Department for Work and Pensions
Caxton House
Tothill Street
London
SW1H 9NA

12 July 2021

Dear Sir or Madam,

Re: Permitted charges within Defined Contribution schemes

I am writing in response to your current consultation on pension charges. Age UK broadly supports the proposal to create a standardised framework for charges, which we believe will help employers compare across pension schemes and assist them in choosing the best value scheme for their employees. Applying this equally to active and deferred members will benefit many savers, in particular lower earners who move jobs frequently and have a greater number of small pension pots – this is a sensible precursor to bringing more gig economy workers into pension saving, which we hope will happen in the near future whether via the legal system or policy makers.

We agree that it is inappropriate to charge a flat fee on the smallest pots, and it is a sensible approach to set a 'de minimis' level below which these charges cannot apply. A level higher than £100 should be considered, as this will give greater value to holders of the smallest pots.

However, reforms to pension charges bring with them a number of risks to savers, which we are concerned are not being fully considered. It is vital that pensions deliver the optimum long-term outcome for savers, and in conjunction with other reforms currently being pursed there is a real opportunity to improve consumer engagement with and knowledge of pensions.

One such risk is borne out through the Government's inconsistency about relaying information on charges to savers. While this measure should increase transparency, it makes little sense – and surely undermines the policy intention – to simultaneously omit information on charges from both the pension dashboard and the simpler annual statement.

We are concerned that the Government is siding with industry arguments for and against displaying charges in different contexts, while there is little recognition of the risks for consumers. In what was famously described by the Office for Fair Trading as being "one of

Age UK
Tavis House
1–6 Tavistock Square
London WC1H 9NA

t 0800 169 80 80
f 020 3033 1000
e contact@ageuk.org.uk
www.ageuk.org.uk

the weakest markets [we have] analysed”[i], there are still significant issues with competition on both the saver and employer sides, and there is significant scope for industry to exploit this.

Furthermore, we are particularly concerned with the tone of questions 14 and 15 in the consultation paper. The ‘lifetime provider’ model (which by other names), where an individual can choose to take their provider from employer to employer as they move jobs, was firmly rejected by the Small Pots Working group as being inappropriate for the auto-enrolment environment.

Age UK is firmly opposed to moving in this direction and gravely concerned that the DWP is seemingly trying to slip this in through the back door. If allowed, serious damage would be done to pension saving – if higher-earners (who are more profitable for firms and more likely to be engaged in their saving) were allowed to switch providers it would split the pension market into the haves and the have-nots. Lower earners, who are less desirable customers for providers, would be left in employer-selected schemes, incurring higher charges as the element of cross-subsidisation would be removed, and be left with fewer options to maximise their retirement income.

The fairness of auto-enrolment would be undermined which could lead to a breakdown in trust and ultimately a reduction in private saving as more people opt-out – not to mention higher charges meaning reduced retirement income for most of the general public.

There would also likely be issues for employers, for example having to deal with multiple providers through their payroll, which could be particularly burdensome for small employers. Managing this would require some of ‘clearing house’, something that was rejected for cost reasons while auto-enrolment was being established. Also, employers that negotiate charges directly with schemes would find their bargaining power reduced, potentially significantly.

Allowing employers to make their contribution to non-employer selected schemes should not be allowed, and we hope the DWP will reject this idea.

Yours faithfully,

Christopher Brooks
Head of Policy, Age UK

[i] Office for Fair Trading (2013) https://webarchive.nationalarchives.gov.uk/20140402194810/http:/www.oft.gov.uk/shared_oft/market-studies/oft1505 Although much has changed since this report was written, the fundamental lack of competitive pressure from both the employer and saver sides still very much exists.