

Civil Service Defined Contribution Pensions Provider Consultation

Prospect submission to the Cabinet Office on proposed appointment of single provider of Civil Service Define Contribution Schemes

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INTRODUCTION

1. This is Prospect's response to the consultation on the Cabinet Offices procurement exercise, as scheme manager, to identify a single provider for the Defined Contribution (DC) Civil Service Pension provision.
2. Prospect welcomes the Cabinet Office as Scheme Manager reviewing the DC provision in the Civil Service Pension Scheme. This is completely justified and appropriate due to the considerable developments in DC pensions since the original scheme was introduced such as 'pension freedoms' and reductions in annual management charges. Prospect supports the introduction of a lower annual management charge for members as this will boost members retirement pots at retirement without extra contributions.
3. We hope this submission shows the importance Prospect places on engaging with the Cabinet Office on changes to our member's pensions. Please get in touch if you would like to discuss any of the issues raised in greater detail.

SUMMARY

4. There are a number of areas that will be affected by Cabinet Offices proposals.
5. **Scheme Organisation.** We are happy that the Cabinet Office is seeking to replace the current multi-providers with a single provider if this puts the scheme managers in a stronger position to achieve lower charges for members. The arrangement will see a master trust made up of two schemes; Partnership Scheme and AVC Scheme.
6. **Charges.** An important aim of these reorganisation and procurement exercise was to ensure competitive charges. Prospect welcomes the 'material change' on the level of charges the Cabinet Office has achieved with Legal & General's bid, compared to the status quo. This reduction should have a material impact on the size of member's pension pots at retirement.
7. **Investments.** We understand that further guidance regarding investment strategy of members' pots and the defaults will take place. We encourage engagement and transparency in the considerations for the future investment strategy giving the changing landscape of DC pensions.
8. **Legacy pensions and transitional arrangements.** We understand that transitional arrangements will be put in place to identify members who would lose out from moving to the new provider and allow them to continue with their current provider. We understand that different members will have different default options with regards to transferring accrued pension. We welcome the scheme managers identifying members who will lose out and encourage the arrangements to allow members ample time to make their decision before defaults occur.

DETAILED ISSUES

9. There are number of key components of the proposals which we would like to comment on.

- Single Provider and Master Trust

10. Prospect notes the Cabinet Office evaluated that the multi provider status quo failed to provide competition between providers. As a result it did not improve outcomes for members as it had intended.

11. We support the rationale that replacing the multi-providers with a single provider puts the scheme managers in a stronger position to achieve lower charges for members through economies of scale a single provider achieves.

12. The Cabinet Office has committed as Scheme Manager to greater dialogue with the new single provider than has existed between the multiple providers. Prospect agrees that the rationalising of the provider will enable the Cabinet Office to improve its exercising of its duties as scheme manager. Prospect would like to have regular updates about DC issues at meeting of the Joint Committee on Superannuation (JSC).

- Charges

13. The current annual management charges of the providers are above the current market rate for charges for occupational pension schemes of the scale of the Civil Service DC provision.

14. We understand that due to commercial agreements the annual management charges of the bids cannot be disclosed. As a result we are unable to comment specifically on the charges achieved with the Legal & General bid.

15. The defined contribution pension market has grown in recent years and the level of annual management charges in the market has declined. Given the low annual management charges we are aware that comparable schemes have been able to achieve. The reduction should have a material impact on the size of member's pension pots at retirement.

- Investment Strategy

16. We understand that further guidance regarding investment strategy of member's pots and the defaults will take place.

17. We encourage engagement and transparency in the considerations for the future investment strategy giving the changing landscape of DC pensions.

- **Legacy pensions with current providers and transitional arrangements**

18. The consultation has requested comments on the transitional arrangements for members' with specific reference to what we would like to see from the Scheme Managers and the new provider up to and after the transition.

19. We welcome that the Cabinet Office will be identifying members who would incur a financial loss by switching to the new provider. We welcome the commitment to allow those members to continue contributing to their current provider beyond September 2018.

20. Prospect would like to ensure that the transitional arrangements allow our members adequate time to consider whether they wish to accept the default option of transferring or not transferring their accrued pension.

21. We are also anxious that the default transfers from the old to new providers are undertaken as promptly as possible to ensure member's funds spend minimal amounts of time out of market. Time spent out of market could result in bad outcomes for members from the transfer.