



Permitted Charges within Defined Contribution Pension Schemes

Submission by Prospect to the Department of Work and
Pensions

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www.prospect.org.uk

Introduction

1. This is Prospect's submission to the Department of Work and Pensions consultation on Permitted charges within Defined Contribution pension scheme.
2. Prospect represents over 150,000 members in specialist, professional and technical roles across the private and public sectors. Our members are a diverse range of professions, including energy, science, engineering, heritage, defence, entertainment and digital.

Background

3. The consultation covered proposals on new provisions for de minimis and a proposed universal charging structure.
4. The Ministerial foreword notes that *"particularly those that regularly undertake short-term employment and change jobs frequently, there is a greater likelihood that they will be automatically enrolled into new workplace pensions a number of times. It is this group we are seeking to help by the measures set out in this consultation. We know that pension providers must be able to charge members for the services they provide, and this measure will only apply to pensions schemes which use a flat fee combination charge, and will only be applicable to pots valued at £100 or less. Providers using this type of charge may continue to charge members the percentage charge element, as is the case now."*
5. The foreword goes on to explain that the Minister believes *"that moving, in the future, to a single, universal charging structure could make a significant difference to the transparency of charges, make comparison easier, and unlock greater choice for members"*.

De minimis

6. Prospect is supportive of the application of de minimis proposals as a positive step for pension scheme members. However, we are concerned that this policy making is not addressing the root cause of the problem and is instead addressing a symptom of a wider issue.
7. The original proposals for auto-enrolment included the creation of a pot-follows-member system which was abandoned before this came into effect. We are supportive of revisiting this proposal to solve the problem of the accumulation of multiple small pots. The rationale for the halting of the coalition government era proposal was that members have a statutory right to transfer. However, this rationale does not fit the reality of member engagement with pensions, and inertia which the success of auto-enrolment has built up.
8. We hope that implementation of the Pensions Dashboard will allow consumers to better engage with their pensions built up with numerous employers and consider consolidation.
9. We do not have responses to add on the technical questions raised on the application of this proposal and the drafting of the regulations.

Single universal charging structure

10. Prospect is concerned at the unintended consequences of implementation of a single universal charging structure. We have responded to questions on this section of the consultation below. Whilst clearly charges are important to the value of members' pensions at retirement, we do caution that charges shouldn't be the only factor that schemes are judged upon.

Question: Does the current system impede members from carrying out a comparison of costs and charges between different schemes? If so should the system be reformed to allow for simple price comparison of costs and charges?

11. It can be difficult for members to compare the costs and charges between different schemes which operate different charging structures.
12. However, as workplace pensions are provided by employers, ensuring competitive levels of charges could be solved through responsibilities for employers to competitively review their pension arrangements. Along with encouragement of members to consider consolidating pension pots where their current workplace pension offers better charges.
13. Providers should be encouraged to provide comparisons, even if those comparisons show they have higher charges than competitors.
14. There has been a failure in this consultation to demonstrate that easier comparison of charges would result in better member outcomes or to explore the unintended consequences of such reform on member outcomes. The encouragement of consolidation of 'pension pots' as individuals change employers and employers offering competitive workplace pensions that are better than an individual would be able to get is the answer to getting better member outcomes.

Question: Do you agree that the Government should move to a universal charging structure within the default fund arrangement? If so how best could the Government implement this change in order to manage the impact on the industry and members?

15. Prospect does not support the universal charging structure. We are concerned of the unintended consequences of moving to a universal charging structure. We believe that the system should not be simplified to enable easier comparison if this has the effect of reducing price competition and stifling innovation that could lead to lower charges.
16. We are concerned that a universal charging structure could be restrictive to providers offering competitive charges to all consumers. We are concerned that universal structure would mean that charges would not be a fair representation of the actual costs incurred to administer different members individual pensions.

Question: Are there other ways, besides changing the charging structure, that could make a significant difference to member comprehension of charges and encourage improved member engagement?

17. At Prospect we promote the importance of workplace to our members and encourage them to proactively engage with their pension during their working life. On charges, we believe that members find a percentage difficult to comprehend when compared to a cost in cash terms. We believe illustrations that provide an example of estimated amount providers expect their pension to be worth at retirement and the cost of charges they expect to levy could be helpful to improve engagement.
18. Whilst we are supportive of member comprehensive and engagement in pensions, on the basis that it would drive members to make decisions based upon charging structures that exist. However, we are concerned that this policy could counter intuitively negatively affect pension consumers by preventing charges from being driven down through rigid rules on charging structures.
19. We would encourage the department to look at cost transparency of what charges are collectively spent on, to drive down waste and inefficiencies.

Question: What other risks exist for members who may choose to make decisions on which occupational pension scheme they should save into, based purely on the level of the charges they may pay?

20. There is a risk that a focus only on charges could lead to neglecting the quality of the pension provision provided.

Question: Will this proposal to move to a single charging structure change the way employers select the pension scheme they use for automatic enrolment and would an employer continue to pay their 3% minimum contribution if the employee decides to move their pension savings to a different provider?

21. We are a trade union operating in a diverse range of industries, with differing standards of pension provision. We have experience of members at smaller employers, whose employer has agreed to contribute to a scheme of the member's choice. However, we are aware that this can cause issues in the contributions being remitted and the amounts not reflecting changing statutory minimums under auto-enrolment. On a larger scale, this could be administratively difficult for employers to administer accurately and efficiently. This consultation has prompted comparisons between pension providers and banks. However, there are important differences between paying wages to employee's bank accounts, to paying pension contributions to pension providers. Unless there is a standardisation of software for paying pension contributions that would allow contributions to be seamlessly remitted, this would be administratively difficult. This could as a couple of our members have experienced, lead to errors.
22. We are concerned that should the government pursue a policy of individualism in choice of workplace pensions, that this could undermine the economies of scale that allow employers to get competitive charges for their staff. This individualism could result in industry cherry picking individuals with highest earnings and largest pension pots.
23. We do question the premise that individuals could get a better offer from pension providers on an individual basis. We believe that if this is the case, then this shows failings of employers to get the best pension possible for their staff.

Question: Do employers who are choosing a pension scheme routinely negotiate the level of their own charges with the provider, and if so what impact may this have on the employee's contributions?

24. As previously stated, our members are employed across a range of industries with varying standards of pension provision.
25. We believe that many of the large employers who we have recognition with do routinely negotiate with their provider to get lower charges or competitively tender their pension provision. The charges for DC schemes have been driven down by competition and increased economic of scale due to auto-enrolment. We are aware of providers charges members only an 0.26% annual management charge.
26. The Pensions Regulator initiated consolidation of trust-based schemes has led many employers with trust-based schemes to review their arrangements and ensure they are offering value for members. This shows the positive effect that the TPR and FCA can have at addressing systematic inefficiencies in the pensions industry that are preventing value for members.
27. We are concerned that smaller employers who are providing group personal pension plans may have not competitively reviewed their pension provision. We believe the solution is not a single charging structure, but an encouragement from TPR and FCA to ensure where pension provision is set up by employers that is periodically reviewed to ensure value for members.