



Department
for Work &
Pensions

Quality standards in workplace defined contribution pension schemes

Call for evidence

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Contents

- Foreword by the Minister of State for Pensions 3
- 1 Introduction 4
- 2 Governance 8
- 3 Investment – default options 13
- 4 Administration 16
- 5 Scale 18
- 6 General approach to legislative minimum standards 20
- 7 Summary of questions 21
- Call for evidence arrangements 23
- How to respond 24

Ministerial Foreword

The introduction of automatic enrolment is a pivotal moment in ensuring people make appropriate financial provision for their retirement. But in order to make it as successful as possible, we face a number of key challenges. Our strategy to reinvigorate workplace pensions, published in November last year, set out a number of these challenges and some of the steps we are intending to take to tackle them.

One key challenge is the quality of the scheme that people are enrolled into under automatic enrolment. We are conscious that people saving through automatic enrolment will not have chosen their scheme, nor are they likely, at least initially, to engage greatly with their pension saving. Therefore, I am keen to ensure the schemes into which they save meet certain core standards which will help them secure the income they desire in retirement.

A second challenge relates to the problem of small pots. Automatic enrolment will result in an increase in the number of small, dormant pots in the pension system, as pots will be created in successive employers' schemes. To help people keep track of their savings, we propose to introduce a system of automatic transfers whereby the pot follows the member as they move jobs. Introducing quality standards will help minimise the chances of people suffering detriment as they move automatically between schemes.

This Call for Evidence focuses on defined contribution schemes. Automatic transfers will initially only take place between defined contribution schemes, and this is the type of scheme people are likely to be saving in under automatic enrolment. We are aware that standards in defined contribution schemes have been improving, which is to be welcomed. Although we know that lots of good practice exists, we wish to understand more about the extent to which key standards of governance, investment and administration are currently exhibited in these schemes.

Given the lack of active choice built into the system, I am clear that the Government has a role to play in supporting consumers. The quality standards we explore in this paper are a key part of that, but they are not the full story. There is more to do. I have already announced my intention to ban consultancy charging in automatic enrolment schemes and plan a further consultation on charges later this year. Making a success of automatic enrolment is one of the most important challenges we face if people are to get good outcomes in retirement and I am keen to work closely with employers, the pensions industry and consumers to make that happen. I look forward to your input into this process.

Steve Webb MP

Minister of State for Pensions

Introduction

1. With the roll-out of automatic enrolment and the development of automatic transfers, it is more important than ever that workplace pensions deliver a good experience for all their members.
2. The pensions industry is going through a time of significant change, including an unprecedented increase in members of defined contribution schemes. The majority of schemes used for automatic enrolment, and all of those used for the first phase of automatic transfers, will be defined contribution schemes. Most of these offer a good deal to savers. However, there may be some – now or in the future – that do not deliver the standards that should be expected.
3. Unlike other financial products, people who are automatically enrolled or automatically transferred into a workplace pension will not have made an active choice about which scheme to join. In addition, the long-term nature of pensions means it may not be clear how good an outcome a scheme will deliver for members until they have paid into it for many years. It is therefore particularly important that sufficient protections are in place to ensure that schemes are run in a way that is beneficial for members.
4. We therefore want to ensure that every defined contribution scheme used for workplace saving delivers some essential features. These statutory standards would apply across the whole variety of defined contribution schemes, both occupational and personal. We recognise that different types of schemes offer different features to their members, but think there is a role for legislative minimum standards in guaranteeing a certain level of quality without affecting the diversity in the market.
5. Legislative minimum standards will provide protection for those people whose pension pots are transferred under automatic transfers. They will also give reassurance to employers that they are picking a sound defined contribution scheme for their employees, and will give workers the knowledge that their savings are being appropriately looked after.

Implementation

6. The Pensions Bill currently being considered by Parliament includes provisions to introduce the new system of automatic transfers. This includes a power to set quality standards for all automatic transfer schemes. We intend to make regulations under this power setting out minimum quality standards that workplace money purchase schemes would be required to meet.

Areas of interest

7. This call for evidence focuses on three areas which can influence the size of an individual's final pension pot:

Quality standards in workplace defined contribution schemes

- Scheme governance
 - Investment and default options
 - Administration and record keeping
8. We are also interested in the extent to which scale can play a role in facilitating good outcomes for scheme members, so ask some questions about scheme size.
9. There are some important areas not included in this call for evidence. While these have a significant role to play in influencing the size of someone's pension pot or the level of income they receive at retirement, we are not actively seeking evidence on them in this document, either because a legislative minimum standard is already in place or because of other work in the area:

Charges

10. The Minister for Pensions announced in May that we are banning member borne consultancy charges. In addition, the Office of Fair Trading is investigating the whole workplace pensions market and we will act promptly and vigorously later this year in the light of their findings. The Government plans to publish a consultation this autumn; this will set out proposals including for introducing a charge cap.

Contribution levels

11. The Pensions Act 2008 sets out the minimum level of contributions required for a pension scheme to be used as an automatic enrolment qualifying scheme. While we encourage employers and individuals to consider whether to pay more than the 8% minimum, we have no plans to change this standard at this stage.

Communications

12. Legislative minimum standards for member communications already exist in the Disclosure of Information Regulations. DWP recently undertook a thorough consultation on these regulations, including how to simplify and harmonise requirements for occupational and personal schemes, so we are not asking for further evidence on communications at this stage¹.

Decumulation (where an individual uses their pension pot to purchase a pension income)

13. Following discussions within the DWP-led Open Market Option Review Group, the pensions industry has done a lot to improve practice in this area, in particular

¹ <https://www.gov.uk/government/consultations/occupational-and-personal-pension-schemes-disclosure-of-information-regulations-2013>

Quality standards in workplace defined contribution schemes

through the Association of British Insurer's code of conduct on the Open Market Option. This code, compulsory for ABI members, seeks to make shopping around for the best annuity the default practice for consumers. This is aimed at preventing inertia purchasing, which can result in sub-optimal outcomes. We want to allow some time to review the impact of the code of conduct before considering whether legislative minimum standards are needed in this area. We will also take account of the results of the Financial Conduct Authority's Thematic Review into annuities.

14. DWP is working with The Pensions Regulator and other industry stakeholders to develop best practice guidance for trustees, although many members of occupational schemes will purchase annuities from ABI members and therefore be covered by the ABI code. TPR have consulted on a Code of Practice and Guidance and further support for how trustees can improve member experience may follow in the future.

The Pensions Regulator's work on quality in defined contribution schemes

15. The Pensions Regulator publishes material on running defined contribution schemes, and is planning to shortly publish its DC Code. This covers the current legal duties for occupational defined contribution schemes and information on how these duties should be met.
16. DWP's work on legislative minimum quality standards will complement TPR's work by considering additional minimum legislative requirements that should apply to both occupational and personal pension schemes.
17. TPR and the Financial Conduct Authority have a shared role in regulating workplace pensions and we will continue working with both organisations on the development and enforcement of legislative minimum quality standards.

Call for Evidence

18. In each of the areas covered by this call for evidence we set out why we think the area concerned is important and ask for evidence about current practice. We also include some illustrative approaches, to suggest how legislative minimum standards could be constructed or structured in each area. As well as responses to the specific requests for evidence, we are interested in any comments on these approaches. Finally, we ask some questions about our overall approach to legislative minimum standards at the end of the document.
19. We recognise that some of the terms used in the approaches could be interpreted in different ways, so we have suggested definitions in footnotes. These are open for discussion and we are interested in any views on these.

Quality standards in workplace defined contribution schemes

20. The requests for evidence are primarily aimed at people designing, advising on and running defined contribution schemes – either occupational or personal. As well as trustees, pension providers, employee benefit consultants and advisors this includes people otherwise involved in pension governance, administration and investment. We welcome comments from other interested parties too.

Respondent information

- What is your role?
- If involved in running a pension scheme/s:
 - what is the structure of the scheme/s you are involved in (e.g. single-employer occupational / mastertrust / personal)?
 - what size of scheme/s are you involved in running (number of active and deferred members and funds under management)?
 - when were the scheme/s created?
 - are the scheme/s open to new members?

Governance

21. Good governance is key to ensuring that appropriate decisions are made for each scheme's membership. There is no one-size-fits-all answer to ensuring good governance. However, we think there are two important qualities that form the foundation of effective governance, regardless of its structure:

- an alignment of interests between people running the scheme and members of the scheme so that decisions are taken in the interest of the members; and
- that people running the scheme have the skills and knowledge to be able to act in the interests of scheme members.

Alignment with members' interests

22. We are interested in the governance structures in place to ensure that decisions about how a scheme is run – whether personal or occupational – are based on an understanding of the interests of the members of the scheme. In occupational schemes it is clear where this responsibility sits, as the trustee has a fiduciary duty to act impartially in the best interests of scheme beneficiaries. While the trustee may use third parties to administer the scheme and its investments, the responsibility to members always rests with the trustee.

23. In personal pension schemes, it is less clear where in the governance chain this responsibility lies. The FCA's Treating Customers Fairly says that customers' interests should be at the heart of how firms do business and the Client's Best Interests rule (derived from the EU's Markets in Financial Instruments Directive) says that a firm must act honestly, fairly and professionally in accordance with the best interests of its client².

24. Additionally, in its response to the Kay Review of equity markets, the Government made clear that there should be common standards of good practice required of all investment intermediaries, including pension scheme providers. Specifically, they should act in good faith, in the best long-term interests of members, in line with generally prevailing standards of decent behaviour. Conflicts of interest should be avoided wherever possible or else disclosed or otherwise managed to the satisfaction of the member, and the direct and indirect costs of services provided should be reasonable and disclosed. These standards should not be capable of being contractually overridden.

25. However, in current personal pension governance, there may not be any body with an identified ongoing responsibility for considering whether the scheme is being run in members' interests. Without any body with this overall responsibility, including beyond the point of sale, it is not clear whether and how conflicts of interest are identified and addressed and who is ensuring that decisions are taken

² FCA Conduct of Business (COBS) Handbook, 2.1.1
<http://fshandbook.info/FS/html/handbook/COBS/2/1#D95>

Quality standards in workplace defined contribution schemes

in the interest of members of the scheme. We are particularly interested in hearing how members' interests are balanced alongside commercial interests when decisions are taken about how a scheme is run.

26. In some cases a number of decisions about the design and ongoing running of a personal pension may be taken by an advisor rather than by the pension provider. We are therefore also interested in how advisors ensure that the decisions taken are in the scheme members' interests.
27. Some employers who offer personal pension schemes to their workers choose to put additional voluntary governance arrangements in place. Qualitative research by The Pensions Regulator in 2008 found that approximately half of employers with a personal pension have some form of governance arrangement over and above that legally required (though this ranges from ad hoc reviews of the scheme to formal management committees³).
28. While such arrangements can work well, they will not be practical or economic for all employers, particularly small ones. We are therefore particularly interested in evidence about governance arrangements at the level of a pension provider, as well as at the individual employer level.
29. At a provider level, such arrangements could consist of a governing body that oversees a number of Group Personal Pensions or Group Stakeholder Pensions. This body may potentially make decisions about how the schemes are run or make recommendations to the provider's board. We understand that such arrangements, specifically at the provider level, are not that common, so are interested in hearing more about the practicalities of introducing these arrangements, for example:
- the decision making powers or advisory role that such a body could have in practice;
 - how it would fit into existing governance arrangements; and
 - the resources it would need in order to effectively act in members' interests.
30. Where good quality employer level management committees are already in place we do not want these to be displaced by the introduction of provider level governance. We are therefore also interested in learning more about the roles and responsibilities of existing management committees to understand how these could co-exist with provider level governance.
31. Conflicts of interest may arise when managing either an occupational or personal pension scheme. We think it is important that the governing body must explain how it handles conflicts of interest, with a focus on how these could influence decisions about how the scheme is run. This is particularly important where the powers of the governing body have been constrained, for example, if the ability to appoint investment managers or administrators for a mastertrust rest with the provider rather than with the trustee. We are interested in whether it is sufficient that a governing body should have to identify and explain such constraints and

³ <http://www.thepensionsregulator.gov.uk/docs/defined-contribution-research.pdf>

conflicts of interest that arise from them, or whether there should be restrictions on being able to constrain a governing body's powers in this way.

Membership of governing body

32. The membership of the governing body may influence how conflicts of interest arise or are addressed. In occupational schemes, there is already a requirement that a scheme must make arrangements for a third of the membership of the trustee board to be member nominated trustees⁴. This was introduced to provide an appropriate mix of interests on the trust board, to act in all members' best interests. Although all trustees must act impartially, having some of the trustees chosen by and coming from the members makes it harder for trustees to be inappropriately influenced by the employer. Many schemes also employ a professional trustee to bring expertise and impartiality to the trustee board, and it is common for mastertrusts to be governed by professional trustees.
33. There are not any requirements for independent representation on employer level management committees. Where these exist, we are interested in hearing about whether any members or independent representatives sit on the committee, and any benefits this may bring.
34. Member nominated representatives are not generally considered appropriate for multi-employer schemes, both because of a lack of engagement from members and because of the problems of representation across a variety of employers and members. There may however be alternative ways of ensuring that there are individuals on the governing body who are in a position to represent different interests, or be able to provide a challenge function to those running the scheme (for example, as non-executives typically do on other boards). We are therefore particularly interested in hearing about any independent or member advocate representatives in the governing chain of personal pension schemes and views on the potential value and difficulties that independent representatives could bring.

Competence of governing body

35. As well as an alignment with members' interests, it is also important that people managing pension schemes have the knowledge and skills to be able to effectively take action in members' interests.
36. In personal pension schemes, decisions about the scheme will generally be taken by professionals in the pension provider or professional advisors, who have expertise in pensions. The FCA publishes comprehensive tables of appropriate qualifications for undertaking different activities⁵. Insurers will also have to have met authorisation criteria set by the FCA and the Prudential Regulation Authority in order to write pension business.

⁴ Sections 241 to 243 of the Pensions Act 2004

⁵ Appropriate Qualification tables, FCA Handbook <http://fshandbook.info/FS/html/FCA/TC/App/4/1>

Quality standards in workplace defined contribution schemes

37. For occupational pension schemes, it is already set out in legislation that trustees must be conversant with documents relating to their scheme and must have knowledge and understanding of the law and principles applicable to pensions and pension schemes⁶. The Pensions Regulator provides the Trustee Toolkit to ensure that every trustee has the opportunity to acquire the knowledge and understanding required, and has also published draft guidance and codes of practice for trustees of DC schemes on regulating DC schemes⁷.
38. We are interested in hearing how schemes currently ensure their governing body has the requisite skills and knowledge to take the right decisions for their membership. We are also interested in whether additional legislative minimum standards of qualification or experience could make it easier to ensure that members of governing bodies have the right capabilities to take effective decisions for their scheme.
39. While each individual does not necessarily need to be a pensions expert, we think there should be sufficient expertise on the board as a whole to be able to effectively run the scheme. For example, the governing body should be able to understand and, where necessary, challenge advice from scheme advisors; understand the particular needs of the scheme's membership; and make decisions that should lead to good value for money for scheme members.

Approaches

It is challenging to translate minimum features of good governance into clear, quantifiable standards, but options could include that:

- All schemes must be overseen⁸ by a governance body⁹ with a duty to act in members' interests, which meets at least every 6 months to consider the running of the scheme
- The governance body must be able to freely exercise¹⁰ its duty to act in members' interests and must be able to explain how any conflicts of interest are handled
- For multi-employer schemes, both occupational and group personal, a majority of the individuals on the governance body must be independent¹¹
- 25% of the membership of the governance body must have an appropriate professional qualification¹²

⁶ Sections 247 and 248 of the Pensions Act 2004

⁷ <http://www.thepensionsregulator.gov.uk/docs/regulating-dc-pension-schemes-code-of-practice-consultation.pdf>

⁸ *Overseen: having the power to make decisions about the scheme or recommendations to the scheme provider*

⁹ *Body: a committee or board (such as a trustee board or management committee), either at the provider or employer level, which oversees the scheme*

¹⁰ *Freely exercise: that the members of the overseeing body have the resources and freedom to exercise their duty to act in members' interests without constraint*

¹¹ *Independent: a member of the overseeing body who is not a full-time employee of the provider or scheme or paid by them for any role other than that which they fulfil on the overseeing body*

Requests for evidence

- 1) What are the essential features of good governance?
- 2) How does the presence of these features affect the decisions taken about running a pension scheme?
- 3) How many schemes currently exhibit these features?
- 4) What are the barriers to exhibiting these features?
- 5) Given what we say about what good governance should achieve, what would the impact of the suggested approaches be (including costs and benefits to schemes)? Are there alternative approaches that would better achieve our aims?

¹² *Appropriate professional qualification: for example, a qualification in pensions law, accounting, or pensions trusteeship*

Investment – default options

40. Most individuals who are automatically enrolled or automatically transferred into a pension scheme will not make an active decision about how their contributions are invested. The design and performance of default options is therefore particularly important, as they have a significant impact on the pension outcomes of the majority of scheme members.

41. We are seeking evidence on two key stages in managing a default option:

- Design or selection of the default option
- Ongoing review of the default option

42. In 2011 DWP published guidance for operating a default option for automatic enrolment schemes, which covers the design, review and communication of the default option. This guidance built on research into default options published in 2010 and is an important document for people involved in running a pension scheme¹³. The Pensions Regulator has also recently published guidance on elements of the trustee's role in relation to investments in a quality scheme in its draft Code of Practice on regulating DC schemes¹⁴. We are now interested in finding out more about how default options are currently managed and whether there is a role for legislative minimum standards to underlie this guidance.

43. The objectives and performance of default options should be considered over the long-term life of the product. In 2012 Professor John Kay reported to government on the role and functioning of public equity markets in the UK¹⁵. The Government endorsed Professor Kay's statement of good practice for asset holders such as pension providers, which, among other things, made clear that they should:

- build an agreed understanding of investment objectives and risks with members and asset managers;
- set mandates for asset managers which focus on achieving absolute returns in line with members long-term investment objectives, rather than short-term relative performance benchmarks;
- review performance with reference to long-term absolute returns and no more frequently than is necessary; and
- encourage asset managers investing in equity to engage with investee companies as a means of improving company performance.

We are interested in how the principles and good practice identified by the review and the overall focus on long-term value creation are reflected in current practice.

¹³ Default options in Workplace Personal Pensions: report of a qualitative study
<http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep628.pdf>

¹⁴ <http://www.thepensionsregulator.gov.uk/docs/regulating-dc-pension-schemes-code-of-practice-consultation.pdf>

¹⁵ <https://www.gov.uk/government/publications/the-kay-review-of-uk-equity-markets-and-long-term-decision-making-final-report>

Quality standards in workplace defined contribution schemes

44. Default options should reflect the profile and needs of the scheme's membership. We are therefore interested in hearing more about how decisions about default options are taken, particularly with regard to ensuring that the investment and risk strategies are appropriate to the scheme's membership. In particular we are interested in what information is used about a scheme's membership when designing a default option, and how the needs of members are defined, particularly in large or multi-employer schemes.
45. The default option should be regularly reviewed against its objectives. We are interested in hearing how default options are reviewed, including the objectives they are measured against and how frequently this is undertaken, as well as particular issues that should be considered such as whether the investment strategy is set over the right time horizon. We recognise that in some cases the default option may have been designed quite recently and in these cases are interested in what plans are in place for review in the future.
46. Occupational pension schemes are already required to have a Statement of Investment Principles (SIP) in place¹⁶. This should set out how, having taken account of the profile of the scheme's membership, the trustees have set an investment strategy. A good SIP will set out the strategy, include details of the asset classes or fund types the trustees have chosen to deliver the strategy, a performance objective both for the strategy and the underlying funds, and some indication of how they will monitor and review both the strategy and the funds. There may also be a statement about the fund management charges. We are interested in hearing how such statements are used, whether there would be a benefit in extending what is required to be covered in a SIP, and whether these should be required of workplace personal pensions as well as occupational schemes.
47. There is a clear link between the previous chapter on scheme governance and questions about how default options are managed. Different people will be involved in the design and ongoing review of a default option. For example, an employer may choose an 'off the shelf' default option directly from a pension provider, or may engage a financial advisor to design a bespoke option for their employees. We would always expect there to be someone within the scheme who has oversight of both the initial design and ongoing review of the default options. We are therefore interested in hearing whether someone does clearly hold this responsibility, and if so who they are.

Charges and performance

48. It is important that the people running pension schemes understand the impact of charges in default options, and that these are appropriate to the default strategy. We think that investment performance should be considered net of all charges, as this gives a truer representation of the impact of returns on an individual's pension

¹⁶ Section 35(1) of the Pensions Act 1995.

pot, and are interested to hear whether this is a common approach. Governance bodies should consider the value that the net performance of the default option provides and how this compares with other approaches that may be available.

Approaches

Approaches to legislative minimum standards for default options could include:

- Default options are designed in the interests of members, with a clear statement of aims, objective and structure, and how these are appropriate for the membership
- The characteristics and net performance of the default option are regularly reviewed¹⁷ to ensure alignment with the interests of members, and action is taken to make any necessary changes

Requests for evidence

- 6) The default option guidance covers the key steps in governing; designing; reviewing and communicating the default option. Does this cover the most important steps or are there others missing?
- 7) How far is this guidance followed and is it followed by all schemes (e.g. older schemes)?
- 8) What are the barriers to following the guidance?
- 9) Given what we say about how default options should be designed and reviewed, what would the impact of the suggested approaches be (including costs and benefits to schemes)? Are there alternative approaches that would better achieve our aims?

¹⁷ Regularly reviewed: reviews should take place at a frequency appropriate to the particular default option, but should be at least every 3 years as a minimum

Administration and record keeping

49. Good administration and record keeping have a crucial role to play in ensuring that scheme members receive the pension pot or income that is due to them.
50. The number of individual transactions that take place within a defined contribution scheme means there are many occasions where errors could occur due to inaccuracy or late action. There is therefore an increased need for schemes to have procedures in place to avoid, identify and address errors, and we are interested in hearing about these procedures.
51. Certain requirements for occupational schemes are already set out in legislation¹⁸. The Pensions Regulator has set out how trustees could meet these requirements and the other features that should be in place in a good quality occupational DC scheme¹⁹.
52. The Pensions Regulator has set high targets in its guidance for those running pension schemes to drive up record keeping standards, but results of its most recent record keeping survey shows that a significant proportion of schemes have yet to meet those standards. Given the technical nature of defined contribution scheme administration, we are interested in views about which elements of administration and record keeping are so important that they should be set out in legislation, to ensure that they are being met by all pension schemes. By this we mean those areas where mistakes most seriously put members at risk of not receiving the pension pot or income that they should do.
53. The Government has brought forward legislation for a 'pot follows member' system of automatic transfers. Such a system will be reliant on accurate data, with appropriate controls and governance. We are therefore also interested in what levels of standards or controls will be required to underpin this system.
54. Schemes should have procedures in place to assure the quality of scheme administration. The Pensions Regulator's most recent scheme governance survey results show that defined contribution scheme trustees tend to be less engaged with their administrators than trustees of defined benefit schemes.
55. We recognise that there are different ways that schemes may be administered. For example, small schemes may use a third party administrator, while large, bundled schemes will provide such services in-house. In either case it is important that those governing the scheme have oversight of the administration, including sufficient knowledge to understand and, where necessary, challenge reports received about standards of administration. We are therefore interested in hearing more, in qualitative terms, about how far this is happening in practice.

¹⁸ The Pensions Act 1995

¹⁹ <http://www.thepensionsregulator.gov.uk/docs/regulating-dc-pension-schemes-code-of-practice-consultation.pdf>

Approaches

Options could include that the governing body ensures that the following actions take place:

- An annual check that the number of units allocated to the member is commensurate to the contributions received for that member, with any errors addressed
- A check that contributions have been invested in line with members' instructions
- A regular check that all contributions have been invested within 5 days of being received into the scheme bank account
- A monthly reconciliation of the total number of units held by investment managers with the units allocated to members, and any errors addressed
- Scheme managers must ensure that adequate processes and controls are in place to ensure completeness and accuracy of common data

Requests for evidence

- 10) Which stages of administration and record keeping are so critical to get right, in terms of a member's final pension pot, that they should be set in legislation?
- 11) How far are these stages completed accurately and by how many schemes?
- 12) What are the reasons for mistakes occurring and how could these be avoided?
- 13) Given what we say about administration and record keeping, what would the impact of the suggested approaches be (including costs and benefits to schemes)? Are there alternative approaches that would better achieve our aims?

Scale

56. We have previously set out our interest in whether greater scale can help achieve better outcomes for scheme members. Since publishing our Reinvigorating Workplace Pensions strategy in November 2012 we have further considered the question of scale, including with a number of stakeholders²⁰.
57. Different sizes of schemes have different advantages and risks. While we do not believe that there is an ideal scheme size, we consider that increased scale could make it easier for some occupational schemes to achieve good standards of governance and charges. The evidence we have seen so far is not sufficient to justify an intervention from Government to the extent of specifying a particular minimum (or maximum) scheme size. However, we are interested in the idea that people running pension schemes should consider whether the scheme's size has an adverse impact on the members of the scheme.
58. We recognise that some of the approaches suggested in this document may be more challenging for smaller schemes to meet than for larger schemes. We believe that legislative minimum standards should be met by all schemes, regardless of their size. There are international examples of the introduction of new requirements for schemes leading to increased scale. For example, the Superannuation Industry (Supervision) Act in Australia is seen as having played a role in prompting greater consolidation in the Australian pensions landscape. We are interested in whether the sorts of standards considered in this document might have a similar impact and how this would be managed by schemes and employers.
59. Evidence from DWP's charges survey and TPR's occupational pension scheme governance survey suggests that smaller schemes tend to have higher charges and less engaged governance than larger schemes²¹. We would expect people managing a small occupational scheme to consider whether standards of governance and charges could be improved and, if so, whether the size of the scheme is a barrier in doing so.
60. If the lack of scale is identified as a barrier then options for merging or otherwise expanding the scheme should be considered, alongside the option to close the scheme and move members to a pre-existing larger one. The key consideration in all cases should be the impact on members, including the practicalities and costs involved in taking such steps.

²⁰ <http://www.dwp.gov.uk/docs/reinvigorating-workplace-pensions.pdf>

²¹ Pension landscape and charging: Quantitative and qualitative research with employers and pension providers <http://research.dwp.gov.uk/asd/asd5/rports2011-2012/rrep804.pdf>

Occupational Pension Scheme Governance: A report on the 2013 (seventh) scheme governance survey <http://www.thepensionsregulator.gov.uk/docs/governance-survey-report-2013.pdf>

Quality standards in workplace defined contribution schemes

61. In larger schemes, we would expect those running the schemes to particularly consider whether they are able to adequately focus the scheme on the needs of its members, and whether there are options for improving this.
62. There are ways in which small employers or small schemes may already access benefits of scale, including through joining a large Group Personal Pension or mastertrust, or by purchasing investment or administration services from a large provider. In some of these cases employees of small employers may pay a higher charge than employees of larger or more profitable employers, for comparable or identical services. We would therefore expect people running small schemes to consider whether members are disadvantaged by the charges they are paying and whether there are ways of improving this.

Approaches

Rather than specify a minimum (or maximum) scheme size, an approach could be to focus on the governance body's role in considering scale:

- People running a pension scheme must consider whether members are disadvantaged²² by the size of their scheme and take appropriate action²³ if they consider this to be the case

This approach is being introduced in Australia as part of the MySuper reforms.

Requests for evidence

- 14) What are the advantages and disadvantages of small and large schemes?
- 15) What options do smaller schemes have to access scale, how far are they already achieving this, and what are the barriers to this?
- 16) Given what we say about scale, what would the impact of the suggested approach be (including costs and benefits to schemes)? Are there alternative approaches that would better achieve our aims?

²² *Disadvantaged: whether the member is more likely to have a smaller pension pot at retirement because the quality standards of their scheme (e.g. charges, governance, investment, administration) were lower due to the number of members or funds under management in their scheme.*

²³ *Appropriate action: investigating options to alter the status of the scheme (such as merging or closing) and making recommendations to the sponsoring employer*

General approach to legislative minimum standards

63. As well as evidence on how schemes are run, we are also interested in views on the approach we should take to legislative minimum standards for workplace defined contribution schemes, which will be required to comply with the new automatic transfers regime. We would therefore be grateful for responses to the following questions, and any other views you may have.

Requests for evidence

- 17) Do the suggested approaches work together as a package to achieve our aims?
- 18) Are there any other areas that standards should cover?
- 19) How could compliance with the standards best be evidenced and monitored?

Summary of questions

Respondent information

- What is your role?
- If involved in running a pension scheme/s:
 - what is the structure of the scheme/s you are involved in (e.g. single-employer occupational / mastertrust / personal)?
 - what size of scheme/s are you involved in running (number of active and deferred members and funds under management)?
 - when were the scheme/s created?
 - are the scheme/s open to new members or closed?

Governance

- 1) What are the essential features of good governance?
- 2) How does the presence of these features affect the decisions taken about running a pension scheme?
- 3) How many schemes currently exhibit these features?
- 4) What are the barriers to exhibiting these features?
- 5) Given what we say about what good governance should achieve, what would the impact of the suggested approaches be (including costs and benefits to schemes)? Are there alternative approaches that would better achieve our aims?

Investment – default options

- 6) The default option guidance covers the key steps in governing; designing; reviewing and communicating the default option. Does this cover the most important steps or are there others missing?
- 7) How far is this guidance followed and is it followed by all schemes (e.g. older schemes)?
- 8) What are the barriers to following the guidance?
- 9) Given what we say about how default options should be designed and reviewed, what would the impact of the suggested approaches be (including costs and benefits to schemes)? Are there alternative approaches that would better achieve our aims?

Administration and record keeping

- 10) Which stages of administration and record keeping are so critical to get right, in terms of a member's final pension pot, that they should be set in legislation?
- 11) How far are these stages completed accurately and by how many schemes?
- 12) What are the reasons for mistakes occurring and how could these be avoided?
- 13) Given what we say about administration and record keeping, what would the impact of the suggested approaches be (including costs and benefits to schemes)? Are there alternative approaches that would better achieve our aims?

Scale

- 14) What are the advantages and disadvantages of small and large schemes?
- 15) What options do smaller schemes have to access scale, how far are they already achieving this, and what are the barriers to this?
- 16) Given what we say about scale, what would the impact of the suggested approach be (including costs and benefits to schemes)? Are there alternative approaches that would better achieve our aims?

General approach to legislative minimum standards

- 17) Do the suggested approaches work together as a package to achieve our aims?
- 18) Are there any other areas that standards should cover?
- 19) How could compliance with the standards best be evidenced and monitored?

Call for evidence arrangements

Who this call for evidence is aimed at

This call for evidence is primarily aimed at people designing, advising on and running workplace defined contribution schemes – either occupational or personal. As well as trustees, pension providers, employee benefit consultants and advisors this includes people otherwise involved in pension governance, administration and investment. We welcome comments from other interested parties too.

Purpose of the call for evidence

The call for evidence seeks views on the critical issues which are important for member outcomes in workplace Defined Contribution schemes. In particular, it seeks views on:

- whether the critical features have been identified in relation to scheme quality;
- the extent to which these features are present in current schemes;
- the approaches to minimum legislative standards set out in each area; and
- our general approach to minimum legislative standards.

Scope of call for evidence

This call for evidence applies to England, Wales and Scotland.

Duration of call for evidence

The call for evidence period begins on 4 July 2013 and runs until 9 September 2013.

It is being conducted in line with the new Cabinet Office Consultation Principles (<http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance>).

The key principles are:

- departments will follow a range of timescales rather than defaulting to a 12-week period, particularly where extensive engagement has occurred before;
- departments will need to give more thought to how they engage with and consult with those who are affected;
- consultation should be ‘digital by default’, but other forms should be used where these are needed to reach the groups affected by a policy; and
- the principles of the Compact between government and the voluntary and community sector will continue to be respected.

How to respond to this call for evidence

This call for evidence is available at <https://www.gov.uk/government/publications>

Please send your responses, preferably by email to:

Reinvigorating.pensions@dwp.gsi.gov.uk

Or by post to:

Polly Fortune

Department for Work and Pensions

1st Floor, Caxton House

6-12 Tothill Street

London SW1H 9NA

Please ensure your response reaches the Department by 9 September 2013.

When responding, please state whether you are doing so as an individual or representing the views of an organisation. If you are responding on behalf of a larger organisation, please make it clear who the organisation represents, and where applicable, how the views of members were assembled.

If you are involved in running a pension scheme/s, please state:

- what the structure of the scheme/s you are involved in is (e.g. single-employer occupational / mastertrust / personal)?
- what size of scheme/s you are involved in running (number of active and deferred members and funds under management)?
- when were the scheme/s created?
- are the scheme/s open to new members?

Any queries about the subject matter of this call for evidence should be made to Polly Fortune at polly.fortune@dwp.gsi.gov.uk.

We have sent this call for evidence document to a number of people and organisations who have already been involved in this work or who have expressed an interest. Please do share this document with, or tell us about, anyone you think will want to be involved in this consultation.

Freedom of information

The information you send us may need to be passed to colleagues within the Department for Work and Pensions, published in a summary of responses received and referred to in the published response document.

All information contained in your response, including personal information, may be subject to publication or disclosure if requested under the Freedom of Information Act

Quality standards in workplace defined contribution schemes

2000. By providing personal information for the purpose of the public consultation exercise, it is understood that you consent to its disclosure and publication. If this is not the case, you should limit any personal information which is provided, or remove it completely. If you want the information in your response to the consultation to be kept confidential, you should explain why as part of your response, although we cannot guarantee to do this. We cannot guarantee confidentiality of electronic responses even if your IT system claims it automatically.

If you want to find out more about the general principles of Freedom of Information and how it is applied within DWP, please contact:

Central Freedom of Information Team

Department for Work and Pensions,

4th Floor, Caxton House,

Tothill Street,

London,

SW1H 9NA

Email: freedom-of-information-request@dwp.gsi.gov.uk

More information about the Freedom of Information Act can be found on the website of the Ministry of Justice, Freedom of Information pages.

Feedback on this call for evidence

We value your feedback on how well we consult or seek evidence. If you have any comments on the process of this call for evidence (as opposed to the issues raised) please contact our Consultation Coordinator:

Elias Koufou

Department for Work and Pensions' Consultation Coordinator:

2nd Floor, Caxton House,

Tothill Street,

London,

SW1H 9NA

Phone: 020 7449 7439

Fax: 020 7449 5089

Email: caxtonhouse.legislation@dwp.gsi.gov.uk

Please also make any suggestions as to how the process could be improved further.

If you have any requirements that we need to meet to enable you to comment or to provide evidence, please let us know.

The responses to the call for evidence will be published in a report on the DWP website that will summarise the information received and any action that we propose to take as a result.