

November 2012

# Pension Charges Made Clear: Joint Industry Code of Conduct

Telling employers about DC pension charges



**In Association With**



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## Introduction

1. This Code of Conduct has been developed jointly by pension providers and groups representing consumers, employers and employees, to help employers understand the impact of charges when choosing a pension scheme for their employees. It is an important building block for improving transparency and general communication around pensions.
2. The purpose of the Code of Conduct is to:
  - Provide information about charges to employers in a form they can understand, as part of good transparent practice;
  - Allow a more ready comparison of charges and services so that employers and trustees are able to act as well informed customers.
3. The Code of Conduct outlines the requirements which organisations providing pension services and advice to employers should follow when discussing charges. The requirements for the disclosure of charges to employers under this Code do not replace any existing regulatory requirements on disclosure which may apply to trust-based schemes, contract-based providers, advisers or fund managers.

## Telling employers about DC pension charges

4. The purpose of the Code of Conduct is to enable employers to make informed choices about which scheme to use for automatic enrolment. The Code does this by ensuring that charges are presented to employers in a consistent way that will help them understand the impact charges may have on the retirement incomes of their employees and so that employers understand which charges they will have to pay themselves.
5. The Code's key elements are:
  - A **requirement that all charges are clearly and accurately stated in writing** to an employer before the employer makes a choice of pension scheme; and
  - A **standard template summarising the services to be provided** by the pension arrangement; and
  - Provision (either directly or through access to a web-tool) of clear **examples of the effect of charges** on the pension pots of employees.
6. Each of these is discussed in more detail below.

## Scope of the Code

7. The Code is intended to apply to all parties providing services to employers in setting up and administering pension schemes including:

- Insurance companies providing contract-based pensions and Master Trusts;
  - Trust-based schemes including NEST and multi-employer schemes;
  - Financial advisers;
  - Employee benefit consultants; and
  - Other professionals providing paid advice on setting up a pension, such as accountants.
8. The responsibilities of each of these parties are stated throughout this Code.
9. The Code also applies to unbundled trust-based schemes. Paragraphs 30 – 33 below set out how these types of arrangements should use the Code.
10. The Code will apply to the default fund(s) used for automatic enrolment purposes for all workers, whether they qualify under auto-enrolment or whether they choose to opt-in to a scheme.
11. **What the Code cannot do in isolation is to help employers choose between different forms of product proposition.** For example if a scheme is offering a specific investment or governance approach, whether cheaper or more expensive than alternative propositions, then employers need to be aware the Code is only a tool for comparing the costs of delivery and ascertaining the nature of services included in those costs. Where the same or similar services are being offered, the quality of services provided may differ. Many factors will be involved in making a scheme decision, of which charges are an important concern.
12. Advisers and/or consultants can play a role in assisting employers compare pension schemes based on the characteristics of their workforce and can help employers determine which proposition is best for them and their employees. Advisers and consultants should follow the Code as a minimum, but may wish to provide additional information to employers about the other factors they should consider when picking a pension scheme.

## How to follow the Code

13. The organisation making the arrangement with the employer will be responsible for providing clear and accurate written information about charges and services to employers in a “Summary of Charges” document. A template Summary of Charges document is provided in Annex A. Paragraphs 26 to 29 specify how the Summary of Charges document must be completed.
14. In cases where employers use an adviser or consultant, the adviser/consultancy providing advice on the selection of the automatic enrolment scheme needs to complete the Summary of Charges document and discuss the document with the employer (In this case Version 1 of the template should be used).
15. In cases where employers deal with pension providers directly, the pension provider will need to complete the Summary (in which case Version 2 of the template should be used).

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16. Each participant in the chain (including fund managers and/or third party administrators) should provide clear, concise and complete information on their own charges when requested by advisers/consultants. This information should be provided in such a way that enables advisers/consultants to readily complete the Summary of Charges document and to ensure that it is accurate.
17. The following principles apply for the Summary of Charges document:
  - The Summary should be provided to the employer at a point in the process which allows the employer time to reflect and consider other options.
  - The Summary must present charges payable by the employee separately from those payable by the employer and in the format specified in the template in Annex A. Transaction costs must also be shown separately as prescribed in the template.
  - The Summary must specify whether charges are one-off or recurring. Where they can be accurately stated in cash terms they should be (it is recognised that some charges will be, for example, a percentage of the pot and cannot therefore be accurately stated in cash terms in advance).
  - Where costs shown in the summary are subject to variation this should be clearly stated.
  - The Summary must include ALL charges. If, exceptionally, the scheme involves any charge which cannot be expressed in the format of the template then it should be added in free text.
  - The Summary of Charges may be presented as a stand-alone document or as a distinct section of the product/scheme material. If included within other product/scheme material, it must be clearly signposted in the contents pages. Where applicable, the Summary may signpost employers to the website/s (or other sources) where they can find more information or explanation, for example about transaction costs for the products or investments they are considering.
  - The Summary may be presented either in hard copy format or electronic copy, according to the needs of the employer.
  - Contact details of the organisation producing the Summary of Charges must be included in the Summary of Charges document when presented as a stand-alone document.

### **Providing examples of the effect of charges on employees' pension pots**

18. It is important that employers are able to understand the effects of charges on the pension pots of their employees. Examples of these effects should be provided to the employer either directly by their adviser or provider or through the use of a web-tool which is being developed in discussion with the Working Group.
19. The web-tool will be available free of cost on the web for use by employers, advisers and others who are interested. Users will be able to:

- Input the charges they have been quoted by any number of providers; and
  - See examples of how these charges might affect a typical workforce; and
  - Tailor the examples to the characteristics of their own workforce (in relation to age, earnings level, likely duration of employment, etc.)
20. The web-tool will then produce examples that show how the quoted charges may affect the pension pots of typical members of that workforce. These examples will be consistent graphical representations of the impact of charges on a pension pot, which could take the form of the pie chart examples in Annex A.
21. The following paragraphs describe how these examples will be provided in different circumstances:
- **Where a professional pensions or financial adviser or employee benefit consultant is advising the employer** the adviser should use the web tool to produce appropriate examples of how the charges may affect the pension pots of typical employees based on what he/she knows about that employer's workforce. In this case, Version 1 of the template should be used.
  - **Where a pension provider is dealing direct with an employer**, Version 2 of the template should be used. A link to the web tool should be provided so that the employer can use the tool themselves to obtain suitable examples. If details of the employer's workforce are known any examples generated may be based on those details.

## What counts as a charge

22. The "charge" refers to the total effect of all charges that are paid from the pots of scheme members (including both current and past employees). For the avoidance of doubt this includes all costs which count as 'ongoing costs' under the UCITS directive and all 'additional expenses' in insurance-based funds. In accordance with current FSA rules, trading costs on the investment portfolio should not be regarded as a charge. The organisation completing the Summary of Charges document (whether a provider, adviser, or consultant) should, as shown in Annex A, state transaction costs as disclosed by an investment manager in line with the IMA guidance on enhanced disclosure of fund charges and transaction costs. It may also include a link to where more detailed information about the breakdown of transaction costs can be found.
23. Where any consultancy or advisory charges are to be paid by scheme members, the consultant/adviser should take responsibility for ensuring the agreed charges are reflected in the examples. This must be shown as a separate element, as demonstrated in the templates in Annex A. Employers must be made aware of the potential total effect of such charges on employees' outcomes. The web tool will enable advisers to produce examples which demonstrate this effect. (If, exceptionally, the structure of a consultancy charge agreed with an employer does not fit the format in the Annex then the web tool will not be able to show its effect. In this case the adviser should amend the template to say that the effect of the consultancy charge is not included in the example and that it will further reduce the employee's pot.)

24. A suitably qualified person or body within the organisation with the authority to sign-off corporate and/or external documents should take responsibility for signing off the Summary of Charges document on behalf of the organisation.

## **What services are included**

25. The Summary of Charges document must contain a table summarising what services are provided and whether these are included in the provider's stated charge. Descriptions of services must be factual and must not include any irrelevant or misleading information. The format should be as in Annex A, but providers and advisers are free to add further lines to mention services not specified in the template.

## **Format of the Summary of Charges**

26. Annex A contains the required format for summarising charges, for providing examples of their effect on an employee's pot and for listing the services included. This format has been market tested with employers and corresponds to the format which will be generated by the web-tool. Over time, improved formats may be developed as part of the web-tool.
27. The text included in the template in Annex A is an example of the kind of plain English, jargon-free language which should be used when presenting information about charges to employers. The wording in the template should always be followed except where, because of the particular features of the pension being described, it would be misleading to do so. Further brief explanatory text may be added where essential but this should not significantly increase the length of the summary. Where, exceptionally, any more lengthy explanation is thought essential it should be added as a supplementary note or web link suitably signposted, rather than being incorporated into the main text.
28. Where an adviser/consultant is presenting a shortlist of pension schemes to an employer, the adviser/consultant may adapt the appearance of the template so that all schemes can be compared within one document.
29. The Summary of Charges document may feature unique branding and/or company-specific colour schemes, where appropriate.

## **Applying the Code to Unbundled Trust-Based Schemes**

30. The Pensions Regulator has indicated that DC schemes that can demonstrate value for money and transparency around charges are more likely to deliver good outcomes and therefore all types of DC schemes, including unbundled trust-based schemes, should follow the Code.



Although these types of arrangements are often tied to a specific employer(s), it is nonetheless important that the sponsoring employer and trustees understand the total charges paid by the employer and/or scheme members.

31. Unbundled trust-based schemes should complete a Summary of Charges document when:
  - Considering options for complying with the employer duties under automatic enrolment; and/or
  - Reviewing or re-broking contracts with advisers, consultants, service providers, and/or third party administrators.
32. The Summary of Charges document should be used to facilitate a discussion between the scheme and the sponsoring employer and should feature on the agenda at the next trustee meeting following its production.
33. The Summary of Charges document should be completed by a suitably qualified senior person such as a scheme manager or scheme secretary. Unbundled trust-based schemes may also delegate responsibility for compiling the Summary of Charges document to their adviser or consultant.

## **Changing charges over time**

34. It may be the case that the charges, or what is included in the charges, will change after employers have entered into an agreement with the service provider. In such situations, the party responsible for the change must notify the employer in writing.

## **Updating the Code**

35. The Code and the web-tool will be reviewed by a cross-sector Steering Group comprising representatives of employers, employees, consumers, pension providers, trustees and advisers. The first review of the Code will occur in summer 2013 and will be followed by an annual review every year thereafter. Changes may be made in the interim to address any teething troubles that arise.

## **Bringing the Code into effect**

36. The web-tool is expected to be available on 1 April 2013. The Code therefore comes into effect in two stages:
  - Stage 1 begins on January 1, 2013. At this stage the provisions of the Code should be used as a guide for best practice and all parties should ensure the clear and transparent disclosure of charges to employers.

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- Stage 2 begins one month after the web-tool is launched. From then on all the provisions of the Code will apply.
37. Some providers and advisers already provide employers with examples (in their own format) that demonstrate the effect of charges on a member's pot. They will not be prevented from continuing to use these during Stage 1 of the Code but should adopt the standardised approach for providing examples when Stage 2 comes into effect. Regulatory requirements on disclosure documents will continue to apply.
38. Although this Code is not a statutory Code, the Pensions Ombudsman and Financial Services Ombudsman may have regard to the Code when dealing with complaints.

## Annex A – Template Summary of Charges

**Version 1: to be used where employers use a professional pensions or financial adviser or employee benefit consultant**

### Information about costs and charges

This [leaflet/page] has information about how much is charged and the services you and your employees get in return. This information follows the *Pension Charges Made Clear* Code of Conduct. We have presented it in a standard way, so that you can easily compare costs and charges with other pension providers. There are other things you should also consider when making a choice about the pension scheme you will use for your employees, such as the quality of communications with your employees and the suitability of investment options. You can find more information about what makes a good pension scheme on the Pensions Regulator’s [website](#).

### Summary of Charges

Your employees will be charged for being members of the pension. Below we have set out the types and amounts of charges your employees will pay in a default fund. Please note that these charges may change over time. **Only fill in rows that apply to the scheme on offer– delete rows/columns where a stated charge will not apply to potential scheme members.**

Standard Charges	TOTAL COST	Paid to Adviser as a consultancy charge (already included in Total Cost)
Percentage of employee’s pot taken as a charge	[x]% of pot each year	[x]% of pot each year
Percentage of each contribution paid in taken as a charge	[x]%	[x]%
Fixed charge per year	£[x] each year	£[x] each year
Extra charges when certain events occur		
Extra percentage of employee’s pot taken as a charge from the time the employee stops contributing before pension age	[x]% of pot each year	[x]% of pot each year
Other charges		
[if applicable]	[x]	[x]

### Charges to be paid by you, the employer

As the employer, you have also agreed to pay charges to us, your [adviser/consultant], for providing [consultancy/advice services]. The Charges you will be responsible for are [insert text as appropriate]

### Transaction Costs:

Transaction Costs are incurred when investments are bought and sold. They are an essential part of generating investment returns on behalf of scheme members. The table below shows the average cost the default fund incurred over the past three years in broker commissions and stamp duty/transfer taxes. In addition, there is a difference between the buying and selling prices of investments, which is called the dealing spread. For further information on how the investment process works, please visit [Enter website – Trade Association/Provider/Regulator] [IMA Guidance on enhanced disclosure of fund charges and transaction costs can be found here](#).

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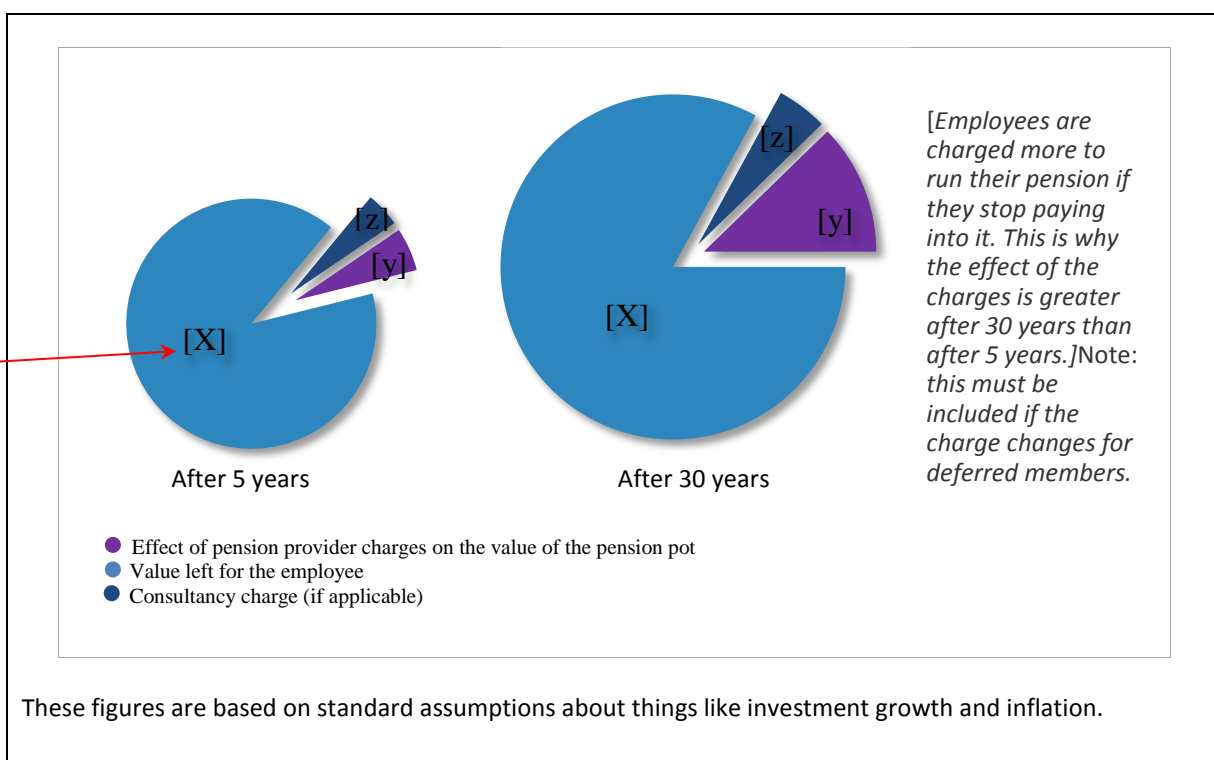
Average costs of commission	[x]% of fund
Average stamp duty and/or transfer taxes	[x]% of fund
Estimated average dealing spread	[x]% of transaction value

### What does this mean for your employees?

The charts below show how charges can affect your employees' pensions. They are based on the following assumptions:

- An employee aged [adviser to insert] earning [adviser to insert] a year who stops paying in after [adviser to insert] years, (because this is the average amount of time a typical employee is likely to pay into a pension).
- The pie chart on the right shows the pot at the point the employee retires, [adviser to complete] years later.
- We have assumed that for the last [adviser to complete] years, the employee did not make any further contributions.

**NOTE: Below is an example of the kind of graphical representation to be provided to an employer. See paragraphs 18-21 of the Code. This will be a screen shot generated from the web tool at stage 2.**



## What services are included in the charge?

Ticks and crosses allow for greater comparability between schemes and/or providers

	Included in the charge	Employee has to pay extra	Employer has to pay extra	Who provides the service? (Adviser or Provider)	Notes
<b>Information and advice to you, the employer</b>					
Helping you implement automatic enrolment	✓				We can help you assess your workforce and have special payroll software to monitor who is eligible
<b>Communications to employees</b>					
Bespoke microsite for employees and employers	✓				Website includes enquiry service, chat-board and bespoke branding
Individualised online accounts for scheme members		✓			Members can manage own account and investments if they choose
Telephone helpline for employees	✓				We operate a free phone helpline during office hours which is unique to scheme (or scheme section)
Face-to-face help for employees		✓			We can visit an employee on a one-to-one basis at work, for up to one hour
<b>Setting up and running the scheme</b>					
Scheme-specific governance framework	✓				Scheme will be run by a management committee
Scheme-specific administration team	✓				
Automatic enrolment record-keeping and support compliance service	✗				We will manage any automatic enrolment information requirements
<b>Managing your employees' investments</b>					
Monitoring suitability of the default fund	✓				Once a year we review whether the investments in the default fund are still suitable for your employees
<b>Availability of specialist funds upon request</b>					
Ethical funds	✓				
Sharia-compliant funds		✓			
<b>Costs of one-off services (per member)</b>					
Splitting a pension on divorce					£[x] in cash terms
Transfers in and out					£[x] in cash terms or in unit prices
<b>Supporting employees at retirement</b>					
Adviser to help employees find the best annuity			✓		This is available to members for a one-off fee of £150.
Selected panel of annuity companies					

These are just examples of what providers/advisers might say in the Notes section to describe the unique aspects of

An "X" indicates that the service is not available

These should be expressed in cash terms where known.

**What makes us unique? [or Why should you choose us?]**

← Providers, advisers and schemes will then have 200 words to describe any other service or feature they believe sets them apart from other providers.

**Contact us**

You can get in touch with us by **[insert contact details here]**.

← The organisation compiling the Summary of Charges must include their contact details here.

**Version 2: to be used by a provider dealing directly with an employer. (Text about the use of standard assumptions for the workforce should be amended if, in fact, the provider has tailored the sample examples to the workforce of that employer.)**

## Information about costs and charges

This [leaflet/page] has information about how much is charged and the services you and your employees get in return. This information follows the *Pension Charges Made Clear* Code of Conduct. We have presented it in a standard way, so that you can easily compare our charges with other pension companies. There are other things you should also consider when making a choice about the pension scheme you will use for your employees, such as the quality of communications with your employees and the suitability of investment options. You can find more information about what makes a good pension scheme on the Pensions Regulator’s [website](#).

### Summary of Charges

Your employees will be charged for being members of the pension. Below we have set out the types and amounts of charges your employees will pay in a default fund. Please note that these charges may change over time. As the employer, you will not have any charges to pay. **Only fill in rows that apply to the scheme on offer– delete row/column where stated charge will not apply to potential scheme members)**

Standard Charges	
Percentage of employee’s pot taken as a charge	[x]% of pot each year
Percentage of each contribution paid in taken as a charge	[x]%
Fixed charge per year	£[x] each year
Extra charges when certain events occur	
Extra percentage of employee’s pot taken as a charge when the employee stops contributing before pension age	[x]% of pot each year
Extra percentage of employee’s pot taken if employee transfers pension to another provider	[x]% of pot
Other charges	
[if applicable]	[x]

### Transaction Costs:

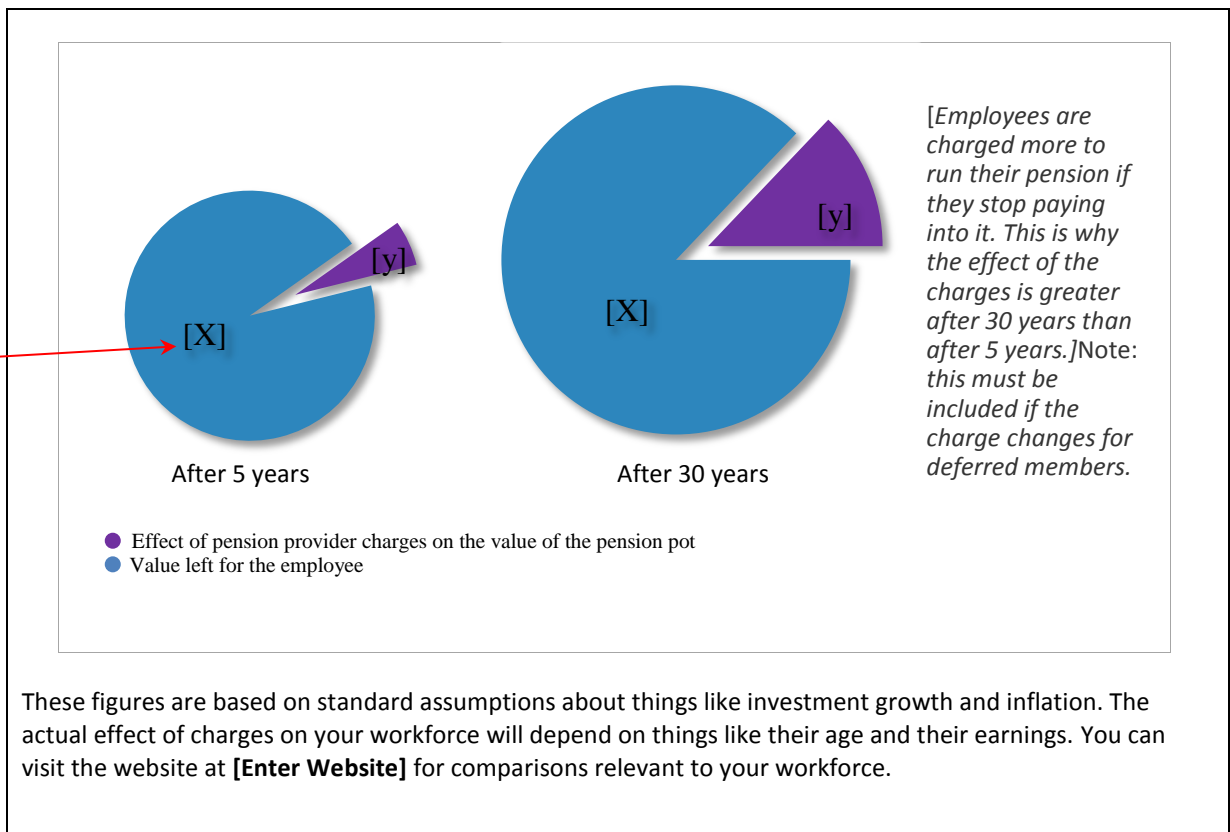
Costs will also be incurred when investing in different stocks and securities. These are often called transaction costs. They are an essential part of generating investment returns on behalf of scheme members. The table below shows the average cost the default fund incurred over the past three years in broker commissions and stamp duty/transfer taxes. In addition, there is a difference between the buying and selling prices of investments, which is called the dealing spread. For further information on how the investment process works, please visit **[Enter website – Trade Association/Provider/Regulator]** [IMA Guidance on enhanced disclosure of fund charges and transaction costs can be found here.](#)

Average costs of commission	[x]% of fund
Average stamp duty and/or transfer taxes	[x]% of fund
Estimated average dealing spread	[x]% of transaction value

**What does this mean for your employees?**

- You can see how these charges can affect your employees' pensions by going to **[insert website address]**. The website will allow you to get results tailored to your own workforce. A graphical representation based on the following standard assumptions is provided below. **[List standard assumptions used]**

**PLEASE NOTE: Below is an example of the kind of graphical representation to be provided to employer. See paragraphs 18-21 of the Code. This will be a screen shot generated from the web tool at stage 2**





## What services are included in the charge?

Ticks and crosses allow for greater comparability between schemes and/or providers

	Included in the charge	Employee has to pay extra	Employer has to pay extra	Notes
<b>Information and advice to you, the employer</b>				
Helping you implement automatic enrolment	✓			We can help you assess your workforce and have special payroll software to monitor who is eligible
<b>Communications to employees</b>				
Bespoke microsite for employees and employers	✓			Website includes enquiry service, chat-board and bespoke branding
Individualised online accounts for scheme members		✓		Members can manage own account and investments if they choose
Telephone helpline for employees	✓			We operate a free phone helpline during office hours which is unique to scheme (or scheme section)
Face-to-face help for employees		✓		We can visit an employee on a one-to-one basis at work, for up to one hour
<b>Setting up and running the scheme</b>				
Scheme-specific governance framework	✓			Scheme will be run by a management committee
Scheme-specific administration team	✓			
Automatic enrolment record-keeping and support compliance service	✗			We will manage any automatic enrolment information requirements
<b>Managing your employees' investments</b>				
Monitoring suitability of the default fund	✓			Once a year we review whether the investments in the default fund are still suitable for your employees
<b>Availability of specialist funds upon request</b>				
Ethical funds	✓			
Sharia-compliant funds		✓		
<b>Costs of one-off services (per member)</b>				
Splitting a pension on divorce	£[x] in cash terms			
Transfers in and out	£[x] in cash terms or in unit prices			
<b>Supporting employees at retirement</b>				
Adviser to help employees find the best annuity			✓	This is available to members for a one-off fee of £150.
Selected panel of annuity companies				

An "X" indicates that the service is not available.

These are just examples of what providers/advisers might say in the Notes section to describe the unique aspects of their services.

These should be expressed in cash terms where known.

**What makes us unique? [or Why should you choose us?]**

← Providers, advisers and schemes will then have 200 words to describe any other service or feature they believe sets them apart from other providers.

**Contact us**

You can get in touch with us by **[insert contact details here]**\*

→ The organisation compiling the Summary of Charges must include their contact details here.

## Annex B – Technical Assumptions for the web tool

The web tool will enable employers to obtain suitable examples (it also contains a sample example). The sample example should be based on the standard assumptions listed below:

- Provide specified examples (see below) of how charges will affect the pension pot of a notional scheme member earning £26,200<sup>1</sup> per year (national median earnings), with total pension contributions at the automatic enrolment minimum of 8% of banded earnings; making contributions to the scheme for 5 years;
- Show the effect of charges at the point the member ceases to contribute; and the effect of charges if the pot is not transferred but is held for 30 years;
- Refer the employer to the web-based tool so he can generate examples tailored to the profile of his own workforce; and
- Explain that in making comparisons between providers it is important to use the same assumptions about the profile of the workforce.

**Technical assumptions when calculating charges.** To assist comparisons between schemes the technical assumptions around investment return used in generating examples will need to be standardised. For example, the FSA has laid down standard rules governing the basis on which examples of the effect of charges should be generated. These standard assumptions are expected to be embedded in the web tool, so advisers/providers who use the tool to generate their projections will automatically be complying with the Code.

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<sup>1</sup> Office of National Statistics, 2011 Annual Survey of Hours and Earnings. Available at [http://www.ons.gov.uk/ons/dcp171778\\_241497.pdf](http://www.ons.gov.uk/ons/dcp171778_241497.pdf)

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‘Securing the future of pensions’

