Consultation Response

Better workplace pensions: a consultation on charging

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This consultation brings forwards the Government's proposals around charges for schemes used for automatic enrolment. These include improved disclosure of information and action to address high or unfair pension charges, including options for a charge cap and a ban on active member discounts and consultancy charging.

The Government's consultation follows a market study from the Office of Fair Trading into defined contribution (DC) workplace pensions which concluded that competition alone cannot be relied upon to drive value for money in the DC pensions market.

About Age UK

Age UK is a charity and a social enterprise driven by the needs and aspirations of people in later life. Our vision is a world in which older people flourish. Our mission is to improve the lives of older people, wherever they live.

We are a registered charity in the United Kingdom, formed in April 2010 as the new force combining Help the Aged and Age Concern. We have almost 120 years of combined history to draw on, bringing together talents, services and solutions to enrich the lives of people in later life.

Age UK provides information and advice to around 6 million people each year, runs public and parliamentary campaigns, provides training, and funds research exclusively focused on later life. We support and assist a network of 170 local Age UKs throughout England; the Age UK family also includes Age Scotland, Age Cymru and Age NI. We run just over 450 Age UK charity shops throughout the UK and also offer a range of commercial products tailored to older people.

Key points and recommendations

- Only a charge cap set ultimately at 0.5 per cent would meet our objectives of both preventing excessive charges and challenging pension providers to continue to drive costs down and deliver better value for money for pension savers. As the OFT concluded, competition in this particular market cannot be relied upon to deliver this.

- We are not convinced that a comply or explain regime is a workable solution

- We fully support a ban on active member discounts, consultancy charging and commissions, which should be implemented at the earliest opportunity

- We want to see legacy schemes brought within whatever charge cap is set. We would urge the Government to use the powers contained within the Pensions Bill to limit charges under legacy schemes, at the earliest opportunity.

1. Introduction

We welcome the Government's intention to take action on charges, following on from the Office for Fair Trading's (OFT) market study into defined contribution workplace pensions. In an automatic enrolment environment it is important that all consumers can be assured that the pension they are being enrolled into is good value and good quality.

We would agree with the conclusion that the OFT has come to that competition alone cannot be relied on to drive value for money for consumers and so we support moves by Government to intervene to ensure good outcomes for pension savers.

Whilst we accept that the initial focus is, quite rightly, on qualifying schemes used for automatic enrolment we are equally concerned about those consumers in existing pension plans. As the OFT study highlights, there are around £30 billion of contract and bundled trust based assets being left in schemes with charges at risk of being poor value for money.

Ultimately we want to see any charging regime applied for all pension schemes so every consumer saving into a pension can be assured that they are getting good value for money.

The primary objective for any cap on charges regime must be to eliminate the possibility of anybody paying excessively high charges. But given the OFT's conclusion around the fact that competition cannot be solely relied on to drive value for money Age UK thinks that it any cap should also pursue a secondary objective – that is, to challenge pension providers to continue to drive costs down and deliver better value for money for pension savers.

In terms of the scope of any charge cap, we agree with the focus on default funds and the need to exclude any fund that provide guarantees although we recognise the challenge this would present in applying the cap across legacy schemes where the default fund is not so easy to identify.

Questions

2. Is further action required by government to improve disclosure and if so which of the options should be introduced? Are there any other options?

3. How might the total cost of scheme membership including transaction costs be captured, what would be reasonable and practical to ask providers and investment managers to report on and to whom (members, employers and governance committees/trustee boards)?

We think there is a need for further action by Government to improve disclosure around charges and agree that making more information available at the point of sale would be useful, especially for smaller employers who are far less likely to have ready access to advice.

Whilst the development of a code of conduct would be helpful, since it would not be binding our preference would be for mandating disclosure to employers and specifying a standardised format. In our view only mandation would ensure all pension savers were receiving consistent and standardised information. Standardising requirements across contract and trust based schemes would also be important. As people are likely to have on average 11 jobs it is probable that they will move between contract and trust based schemes and so a greater degree of consistency would be useful.

While it is unlikely that the majority of individual scheme members would be interested in or gain much by receiving information around transaction charges, it is important that this data is publicly available both in the interests of transparency and for those scheme members that would want to see this information. It would also be useful to enable analysts to monitor if costs are shifted from the headline charge on to transactions.

Requiring information to be given only to governance committees and trustee boards is not enough, given that we remain to be convinced that the ABI's approach towards independent governance committees will deliver truly independent bodies that will be sufficiently robust in pursuing member's interests.

5. Which of the three options for a cap is the most appropriate?

Charge caps set at either 1 per cent or 0.75 per cent are not in our view ambitious enough and whilst they might meet the primary objective of eliminating excessive charges they would not meet our secondary objective of challenging providers to drive costs down.

As the consultation document points out the 1 per cent stakeholder charge cap has acted as a benchmark in the past - but since then pension charges have been falling and we have seen the entrance of a number of schemes charging around 0.5 per cent, without compromising on quality. We therefore argue that in terms of meeting our second criteria the level of any charge cap should ultimately be 0.5 per cent. The Government should also set in place a regular review process to allow the cap to be reduced as the market becomes more efficient.

We have considered the 'comply and explain' option carefully and do not support it because it is clear that the market can already support a charge cap. We also have concerns that comply and explain is not workable. Whilst we can see the attraction of such an approach we do not see how this approach could be effectively monitored, especially given the differences in approach in terms of regulation between the Pensions Regulator and the Financial Conduct Authority.

We assume that 'comply or explain' would require a regular review to ensure that any additional charge, above the 0.75 per cent was still delivering sufficient value to be warranted. For any schemes which were not doing so – what mechanism would be put in place to redress the detriment members had suffered if the additional charge was found not to be justified?

6. Under option 3, what conditions would you expect for schemes levying a higher charge between 0.75 per cent and 1 per cent?

As explained in our answer to question 5 we do not favour a comply and explain approach as we do not think this is a workable solution. If this approach was used, our expectation would be that the conditions in terms of scheme quality should be set at a very high level that equates to the very best practice - so in effect 'explain' would be the exception rather than the rule. Our expectation would be that schemes could only justify a higher charge if they were delivering demonstrably better member outcomes. We would expect standards to be set around governance; member communication; level of employer contribution and investment alignment with member interests.

9. If a cap is introduced, what if any changes should the Government consider in respect of the stakeholder charge cap

Ultimately we think that any charge cap should apply to all pension schemes, although we accept that some transitional arrangements are likely to be necessary. The Government should change the stakeholder charge cap to align with any cap on qualifying schemes for automatic enrolment.

10. Are there any alternative options to capping charges that would provide protection for scheme members?

No – we are of the view that ultimately only a charge cap will provide sufficient protection for all scheme members.

12. Should transaction costs be included within a charge cap?

No, we do not think it would be appropriate to include transaction costs within a charge cap. To include them might prevent a scheme from making an entirely legitimate investment decision or re-allocation. As stated above, we would support their inclusion in the disclosure requirements.

14. Are there any specific services that may need to be excluded from the cap to avoid constraining innovation, for example, in respect of annuity broking services?

We would support the exclusion of annuity broking services from the cap. It would seem unfair for members to be potentially paying for such services for a number of years, within potentially more than one scheme and ultimately not use them. It would seem fairer for any charges of this nature to be made at the time of use.

AMDs, consultancy charges and commissions

We fully support a complete ban on active member discounts, consultancy charges and commissions since none of these practices can in our view be justified in terms of delivering demonstrably better outcomes for the people who pay these charges – i.e. the individual scheme members.

Whilst we accept that there may be a need for some transition arrangements we must move to a complete ban at the earliest opportunity. Wherever possible any savings made from a ban on commission should be passed on to individual scheme members.