



THE SOCIETY OF PENSION
PROFESSIONALS

making pensions work

By email only: pensions.charges@dwp.gov.uk

Department for Work and Pensions

13 July 2021

Dear DWP consultation team

SPP Response to consultation on Permitted charges within Defined Contribution pension schemes

We welcome the opportunity to respond to this consultation.

Key Messages

We support the principle of removing flat fees from very small pots in order to improve member outcomes by protecting pots from erosion. As with most changes to pensions legislation there are resourcing costs as well as financial implications for those affected. For that reason we would recommend a delay in the implementation of these proposals. The concept of a universal charging structure could lead to benefits to members but it will also have a profound impact on the provider market and so we urge the Government to give serious consideration to the feedback received on this matter.

Detailed Response

1. Do you agree with our proposal that the de minimis should apply to all active and deferred pots? If not please outline why.

Yes – we agree that the de minimis should apply to all pots irrespective of active or deferred member status. We would suggest consideration is given to arrangements outside of qualifying workplace pension arrangements as charges eroding small pots are likely to be an issue here.

2. Do you envisage any challenges for members and providers if the de minimis is applied to multiple pots within the same scheme?

We believe this approach (to apply the de minimis across pots within the same scheme) makes sense, but note that some older or legacy schemes may require significant IT changes to accommodate this. There may also be GDPR and data security issues if such information is required to be shared. For these reasons, we note that although we are in principle in favour of it implementing this proposal could introduce significant costs.

The Society of Pension Professionals

Kemp House, 152 – 160 City Road, London EC1V 2NX T: 020 7353 1688

E: info@the-spp.co.uk www.the-spp.co.uk

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3. Would proposed implementation in April 2022 create any business or operational challenges?

The pensions industry is currently working on the implementation of various items of legislation (including the pensions dashboard, simpler annual benefit statements and value for money and consolidation), meaning further requirements are likely to lead to operational challenges. Communications to employers and members need to occur ahead of implementation, and it is important that these are factored into the timeline and are not rushed. We recommend April 2023 as an adjusted implementation date.

4. Does the draft Occupational Pension Schemes (Charges and Governance) (Amendment) Regulations 2021 achieve the policy intent for implementing the de minimis?

We believe they do, but request you consider whether regulation 5 (3) (b) of The Occupational Pension Schemes (Charges and Governance) Regulations 2015 should also be in scope and/or referenced.

5. What are the full financial costs of adopting the de minimis for your business? Please outline which costs are one-off or ongoing. Please outline how many pots will be affected within your business and the types of members who own these pots below £100?

This question is not directly applicable to us as a society and note our constituents may cover this in direct responses.

6. What are the non-financial or indirect impacts to businesses and members? Please outline how many pots will be affected within your business and the types of members who own these pots?

As above this is not directly relevant to us as a society, but if a de minimis on flat fees stops small pots being eroded by charges then clearly that is a positive impact for members. And a corollary of that for pension providers is that their reputations may improve.

7. In introducing a de minimis the policy objective is not intended to inhibit scheme consolidation of multiple deferred small pots. Could you tell us if you think there would be any impact?

We believe a de minimis might impact consolidation if it leads to situations where providers refuse to take on pots which have become unprofitable because of the de minimis limit.

8. Do you think that members (in particular AE) have an understanding of your scheme costs and charges? If so, what evidence do you have to support this?

Member understanding of costs and charges is perceived to be poor, although we have no material evidence of that (although we note that within the industry research is taking place on this). A universal charging structure should help with that.

9. 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?

We agree that the current system can impede members from carrying out a proper comparison of costs and charges between different schemes. A uniform structure would make things easier to compare.

10. 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?

There would be benefits to doing this as set out above in terms of comprehension and ability to compare, but moving to a universal charging structure will incur significant set-up costs for providers, as well as changing the viability of some business models. Giving enough notice to adjust is a key factor – and this adjustment might require several years.

11. What are the benefits of standardisation for other government initiatives such as simpler statements and the pensions dashboard?

We think that a universal charging structure can only be positive for other initiatives such as those mentioned since this could lead to greater understanding of charges and ability to compare.

12. 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?

We have no comment about this.

13. 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?

It is worth noting here that it is almost unheard of for members to choose their occupational scheme. Generally a member's ability to influence choice of provider is low as it is selected by their employer. Deferred members may want to transfer their very small pots to other schemes with lower charges (notwithstanding issues around the cost of doing so etc.) but active members receiving an employer contribution effectively have no choice about where they save without foregoing the employer contribution.

Given this, we do not understand this question.

14. 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?

It is possible that if all providers are operating under a universal charging structure then employers with certain workforce demographics would choose a different provider than they would otherwise. As above, the employer has a duty to pay into the arrangement they designate if the member doesn't opt out, but the employer dictates the arrangement and whether they would contribute to alternative schemes for employees. So the presumption that an employee can decide to choose an alternative provider for their pension savings and continue to receive the employer contribution seems unrealistic to us. In theory, a member could keep sweeping out funds to another provider, which is undesirable to the workplace arrangement. Generally however this is extremely rare and the preserve of those who are very financially aware..

15. 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?

It depends on the provider. Our understanding is that provider charges for mass market AE are fixed with no room for negotiation. This generally has no impact on employee contributions, although some providers do offer a discount on charges if an employer pays a fee, and so it is theoretically possible that in doing this the employer allocates funding that could go to a pension contribution.

Response ends

Yours faithfully

Martin Willis

DC Committee, SPP

Tim Box

Chair, DC Committee, SPP

Fred Emden

Chief Executive, SPP

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