of FMECs paid, although only 17 can be included in the analysis of average FMECs since the remaining three providers could not report the value of funds under management. Nine providers had some funds that were subject to additional FMECs over and above the ongoing charge.

Seventy two per cent of funds under management faced no additional FMECs, a slight increase from the 70 per cent in 2016. This compares to the major change between 2015 and 2016 when FMECs became much rarer as a proportion of all members (in 2015, only 56 per cent of all funds attracted no FMEC).

The average FMEC (including funds with no FMEC) is slightly down from 0.025% to 0.022%. Excluding the funds with no FMEC does not alter the trend noticeably (down from 0.084% to 0.080%). Only two per cent of all funds faced charges of greater than 0.20% (down from four per cent in 2016).

Transaction costs are incurred when a fund manager buys or sells the underlying assets of an investment fund. This research covers two types of transaction cost:

- When members make payments into their pension
- Many types of fund incur costs while assets remain invested, because underlying assets may be purchased or sold on an ongoing basis by the fund manager. They are usually deducted from members' pension funds directly and are commonly known as portfolio transaction costs (PTCs)

In 2015 and 2016 most providers were unable to report PTCs so we do not have a comparison with previous data.

This reporting situation has improved, and all but one provider was able to provide at least partial data (although again three providers could not report the value of funds under management and hence are excluded from the analysis of average PTCs).

Seventeen providers had funds subject to PTCs. Unlike FMECs, where a provider had funds subject to PTCs, it was likely to apply to all or almost all of their funds. However, even within a provider's portfolio there was normally a considerable spread of PTCs between different funds.

The average PTC (including funds with zero or negative charges) was 0.069%. Excluding the funds with zero or negative charges would increase the average to 0.083%. In common with FMECs, funds with charges greater than 0.20% were rare, affecting only three per cent of funds by fund value.

Providers still found it difficult to provide data on transaction costs for fund entry, due to difficulties in obtaining the data, and challenges in measuring it. The research is therefore not able to quantify these costs.

Transaction costs for unbundled schemes were estimated at 0.26% on average, slightly lower than the 2016 estimate (0.35%).

Decumulation

Of the 20 providers who participated in this research, eight offered decumulation within their existing trust-based schemes and were able to provide data on the charges relating to these, although the data only covered a very small number of members. The remainder were not offering decumulation within their trust-based schemes. Most of these were providers of a single master trust who had set this up since automatic enrolment was introduced. This meant that most of their members still had small pots that they had so far chosen overwhelmingly to take as cash.

Where providers did offer decumulation options, in the main members continued paying the same charges that applied during accumulation to the funds in which they are invested. One provider has introduced a tiered annual management charge at decumulation, while another has introduced a flat administration charge on entering decumulation.

Most providers offering decumulation within their schemes did not place any restrictions on the number of withdrawals, nor did such withdrawals attract any ad hoc charges.

No unbundled scheme reported an increase in fees for members entering decumulation: they were simply charged the same fees for the funds they were invested in as applied to accumulating members.

Illiquids

Illiquid investments are assets that are traded off-exchange or are otherwise less readily tradeable than cash, shares or money market funds.

Examples of such investments include direct property investment, investment in infrastructure projects, private equity, equity or debt issued by very small listed firms, and venture capital.

Approximately two of thirds of providers reported that they had zero direct investments in illiquids in their default fund. About a third had a small proportion, typically between 1.5-7.0%. All providers directly investing in illiquids mentioned property as their main class of investment. A small number also mentioned infrastructure, private equity and debt.

Concerns over the suitability of illiquids for DC pensions included the following:

- The nature of illiquids makes them more difficult to access than liquid funds. This lack of flexibility can be an issue for DC schemes, for whom daily liquidity and switching is required in order to meet the needs of individual members
- Illiquid investments attract higher fund management charges and, while they can offer better potential performance in the long run, this can make them appear uncompetitive in a market focussed on charges
- Coupled with higher costs for illiquid investments, the unpredictability of fund management charges and performance fees in regard to illiquids made providers nervous about the potential to exceed the charge cap
- Smaller providers typically were reluctant to accept the concentration risk associated with illiquid investments

The impact of the cap on the pension landscape

Most providers saw the overall impact of the charge cap as positive, and as having benefitted a large number of members. Providers typically felt that competition would continue to maintain a downward pressure on charges even if the charge cap were not lowered officially.

As in 2016, some providers and representatives of qualifying unbundled schemes expressed concern about further lowering of the cap. Concerns fell into the following categories:

- Several providers thought that the cap had created a price-driven market and was slowing innovation, in terms of investment opportunities within default funds
- A number of providers were concerned about the impact on the profitability of their service if charges were lowered or the scope of the cap extended. This was especially the case for those servicing small employers and offering flat fees
- There was also concern that a reduction in the cap could lead to deterioration in the level of customer service and communications provided to members
- Providers expressed concern about including transaction costs in the charge cap, as they felt that it would disincentivise trading

1. Introduction

This report provides the findings in the third in a series of studies commissioned by the Department for Work and Pensions (DWP), designed to assess the types and levels of charges across defined contribution (DC) trust-based and contract-based workplace pensions after the introduction of the government's charges measures in 2015.

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

1.1 Policy background

Since its introduction in 2012, automatic enrolment (AE) has generated a huge rise in the number of people saving into a workplace pension. With previous research concluding that competition alone could not drive value for money for all savers, DWP published the Command Paper, Better workplace pensions: Further measures for savers in March 2014. The Command paper included a range of measures to address pension charges in DC workplace pension schemes aimed at protecting employees from poor pension returns due to pension charges.

Two reforms were introduced in April 2015:

- A charge cap on the default arrangements of qualifying DC workplace pension schemes. The annual cap is set at 0.75% of funds under management or an equivalent combination charge. It applies to all ongoing charges, and excludes transaction costs
- A ban on consultancy charges in all qualifying DC contract-based schemes

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

- Some providers previously gave Active Member Discounts (AMDs) to members who were paying into a scheme, potentially at the expense of members who had paid in previously but stopped doing so. The latter group could include people who were automatically enrolled, but who had ceased employment with that employer. To avoid penalising members who chose to stop paying into an employer's scheme, and who might have been unaware of this financial penalty, AMDs were banned in qualifying DC workplace pension schemes from April 2016
- Consultancy charge agreements were banned in qualifying DC trust-based schemes from April 2016, with a small number of exceptions

- Member-borne commission in qualifying schemes was banned from April 2016, apart from in older qualifying trust-based schemes with commission arrangements set up before April 2016

With effect from 1 October 2017, the ban on member-borne commission was extended to prohibit commission payments in respect of arrangements entered into before 6 April 2016.

DWP and the Financial Conduct Authority (FCA) also introduced new rules for trustees' and providers' internal governance and reporting, which are intended to improve the transparency and disclosure of pension scheme charges. Providers of contract-based schemes are required to have an Independent Governance Committee (IGC), responsible for monitoring the value delivered by their provider's schemes including costs and charges. IGCs have to produce an annual report detailing the costs and charges incurred in managing these pension schemes. Trustees of trust-based schemes have a similar requirement to consider and report on costs and charges, via an annual Chair's Statement.

In 2015, Breaking Blue undertook the first charges study in the current sequence for the DWP (*Pension Charges Survey 2015: Charges in defined contribution pension schemes*):

- It gathered charging information directly from pension providers (12 providers in total), covering 9.4 million pension pots
- It measured pension scheme charges at a point in time prior to the introduction of the charge cap in April 2015, providing a benchmark wave (while recognising that even prior to April 2015, some providers had begun lowering their charges in preparation)

A second study was undertaken, again by Breaking Blue, in 2016, covering the period after the introduction of the charges measures (*Pension Charges Survey 2016: Charges in defined contribution pension schemes*). In that study we worked with 14 pension providers and 237 unbundled trust-based schemes to collect charges data covering 15.1 million pension pots. The key findings included:

- The charge cap had lowered charges in qualifying schemes to the level of the cap or below. Among qualifying scheme members, the members of the smallest schemes, which previously had charged higher than the cap, benefitted the most
- Non-qualifying schemes, whose charges are not subject to the cap and were already typically higher than it, had not generally brought down their charges in response
- The ability of the industry to report transaction costs remained a challenge, with issues such as multiple legacy IT systems caused by provider mergers hindering progress

- Charges for unbundled trust-based schemes, measured for the first time in the 2016 survey, were typically comparable to their equivalent bundled trust-based schemes, although a relatively small number of closed, non-qualifying schemes charged markedly higher than the average
- 'Legacy' charges that were banned under the charges measures (i.e. AMDs, consultancy charges and member-borne commission) had been eliminated from qualifying schemes, and were extremely rare even among non-qualifying schemes

Whilst there has been no quantitative evidence since that the charge cap is not working as intended, the Parliamentary Work and Pensions Committee has heard evidence that, for example, the combination of a flat fee plus a percentage of funds under management charge might adversely affect very small pension pots.

At the same time, the introduction of automatic enrolment has dramatically increased the number of savers enrolled into DC workplace pensions. It is vital these schemes deliver the best possible value for money, not least because many of these new savers will be on low incomes, with little prior experience of long-term savings products, and they will not have made a conscious choice to 'opt in'. Considering all these factors in combination, the Parliamentary Work and Pensions Committee recommended that DWP review the level and scope of the charge cap, as well as permitted charging structures, in 2020.

In November 2017, Guy Opperman (the relevant Parliamentary Under-Secretary of State) committed the previous Government to such a review:

> 'In 2020 we intend to examine the level and scope of the charge cap, as well as permitted charging structures, to see whether a change is needed to protect members. This will also allow us to evaluate the effects of the next stage of AE and the new master trust and transaction costs regimes.'

This research is intended to provide reliable data to inform that review.

1.2 Research objectives

This third wave of the series is designed to capture the full range of charges applied to DC workplace pension schemes that are open to new members in the period after April 2016. Specifically, it seeks to:

- Measure average overall charge levels and the distribution of overall charges across pension pots
- Measure the prevalence and level of different charge components within the cap
- Confirm that charge components now banned are no longer being levied

The results are segmented by different scheme types and characteristics, such as the number of members of the scheme, and whether the scheme is a master trust, a trust-based or contract-based scheme.

The study also collected information about a range of charges which, although outside the cap, are considered relevant, such as the prevalence of set-up fees being paid by employers.

For the first time, we have collected data on the current distribution of decumulation fees charged by trusted based occupational pension schemes to any member who decides to remain in their same scheme in the decumulation phase. In addition we collected data on charges for members or employers for life insurance bundled with pensions.

Finally, the study included qualitative interviews with providers and trustees which covered:

- Barriers to the easy provision of charges information
- Opinions on the current level of the cap and whether the cap should be changed
- Whether additional costs such as withdrawal charges, transaction costs and life insurance should be included within the cap
- Whether a more flexible approach would help facilitate greater investment by occupational DC schemes in illiquid assets, as recommended by the Association of Investment Companies

1.3 Research methodology

The research consisted of four separate elements.

- The collection of charges data from 20 providers, via an Excel template
- Telephone interviews with 35 unbundled trust-based schemes, during which we collected information about each individual scheme’s charges
- Each provider’s template was checked for consistency (both internally, with 2016 results and with public information). Where needed, we followed-up any issues concerning the template with the provider via email or telephone. An Excel pivot table model integrates all the data and allows tracking against previous waves
- Follow-up interviews with all providers and 15 unbundled schemes. One provider unable to complete template before the deadline was also interviewed. These interviews lasted approximately 60 minutes and were undertaken by telephone. The objectives were to clarify our understanding on charges and any challenges in their implementation and explore recent and future developments and the burden of study participation

1.3.1 Designing an appropriate data collection template for providers and trustees

Before we conducted the original 2015 Pension Charges Survey, a programme of desk research allowed us to build upon previous charges work and design an appropriate data collection template.

The sources we consulted included:

- The Pension landscape and charging: Quantitative and qualitative research with employers and pension providers report commissioned by the DWP in 2011
- The Landscape and Charges Survey 2013: Charges and quality in Defined Contribution pension schemes commissioned by DWP in 2013
- The Office of Fair Trading's (OFT) Defined Contribution workplace pension market study, which also assessed charging levels across DC workplace pensions
- The Independent Project Board's Legacy Audit of DC workplace pensions, which examined charges, including transaction costs, of schemes set up before 2001
- The Association of British Insurers' (ABI) transparency initiative, Agreement on the Disclosure of Pension Charges and Costs
- The Investment Association (IA) industry guidance on Enhanced disclosure of fund charges and costs

After discussions with DWP, Breaking Blue developed a standard data collection template in Excel, asking all providers to provide data for the DC workplace pension schemes that they currently offer to new members, and to break down the data according to the following scheme characteristics:

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

The same template was used in the 2016 research. For the 2020 research, discussions were held with DWP and the FCA to review what, if any, changes needed to be made in the light of the impact of the charges measures and any new information requirements.

Following these discussions, three significant changes were made to the template:

- Sections asking providers to report charges which were banned in 2016 such as AMDs were deleted
- Coverage of bundled life insurance was added
- A second worksheet was added covering charges relating to members in decumulation

The data template also included briefing notes and was accompanied by a fact sheet, which together provided guidance as to how to complete the data template. The introductory letter and fact sheet can be found in Appendices A.1 to A.2. The data template referred to in Appendices A.3 can be found separately in a downloadable Excel file.

A corresponding questionnaire template for unbundled schemes, designed to collect the equivalent information to the provider interviews, was designed for the 2016 survey and updated for the 2020 survey. Along with the introductory letter and fact sheet for unbundled schemes, it can be found in Appendices B.1 to B.3.

1.3.2 Data collection with pension providers

Since the 2016 study a significant number of new providers have entered the market, largely offering master trust schemes. In addition, there have been a number of transactions involving the disposal of DC pension books by providers within the scope of the previous waves. As a result, a new sample frame was established for the 2020 research:

- All providers approached in the 2016 research were included unless they had disposed of their DC pension books
- The Pension Regulator's (TPR) list of authorised master trusts was used to ensure that new entrants to the market were comprehensively covered

We approached all of the pension providers on this sample frame asking them to participate, anonymously, in the study. An invitation letter from DWP and Breaking Blue was sent to each provider, explaining the nature and purpose of the research, and providing contact details for a member of the Breaking Blue team. The invitation letter can be found in Appendix A. In total, 24 providers confirmed to us that they were willing to participate in the research study. The remaining providers declined to participate, however we do not believe that the providers who declined to participate account for a material proportion of the market.

The Breaking Blue research team continued to liaise with each of the 24 providers as they began to collect data and fill in the template, answering any questions that arose to ensure that the template was completed as accurately as possible, and in a comparable way across all providers. Where providers indicated that they could not complete certain parts of the template, we worked with them where possible to reach a solution.

In total, 20 providers eventually returned one or more completed templates. Of these providers, eleven were offering a qualifying master trust only. Nine providers were offering multiple scheme types, of which:

Qualifying contracts	8
Qualifying master trusts	7 (meaning that 18 providers in total offered qualifying master trusts)
Qualifying trusts	8
Non-qualifying contracts	7
Non- qualifying master trusts	6
Non-qualifying trusts	6

Where providers have pension books with multiple charging schemes, in some cases it was more practical for them to use more than one template or provide supplementary tables. When each provider returned the completed data template, it was checked by a member of the Breaking Blue team, and where data appeared to be missing or unclear, the researcher worked with the provider to see if they could complete the data or explain why they could not.

While we are confident that the data given to us by providers is a true reflection of the market, the results presented in this report rely on the assumption that providers were able to submit accurate data.

1.3.3 Comparing charges between the 2016 and 2020 surveys

The 14 providers included in the 2016 research included eight of the top ten providers and 14.4m pension pots. The 20 providers returning templates this wave accounted for 29.3m pension pots, with a significant element of the increase due to automatic enrolment. The provider data actually covers fewer than 29.3 million individuals, since some individuals will hold multiple pension pots across different providers. Where we report figures in relation to ‘members’ throughout this report, these figures refer to pension pots. Appendix C includes a breakdown of how many members’ pension pots were covered by the study.

However, it is also important to note that the two top ten providers who were unable to participate in 2016 have done so in 2020. Analysis of the 2020 results including and excluding these two providers indicates that their inclusion in the results reduces the average ongoing charge by approximately 0.03%. As a result, we should not compare individual numbers in the 2016 report directly to this year’s report, because any change will be, at least in part, down to the difference in provider coverage.

In this report therefore, where we do report upon changes to charge levels (specifically in Section 3.2.2), this is based only upon the providers that participated in both years' studies including participants in the 2016 study who disposed of their DC pension books to another provider who participated in both the 2016 and 2020 studies and new entrants to the market. This means we can be sure that any changes shown by such figures are not a result of differences in coverage of providers between the two waves.

1.3.4 Data collection with unbundled trust-based schemes

In the 2016 Pension Charges Survey we conducted quantitative research with trustees of unbundled trust-based DC schemes or with another scheme representative, such as the Pensions Manager, if this was preferred by the scheme in question. Unbundled schemes represent a relatively small proportion of the DC schemes in the UK, although they can be very large. As a result, the most appropriate approach to collecting these schemes' charges was via quantitative telephone interviews, designed to provide comparable data to the provider interviews. The interviews were conducted by Critical Research.

A similar approach has been adopted for the 2020 survey, with the difference that only trustees of qualifying schemes were included in the survey. Given the very limited population, particular screening effort was placed upon this group, with a view to achieving as many interviews as possible. However, due to a significant number of employers in the sample temporarily closed, working from home and hence uncontactable or with key staff members furloughed it proved impossible to achieve the desired 100 interviews.

A total of 35 qualifying unbundled schemes were eventually interviewed as part of the research, of whom 32 provided sufficiently complete data to include in the analysis. Because the data includes a small number of unbundled schemes with very large numbers of members, the unbundled data is reported on an unweighted basis. We did not in any case set quotas or stratify the sample (e.g. by open, closed and frozen schemes). Other sample characteristics fell out naturally.

1.3.5 Follow-up interviews with providers and trustees

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

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

The aim was to finalise our understanding of their completed template and the impact of the charges measures on their business and the industry, examining to what extent their charging approach has changed since 2016, including views on any wider impacts of the charges measures.

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

1.4 Charges covered by the research

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

Similarly we asked trustees as part of the questionnaire that appears in Appendix B.3 of this report, to report on their own scheme's charges.

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

Ongoing charge

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

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

- Fund-based charges levied as a percentage of the funds under management. This is frequently referred to as the annual management charge or total expense ratio by providers, although the range of charges which are capped for members of the default fund are broader than both of these
- Contribution-based charges levied as a percentage of contributions (see below)
- Flat fees paid by members irrespective of contributions or funds under management (see below)

In previous waves of the research two further categories of charges, now banned, were also included in the ongoing charge:

- AMDs, which were given to members who are currently paying into a scheme
- Consultancy charges and commission

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

Contribution-based charges

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

- Those used in combination charging structures for qualifying master trusts where the ongoing charge was split into a fund-based charge, plus a contribution charge (see Section 3.3)
- A very small number of cases where initial commission was levied by an intermediary and the cost was passed onto members via a contribution charge. In the current wave we found no examples of this second category of charge

We have converted all contribution-based charges into an equivalent fund-based charge and included them as part of the ongoing charge. The conversion tables published in DWP (2014), Better workplace pensions: Further measures for savers, were used for this purpose.

Flat fees

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

- Those used in combination charging structures, where the ongoing charge was split into a fund-based charge, plus a flat fee (see Section 3.3). Typically expressed as a fee per month, these have become more common since the 2016 wave.
- A very small number of older schemes that levied a fixed annual policy fee, in addition to the ongoing charge. In the current wave we found one provider levying this type of charge in relation to a non-qualifying scheme

We have converted these fees into an equivalent fund-based charge. Again, the conversion tables published in DWP (2014), Better workplace pensions: Further measures for savers, were used for this purpose.

Consultancy charge

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

These charges were banned by the cap and not included in the 2020 template, however no provider reported charging anything approximating to them in the ‘Other charges’ section of the template. In the few cases in the 2015 and 2016 research where they were identified, they were included as part of the ongoing charge.

Active Member Discounts (AMDs)

A charging model whereby active members of a pension scheme pay a lower ongoing charge than deferred members.

Since April 2016 these have been banned in qualifying DC workplace pension schemes. As a result these charges were not included in the 2020 template and no provider reported charging anything approximating to them in the 'Other charges' section of the template.

Trail commission

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

In 2016, while virtually eliminated from qualifying schemes, trail commission still persisted in some non-qualifying schemes. It has further declined and in 2020 only two providers reported paying trail commission, neither of whom passed it onto their members.

Fund Manager Expense Charges (FMECs)

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

They are usually levied when a member actively chooses a fund that requires more active management, with a view to achieving higher returns, and not to members in default arrangements. In these cases the charge cap does not apply.

In cases where FMECs do apply to members invested in a default arrangement, the charge cap applies, although this research did not distinguish between FMECs paid by each of these two groups of member (see Section 4.1).

Transaction costs for fund entry

Transaction costs for fund entry are incurred when a member's new contributions are used to purchase the underlying assets of a particular fund.

Transaction costs are associated with buying additional underlying assets or selling excess underlying assets, which can mean that the asset value of funds purchased can be lower than the total amount paid. The effective reduction is expressed as a percentage of each member contribution. Cash and liquidity funds where transaction activity is very low may record a zero transaction cost.

A negative transaction cost indicates that transactions have resulted in net revenue rather than a net cost for the fund. This can happen if a stock is taking a number of hours to sell and the price has risen in the time between placing the order and execution. If a stock being purchased falls between the order and execution the result will be the same. If this happens to enough transactions, or to a large enough transaction, then an overall negative transaction cost is reported.

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

Transaction costs for remaining invested (also known as portfolio transaction costs or PTCs).

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

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

Fees paid by employers

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

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

2 Experiences of providers in reporting charges

The focus of this chapter is the range of experiences of different providers as they completed the data template. Alongside this we also consider the experiences of trustees of unbundled schemes.

We gave the same data template to all of the providers who participated in the study and participation in previous data collection did not impact significantly upon the total time it took providers to complete data collection. The total time taken by providers to complete the template varied greatly from 90 minutes to ten working days.

This chapter will explore the reasons behind these variations and to what extent they impacted on providers' ability to provide the data. In Section 2.1, we will look at the experience of those providers who found it easy to complete the data template, and why this was. In Sections 2.2 and 2.3 we will then contrast these providers with those providers who had minor, and major difficulties compiling the data. Section 2.4 summarises the specific charge elements that were more or less easy to collect and Section 2.5 examines the experiences amongst trustees of unbundled schemes.

The Breaking Blue research team worked closely with the providers throughout the data collection process to ensure that the burden of participation was manageable and not too onerous. Generally the cost of providing the data was felt to be proportionate to the importance of the information being requested.

> 'All the data is readily available for us. Obviously there is a cost for someone sitting at their desk or at home running a report but it is just the cost of doing business isn't it? There is no real cost to us doing it.'
>
> Provider
>
> 'You are doing this on behalf of the DWP so that is important work. Is there a cost involved? There is always the cost of people's time. But if you wanted it every year then so be it and that would be fine.'
>
> Provider

2.1 Providers who found completing the data template relatively easy

Of the 20 providers who participated in this research and completed the template, six found completing the data template considerably more straightforward than the others. All six were qualifying master trusts, mostly large ones with considerable internal staff resources.

Generally providers in this group were the first to complete the data template, typically returning their template with most or all of the data completed within a month. Some estimated that it had taken them as little as one or two hours to complete the template, and just one or two people tended to be responsible for completing the data.

> ‘It is not difficult to complete at all, and it doesn't actually take that long. It is just the time it takes to get the data signed off within our organisation.’
>
> Provider

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

- They tended to offer only one (or occasionally two) types of scheme, which greatly simplified and reduced the data they had to provide
- The IT systems that support the provider’s schemes are relatively modern and efficient
- They have not gone through the process of merging their business with another organisation, a process which often results in multiple IT systems and multiple charging structures
- They receive regular reporting in similar format from their fund managers

This meant the data needed to complete the tended to be stored in a common and accessible format.

> ‘We collect a lot of this data anyway for our quarterly reports. Looking at things like the spreads on the funds or the transaction costs or which members are invested where and things like that, that is all information that I had to hand already. It was mainly just a case of going through our already compiled reports and pulling out the relevant information.’
>
> Provider

These providers only raised a small number of queries with us regarding how to complete the template and there were few omissions in the data returned.

2.2 Providers who had minor difficulties completing the data template

About ten providers experienced minor difficulties. Six were ‘traditional’ pension providers, and four were set up in response to the introduction of automatic enrolment. These providers tended to have a few minor queries about our requirements, or anomalies they wanted to discuss but no fundamental issues.

Despite the complexity of different charges and schemes in some cases, even the ‘traditional’ providers found it relatively easy to extract the data. However, they sometimes struggled with manipulating data into the format required by the template.

‘There is obviously a lot of data to provide, but it wasn’t anything that we didn't have. It was just a case of figuring out the best way to get that from our internal systems and things. We do have a lot of employers and different schemes within the main scheme. We could get the reports that we needed. It took a little bit of thinking about to make sure I got the right results for you but we managed in the end.’

Provider

For these providers, the time it took to put the data together was typically a few days and they returned the template after around six weeks.

‘Probably a couple of weeks all told. It was not someone spending their whole two weeks on it, but just working out what was needed, who needed to provide that and then running the correct reports and checking through it and that sort of thing. It was bits and bobs of time over about a two week period.’

Provider

For this group, a few had minor omissions in the data returned. For example, some found it difficult to provide detailed information on transaction costs. The types of data that they were not able to provide in full are discussed in more detail in Section 2.4.

‘We can receive transaction costs from our fund managers on a quarterly basis. It can be quite a time [consuming] process because there is a lot of data points for the fund manager to collate and send to us and then we have got to do our governance checks of it and for our fund of funds blends there is a bit of calculations involved too. So that can take about a three month turnaround.’

Provider

2.3 Providers who had major difficulties completing the data template

There were fewer providers that had major difficulties completing the data template than in 2016, in both absolute terms and as a proportion of the total number of providers. Only four of the 20 providers who participated in this study found it particularly difficult to provide the data requested compared to six out of 14 in 2016.

These providers tended to need more team members and or departments involved in gathering the data. One provider needed to complete three templates due to the complexity of their charging structures and a second had to attach a number of additional worksheets to the template.

It took this group longer to complete and return the template, between four to eight weeks, and they all requested an extension. In addition, four providers declined to take part having originally agreed in principle and one provider was only able to complete the template with partial data.

Those who declined were either newer, smaller, master trusts unable to participate due to resource constraints due to other projects, or were unable to obtain the information necessary to complete the template within the project schedule.

> 'I thought that our administrator could source a lot of this information, I chased them, but they never got the chance to do it. So we couldn't participate.'
>
> Provider (non-participating)

> 'Within our master trust there are two sections. All the information in here covers the first section of the scheme but it doesn't include the data for the second section of the scheme purely because I haven't got the transaction cost data that you need. I have literally just submitted it based on the first section of the scheme which is about two thirds of the assets but probably 80 per cent of the members. So it is the lion's share of the members.'
>
> Provider

The providers in this group had issues that fell into the following categories:

- Data was stored on multiple IT systems, which added to collation work as each provider needed to merge different datasets before returning the template. Added pressure came from dealing with different colleagues in different departments responsible for each system

  > 'I have got to make sure that it is exactly what I am required to have and then try and break that down into the individual questions… It was obtaining the data from elsewhere, from other teams.'
  >
  > Provider

- Manually formatting data where it wasn't held in the right categories for the template was time consuming

  > 'It was okay apart from the decumulation separation, but that is only because the [Management Information] reports that we have that show charges, don't separate them out. So if we had to change it there would have been an Information Technology project required for that so that is really the only reason why we weren't able to separate it out. But everything else we were able to find through our existing reports. There was a bit of manual work required to interrogate some of the raw data but in general we were able to complete most of the stuff you asked for.'
  >
  > Provider

- Data was held by outsourced providers (especially fund managers), some of whom were simultaneously completing templates on their own behalf

  > 'Some of the data that is requested is not readily available to ourselves. It is something that we don't either receive as a rule from the investment managers or whatever or it is not part of our usual trustee information along those lines really.'
  >
  > Provider

- Providers found exit and entry charges difficult to provide data on, as many did not hold information on single swing and daily pricing

  ‘This is the bit where we rely heavily on the fund managers to provide this data. We don’t actually invest the money. We are in charge of the whole wrapper. We pull everybody together to make sure it all works. We actually farm the investment management side out to different fund managers’

  Provider

2.4 Items that were most difficult for providers to compile

There were certain types of data that some or all providers found more difficult to compile. The barriers to compiling these types of data were discussed during the in-depth interview.

The data items that providers found difficult to collate related to:

- A small number of providers could only provide data for ongoing charges at fund level or found it difficult to break down the ongoing charges data by employer size
- Transaction costs, when funds are managed externally
- Decumulation, as charges are not often separated from accumulation data

2.4.1 Providing data for ongoing charges, contribution and flat rate charges and other scheme level fees

Providers were typically able to complete this data, and broke it down across scheme type and size categories successfully.

A small number of providers could only provide data at fund level. In this scenario charges can incorrectly appear to exceed the cap since it is possible for a member to have one fund whose charges exceed the cap and a second well below the cap, leading to an overall charge within the cap. In this case, after confirming with the providers that all members were within the cap, we modelled a charge per member based on the number of funds held per member and averaging the fund level charges. Data on around five million members was affected by this issue.

Some providers found it difficult to break down the ongoing charges data by employer size as they did not hold this information in a format that was readily available to them. These providers therefore either took more time to complete this section or did not provide charge at the level of scheme size.

‘We tend to work at scheme level so it is working that back to work that at an employer level. It is identifying the quartiles, the qualifying and non-qualifying and the contract and trust categories but then also being able to then say “Of those within there, at an employer level, how many have we got?” [This] was quite a complicated process. Obviously we do have some employers that may have schemes that fit into multiple categories as well’

Provider

2.4.2 Providing data on fund management and transaction costs

Providers found it easier to provide data on fund management and transaction costs this time in comparison to 2016 and all providers were able to provide costs on Fund Manager Expenses Charges (FMECs). However, many providers still found it difficult to provide data on transaction costs, especially for fund entry.

In addition, three of the providers were unable to supply information on the value of funds invested and therefore they have not been included in any calculations of the weighted average charges across all providers.

Table 2.1 Data provided on fund manager expense charges and transaction costs, across 20 providers in the study

	FMECs	Transaction costs for fund entry	Transaction costs for remaining invested
Number of providers with complete data	20	6	12
Number of providers with partial data	Nil	4	7
Number of providers with no data	Nil	10	1

Some providers pointed out that when funds were managed externally and providers did not hold the data themselves, fund managers could not be made to provide the data. Other more specific issues such as complexity of reporting fund-of-funds data and the treatment of negative transaction costs are discussed in Chapter 4.

2.4.3 Providing data on decumulation

A number of providers reported that decumulation data was the hardest section of data to provide. This was partly due to the fact that decumulation charges are typically not separated out in internal reports since members remaining invested usually pay the same charges as for accumulation.

> ‘The decumulation side of things is different again. I think a lot of the decumulation was done manually. We had to trawl through the various schemes to get that.’
>
> Provider

We also found that a smaller number of providers had started offering decumulation in the last nine months, but were unable to provide data because no members had taken out the product yet.

> ‘We only started offering that in November last year. And at the end of March 2020, no members of this section had taken advantage of it because it was newly launched.’
>
> Provider

2.5 The experiences of qualifying unbundled schemes

As in previous years, qualifying unbundled schemes found providing charges data relatively easy compared to providers. This was in large part due to the fact that they were only required to provide data on one scheme.

2.5.1 Provision of data on the ongoing charge for qualifying unbundled schemes

Of those qualifying unbundled schemes who reported that fees had been charged to members in the last 12 months, 70 percent of schemes, who accounted for 72 per cent of all members, were able to provide the average ongoing charge paid by the members of their scheme.

Many were able to access this figure quickly through referring to their scheme’s statutory annual report or members’ value for money review documentation.

In most cases, this figure was ultimately provided to the trustees of qualifying unbundled schemes by their scheme administrator for the purpose of fulfilling their statutory reporting requirements.

> ‘We measure this regularly. It was very easy to provide. We accesses the information from the scheme administrator who sends a report every quarter.’
>
> Qualifying unbundled scheme

2.5.2 Provision of data on transaction costs

In previous years, representatives of many qualifying unbundled schemes had struggled to report an estimated transaction cost for members, with only 39 per cent able to do so in 2016. In 2020, this figure rose to 67 per cent of schemes accounting for 49 per cent of all members.

Representatives of these schemes informed us that reporting transaction costs had become significantly easier since the introduction of statutory transaction cost reporting in April 2018.

> We started measuring transaction costs when it became a legal requirement. We didn't do before that, it was forced upon us. It was really difficult first time because the industry wasn't prepared, our provider struggled to present the information to us. Now we’ve got a process in place that makes it easier for the provider to get information.
>
> Qualifying unbundled scheme

3 Member-borne charges within the cap

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

This chapter focuses on the charges that fall within the government's annual charge cap for qualifying schemes, including reference to those, such as consultancy charges and commission fees, that are now prohibited for qualifying schemes:

- Section 3.1 provides an overview of the scope of the data captured regarding member-borne charges that fall within the charge cap
- Section 3.2 focuses on the total ongoing charge, how it varies between members of different schemes, and how this has changed since data was last collected in 2016
- Section 3.3 describes how combination charging structures are used by some providers
- Section 3.4 examines the use of the following restricted charges: consultancy charges, initial commission and trail commission
- Section 3.5 examines the use of illiquid assets in default funds
- Section 3.6 examines the use of bundled life insurance

3.1 Completeness of data for member-borne charges within the cap

In 2020, all providers involved in the research were able to provide data for each of their DC workplace schemes open to new members in regard to charges measured within the cap.

The 20 providers of bundled schemes included in this study provided information on the level of ongoing charges incurred by 29.3 million pension pots across 1.2 million employers. Twenty-three representatives of qualifying unbundled schemes interviewed were able to provide these details covering a total of 310,000 pension pots. Therefore the total number of pension pots for which charges information is known is 29.6 million.

Comparison of the number of schemes and pension pots with government data on the total number of firms and employees leads us to conclude that the data collected represents a robust snapshot of the charges paid by members in late spring/early summer 2020.

3.2 Ongoing charges

The ongoing charge is levied by the provider in relation to administering the scheme, and is expressed as a percentage of funds under management per year (a fund-based charge). The figure we report includes any contribution charges or flat fees levied on the members, although these are also discussed separately in later sections of this chapter.

In 2020, the average ongoing charge levied was 0.48% for all bundled schemes with providers and 0.49% for qualifying unbundled schemes. For qualifying schemes with providers this figure was 0.48% and for non-qualifying schemes it was 0.53%.

3.2.1 The primary drivers of the ongoing charge

In 2015, and again in 2016, three primary factors were identified as driving the level of ongoing charge paid by members:

- **Qualifying status:** whether a scheme was qualifying (i.e. used for automatic enrolment and subject to the charge cap measures) or not. Members of qualifying schemes paid considerably less
- **Number of members within the scheme:** within each scheme type, charges were lowest for the schemes with the greatest number of members and highest for the schemes with the fewest members
- **Scheme type:** members of trust-based schemes faced lower charges on average than members of contract-based schemes

In 2020, these factors have continued to drive differences in ongoing charge levels between members. However, the relative impact of each has changed notably, and the impact of qualifying status in particular has declined.

In previous years, a higher level of ongoing charge was found among non-qualifying schemes, which was attributed to them typically being older and sold in a less regulated and less competitive environment than qualifying schemes. However, in 2020, this difference was much less evident. This improvement may be due to increased competition brought about by the charge cap and a shift in the profile of non-qualifying schemes (discussed in more depth in Section 3.2.3).

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

	Qualifying bundled schemes (mean ongoing charge)	**Non-qualifying bundled schemes (mean ongoing charge)**
2015	0.49%	0.79%
2016	0.50%	0.84%
2020	0.48%	0.53%

In 2015 and 2016 larger schemes received lower fees because, firstly, employer costs for entry tend to be fixed, making larger schemes more economic per member and, secondly, having larger total funds often allowed larger schemes to apply a lower ongoing charge.

Table 3.2 shows the results from the 2020 research:

- The average ongoing charge was lower among larger qualifying contract-based schemes, as well as for larger non-qualifying contract-based, master trust and trust-based schemes
- The available base sizes for smaller qualifying trust-based schemes and for qualifying unbundled schemes prevents a comparison of average ongoing charge across scheme size
- While the very largest qualifying master trusts of over 1,000 members imposed a lower average ongoing charge than smaller qualifying master trusts, there was little variation in the average ongoing charge among qualifying master trusts smaller than 1,000 members. This is consistent with the findings in 2016 and is attributed to the fact that schemes cover multiple employers and, as such, the size of any individual employer has a much lower impact on the cost of running the scheme

Table 3.2 also illustrates the differences between the detailed scheme types and the number of members in the scheme. Members of trust-based schemes continued to have lower charges on average than members of contract-based schemes, although the differential was smaller for qualifying schemes than non-qualifying schemes.

Only the average ongoing charge for non-qualifying contract-based schemes stood out as notably higher than their qualifying equivalents. Non-qualifying trust-based schemes reported similar levels of ongoing charge to qualifying trust-based schemes, and non-qualifying master trusts reported a lower average charge than their qualifying equivalents.

Table 3.2 Average ongoing charge (as a percentage of funds under management) paid by members of each scheme type, by detailed scheme type. Data for employee bands representing fewer than 5,000 pension pots not shown

Number of members within the scheme	Qualifying schemes (mean ongoing charge)				Non-qualifying schemes (mean ongoing charge)		
	Contract -based	**Master trust**	**Trust-based**	**Unbundled Trust Based**	**Contract -based**	**Master trust**	**Trust-based**
Total	**0.50**	**0.48**	**0.29**	**0.49**	**0.61**	**0.31**	**0.31**
1-5	0.60	0.51	-	-	0.85	-	-
6-11	0.62	0.53	-	-	0.82	-	-
12-99	0.62	0.51	-	-	0.76	0.41	0.69
100-999	0.54	0.50	0.38	-	0.57	0.28	0.49
1,000+	0.41	0.40	0.28	-	0.58	0.30	0.22

3.2.2 Change in the ongoing charge over time amongst bundled schemes

The size and profile of the DC industry has changed substantially since 2016, and with it so has the profile of our provider survey sample (full details are shown in Appendix C). This makes direct comparison of individual numbers in this 2020 research to those in the 2016 wave misleading.

To address this, where we do report specific changes to charge levels between 2016 and 2020, this is based solely upon those providers that participated in the research in both 2016 and 2020 (including participants in the 2016 study who disposed of their DC pension books to another provider who participated in both the 2016 and 2020 studies), as well new entrants to the market since 2016. These are referred to as 'like-for-like' changes. This adjustment ensures that our reporting reflects changes in the market itself rather than merely differences in the coverage of providers between the two waves.

As a whole, the market saw a modest 0.06 percentage point like-for-like decrease in charges across all scheme types between 2016 and 2020. However, this trend differed markedly according to qualifying status and size of scheme.

The overall average charge for qualifying schemes barely changed, up 0.01 percentage points on a like-for-like basis. However, this conceals significant reductions amongst members in the schemes with fewest members (those with 11 or fewer members).

The apparent paradox of significant reductions in the smaller schemes' charges not producing an equivalent reduction on the overall average can be explained by changes in the mix of members between different scheme sizes since 2016.

As discussed above, members of small schemes tend to pay more and small schemes have become a considerably greater proportion of the total since 2016.

On a like-for-like basis, non-qualifying schemes saw a substantial 0.20 percentage point decrease in average ongoing charge between 2016 and 2020. All non-qualifying scheme sizes benefited, but the reductions were slightly greater among members of larger schemes.

The overall average for non-qualifying schemes is affected by the reverse trend to that seen amongst qualifying schemes. Non-qualifying schemes are increasingly a large-employer only product (73 per cent of members are in schemes with over 1,000 employees, up from 57 per cent in 2016). As a result, the 0.20 percentage point decrease in the average is greater than the decreases in four of the five scheme size bands.

Table 3.3 Like-for-like change in the average ongoing charge 2016 to 2020, by scheme type

Number of members within the scheme	Qualifying bundled schemes (change in mean ongoing charge)	Non-qualifying bundled schemes (change in mean ongoing charge)	All bundled schemes (change in mean ongoing charge)
Total	**+0.01pts**	**-0.20pts**	**-0.06pts**
1-5	-0.14pts	-0.09pts	-0.34pts
6-11	-0.10pts	-0.10pts	-0.28pts
12-99	-0.06pts	-0.12pts	-0.14pts
100-999	+0.01pts	-0.16pts	-0.02pts
1,000+	-0.02pts	-0.23pts	-0.09pts
Percentage of members within cap	+1pts	+60pts	+16pts

Table 3.4 breaks these results down to detailed scheme types and the number of members within the scheme. For both qualifying contract based schemes and qualifying master trusts, the reductions in charges were concentrated in schemes with fewer members. Non-qualifying schemes show more variation in how charge reductions were distributed across differing bands of scheme size and no clear trend is apparent at detailed scheme level.

Table 3.4 Like-for-like change in the average ongoing charge 2016 to 2020, by detailed scheme type. Data for employee bands representing fewer than 5,000 pension pots not shown

Number of members within the scheme	Qualifying bundled schemes (change in mean ongoing charge)			Non-qualifying bundled schemes (change in mean ongoing charge)		
	Contract-based	**Master trust**	**Trust-based**	**Contract-based**	**Master trust**	**Trust-based**
Total	**(No change)**	**+0.02pts**	**-0.05pts**	**-0.20pts**	**-0.20pts**	**-0.18pts**
1-5	-0.05pts	-0.10pts	-	-0.09pts	-	-
6-11	-0.02pts	-0.07pts	-	-0.10pts	-	-
12-99	+0.01pts	+0.04pts	-	-0.11pts	-	-0.15pts
100-999	+0.01pts	+0.02pts	-0.03pts	-0.15pts	-0.38pts	-0.09pts
1,000+	-0.01pts	-0.02pts	-0.04pts	-0.23pts	+0.08pts	-0.18pts
Percentage of members within cap	+2pts	(No change)	+1pts	+65pts	+33pts	+22pts

3.2.3 Percentage of members within the charge cap

One hundred per cent of members of qualifying bundled schemes received ongoing charges that fell below the charge cap, a rise from 99 per cent of members in 2016. This reflects the phasing out of the handful of legacy qualifying contract- and trust-based schemes that became inactive before 5 April 2015 and were, therefore, not subject to the cap. For details, see the explanatory memorandum to the Occupational Pension Schemes (Charges and Governance) Regulations 2015, Section 7.18.

While not covered by the charge cap, non-qualifying bundled schemes saw a substantial (60 percentage points) like-for-like increase in the proportion of members whose ongoing charges fell within the cap. The vast majority (88 per cent) of members of non-qualifying schemes were now paying charges below the cap.

While there is no specific member-level data on qualifying unbundled schemes' compliance with the charge cap, all of these schemes reported an average ongoing charge that complied with the cap.

3.2.4 The distribution of different charging levels across members

Table 3.5 shows the proportion of members paying different levels of ongoing charge, across each of the bundled scheme types.

All members of qualifying schemes had ongoing charges that fell below the charge cap of 0.75% and the bulk of members of qualifying schemes are subject to fees some distance below the charge cap limit, with 83 per cent subject to fees of 0.5% or less. Amongst qualifying schemes, contract-based schemes were the only scheme type where more than one in ten members experienced charges above 0.5%, with 47 per cent falling between 0.5% and the 0.75% cap.

With the overall reduction in ongoing charges for members of non-qualifying schemes since 2016, the proportion of members above the 0.75% charge cap has decreased substantially. No member of a non-qualifying scheme was found to have an ongoing charge in excess of one per cent in 2020.

Trust-based products had the most favourable distribution of charges; 55 per cent of members of qualifying trust-based schemes and 65 per cent of non-qualifying trust-based schemes paid 0.25% or less. Charges for non-qualifying master trusts were also low, with 45 per cent of members paying 0.25% or less.

Table 3.5 Percentage of members of each scheme type that paid each level of charge (percentage of funds under management) by detailed scheme type

Charge level	Qualifying bundled schemes (column percentages)			Non-qualifying bundled schemes (column percentages)		
	Contract-based	**Master trust**	**Trust-based**	**Contract-based**	**Master trust**	**Trust-based**
>1.25%	-	-	-	-	-	-
>1.01% - 1.25%	-	-	-	-	-	-
>0.76% - 1.0%	-	-	-	13	4	10
>0.51% - 0.75%	47	6	5	66	1	9
>0.26% - 0.5%	44	87	40	13	49	16
0% - 0.25%	9	7	55	7	45	65
Average charge	**0.50%**	**0.48%**	**0.29%**	**0.61%**	**0.31%**	**0.31%**

3.2.5 Understanding the trends in average ongoing charge levels

In Section 3.2.2, we noted that across the market as a whole average ongoing charges had dropped by 0.06 percentage points since 2016 on a like-for-like basis.

There are three primary drivers behind this reduction:

- **Migration of members from non-qualifying to qualifying schemes:** A number of providers have transferred members out of non-qualifying schemes and into qualifying schemes with lower ongoing charges or, alternatively, changed some non-qualifying schemes into cheaper qualifying schemes
- **Charges have reduced for those remaining in non-qualifying schemes:** Charges for non-qualifying schemes have dropped substantially for each category of non-qualifying scheme. This is likely to have been in part driven by greater competition from qualifying schemes. However, the migration of members from non-qualifying to qualifying schemes (noted above) has also reoriented the profile of non-qualifying schemes towards the largest employers with the most competitive charge arrangements
- **On-boarding of members through automatic enrolment:** The influx of new members to qualifying master trusts with competitive charging structures has reduced the average industry ongoing charge, since the average charge for qualifying master trusts is below the previous overall market average

3.3 Combination charging structures in qualifying schemes

While providers that made use of combination charging structures were still in the minority, their attractiveness to some master trusts has made them more common.

In 2016, one provider was using a combined contribution and fund-based charge and another was combining a fund-based charge with a member-borne flat fee. In 2020, this increased to two providers and four providers, respectively.

In order to make a meaningful comparison between these combination charges and the majority of other providers whose ongoing charges were solely fund-based, all contribution charges and member-borne flat fees have been converted into a fund-based charge equivalent using conversion tables provided by DWP. The conversion tables published in Department for Work and Pensions (2014), *Better workplace pensions: Further measures for savers*, were used for this purpose.

3.3.1 Contribution charges

Two master trust providers used a combined charging structure that mixed a set contribution charge with a fund-based ongoing charge. When combined, these equate to a single ongoing charge of 0.48% to 0.5% (depending on assumptions made about the ratio of contributions to total pot size).

3.3.2 Flat fees

Four of the twenty surveyed providers levied a monthly flat fee against members in conjunction with a fund-based ongoing charge; three for master trusts and one for contract-based schemes. Of these four providers, two applied a flat fee to all members. One provider used a flat fee to cover the policy fees attached to a relatively small number of members' pots. The final provider offered provided members from one employer a reduced fund-based charge offset by a monthly flat fee.

Average charges ranged from £13 to £20 per annum, with the highest maximum flat fee levied at £36 per annum. These equate to an additional ongoing charge of 0.14% to 0.22% per annum.

Including flat fee charges within the ongoing charge was stated to have clear benefits to providers. Firstly, providers were able to offset the short-term risk that new schemes pose before they begin to grow. Secondly, flat fees allowed providers to manage small pots in a way that is economical for them.

> 'The other thing about a flat fee is that it protects you a little bit… When your asset size goes down and your income size goes down accordingly, that can actually leave some providers in a very vulnerable commercial position.'
>
> Provider

These providers also saw flat fees as offering a more productive long-term investment for members,

> '… longer term, [flat fees] can really be in the members' interests. Flat fee charges have a bit of a bad press and for quite correct reasons they do. However, are you looking at stuff on a year by year basis or are you looking at it over a lifetime of saving? If you are looking at it from a lifetime of saving perspective then ultimately everyone should be on a flat fee.'
>
> Provider

3.4 Legacy charges

Three categories of charge are now banned for DC workplace pensions. They include consultancy charges, initial commission and trail commission, together with Active Member Discounts (AMDs).

3.4.1 Active Member Discounts

Under this charging model, active members of that scheme paid a lower ongoing charge than deferred members. Since April 2016 these have been banned in qualifying DC workplace pension schemes.

By April 2016 only one provider still used AMDs, for non-qualifying contract-based schemes only, and affecting around 1,000 members – a number that was said to be diminishing. No provider reported using them in the 2020 research.

3.4.2 Consultancy charges and initial commission

The FCA rules introduced in April 2015 banned consultancy charges in qualifying DC contract-based pension schemes. This was later applied by DWP to ensure that the consultancy fees were prohibited for new member-borne commission arrangements in trust-based schemes used for automatic enrolment from April 2016.

In 2016 only one provider passed on initial commission to members, down from three providers in 2015: this was levied on non-qualifying contract based schemes only. One provider still used consultancy charges, for non-qualifying contract-based schemes only.

In 2020, no providers reported any members subject to consultancy charges or initial commission in qualifying or non-qualifying schemes.

3.4.3 Trail commission

In 2016, while virtually eliminated from qualifying schemes, trail commission still persisted in some non-qualifying schemes. It has further declined and in 2020 only two providers reported paying trail commission. Neither identified the number of schemes affected or their type.

Providers were still paying commission in 2020 for contractual reasons, and therefore had to absorb the cost on qualifying schemes, since it can no longer be passed onto members.

> ‘Those charges were all removed. So whilst we are still paying trail commission – and I can't tell you on how many – we are still paying trail commission on some cases but the member is not bearing those costs.’
>
> Provider

3.5 Illiquid investments

For this study, illiquid investments were defined as assets that are traded off-exchange or are otherwise less readily tradeable than cash, shares or money market funds. Examples of such investments include direct property investment, investment in infrastructure projects, private equity, equity or debt issued by very small listed firms, and venture capital.

Data on the use of illiquid assets was collected through the qualitative interviews. As such, we have approximate data on how many providers make use of illiquid investments in their default schemes, along with their view of the benefits and barriers to doing so, but we have little detail on the size of these investments and none on the number of members with investments in illiquid assets.

Approximately two of thirds of providers reported that they had no direct investment in illiquids in their default fund(s). About a third had a small proportion, typically between 1.5-7.0 per cent. Property formed the bulk of illiquid investments by providers, with fewer investing in infrastructure, private equity and debt.

The central benefit of investing in illiquid funds was said to be the potential for better performance through diversification, if the funds are available for it not to pose a concentration risk.

> ‘Property in particular is a really good diversifier. I think if you are not able to invest in certain types of asset then I think it reduces your diversification and the potential for return.’
>
> Provider

Among those providers with no investment in illiquid assets, there were mixed levels of enthusiasm for including them in portfolios. While a very small number were actively pursuing plans to start investing in illiquids, most who did not already offer this type of investment felt it was too costly and/or risky within the constraints of a default fund of a qualifying DC scheme.

The main barrier to investment, or further investment, in illiquids was perceived to be cost. Illiquid investments were seen to attract higher fund management charges and, while they could offer better potential performance in the long run, providers saw them as uncompetitive in a market focussed on charges.

> ‘Illiquid assets are typically a lot more expensive and what we are trying to offer and what we have demand from our market is a very cost-efficient, low cost solution. So the high cost of an illiquid, even if you use it as a ten per cent or 15 per cent holding, it will inflate the cost of the strategy quite dramatically. So that is probably the big factor we have got going here for illiquids.’
>
> Provider

Coupled with higher costs for illiquid investments, the unpredictability of fund management charges and performance fees in regard to illiquids made providers nervous about their potential to exceed the charge cap.

> ‘Some things have performance fees as well. With performance fees you can't necessarily know whether you are going to be within the charge cap until those fees have been charged because they are always a bit backward looking.’
>
> Provider

> ‘The price cap is very sensitive to the underlying fund management charges. So the higher the fund management charges, the more fees the investment managers charge and the less fees that we have available to pay all of the service providers. Although you might want to invest in different asset classes, sometimes you just can't because by doing that it means you haven't got sufficient funds to pay all the service providers that you need to.’
>
> Provider

Other negative characteristics were seen as inherent within the nature of illiquid investments making them potentially less suitable for DC schemes. For example, the nature of illiquids was seen to be that they were more difficult to access than liquid funds.

This lack of flexibility could be an issue for some DC schemes, for whom daily liquidity and switching would be required in order to meet the needs of the individual members.

> ‘They were very popular in DB [defined benefit] schemes, but the money is just stuck with a DB scheme with the employer. It is not down to the individual. So that is where the DC [defined contribution] market is a bit more challenging. There are a lot more moving parts. On the DC, the individual makes the decisions. Also, we have got the Pension Freedoms factor. So people can take their money out as soon as they are 55 and that then creates issues if you have illiquids in your default fund because 90 per cent plus are in default funds in the workplace market.’
>
> Provider
>
> ‘I think the main reason for that is the daily liquidity and the daily switching requirements that we have in the DC world. So daily pricing, daily switching. If somebody wants to move from one fund or one product to another, you have got to do it straight away.’
>
> Provider

Providers also described illiquid assets as carrying an inherent risk to both providers and members through creating a concentration of assets. This was a particular concern for smaller master trust providers, for whom a meaningful investment in illiquids would likely constitute a substantial part of their total portfolio.

> ‘We think for a lot of illiquid assets we are not quite at the right size yet… if you bought something for less than £150 million then that is already ten per cent of the portfolio, so say £15 million would be one per cent of the portfolio. So your diversification and your concentration risk is going to be quite high.’
>
> Provider
>
> ‘If you think about it from a members’ perspective, they are higher risk because they are not as diverse. It is quite a concentrated asset class so potentially more higher risk to members.’
>
> Provider

A small number of qualifying unbundled schemes raised similar points about the benefits and drawbacks of illiquid assets.

3.6 Bundled life insurance

Bundled life insurance was not commonly offered by either providers offering bundled schemes (four out of 20) or qualifying unbundled schemes (10 out of 33).

Of the four providers offering bundled life insurance, only one passed the full cost of this on to individual members. Two providers offered bundled life insurance that was paid for in full by employers and the remaining provider had a number of legacy arrangements with employers in which the cost was split between them and the members themselves.

> ‘Life insurance cover ceased to be available on new schemes almost 20 years ago. Consequently only a few hundred customers out of the 1.4m in scope have life insurance. In some cases the cover is paid for by the employer in other cases by the member. The charge for life cover is taken monthly and is based on the member's age and sum assured at risk.’
>
> Provider

While bundled life insurance was a little more common among qualifying unbundled schemes, in all cases the full cost of the service was covered by the employer.

> ‘The only charges borne by members are the investment fund charges, the employers pay expense contributions of an annual subscription and a monthly charge for each active member.’
>
> Unbundled scheme

4 Other member- and employer-borne charges

This chapter describes the prevalence and level of charges that are excluded from the annual charge cap introduced in April 2015.

In Section 4.1, we examine Fund Manager Expense Charges (FMECs): charges associated with specific investment funds that members of those funds typically paid, over and above the ongoing charge, to cover expenses incurred by the fund manager.

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

Section 4.3 then explores fees paid by employers to providers, and finally, Section 4.4 looks at fees paid by employers using unbundled trust-based schemes for the services they used.

4.1 Fund Manager Expense Charges

For the purposes of this research, FMECs are charges paid by a member who invests in a particular fund, over and above the ongoing charge, to cover additional expenses incurred by the fund manager.

> 'Those underlying funds will incur those additional fund manager expenses just through the operation of those funds. So those funds for example will have auditors. They will have other fees and expenses.'
>
> Provider

Not all funds have additional FMECs associated with them: they normally apply to funds that require more active management, which are typically self-selected arrangements that are not used in default strategies. Since the charge cap does not apply to funds that have been actively chosen by members this places them outside the scope of the charge cap.

However, on rare occasions, FMECs can also apply to funds that are included in default strategies, and in these cases, would be included within the default fund charge cap. Unfortunately, several providers were not able to provide a comprehensive classification of default and self-selected funds, which means that we cannot state the proportion of FMECs that fall within the charge cap.

All 20 providers were able to give us data on the FMECs pertaining to at least their largest funds, meaning that data was supplied on FMECs paid by 29.3m members. This compares to the 2016 research where our coverage was around 87 per cent complete (covering 12.5 million of the total 14.4 million members in the provider research). The total value of funds under management in the funds for which FMECs were reported in the 2020 research was £147.2bn, compared to £44.7bn in 2016.

Of the 20 providers participating in this research, 11 reported that they do not offer any funds that are subject to FMECs over and above the ongoing charge. The nine remaining providers offer some funds that are subject to FMECs, over and above the ongoing charge.

It is possible for a member to be invested in multiple funds and pay a different level of FMEC for each of these funds. To ascertain their level of exposure to FMECs, we asked providers what value of members' assets were invested in funds attracting each level of FMEC in order to weight the average FMEC by the funds under management in each scheme. Three providers were unable to provide the corresponding data on the funds invested, and have therefore been excluded from the analysis of the average FMEC, meaning that the base for this analysis is data from 17 providers.

The average FMEC including funds with no FMEC over and above the ongoing charge is slightly down from 0.025% to 0.022%. Excluding the funds with no FMEC over and above the ongoing charge does not alter the trend noticeably; it is down from 0.084% to 0.080%.

Table 4.1 Average FMECs, across 17 of the 20 providers in the study

Level of FMEC	2016	2020
Fund-weighted average FMEC (including zeroes)	0.025%	0.022%
Fund-weighted average FMEC (excluding zeroes)	0.084%	0.080%

The proportion of members' assets, across all 17 providers, incurring different levels of FMEC over and above the ongoing charge is shown in Table 4.2.

Table 4.2 The percentage of members' assets invested in funds attracting additional FMECs, across 17 of the 20 providers in the study

Level of FMEC	0%	>0.01-0.05%	>0.06-0.10%	>0.11-0.15%	>0.16-0.20%	>0.20%
Percentage of all members' assets invested	72%	5%	10%	3%	8%	2%

Seventy-two per cent of funds under management were invested in funds that did not attract FMECs over and above the ongoing charge. This is a slight increase from the 70 per cent of funds under management reported in 2016, although this should be set in the context of the much larger rise from 56 per cent of all assets with zero FMECs over and above the ongoing charge in 2015.

A further 15 per cent of members' assets were invested in funds attracting an additional FMEC of between 0.01% and 0.10%. FMECs over and above the ongoing charge above 0.20% were only levied on two per cent of members' assets, compared to four per cent in 2016. Overall, additional FMECs therefore have a low, and slightly declining, impact on members' pots compared to the ongoing charge.

We note that while 72 per cent of assets under management attracted no FMECs, this is not to say that 72 per cent of members paid no FMECs. It is probable that the proportion of members paying no FMECs is in fact higher, since FMECs tend to be associated with self-selected funds, which are in practice chosen by a small proportion of members. These self-selected funds also tend to be more popular among a minority of members who have large pension pots and are more engaged with fund choice than the typical automatically enrolled member with a relatively small pot.

4.2 Transaction costs

Transaction costs are incurred when a fund manager buys or sells the underlying assets of an investment fund. This research covers two types of transaction cost:

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

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

Transaction costs are excluded from the charge cap introduced in April 2015, but their inclusion remains under consideration. In June 2020, the Department for Work and Pensions (DWP) published a Review of the Default Fund Charge Cap and Standardised Cost Disclosure, which raised the question again of whether transaction costs should be included in the charge cap.

4.2.1 Transaction costs for fund entry

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

Funds can be either single or dual priced. In normal circumstances a single priced fund is bought and sold at the same price, the exception being if a large investor enters or exits the fund in which case a dilution levy may be charged.

With dual priced funds, there is a separate price for buying and selling units in the fund. The difference between the buying and selling prices is the bid/offer spread. The buying and selling prices are dependent on whether there are more subscriptions than redemptions to the fund. In these cases, the transaction cost manifests itself in a slightly higher offer price if there is more money flowing into than out of the fund on any given day, and a lower offer price if the reverse is the case.

This means that the complexity of measuring transaction costs varies significantly between providers:

> 'It is again quite simple for us because of the way we are structured. We just have a single swinging price so there is no particularly difficult calculations for us. We have more money coming in every day than going out by a considerable margin. We are a young scheme. We have very large inflows. The majority of our members are young. We have a wave of money coming in and not much money coming out. Although we have a single swinging priced fund, it doesn't swing very much. It just continually is on the buying swinging leg, if that makes sense.'
>
> Provider

> 'In 2016 that information was there, but it was something that wasn't easily extractable. But since then there has been a lot more pressure on wanting to see that kind of information both from clients and also government regulators… We have had a huge project over the last few years to get that in a reportable format for clients. Also because we wanted to be more transparent with our fees. But certainly in 2016, it wasn't really possible to get that stuff. So that was one of the reasons why we said no back then, because within the timelines that you were working to, there was no way that we could get it done within that timeline. But obviously since then things have moved on, and we were able to do it a lot easier this time.'
>
> Provider

Both the quantity and quality of data on transaction costs for fund entry has improved since 2016. The number of providers able to generate at least partial data has increased from two in 2016 to ten in 2020. Providers attributed this improvement in their transaction cost data to three things:

- Clear guidance from regulators as to what transaction cost data is needed and why
- Growing industry consensus around the methodology and format for reporting on transaction costs
- Greater interest from clients

Out of the ten providers who were able to provide some data on transaction costs, five had no charges for entering or exiting a fund and four of these had single priced funds. One more provider's funds were priced continuously on an offer basis throughout the period reported. In an offer priced situation there is a net influx of money to the fund for a sustained period meaning that the investor buying units is effectively buying new shares in the underlying investments. As a result there is no buying / selling spread.

Five providers had entry charges: two of these gave us full data on the positive and negative swings in the price and the number of days that these swings applied. The remaining three providers were only able to produce partial data: typically they provided the Total Expense Ratio (TER), and the average swings that applied, but were not able to confirm the number of days that these swings applied.

It is not clear that the ten providers who produced transaction cost data constitute a representative sample, since single priced funds, or funds with no entry or exit charges, tended to find it much easier to produce this data than funds with variable transaction costs. The ability to compare data between different providers is also complicated by the combination of providers who used single pricing and those who used dual pricing.

There was no clear pattern to the ten providers who were able to produce this data, in terms of size or type of schemes. However, providers typically found this task more difficult if they did not hold the data themselves. Where funds were managed by a third party, the provider who was their client did not typically have a process to gather the data.

> 'Getting anything out of [FUND MANAGER] is particularly difficult. So we just left it as that really. From our point of view, it is single pricing and it is nice and straightforward. If you were going to come out of the fund, it would be that price and then you come into the fund at the same price basically. How they deal with that in the background, I don't know.'
>
> Provider

This was particularly challenging for smaller providers, who did not have the same clout as larger clients to demand this information from third parties.

> ‘It is not something that we monitor or record on an ongoing basis. So if it was ever deemed that we did have to have this, we would have to have a change in process because this is not something we have access to. We would need to go back to our provider, and we didn't in this instance so I can't even confirm whether they have that information, but we certainly don’t receive that at the moment.’
>
> Provider

Large providers can also have difficulties gathering this data if they outsource to multiple third parties. However, one top ten provider estimated that 90 per cent of their fund managers were producing transaction cost data in a timely fashion in line with Defined Contribution Pension Template (DCPT) requirements. The remaining ten per cent were committing to a timeline to produce this data. The DCPT was introduced to ensure compliance with the FCA’s requirements. The Investment Association and the Association of British Insurers worked together to devise a standardised template to assist in the flow of cost information from asset managers to pension scheme operators.

4.2.2 Transaction costs for remaining invested

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

Transaction costs for remaining invested can include the following:

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

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

Other factors can cause these costs to vary:

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

Funds may also show negative or zero transaction costs. A negative transaction cost indicates that transactions have resulted in net revenue rather than a net cost for the fund. This can happen if a stock is taking a number of hours to sell and the price has risen in the time between placing the order and execution. If a stock being purchased falls between the order and execution the result will be the same. If this happens to enough transactions, or to a large enough transaction, then an overall negative transaction cost is reported.

A zero transaction cost can result from an absence of transactions (for example in a cash fund) or due to a variety of technical reasons such as the attribution of costs in a fund of funds.

In 2016, most providers were unable to report transaction costs for members who remain invested: two master trusts were able to provide data on the transaction costs incurred for remaining invested, while a further two providers gave us an estimate of 'typical' transaction costs for a range of funds.

In 2020, this situation has improved, and 19 of the 20 providers taking part in this research were able to provide at least partial data. Providers again attributed the improvement in data provision here to the standardisation in reporting methodology that occurred in 2018.

> 'We have 13 underlying fund managers with 20 odd underlying funds. They are required to provide us with transaction cost data on a quarterly basis, and the format they do it in is probably a DCPT format, and that does give an annualised figure for transaction costs, a total figure which includes stamp duty and any broker commission. We take those numbers, essentially plug those into a spreadsheet which pro ratas those levels of transaction costs against the asset allocation for a particular fund, and just calculates an average annualised figure for transaction costs for the reporting year.'
>
> Provider

A small number of providers warned that they simply took this data at face value, since they would not be privy to the detail of the transactions that incurred these costs.

> 'That is what the managers have given to us. We don't calculate or do anything with the numbers. They provide us with their data, but we can't verify every asset manager's data so we have to accept it. Then if there is anything strange looking, then a client or our Independent Governance Committee or board have any questions then we have to follow up separately. But we can't be responsible for third party data.'
>
> Provider

Again, smaller providers relying on third party fund managers found it more difficult to gather this data.

> ‘The fund managers were struggling to give us the data broken down, but they were able to give it to us in the round… The industry generally is trying to move to standard cost disclosure templates. I think over time this sort of stuff will become easier for people to report on, because I think there is an expectation that over time everyone is expected to provide data in this sort of format, where you can drill down into the various components a bit more.’
>
> Provider

Seventeen providers had applied transaction costs to members remaining invested; just two small providers reported they applied no transaction costs to members remaining invested. Where a provider had funds that were subject to transaction costs, these tended to apply to all or almost all of their funds. However, the costs usually varied to a considerable degree between different funds.

Three providers were unable to provide the corresponding data on the funds invested, and have therefore been excluded from the analysis of the average transaction costs and the distribution of transaction costs. This is in addition to the one provider unable to supply transaction costs, meaning that the base for these calculations is 16 providers.

The average fund-weighted transaction costs for members who remained invested was 0.069%, including funds with zero or negative charges. When funds with zero or negative charges were excluded, the average transaction cost rose to 0.080%.

Table 4.3 Average transaction costs, across 16 of the 20 providers in the study

Level of FMEC	**2020**
Fund-weighted average transaction costs (including zeroes and negatives)	0.069%
Fund-weighted average transaction costs (excluding zeroes and negatives)	0.080%

Ten per cent of funds by fund value had negative transaction costs, while just two per cent had zero transaction costs. Similarly to FMECs, it was rare to find funds with transaction costs higher than 0.20% (three per cent by fund value).

Table 4.4 The percentage of members' assets invested in funds attracting transaction costs for remaining invested, across 16 of the 20 providers in the study

Level of transaction cost (% of funds per annum)	Negative	0%	>0.01-0.05%	>0.06-0.10%	>0.11-0.15%	>0.16-0.20%	>0.20%
Percentage of all members' assets invested	10%	1%	23%	52%	7%	4%	3%

4.2.3 Transaction costs in unbundled trust-based schemes

Trustees are responsible for monitoring their members' unbundled scheme transaction costs in the same way that providers of contract-based schemes are. When we asked trustees about transaction costs, we found that their knowledge and levels of monitoring of these costs varied considerably.

Following the changes in reporting requirements introduced in 2018, the majority of unbundled schemes now measure transaction costs and passed those figures onto their members. This legislation has had two effects:

- Scheme administrators, who had been reluctant to provide this data before the new legislation was introduced, had become much more forthcoming with transaction cost data
- As the board of trustees was now more likely to measure and communicate these charges, they were usually readily available to the representatives of qualifying unbundled schemes we interviewed

While in 2016, only 39 per cent of unbundled schemes were able to give us an estimate of their transaction costs, in 2020 this had risen to 69 per cent of schemes. Similarly, in 2016, 70 per cent of unbundled schemes were monitoring transaction costs at board level; in 2020, this has increased to 87 per cent of schemes.

> 'We started measuring transaction costs when it became a legal requirement. We didn't do before that, it was forced upon us. It was really difficult first time, because the industry wasn't prepared, our provider struggled to present the information to us. Now we've got a process in place that makes it easier for the provider to get information and make it look presentable, so we can put it in the chair statement, which goes into the annual newsletter for members. We don't go into a lot of detail about it for members because it's complicated and difficult to explain.'
>
> Unbundled scheme

The average transaction cost among unbundled schemes in 2020 was estimated as 0.26%, compared to the 0.35% estimated in 2016. However, if we include one outlier of two per cent in the 2020 data, the average transaction cost increases to 0.34%.

Unbundled schemes often mentioned that, like providers, they relied on the fund managers to provide transaction cost data. While the industry-wide change in reporting requirements had made it much easier for them to gather this information from fund managers, some unbundled schemes still struggled to acquire the data, and to interpret it confidently once they had received it.

> ‘Horrendous is the simple answer. We rely absolutely on our fiduciary manager to get those figures for us. I don’t think some fund managers still take it as seriously as they should do… we as a scheme are only ever as quick and efficient as our slowest underlying manager. We only need one manager not to report those costs to us and we can’t report any of it. It’s very time consuming, and it takes them months after year end to do it for us.’
>
> Unbundled scheme

> ‘I am totally reliant on [PROVIDER] to provide them and the information can be baffling. It’s part of these managed funds – on the one hand, they're very straightforward, but these charges are more difficult. There are a number of charges that are involved: there could be three or four depending on the number of transactions that take place. I have to take a deep breath and shut the door and look at it quite closely.’
>
> Unbundled scheme

A small number of trustees were in fact not aware that they might be incurring transaction costs.

> Trustee: ‘It’s a simple answer. Because the Annual Management Charge with the provider covers everything that they do, if the member buys units or sells them, there is no charge.’
>
> Interviewer: ‘I appreciate it’s not something that’s passed onto members, but I’m just wondering if you know what the cost itself is?’ …
>
> Trustee: ‘What could those transaction costs be if there is no charge to the employer and no charge to the member?’

Among the 26 unbundled schemes interviewed who were measuring transaction costs, all except one passed this information on to members. This was usually communicated in the annual statement, but sometimes also posted on their website.

Some providers and trustees felt that members took little interest in their reporting of transaction costs.

> ‘We don’t directly report [transaction costs] on to members. The charges are included in the Chairman’s statement that we produce every year, and those are available both if members want a copy directly from me and direct from our website… I’ll be honest, I’ve never had a single question about them at all.’
>
> Unbundled scheme

4.3 Fees paid by employers to providers

Employers may also pay a fee to reduce the charges paid by their employees. These charging arrangements include scenarios where the employer opts to pay some or all of their current employees' charges, but the members' pots face the same level of charges regardless of whether they are contributing. Unlike Additional Member Discounts (AMDs), these arrangements continue to be permitted under the government's charges measures.

In the first scenario there is a fee per employee paid by the employer to reduce the member-borne charges. These arrangements give providers and/or employers the opportunity to reconcile higher charges with keeping their members below the cap. In 2016 only a handful of employers at two providers were paying these charges. The average charge per employee was £27 per annum.

In 2020 this increased to six providers, but in each case only a small minority of members were affected and the vast majority were with a single provider. In total there were around 11,000 employers paying such a fee (one per cent of the total) and charges ranged from £10 to £100, with an average of £37.

Most of the schemes were small employers who paid a fee to enable the provider to offer them an automatic enrolment scheme within the charge cap.

> 'For very, very small pension schemes, so the vast majority of these 10,000 employers are very small employers who pay relatively small fees. Those fees are paid in order for us to be able to offer a pension scheme within the charge cap. So we are typically talking about employers with ten or certainly less than 50 employees. If we weren't paid an employer fee, it wouldn't be economically viable for us to offer an automatic enrolment pension scheme simply because we are starting with very few members and each of those members starts with no assets under management.'
>
> Provider

However, there was also a small number of larger employers who paid a fee to reduce the ongoing charge effectively as an employee benefit offered to either active members or all members of their pension scheme.

> 'We tell the employer what the total charge is and then the employer will say okay, if I was to pay you a fixed fee, would you then discount that charge for our current employees? So it is essentially an employee benefit by the employer subsidising the charge. Some employers subsidise the charge for everybody even if they stop contributing but more commonly it is for current employees while they are still contributing.'
>
> Provider

Four providers used a fee to cover the cost of setting up automatic enrolment (up from two providers in 2016). A total of 66,000 employers were affected (six per cent of the total), but again the vast majority of these were with a single provider. All but one provider charged between £250 and £500.

Conversely a small number of providers mentioned offering a reduced fee where the employer was introduced via a payroll bureau, or another third party who would help to minimise the amount of ‘hand-holding’ that the provider would need to do with the employer.

> ‘It just became apparent that we would need to provide more and more service to employers, and they take up so much time and even just helping them to get their data clean. So it became important to introduce it.’
>
> Provider

A small minority of employers (approximately 14,000 in 2020 or 1% of the total) paid a variety of other on-going fees. These were mainly Qualifying Master Trust schemes and the amount paid varied widely depending on the number of members in the scheme.

4.4 Fees paid by employers operating unbundled trust-based schemes

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

Table 4.5 shows the proportion of unbundled schemes using each service. The figure in brackets against each service shows the proportion of schemes where the entire cost is covered by the employer.

While these schemes typically used a wide range of services for which they can pass costs onto the scheme members, it was common for the cost of most of these services to be covered fully or partly by the employer.

The main exception was the use of fund managers, which uniquely was charged to members in the majority of cases. In 2016, just over half of unbundled schemes (51 per cent) passed all or some of the cost of fund management onto members. In 2020, this had increased to 63 per cent of schemes.

Table 4.5 Percentage of unbundled schemes using each service (figures in brackets show the proportion of schemes where the entire cost is covered by the employer)

Services	2020	2016
Auditors/ Accountants	94% (90%)	94% (92%)
Advisers or investment consultants	94% (90%)	90% (91%)
Fund managers	84% (37%)	79% (49%)
Third party administrators	78% (83%)	79% (78%)
Solicitors/ Legal advisers	69% (91%)	83% (90%)
Professional/ Independent trustees	44% (100%)	36% (85%)
Bundled life insurance	31% (100%)	Not asked
Other	25% (88%)	26% (90%)
None	6%	1%

5 Decumulation

This chapter examines the experience of members who have begun to decumulate from their pension scheme. Pension decumulation is the process of converting pension savings to retirement income.

- The definition of a decumulating member we used in this research is a member who has made a decumulation decision on part or all of their vested pension savings
- To be within the scope of the data collection on charges, the members had to remain part of their trust-based scheme
- Uncrystallised funds pension lump sum payments (UFPLS) are within the definition of decumulation
- Contract-based schemes, annuities and any third-party drawdown/retirement products are excluded

Section 5.1 maps out what happens to a member as they approach retirement: what communications they receive from their provider, and what options they face. In Section 5.2, we look at the providers who allow decumulation within their schemes: the options they present to members and the charges attached to these. Section 5.3 then describes the position of providers who do not offer decumulation within their schemes, and what happens to their members when they reach this stage. It also briefly summarises the extent to which provision of decumulation offers is changing.

5.1 Member experience

Providers agreed that the communication members receive as they enter decumulation is tightly determined by regulation. First, providers send out a 'wake-up pack' at age 50, regardless of the member's individually selected retirement date. This is the first mandated touchpoint and summarises the forthcoming choices available to members in the market as a whole. Members then receive a letter every five years up to their chosen retirement date, reminding them of their decumulation options, and another letter a few months before their selected retirement date.

Providers also signpost members to Pension Wise, and recommend that they take guidance. If a member decides to consider a particular option, they fill in a form either on or offline, which prompts the provider to provide a full quote including charges.

Once a member has decided to decumulate, charges are listed in annual benefits statements, and also integrated into communications that are triggered by life-stage as well as member-provider interactions. If members contact their provider, they are often directed to the fund fact sheet.

‘Once they have decided on one or more options they are interested in, they will then fill in a form either online or by post that says “I am interested in this.” We will then give them more information and a full quote of what is available, and then if they want to go ahead with it, they then send back another form, or some of the journey is actually done over the telephone for small pots. They then take their money, and then when they are in decumulation they will still get annual communications from us that tell them how their pot is doing and whether their particular level of income that they have chosen is sustainable if they are taking drawdown.’

Provider

‘Members in drawdown receive an annual benefit statement equivalent so that states the charges in pounds and pence that they have paid for the year and also if you log on you can go to a transactions page and it shows exactly how much you have been charged each month as well so there is quite a few routes that members can go to.’

Provider

5.2 Providers offering in-scheme decumulation

Of the 20 providers who participated in this research, eight offered decumulation within their existing schemes and were able to provide data on the charges relating to these (although the data only covered a very small number of members). A further three providers offered decumulation, but were unable to provide data. Two of these were unable to provide data because they had only started offering decumulation recently and had little or no member uptake. The remaining provider was not able to complete this part of the template within our timeline.

The eight providers who supplied data were offering decumulation in schemes covering 300, mainly small, employers. The majority of these schemes (seventy eight percent) were qualifying master trusts, with the remainder comprising a mixture of qualifying trusts and non-qualifying master trusts (seven and fifteen per cent respectively).

Those providers offering a decumulation service did so within their existing trust-based schemes: no provider mentioned moving decumulating members into another product, although one provider described moving decumulating members into a discrete section of their existing scheme. A few providers mentioned believing it was in members’ interests to minimise disruption to their existing arrangements.

‘Some of them may pick us for their annuity product, or they may pick us for their drawdown product, but it is a separate transaction. There isn't a seamless flow. Our view of this is that most people don’t understand pensions but they understand bank accounts. They would find it very surprising if they saved money in one bank account but they had to move it to another bank account to spend it. Under Pension Freedoms, they should be able to get money at 55 to 75. You should be able to put money in and take it out without having to move it from one product to another.’

Provider

At most of these eight providers, members continued paying the same charges that applied to the funds in which they were invested during accumulation. One provider introduced a tiered annual management charge at decumulation, while another introduced a flat administration charge on entering decumulation.

> 'I would like to say it is a seamless transition because nothing moves. They build up a pot. They come to retire. We give them the various flexi options. They choose the options and then it just carries on… it is slightly different in decumulation, in the sense that it becomes a tiered charge depending on how much they have got.'
>
> Provider

Because providers typically kept decumulating members within the same scheme and paying the same charges, even some of the providers supplying data had difficulties separating out those who were decumulating for analysis purposes, meaning that the results below on charges should be treated as directional.

Table 5.1 Distribution of members' ongoing costs whilst in decumulation

Level of ongoing costs (% of funds per annum)	**>0-0.25%**	**>0.26-0.50%**	**>0.51-0.75%**	**>0.75%**
Percentage of all members	23	54	23	1

Most providers offering decumulation within their schemes did not place any restrictions on the number of withdrawals, nor did such withdrawals attract any ad hoc charges. One provider had recently removed any restriction on withdrawals since automation had made it cheaper to provide this service, and another previously placed a limit on withdrawals in order to prompt a discussion with the member as to whether they should be in a product more suitable for drawing an income.

> 'It is more so we can easily have a conversation with them on the phone when they ask to do the third one, for us to say to them, "Actually you probably want to be in a different product because this isn't designed for regular drawdown." It is just making sure that members know that this isn't a product that has been designed for regular drawdown. But obviously from October that will change, and there will be no charges.'
>
> Provider

Decumulating members tended either to stay in the same fund or funds, or move into a lower-risk fund designed for a sustainable income. Rather than design a model portfolio to be used at the point of decumulation, providers preferred to allow decumulation within a gradual de-risking strategy applied throughout the lifetime of each pot.

> 'Our default fund is suitable for those entering drawdown. It is not a different one… At the moment we don't have what I would call a specific decumulation default.'
>
> Provider

‘Obviously the default strategy that is used for our master trust clients and our contract-based schemes where clients don’t want to have to pay for an advised solution, it decumulates down. From 18 years from retirement, it starts to de-risk and then from seven years they start to go to cash and then we introduce bonds.’

Provider

5.3 Providers not offering in-scheme decumulation

Around half of the providers included in this research were not offering decumulation within their schemes. Most of these were providers of a single master trust who had set this up since automatic enrolment was introduced. This meant that most of their members still had small pots that they had so far chosen overwhelmingly to take as cash:

‘Nearly all of them take their money as cash. At the moment auto-enrolment funds at retirement are still fairly small. I looked at those members who transferred over aged 55 because I was doing analysis of retirement behaviour… There were 20 out of 11,000 retirees… adding on those transfers out onto retirees, that might have done drawdown. You could only say might have… something like 80 per cent take it out before their retirement age.’

Provider

Two traditional providers have no decumulation offer: one of these reported that this was because decumulation required more active management and so involved higher costs. Despite this, this provider was hoping to develop a decumulation offer within the next few years.

One provider suggested that decumulation was more common in master trusts than in their single-employer trusts because trustees were reluctant to take responsibility for oversight for an indeterminate number of years up to the member’s death.

‘Trust-based is a trustee decision, so none of our own trust trustees offer drawdown within the pension scheme. So they will typically offer a transfer elsewhere. I think the perception is that they don’t want to increase their governance oversight to include members right up until the day they die essentially in drawdown.’

Provider

Several providers who did not currently offer a decumulation service mentioned that they hoped to offer this in the next few years. In addition to these, a few providers who do offer decumulation mentioned that they were in the process of introducing investment pathways to facilitate drawdown.

‘The benefit of the pathway fund over traditional lifestyling and de-risking is because that is not based on a particular year. When you are five years away from retirement, we will start de-risking you, but it takes absolutely no notice of any market conditions at the time whereas this is based on the actual year that somebody wants to retire. So it is more intelligent in its outlook and its asset allocation.’

Provider

While options for draw-down outside of members' accumulation scheme lay outside of the scope of the research, when interviewed a small number of providers indicated that members wishing to go into draw-down would either need to choose a new product or fully withdraw in-house where in-scheme decumulation was not offered.

5.4 Decumulation from unbundled schemes

Out of the 35 unbundled schemes participating in the research, nine offered decumulation within the scheme. Seven of these schemes were able to provide estimates of the level of take-up amongst eligible members, with five seeing a take-up rate of over 90 per cent of their members reaching their selected retirement age, and another two having a take-up rate over 75 per cent of their retirement-aged members. The remaining two schemes could not confirm their take-up rate at the time of the interview.

No unbundled scheme reported an increase in fees for members entering decumulation: they were simply charged the same fees for the funds they were invested in as applied to accumulating members.

Two of the unbundled schemes offering decumulation participated in a qualitative depth interview and were able to discuss the product in more detail. One was offering a drawdown service over a maximum of five years. Members of this scheme usually took a 25 per cent lump sum up front on entering decumulation. The goal here was to support members who wanted to retire early before they reached the age where they would be entitled to either a state pension or a defined benefit pension. At the same time, it limited trustee oversight to a relatively short period of decumulation.

> 'We offer them one year to five years to withdraw their account, and the reason we put this in was, we've got a history of defined benefit provision in the business, and a lot of people use the DC fund as a way of bridging their retirement income between the ages of 60 and 65.'
>
> Unbundled scheme

A second unbundled scheme was offering its members the possibility of taking phased cash withdrawals, but did not offer flexible drawdown. This scheme was concerned that offering greater flexibility with withdrawals might increase their oversight responsibilities.

A few trustees confirmed that concern about the commitment to take responsibility for oversight for an indeterminate number of years up to the member's death was an important factor in their decision not to offer a decumulation service. One trustee also felt that providing decumulation would make the production of their annual statements to members more complicated.

> 'A lot of trustees fear the prospect of looking after members' interests for 40 or so years past the point of retirement.'
>
> Unbundled scheme

‘This is an occupational pension scheme. It is about looking after people while they’re employed with our company. I don’t think we want to start getting into the realms of becoming almost a financial institution – that’s not what this scheme was originally set up for.’

Unbundled scheme

6. Reflections on the charge cap

This final chapter explores the views of providers and representatives of qualifying unbundled schemes on the charge cap. Section 6.1 explores the general views on the charge cap, including concerns about lowering the charge cap. In section 6.2 we consider views about the impact of the charge cap and trends in the future.

6.1 Views on the charge cap and other measures

The research team asked all providers their current views on the charge cap, and most providers saw the overall impact of the charge cap as positive, and as having benefitted a large number of members. However, most providers also expressed concern about the impacts that any further reductions of the cap would have, which we discuss in further detail below in section 6.1.1.

Charges for default arrangements were capped at 0.75% per annum from April 2015 onwards. The cap has been in place for five years now, and we found that all providers in qualifying schemes were now compliant. All members were paying charges within the 0.75% cap and the average charge of 0.48% was significantly below the cap. Providers felt under pressure to maintain these low charges, but as in 2016, tended to attribute this to competition rather than to the cap itself.

The cap, or its knock-on effects in terms of competitive pressure, was also exerting downwards pressure on charges for members in non-qualifying schemes. This manifested itself both in providers reducing charges for non-qualifying schemes and members being transferred from non-qualifying schemes to qualifying schemes with lower changes. The average charge for non-qualifying schemes is now 0.53% and 88 per cent of members of non-qualifying schemes are now below the cap level.

Similarly, representatives of qualifying unbundled schemes typically had no fundamental issues in complying and saw the impact of the cap as positive. They ensured compliance as part of their ongoing due diligence processes, carried out in conjunction with their investment consultants, administrators and fund managers. Charges for unbundled schemes remained consistent at 0.49%.

6.1.1 Concerns about lowering the charge cap

As in 2016, some providers and representatives of qualifying unbundled schemes expressed concern about further lowering of the cap. Concerns fell into the following categories:

- Several providers thought that the cap had created a price-driven market and was slowing innovation, in terms of investment opportunities within default funds

  ‘I think innovation will come, but for a great majority of the market it has been stifled and it is price driven almost regardless of anything else. That is an unintended consequence and the public debate is all about rip-off pricing and nothing about actually what does that mean, and what sort of investment solutions should we have?’

  Provider

- A small number of unbundled qualifying schemes shared the providers’ view that the charge cap limits innovation

  ‘I understand why there needs to be a cap, but it stifles innovation – it's a very long term investment and there are things that we can't have with DC, creative, complex active equity structures…’

  Unbundled scheme

- A few providers were concerned about the impact on the profitability of their service if charges were lowered or the scope of the cap extended. This was especially the case for those servicing small employers and offering flat fees

  ‘We spend a lot of time and effort bringing on the contributions from small employers with a small number of employees, getting everything in place. So we are creating an environment where small contributions can get invested into a pension scheme.’

  Provider

  ‘If you bring the charge cap down too low and you bring more and more into it, it is just not workable really because we do have our cost basis as a low margin business.’

  Provider

- There was also concern that a reduction in the cap could lead to a fall in quality of customer service provided to members

  ‘We found that one of the expensive things is basically customer engagement, because people don’t engage with their pensions. We think that governance should be looking at value rather than just a blunt instrument like a charge cap. We support the charge cap as it is today, but if you want to bring more into it and reduce it that is probably too much.’

  Provider

- Providers expressed concern about including transaction costs in the charge cap, as they felt that it would disincentivise trading. A number of providers pointed out that it would not always be in the members' best interests for transaction costs to be low, if a transaction helped to sustain the value of the investment

  > 'I think transaction costs are going to continue to get focus. At the moment it is probably not the right time to start capping them because of what has been going on, but there are alternative ways and means that you can put controls on those kinds of things. I think market pressures generally are for charges to come down. I do think that certainly regulators need to understand that it is not all about charges. There are other aspects about measuring value and I think there is a risk that the more that publicly they keep going on about low cost, low charges, members will think that that is the most important thing and it isn't always the most important thing.'
  >
  > Provider

6.2 The impact of the charges measures on the pensions landscape

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

Providers typically felt that competition would continue to maintain a downward pressure on charges even if the charge cap were not lowered officially. Providers also predicted further market consolidation of schemes through mergers, acquisitions and providers exiting the market.

> 'I think what you will see is consolidation. Everybody that wants to survive in the long-term knows that they have to be an ultra-low cost player. So they are all trying to invest in digital. I think competitive forces will keep charges coming down and you will see a lot of consolidation.'
>
> Provider

Providers also predicted that only schemes with sufficient scale might eventually be able to continue to operate, with larger master trusts expected to be increasingly appealing, due to the size and governance arrangements that they could offer.

> 'You will get larger and larger scale so with fewer and fewer players. From 2013 they thought there is probably room for about five big players in the market, and that might not be bad.'
>
> Provider

Despite this viewpoint, since 2016, more master trusts have entered the market and only a few have exited. Indeed, since the average charge is well below the cap, some providers indicated that the cap would have to be lowered considerably for it to have an impact on the market.

> ‘It seems rather high still, I think it is quite easy to get charges below that so if the objective of the charge cap was to force down fees than perhaps it should be lower.’
>
> Provider

A few unbundled qualifying schemes were concerned about the possibility of employers deciding to stop covering scheme costs.

> ‘We haven't come near hitting the cap in years. However, if the employer decided to stop covering all of the admin costs, then we would be way over and would have to cut services.’
>
> Unbundled scheme

Two providers had recently brought in tiered charges to reward larger pots, and other providers predicted that tiered charging structures would become more normal in the industry.

> ‘Workplace [pensions] at the moment doesn't have that kind of structure in terms of tiered charging other than the fact that the People's Pension have introduced that recently. So my prediction is that workplace [pensions] will go the same way as the individual market and that you will start to see tiered charging. So let’s say the scheme charges 50 basis points [0.5% per annum], that will probably be a base charge, but for people that are getting up to say £200K or £300K, that 50 will reduce to 40 and then to 30 and then to 20. I think that is the charging structure of the future.’
>
> Provider

Appendices

A. Materials used in conducting the survey with providers

A.1 Invitation letter to providers

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

<DATE>
<PROVIDER NAME>

Pension scheme charges research 2020

Dear <Title> <Surname>

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

The last Charges Survey was commissioned by DWP in 2016, in which you may have participated. The full report of findings can be found at: https://www.gov.uk/government/publications/pension-charges-survey-2016-charges-in-defined-contribution-pension-schemes

The 2020 Charges Survey builds on the previous study and is designed to replicate the approach as far as possible: it will collect information on both administration charges and transaction costs across DC trust-based and contract-based workplace pension arrangements. This will enable us to assess how effective the charge control measures have been in continuing to improve outcomes for savers. While taking part in the research is voluntary, your participation will also help to shape the development of increased disclosure requirements, including how this information might be collected in the future.

The information provided in this survey will also form an important part of our analysis within the forthcoming Charge Cap Review.

The research is being conducted on DWP's behalf by Breaking Blue, who also conducted the 2016 survey. Any data collected by Breaking Blue will be passed to DWP anonymously and results from the study will only be published in aggregated format.

A researcher from Breaking Blue will be in touch with you shortly with details about what your participation would involve and to answer any questions you may have. If you do not want to take part please let Breaking Blue know by [DATE]. You can contact [BB TEAM MEMBER] at Breaking Blue on 020 7627 77XX or XXX@breakingblueresearch.com.

Yours sincerely,

A.2 Provider information sheet

What is the research about?

The research has been commissioned to measure Defined Contribution (DC) workplace pension scheme charges and will feed into the government's Charge Cap Review.

Building on the 2016 research we conducted with pension providers, it will continue to assess the effectiveness of the governance and charges measures.

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

And what will it entail?

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

We have designed the template carefully, to make it comprehensive, unambiguous and as straightforward to complete as possible. If you participated in 2016, it follows the same format, which itself built on work done by the ABI, IMA and the Independent Project Board's legacy audit of pension schemes.

What schemes are within the scope of the research?

Any schemes that fulfil all of the following criteria:

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

Defined Benefit and hybrid schemes are excluded.

What charges are within the scope of the research?

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

Group 1: Ongoing charges

- Member-borne deductions relating to scheme and investment administration. Including in particular any scheme-level contribution or flat rate charges

Group 2: Additional fund manager expense charges (FMECs)

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

Group 3: Fund-level entry and exit charges

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

Group 4: Ongoing portfolio transaction costs

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

Group 5: Decumulation charges

- If an individual decides to remain in that same scheme in the decumulation phase, what are the charges applied to that individual?

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

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

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

And afterwards?

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

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

What is the deadline?

In order to feed into the government's Charge Cap Review, we hope to complete data collection by 17th July 2020. Follow up interviews will also be conducted around that time, and I will be in touch with you to discuss the feasibility of this.

Confidentiality

Any information you provide will be held in the strictest confidence and will be handled securely throughout the study in line with the requirements of the General Data Protection Regulation (2018). The information you provide will be used only for research purposes, and for the purpose of analysis and reporting we will merge together information collected from all providers in aggregate form.

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

A.3 Data collection template

The data collection template in available to view and download in Excel format on the Pension Charges Survey 2020 webpage.

A.4 Follow-up interview discussion guide

Part A – Introduction (5 minutes)	
Pre-interview checklist	This discussion guide: cross out any non-applicable questions beforehand Provider's completed template. Highlight beforehand any: Gaps or omissions Inconsistencies Particularly high/ low/ unusual charges, or charges that vary significantly Places where explanatory notes were given
Interviewer introduction	My name is ………………….. from Breaking Blue. Thanks again for all the work you've put into this study. Reiterate agenda: How you found the process of data collection Your charges relating to accumulation and decumulation as outlined in the template Any additional services or benefits that particular schemes offer, particularly where charges are higher Confidentiality: I can assure you that anything you tell me will be treated in confidence by the Breaking Blue project team. It will not be attributed to you, or your organisation, either in our presentations or in the final project report which will be published by DWP. Ask for permission to record for our analysis purposes. The recording will not be passed onto any third party and will be destroyed after the project finishes. Before we start our discussion, do you have any questions?
Overview of the task	Could I first of all re-confirm your job title(s)? And could you summarise your role(s) within your organisation? If not mentioned – How long have you been in this role/with [PROVIDER]? We'll look at the details of the template in a second. But overall, how did you find the process of collecting the data? Who actually did the data collection work? [job titles] How long did it take in total?

	What did it involve on a practical level? Was it data that you already held, or did you need to set up systems to be able to produce it? Take out completed template and give copy to respondent if necessary. Let's have a look at the template – we'll work through each section in order.
Reporting period	The reporting date you used was ___________ Is that correct? Why did you select that date? [N.B. Default date we set was 1 March 2020] Was this the most straightforward date for you to report on? Have you used the same reporting date on the second tab, for your decumulation charges? (If not: why not?)
Part B – Your in-scope schemes (5 minutes)	
	Summarise scheme types covered, and how many employers covered by each. Does this cover all of your in-scope schemes, or were there any schemes you couldn't provide data for? If not: Which schemes? Covering how many employers & members? Why could you not provide data?
Part C – Ongoing charges (10 minutes for all of Sections C to F)	
	How did you find the process of collecting the data on ongoing charges for accumulating members? Were any elements particularly difficult or problematic? Why was this? Ask about any gaps/ inconsistencies/ explanatory notes, as relevant Ask providers with more than one scheme type: Do the charges differ between your different schemes? Obtain full details: Why/ why not? How does this work? (If necessary): Do the schemes have different membership profiles, or different sized pots – or have you perhaps negotiated different terms with employers at different times?

	Are there any additional services that certain schemes provide that account for the difference in cost – for example, with-profits funds? What are these? Ask providers with both contract-based AND trust-based/master trusts: Is there a difference in charges between contract-based and trust-based schemes? Why is this? Ask all, unless <u>all</u> members charged the same: What kinds of factors cause the ongoing charge to vary for members? Why? Probe as necessary on: employer size; member fund size; any other factors? If so: How do these impact the ongoing charges? Ask all: How do you calculate the ongoing charges: is this based on evidence, for example of service or product design and delivery costs, business administration costs, profit margins, or anything else? Overall, does this give a comprehensive picture of your ongoing charges, or is there any other information that you think is important, which didn't fit into the template?
Part D – Contribution charges	
	You [do/don't] use contribution charges. If not used skip to Part E. Ask remaining questions as relevant. Just to confirm, do the contribution charges apply to [all members of all your schemes / only certain schemes/ members]? If not all, obtain full details: How does this work? And to confirm, the contribution charges are levied in addition to the basic ongoing charges in Part C of the template? [Interviewer: Be clear on how this works]. How do you calculate these charges? Is this based on evidence, for example of service or product design and delivery costs, business administration costs, profit margins, or anything else? Is there any other information that you think is important, that didn't fit into this part of the template?

Part E – Flat rate member charges	
	You [do/don't] use flat rate member charges. If not used, skip to Part F. Ask remaining questions as relevant. Just to confirm, do the flat rate charges apply to [all members of all your schemes / only certain schemes/ members]? If not all, obtain full details: How does this work? If not clear already: Is there a minimum fund size, below which the flat fee doesn't apply or is reduced? And to confirm, the flat rate charges are levied in addition to the basic ongoing charges in Part C of the template? [Interviewer: Be clear on how this works] How do you calculate these charges? Is this based on evidence, for example of service or product design and delivery costs, business administration costs, profit margins, or anything else? Is there any other information that you think is important, that didn't fit into this part of the template?
Part F – Other scheme-level fees	
	Discuss any charges levied in this section. If none, skip to Part G. For each of the charges in Section F of the template that apply, ask: How the charges work: who pays them and how they are levied Why this approach is taken: advantages for provider and members Any gaps/ inconsistencies/ explanatory notes, as relevant (If necessary): I see you offer bundled life insurance with X schemes. Tell me about that. (If necessary) Why is it bundled with those schemes in particular? (If unclear) Is the cost of the life insurance borne by members or the employer?
Part G – Default funds used (5 minutes for Parts G & H)	
	Let's have a look at the different funds that members are invested in. Was it straightforward or difficult to provide this data? If difficult: Why was this?

	Check summary row of table: if fewer than 80% of employers/ members/ funds covered: You weren't able to cover all of your [employers/ members/ funds] in the table. Why was that? Are any particular groups of members excluded from the table? Focus on fund/ funds most commonly used: Why is such a large percentage of members invested in this fund/ these funds? What are the characteristics of the fund(s)? Overall, what percentage of members' default funds would you say are invested in illiquid assets, for example property, hedge funds, infrastructure, and private debt? What kind of illiquids is it invested in? (If necessary: by "illiquids", we mean assets which are traded off-exchange or are otherwise less readily tradeable. Examples include direct property investment, investment in infrastructure projects, private equity, equity or debt issued by very small listed firms, and venture capital.) [Only if not investing in illiquid assets] For your organisation, what are the main barriers to investing in illiquids?
Part H: Additional fund manager expense charges	
FMECs	[Some/ none] of these funds attract additional fund manager charges or performance fees. If none skip to Part I. Focus on funds with additional FMECs: Why does ________________ fund attract Fund Manager Expense Charges? What additional services does this cover?
Performance fees	Focus on funds with performance fees: Why does ________________ fund attract performance fees? How do these work exactly?
Part I – Charges within scope of the default fund cap (5 minutes)	
Ability to include all charges	Part I of the template asked you to confirm that the charges you provided in Parts B-J include all of the charges that are in scope of the 0.75% default fund charging cap. I see you were/ weren't able to include all of these.

	If not able: Which charges weren't you able to include? Why was this?
General views on the charge cap	What are your views on the charge cap and the other charges measures? To what degree have the measures benefited your members? What impact have the measures had on you, as a provider? (If unclear) Has the cap prevented you including funds you wanted in your default strategy?
Part J – Fund-level entry/exit charges (5 minutes)	
	Point respondent to the bottom part of Worksheet 3: charges excluded from the default fund charge cap. And what about the second part of this list: in other words, transaction costs, which are excluded from the default fund charge cap. Were you able to provide that information in Sections J and K of the template? Why/ why not? How easy did you find it to provide that information? And what about the entry and exit charges specifically? Were you able to complete this section? Ask only those unable to complete: Why were you unable to complete the section? Obtain full details and ask as necessary: If you had had more time, could you have completed it? Is there anything we could do to re-design the template to make the information easier to provide?
	Ask rest of Section J to those able to complete. Otherwise go to Section K. How did you put the data together? Who was involved? Is it an estimate, or are you confident that the data is accurate? Were any elements particularly difficult or problematic? Why was this? Could you talk me through the entry and exit charges that apply? What kinds of factors cause the entry and exit charges to vary between funds? Why?

	Is there any other information that you think is important, which didn't fit into the template?
Part K – Ongoing portfolio transaction costs (5 minutes)	
	And the final section on the first tab covers ongoing portfolio transaction costs. Were you able to complete this section? Ask only those unable to complete: Why were you unable to complete the section? Obtain full details and ask as necessary: If you had had more time, could you have completed it? Is there anything we could do to re-design the template to make the information easier to provide? Ask rest of Section K to those able to complete. Otherwise go to Section M. How did you put the data together? Who was involved? Is it an estimate, or are you confident that the data is accurate? Were any elements particularly difficult or problematic? Why was this? Could you talk me through the portfolio transaction costs that apply? What kinds of factors cause the portfolio transaction costs to vary between funds? Why? Is there any other information that you think is important, that didn't fit into the template?
Part M – Your in-scope schemes for decumulation (5 minutes)	
	If provider does not offer decumulation, ask: Given that you don't offer a decumulation service in house, what happens to your members when they begin to decumulate? Let's now turn to the second tab, and look at the charges you apply to decumulating members. Just to be clear here: our definition of a decumulating member is one who has made a decumulation decision on part or all of their vested pension savings. This will also be where some funds enter UFPLS and Flexi-Access Drawdown

	It's the charges on those funds that we are interested in. Summarise scheme types covered, and how many employers covered by each. Does this cover all of your in-scope schemes, or were there any schemes you couldn't provide data for? If not: Which schemes? Covering how many employers & members? Why could you not provide data? (If necessary) Why do you allow decumulation on these schemes and not others? What is the member's experience of the move into decumulation? Do they stay in their existing scheme and you provide a decumulation service? Or do you move them into another product, such as a SIPP wrapper of their choosing? What information do you give members in general about the move into decumulation? What information do you give members about the charges that will apply as they move into decumulation? Is there any on-going communication of charges each year? What is communicated, and how?
Part N: Group 1 Annual ongoing charges for decumulation (10 minutes for Parts N-Q)	
	How did you find the process of collecting the data on ongoing charges? Were any elements particularly difficult or problematic? Why was this? Ask about any gaps/ inconsistencies/ explanatory notes, as relevant Looking at the charges applied in decumulation, to what extent is this the same charging structure as for accumulation? In other words, in what way, if any, do new charging arrangements apply as members enter decumulation? Ask providers with more than one scheme type: Do the charges differ between your different schemes? Obtain full details: Why/ why not? How does this work? Are there any additional services that certain schemes provide that account for the difference in cost? What are these?

	Do you place any restrictions on decumulation options – for example a limit on the number of UFPLS? Is there a default fund for those on entering drawdown? Also, it may be worth asking upfront that decumulation is where some funds enter UFPLS and Flexi-Access Drawdown (and the charges on these funds are what you are interested in. Ask all, unless <u>all</u> members charged the same: What kinds of factors cause the ongoing charge to vary for members? Why? Probe as necessary on: employer size; member fund size; any other factors? If so: How do these impact the ongoing charges? Do you have a default or model portfolio for decumulation? Ask all: How do you calculate the ongoing charges: is this based on evidence, for example of service or product design and delivery costs, business administration costs, profit margins, or anything else? Overall, does this give a comprehensive picture of your ongoing charges for decumulation, or is there any other information that you think is important, which didn't fit into the template?
Part O: Flat rate charges for decumulation	
	You [do/don't] use flat rate charges for members in decumulation. If not used, skip to Part P. Ask remaining questions as relevant. Just to confirm, do the flat rate charges apply to [all members who are decumulating / only certain schemes/ members]? If not all, obtain full details: How does this work? If not clear already: Is there a minimum fund size, below which the flat fee doesn't apply or is reduced? And to confirm, the flat rate charges are levied in addition to the basic ongoing charges in Part M of the template? [Interviewer: Be clear on how this works] What would you say are the advantages of this approach from your point of view? And the disadvantages?

	What would you say are the advantages of this approach to members? And the disadvantages? Is there any other information that you think is important, that didn't fit into this part of the template?
Part P&Q: Other charges for decumulation	
Part P	Discuss any charges levied in this section. If none, skip to Part Q. For each of the charges in Section P of the template that apply, ask: How the charges work: who pays them and how they are levied Why this approach is taken: advantages for provider and members Any gaps/ inconsistencies/ explanatory notes, as relevant
Part Q	Discuss any charges levied on members fully withdrawing their fund How the charges work: who pays them and how they are levied Why this approach is taken: advantages for provider and members Any gaps/ inconsistencies/ explanatory notes, as relevant
Conclusion (5 minutes)	
Additional comments	Thanks again for completing this template, and for all of your help today. Just to round off, to what extent do you expect to see charges change in the near future? Probe specifically on each of: Will your ongoing charges change for any members? Might the fund manager expense charges change? Could there be any other changes at all? What will be the effect of this in 2 years' time? 5 years' time?
Ongoing burden	For providers who completed the template in 2016: What about completing this template? Have you found it easier this year than you did in 2016? Might it get easier to complete this template in future years? Why/ why not? If not/ if unclear: Might you have systems in place that make it easier to measure the different charges?

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

B. Materials used in conducting the survey with unbundled schemes

B.1 Invitation letter to unbundled schemes

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

<DATE>
<PROVIDER NAME>

Dear Pension Scheme Trustee

Pension scheme charges research 2020

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 to help us understand charging structures, types and levels in UK pension schemes.

The research is being conducted on DWP's behalf by Breaking Blue and Critical Research, who are independent research organisations. You will be contacted by Critical Research to take part in a telephone survey which it is estimated will last just 15-20 minutes, depending on your answers.

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

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

If you have any questions about the research or do not want to take part you can contact the project team at Critical Research on 0203 643 9050 (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,

B.2 Information sheet for unbundled schemes

Pension Scheme Charges Research – fact sheet

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

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

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

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

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

- Third party administration
- Investment advice
- Fund management
- Professional trustees
- Auditors/ Accountants
- Legal advice

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

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

We will also ask about the equivalent charges paid by members who are currently decumulating.

We will separately ask about the following:

- Approximately what proportion of the charge members pay is accounted for by the services we have listed above
- any Transaction Charges paid by members (these are incurred by the fund manager when buying and selling the underlying assets of the fund. These are passed onto the scheme members, usually as a reduction in the value of investments held)
- any life insurance bundled into your pension charges
- Approximate average contribution rates

- The total funds under management for the scheme

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

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

B.3 Questionnaire for unbundled schemes

Introduction for switchboard/ gatekeeper
Good morning/ afternoon. Please could I speak to [FIRST CONTACT]?

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

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

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

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

Introduction for potential respondent

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

DWP is currently conducting research into pension scheme charges. As part of this, we would like to conduct a short telephone survey with you, which should last around 15-20 minutes. It concerns the costs and charges involved in the [SCHEME] pension scheme.

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

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

SINGLE CODE

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

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

I can assure you that anything you tell us during the course of the research will be treated in confidence by the project teams at Critical and Breaking Blue who have been jointly commissioned to conduct this research. It will not be attributed to you, or your organisation and we will not reveal which organisations participated in this research.

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

Our privacy notice explains your rights in more detail, including your right to change your mind if you do not want us to use your information.

https://www.breakingblueresearch.com/privacy-policy/

Please note, your details will be deleted from our system within six months of the end of this research. This is likely to be before June 2021.

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

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

1	Yes	CONTINUE
2	No	THANK & CLOSE

S2 And finally, can I just check that you're happy to be recorded?

1	Yes	CONTINUE
2	No	THANK & CLOSE

Section A: Scheme classification

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

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

A2 Could you confirm what the scheme status is?

READ OUT OPTIONS IF NECESSARY, SINGLE CODE.

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

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

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

1	Yes	Skip to A13
2	No	Ask A4
98	Unsure	SEEK REFERRAL
99	Refused	THANK & CLOSE

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

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

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

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

1	Yes	Skip to A5
2	No	Ask A13i
98	Don't know	SEEK REFERRAL
99	Refused	THANK & CLOSE

A13i It sounds like the information that we hold from TPR isn't correct. Would you mind telling me who your pension provider is?

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

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

SINGLE CODE

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

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

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

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

Probe for best estimate, but allow range if necessary

NUMBER:_______________		CODE BELOW
AUTO-CODE ACTIVE BAND		GO TO A8
1	0-11	GO TO A8
2	12 to 99	GO TO A8
3	100 to 249	GO TO A8
4	250-499	GO TO A8
5	500-999	GO TO A8
6	1,000-4,999	GO TO A8
7	5,000+	GO TO A8
98	Don't know	OBTAIN REFERRAL OR AUTO-CODE A7 BASED ON SAMPLE INFO THEN CONTINUE TO A8
99	Refused	

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

Probe for best estimate, but allow range if necessary

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

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

IF the numeric at A7 and A8 adds up to less than 12, but this is unclear), ask A9. Otherwise go to A10.

A9 Can I confirm that your scheme has fewer than 12 active and deferred members in total?

SINGLE CODE

1	Yes	THANK AND CLOSE
2	No	GO BACK TO A7 AND A8 TO CORRECT

IF answered A9, skip this question.

A10 Just to check - in total, your scheme has approximately [A7 + A8; or use midpoints if only bands used; use 0 where not known] members?

SINGLE CODE

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

A10b AUTO-CALCULATE TOTAL MEMBERS:______________	
AUTO-CODE TOTAL BAND	
1	0-11 [ALREADY SCREENED OUT]
2	12 to 99
3	100 to 249
4	250-499
5	500-999
6	1,000-4,999

7	5,000+

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

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

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

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

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

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

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

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

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

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

ENTER YEAR _______	
1	2017-2020
2	2013-2016
3	2006-2012
4	2001-2005
5	1991-2000
6	Before 1991
98	Don’t know
99	Refused

Section B: Respondent job role

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

SINGLE CODE

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

ASK IF B1=1 (EMPLOYEE):

B2 And what is your job title?

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

SINGLE CODE

1	Accountant/ book-keeper
2	Administrator
3	Company secretary
4	Director
5	Finance Director
6	HR Director
7	Pensions Manager/ Administrator
8	Owner/Managing Director
9	Payroll Manager
97	Other (specify)___________
98	Don’t know
99	Refused

ASK IF B1=1 (EMPLOYEE):

B3 Are you also a trustee of the scheme?

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

SINGLE CODE

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

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

B4 And what is your job title?

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

SINGLE CODE

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

Section C: Overall scheme charges

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

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

- Administrators
- Advisers
- Investment managers
- Professional trustees
- Auditors and accountants
- and any other services

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

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

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

SINGLE CODE

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

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

If necessary: Your pension's administrator or a colleague should be able to tell you this information.

SINGLE CODE

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

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

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

SINGLE CODE

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

C4 Wording if C3=1:

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

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

Wording if C3≠1:

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

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

MULTICODE POSSIBLE

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

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

If necessary: Your pension's administrator or a colleague should be able to tell you this information.

SINGLE CODE

1	Yes	SET CALL-BACK AND GO TO SECTION D
2	No	GO TO SECTION D
98	Don't know	GO TO SECTION D
99	Refused	GO TO SECTION D

<u>C5-C7 LOOP</u>

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

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

ASK C5 TO ALL CODING 1 @ C4

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

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

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

If necessary: Your pension’s administrator or a colleague should be able to tell you this information.

SINGLE CODE

1	Yes	SET CALL-BACK AND GO TO C6
2	No	GO TO C6
98	Don’t know	GO TO C6
99	Refused	GO TO C6

ASK C6 TO ALL CODING 2 @ C4

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

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

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

If necessary: Your pension's administrator or a colleague should be able to tell you this information.

SINGLE CODE

1	Yes	SET CALL-BACK AND GO TO C7
2	No	GO TO C7
98	Don't know	GO TO C7
99	Refused	GO TO C7

ASK C7 TO ALL CODING EITHER 3 OR 97 @ C4

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

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

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

If necessary: Your pension's administrator or a colleague should be able to tell you this information.

SINGLE CODE

1	Yes	SET CALL-BACK AND GO TO SECTION D
2	No	GO TO SECTION D
98	Don't know	GO TO SECTION D
99	Refused	GO TO SECTION D

Section D: Unbundled services and charges

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

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

READ OUT CODES 1-7 AND 'OTHER'; MULTICODE POSSIBLE

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

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

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

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

Programmer: suppress all codes not answered at D1.

READ OUT EACH ANSWER AND SINGLE CODE

		Employer	Members	Both	DK	Ref
1	Bundled Life Insurance	1	2	3	98	99
12	Third party administrators	1	2	3	98	99
23	Advisers or investment consultants	1	2	3	98	99
34	Fund managers	1	2	3	98	99
45	Professional/ Independent trustees	1	2	3	98	99
56	Auditors/ Accountants	1	2	3	98	99
67	Solicitors/ Legal advisers	1	2	3	98	99
96	[VERBATIM FROM D1 CODE 96]	1	2	3	98	99

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

Otherwise skip to Section F.

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

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

Ask D4 if two or more of the charges at D2 are re-charged to members partially or in full (i.e. More than two answers at D2_1 to D2_96 = 2 or 3), otherwise skip to Section F.

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

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

READ OUT IF NECESSARY; MULTICODE POSSIBLE

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

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

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

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

READ OUT IF NECESSARY; ALLOW VERY APPROXIMATE PERCENTAGES

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

Section F: Funds under management and transaction charges

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

ASK TRUST BASED ONLY

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

PROBE FOR BEST ESTIMATE, TO NEAREST £

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

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

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

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

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

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

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

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

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

1	Yes	CONTINUE
2	No	GO TO SECTION G
98	Don’t know	GO TO SECTION G
99	Refused	GO TO SECTION G

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

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

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

Section G: Decumulation

G1a When your members retire and enter the decumulation phase, which of the following two options apply?

SINGLE CODE

1	Your members may, if they wish, remain part of the trust-based scheme in the decumulation phase (for example if they choose to remain invested and take lump sums, or they choose a drawdown option)	GO TO G1b
2	Members do not remain part of the trust-based scheme in retirement.	GO TO SECTION H
98	Don't know	GO TO SECTION H
99	Refused	GO TO SECTION H

SKIP TO SECTION H IF NO DECUMULATION OFFERED.

G1b Approximately, what proportion of members choose an option that allows them to remain part of the scheme?

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

G2a Have the scheme members themselves paid <u>any</u> charges relating to decumulating from the pension scheme in the past 12 months?

SINGLE CODE

1	Yes	GO TO G2b
2	No	GO TO SECTION H
98	Don't know	GO TO SECTION H
99	Refused	GO TO SECTION H

G2b Apart from one-off charges such as withdrawal fees, are ongoing charges for retired members the same as the charges you have already outlined for active members?

SINGLE CODE

1	Yes	GO TO G7
2	No	Continue
98	Don't know	Continue
99	Refused	Continue

G3 Over the past 12 months were the decumulation fees paid by members structured as a single annual ongoing charge, or were there a number of separate ongoing charges?

Interviewer note: if necessary remind respondent to focus only on existing members who are currently decumulating.

SINGLE CODE

1	Single annual ongoing charge	Continue
2	Broken down into separate charges	Continue
98	Don't know	GO TO G7
99	Refused	GO TO G7

G4 Wording if G3=1:

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

Wording if G3≠1:

I would like you to estimate, if possible, the total average charge relating to decumulating from the pension scheme paid in the last 12 months by a typical scheme member.

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

MULTICODE POSSIBLE. IF G3 = 98 OR 99 AUTOCODE AS 98 OR 99 AND DO NOT ASK G4

1	% of pension fund	QUALIFY FOR G5
2	Flat fee per member	QUALIFY FOR G6
97	Other (specify):________	QUALIFY FOR G6
98	Don't know	ASK G7a
99	Refused	ASK G7a

<u>G5-G6 LOOP</u>

If more than one answer coded @ G4 read out: As members' charges are charged as a [ANSWER 1] and as a [ANSWER 2] [and as ANSWER 3], I will take each one in turn. First of all…

Programmer note: Ask each of G5 or G6 as relevant, depending on answers to G4 – routing instructions are also repeated below.

ASK G5 TO ALL CODING 1 @ G4

G5 What was the average charge for a decumulating member over the last 12 months, as a percentage of their pension fund?

1	%:_______________
98	Don't know
99	Refused

ASK G6 TO ALL CODING EITHER 2OR 97 @ G4

G6 What was the average fee per member over the last 12 months?

1	£:_______________
98	Don't know
99	Refused

G7a And was there a 'per-withdrawal' charge for withdrawing a sum from their fund (but not all)? If so, what was this?

If needed: These are charges applied when a member is decumulating and makes cash withdrawal from their pension

SINGLE CODE

1	Yes – as a flat fee (£) Write in FIGURE:______________
2	Yes - % of the amount withdrawn Write in PERCENTAGE:_________
3	Yes as a combination of a flat fee (£) and % of the amount withdrawn Write in FIGURE:______________ Write in PERCENTAGE:________
4	No
98	Don't know
99	Refused

G7b And was there a fund selection fee for members? If so, what was this?

If needed: These are charges applied when a member is decumulating and selects different investment funds/makes changes to their investment strategy

SINGLE CODE

1	Yes – as a flat fee (£) Write in FIGURE:______________
2	Yes - % of the pension fund Write in PERCENTAGE:________
3	Yes as a combination of a flat fee (£) and % of the pension fund Write in FIGURE:______________ Write in PERCENTAGE:________
4	No
98	Don't know
99	Refused

G7c And was there an entrance/purchase fee for members? If so, what was this?

If needed: These are charges applied when a member decides to remain in the scheme and starts decumulating

SINGLE CODE

1	Yes – a flat fee (£) Write in FIGURE:_______________	GO TO G8
2	Yes – a % of the pension fund Write in PERCENTAGE:_________	GO TO G9
3	Yes as a combination of a flat fee (£) and % of the pension fund Write in FIGURE:_______________ Write in PERCENTAGE:_________	GO TO G9
4	No	GO TO G9
98	Don't know	GO TO G9
99	Refused	GO TO G9

G8 Over the past 12 months, how many members fully withdrew their fund at retirement?

SINGLE CODE

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

G9 And was there a charge for fully withdrawing their fund at retirement?
SINGLE CODE

1	Yes – as a flat fee (£) Write in FIGURE:______________
2	Yes - % of the pension fund withdrawn Write in PERCENTAGE:________
3	Yes as a combination of a flat fee (£) and % of the pension fund withdrawn Write in FIGURE:______________ Write in PERCENTAGE:________
4	No
98	Don't know
99	Refused

Ask G10 if respondent was unable to supply answers to any question in this section. PROGRAMMER – show codes below if respondent answered don't know at any section.

G10 I wonder your pension's administrator or a colleague would be able to tell you this information. READ OUT INFORMATION MISSING, AND CODE IF RESPONDENT CONFIRMS A COLLEAGUE COULD SUPPLY THIS INFORMATION:

1	Were the decumulation fees paid by members structured as a single annual ongoing charge, or were there a number of separate ongoing charges	Yes	No
2	The total average charge relating to decumulating from the pension scheme paid in the last 12 months by a typical scheme member	Yes	No
3	The average charge for a decumulating member over the last 12 months, as a percentage of their pension fund	Yes	No
4	The average fee per member over the last 12 months	Yes	No
5	The 'per-withdrawal' charge for withdrawing a sum from their fund (but not all)	Yes	No
6	The fund selection fee for members	Yes	No
7	The entrance/purchase fee for members	Yes	No
8	The number of members who fully withdrew their fund at retirement in the last 12 months	Yes	No
9	The charge for fully withdrawing their fund at retirement	Yes	No

Section H: Demographics and close

SKIP TO H4 IF ACTIVE MEMBERS=0

H1 What is the average annual gross pay of your active scheme members? An estimate is fine.

PROMPT FOR BEST ESTIMATE

1	FIGURE:_______________
98	Don't know
99	Refused

H2 Could you tell me what percentage of the active scheme members are women? MUST ADD UP TO 100%

1	% Women:_______________
2	% Men:_______________
98	Don't know
99	Refused

H3 What percentage of active scheme members belongs to the following age groups?

READ OUT MUST ADD UP TO 100%

1	% under 22: __________
2	% between 22 and 50: ________
3	% over 50: _________
98	Don't know
99	Refused

H4 Thanks so much for participating today. Would you like to be e-mailed a summary of key findings when it is available?

PRE-POPULATE EMAIL BY DEFAULT

1	Yes, confirm email address:_______________
2	No

H5 Would you be happy for Critical Research and Breaking Blue to hold your details and re-contact you in the next few months if we need to get clarification about any of your answers?

1	Yes
2	No

ASK H6 IN PILOT INTERVIEWS ONLY, OTHERWISE SKIP TO H7

H6 And would you be happy for a colleague in the DWP research team to listen to a recording of this interview, purely for quality control purposes? If necessary: Just to confirm – it won't be circulated any more widely than the immediate project team.

1	Yes
2	No

H7 And finally, one of my colleagues will be conducting a small number of follow-up telephone interviews in the coming weeks, with a selection of firms, which will be more exploratory, asking about your views and experiences. If you are selected, would you be happy to take part in this short interview?

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

1	Yes	Monitor & discuss rate with Breaking Blue
2	No	

Thank and close.

B.4 Follow-up interview discussion guide

<table>
<tr><td colspan="2">Introduction and Warm-up (2 minutes)</td></tr>
<tr><td>Setting the scene / ground-rules</td><td>Pre-interview: review trustee’s responses to the quant survey, focusing particularly on which charges they are able or not able to report. Delete sections of this guide that to not apply.

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

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

Confidentiality: I can assure you that anything you tell me will be treated in confidence by the Breaking Blue project team. It will not be attributed to you, or your organisation, either in our presentations or in the final project report which will be published by DWP.
Ask for permission to record for our analysis purposes. The recording will not be passed onto any third party and will be destroyed after the project finishes.
Before we start our discussion, do you have any questions?</td></tr>
<tr><td>Introduction</td><td>Just to confirm, my questions today will mostly focus on [SCHEME NAME]

Can I confirm your job title, and how long you have been involved with managing this scheme?</td></tr>
<tr><td colspan="2">Section 2 – Ongoing charge (7 minutes)</td></tr>
<tr><td>Overview</td><td>Review respondent answers to questions C5-7.

• To confirm, you were/were not able to report the annual ongoing charge paid by a ‘typical’ existing member invested in the scheme’s default fund

• Is this something you measure as a matter of course?

If able to provide:

• The ongoing charge was ____________. Is this correct?

• How easy was it to provide this information?</td></tr>
</table>

	• Did you have to check it with someone else? Who? If not able to provide: • Can I ask why you were not able to provide this information? What were the barriers you faced? • Was this a temporary issue? Or would you never be able to provide that information? • If not clear: What would have to happen to enable you to get at that information?
Breakdown of ongoing charge	Review respondent answers to Section D. Only ask this section if multiple services were listed at D1, otherwise skip to Section 3 of this guide. • I see that you were/ were not able to break down the ongoing charge into the different services you've paid for, such as third party administration, investment advice and fund management. If able to break down – highlight which ones to probe on: • I see that you were able to provide information on: ◆ Third party administration ◆ Investment advice ◆ Fund management ◆ Professional trustees ◆ Auditors/ Accountants ◆ Legal advice For each breakdown provided, ask: • How easy was it to provide this information? • Did you have to check it with someone else? Who? • Does the charge vary at all? Under what circumstances does it vary? If no breakdowns provided OR For each breakdown NOT provided, ask: • Can I ask why you were not able to provide this information? What were the barriers you faced?

	• Was this a temporary issue? Or would you never be able to provide that information? • If not clear: What would have to happen to enable you to get at that information?
Illiquids and life insurance	• Overall, what percentage of members' default funds would you say are invested in illiquid assets, for example property, hedge funds, infrastructure, and private debt? • What kind of illiquids is it invested in? (If necessary: by "illiquids", we mean assets which are traded off-exchange or are otherwise less readily tradeable. Examples include direct property investment, investment in infrastructure projects, private equity, equity or debt issued by very small listed firms, and venture capital.) • [Only if not investing in illiquid assets] For your organisation, what are the main barriers to investing in illiquids? • (If necessary): I see you offer bundled life insurance with your scheme. Tell me about that. • (If necessary) Why did you decide to offer it with your scheme?
Section 3 – Transaction Costs (5 minutes)	

	Review respondent answers to section F.
	• I see that you do/ do not attempt/ don't know if your board attempts to measure the transaction costs passed onto members
	If don't attempt to measure them:
	• Have you ever heard the question of transaction costs mentioned?
	• Can I ask why you don't attempt to measure transaction costs? What are the barriers you face?
	  ◆ If not clear: Is this a temporary issue? Or would you never be able to identify transaction costs?
	• Have you ever tried to measure transaction costs? Tell me about that.
	  ◆ If not clear: What would have to happen to enable you to identify them?
	• Have your scheme members ever asked you about reporting transaction costs to them? Has anybody else requested this?

<table>
<tr><td></td><td>If they DO attempt to measure them:
When was the decision taken to start measuring transaction costs? Why was the decision taken?
How easy do you find it to measure transaction costs? What process do you have to go through?
How do you report these to members? Have you had any feedback or questions from them at all? What were these?
Do you face any difficulties in obtaining the info on transaction costs? What are the barriers you face?
If so: What might happen to happen to enable you to identify them more easily?</td></tr>
<tr><td colspan="2">Section 4 – Decumulation (5 minutes)</td></tr>
<tr><td></td><td>How did you find the process of collecting the data on ongoing charges for decumulating members?
Were any elements particularly difficult or problematic? Why was this?
What decumulation offer does your scheme provide to its members?
How will your members gain access to that service?
What is the member’s experience of the move into decumulation?
What information do you give members in general about the move into decumulation?
What information do you give members about the charges that will apply as they move into decumulation?
I see your decumulating members pay a single annual ongoing charge.
OR
I see decumulating members pay… (CROSS OUT THOSE WHICH DON’T APPLY)
An ongoing charge as a percentage of the members’ pension fund and/or as a flat fee per member
A ‘per-withdrawal’ charge (for withdrawing a sum from their fund) as a percentage of the members’ pension fund and/or as a flat fee per member</td></tr>
</table>

<table>
<tr><td></td><td>

- a fund selection fee (charges applied when a member is decumulating and selects different investment funds/makes changes to their investment strategy) as a percentage of the members' pension fund and/or as a flat fee per member
- an entrance/purchase fee (charges applied when a member decides to remain in the scheme and starts decumulating) as a percentage of the members' pension fund and/or as a flat fee per member
- a charge for fully withdrawing their fund at retirement as a percentage of the members' pension fund and/or as a flat fee per member
- Why did you take this approach? What are the benefits, for you and for members?
- And are there any drawbacks to this approach?

</td></tr>
<tr><td colspan="2">Section 5 – Monitoring (5 minutes)</td></tr>
<tr><td></td><td>

- Thinking now about all the information we've asked you for over these two interviews….
- How do you generally go about getting this information? Who do you approach – or what resources do you use?
- How easy is it to get any third parties you might use to share this information with you?
  - How responsive are they? How thorough is the information they provide?
- How long does it take you to gather this information? Does it impact upon your other duties (as a trustee)?
- Do you feel the charges members pay for the different services represents good value for money, compared to other schemes?
  - Whether yes or no: Why is this? What is it about your scheme that means members get better/worse value for money?
  - If necessary: For example the size of your scheme? Or any other factors?
- For automatic enrolment schemes only: How easy do you find it to maintain compliance with the charge cap? Why?
- Have your investment strategies changed at all in response to the charge measures? In what way?

</td></tr>
</table>

	- If necessary: Is there anything you need to monitor to make sure that individual members charges don't go over the cap? What does this entail?
Conclusion (5 minutes)	
Final check	Thanks again for completing the interview, and for all of your help today. • Just to round off, do you expect to see any changes to take place to the pension scheme in the near future? What about the workplace savings market more generally? • What do you think the scheme will look like in 2 years' time? 5 years' time? • Finally, do you have any other comments on what we discussed today? • Would you be happy for Breaking Blue to keep your contact details and for someone to re-contact you if more research takes place in the future? Thank and close.

C Number of members' pension pots covered by the study

C1 2016 research

Table C.1 below outlines the total number of members' pension pots covered across the 14 providers and 237 unbundled trust-based schemes that took part in the 2016 study. Breakdowns by scheme size are also provided for contract-based and trust-based schemes.

Table C.1 Number of members' pension pots covered by the 2016 study

Number of members within the scheme	Qualifying schemes				Non-qualifying schemes				Total
	Contract-based	Master trust	Trust-based	Unbundled trust-based	Contract-based	Master trust	Trust-based	Unbundled trust-based	
Total	**4,254,961**	**6,305,478**	**679,101**	**588,303**	**2,713,529**	**43,558**	**372,619**	**131,548**	**15,089,097**
1-5	23,730	-	243	-	135,678	-	26,238	**-**	**-**
6-11	48,087	-	228	-	158,652	-	17,419	**-**	**-**
12-99	798,471	-	4,010	-	395,681	-	66,390	**-**	**-**
100-999	1,732,375	-	71,328	-	416,337	-	98,324	**-**	**-**
1,000+	1,652,298	-	603,292	-	1,607,179	-	164,248	**-**	**-**

C2 2020 research

Table C.2 below outlines the total number of members' pension pots in accumulation covered across the 20 providers and 32 unbundled trust-based schemes included in the analysis. Results for cells with less than 5,000 members are not shown individually in the body of the report.

Table C.2 Number of members' pension pots in accumulation covered by the 2020 study

Number of members within the scheme	**Qualifying schemes**				**Non-qualifying schemes**			**Total**
	Contract-based	**Master trust**	**Trust-based**	**Unbundled trust-based**	**Contract-based**	**Master trust**	**Trust-based**	
Total	7,769,086	19,076,396	1,052,022	431,951	1,047,547	88,518	312,420	29,777,940
1-5	64,910	5,598,091	232	0	28,841	531	1,674	5,694,279
6-11	148,417	1,214,452	175	0	24,992	1,018	2,396	1,391,449
12-99	1,512,177	4,317,150	3,686	77	122,066	7,334	19,207	5,981,697
100-999	2,834,590	3,180,257	41,231	6,364	112,466	20,468	53,271	6,248,646
1,000+	3,208,992	4,766,447	1,006,698	425,510	759,182	59,167	235,872	10,461,868

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