

Research report

# Likely industry responses to the workplace pension reforms: Qualitative research with pension providers and intermediaries

by Andrew Wood, Peggy Young, Dominika Wintersgill and Naomi Crowther

Department for Work and Pensions

Research Report No 753

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# Contents

Acknowledgements.....	vii
The Authors.....	viii
Abbreviations.....	ix
Glossary of terms.....	x
Summary.....	1
1 Introduction.....	7
1.1 The workplace pension reforms.....	7
1.1.1 <i>Automatic enrolment</i> .....	7
1.1.2 <i>NEST</i> .....	8
1.1.3 <i>The Making Automatic Enrolment Work Review</i> .....	9
1.2 The workplace pensions industry: an introduction.....	10
1.3 Research objectives.....	10
1.4 Project methodology.....	11
1.4.1 <i>Identifying providers and intermediaries</i> .....	11
1.4.2 <i>Fieldwork</i> .....	12
1.4.3 <i>Analysis and reporting</i> .....	12
2 The workplace pensions industry in 2011.....	14
2.1 Overview of the market for pension provision.....	14
2.1.1 <i>Mass market pension providers</i> .....	15
2.1.2 <i>High-end pension providers</i> .....	16
2.1.3 <i>Other types of pension provision</i> .....	17
2.2 The intermediary market: overview.....	17
2.2.1 <i>Large intermediaries</i> .....	18
2.2.2 <i>Medium-sized intermediaries</i> .....	18
2.2.3 <i>Other intermediaries</i> .....	19

3	The changing pensions market: Impact of the economic downturn and the Retail Distribution Review .....	20
3.1	The impact of the stakeholder charging cap.....	20
3.2	The impact of the economic downturn.....	21
3.2.1	<i>Short-term impacts of the downturn</i> .....	21
3.2.2	<i>Possible longer-term impacts of the downturn</i> .....	22
3.3	The impact of the Retail Distribution Review.....	23
3.3.1	<i>Impact of RDR on relationships within the market</i> .....	24
3.3.2	<i>The possibility of consultancy charging</i> .....	27
3.3.3	<i>Views toward the RDR</i> .....	28
3.4	Changing costs of administration.....	29
3.5	Summary of the pensions market in 2011 .....	30
4	Planned responses to the reforms.....	31
4.1	The expected impact of the reforms on the pensions market overall .....	31
4.1.1	<i>The expected impact of the reforms on levels of saving for retirement</i> ...	32
4.1.2	<i>The expected impact of the reforms on provider profitability</i> .....	32
4.1.3	<i>The expected impact of the reforms on the demand for advice</i> .....	33
4.2	Strategy and planning for the reforms .....	34
4.2.1	<i>Providers' current planning for the reforms</i> .....	34
4.2.2	<i>Providers' expected strategies after the reforms are introduced</i> .....	35
4.2.3	<i>Intermediaries' current planning for the reforms</i> .....	36
4.2.4	<i>Intermediaries' expected strategies after the reforms are introduced</i> .....	37
4.3	Products and services likely to be introduced after the reforms are implemented.....	37
4.3.1	<i>The importance of online platforms</i> .....	38
4.3.2	<i>Other potential products</i> .....	38
4.3.3	<i>The changing roles of providers and intermediaries</i> .....	40

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5	Advice and guidance to employers.....	42
5.1	Employers’ perceived awareness and preparedness for the reforms.....	42
5.2	Employers’ questions about the reforms.....	43
5.3	Procedural challenges expected to be encountered by employers.....	45
5.3.1	<i>Operational and administrative challenges</i> .....	45
5.3.2	<i>Challenges around communications</i> .....	46
5.4	Intermediary advice to employers.....	47
5.4.1	<i>Intermediaries’ approach to giving employers guidance</i> .....	48
5.4.2	<i>Areas of guidance to employers</i> .....	48
5.5	Sources of advice available to smaller employers.....	49
6	The impact of National Employment Savings Trust.....	52
6.1	How NEST is expected to impact the pensions industry overall.....	52
6.1.1	<i>How providers expect to work with NEST</i> .....	54
6.1.2	<i>How intermediaries expect to work with NEST</i> .....	55
6.2	The possible impact of NEST on communications and technology.....	55
6.3	The possible impact of NEST on charging structures.....	56
6.4	Predicting the take-up of NEST.....	57
7	Current and future policy developments.....	59
7.1	Reactions to the Making Automatic Enrolment Work Review.....	59
7.1.1	<i>Reactions to proposed changes to the contribution thresholds</i> .....	60
7.1.2	<i>Reactions to the proposed three-month waiting period</i> .....	61
7.1.3	<i>Reactions to proposed revisions to the certification process</i> .....	61
7.1.4	<i>Reactions to the government’s commitment to review rules around trust-based schemes</i> .....	62
7.1.5	<i>Reactions to other recommendations</i> .....	63
7.2	The need for regulatory certainty in implementing the reforms.....	63
7.3	How the pensions market might develop beyond 2018.....	64
Appendix A	Materials used in conducting the research.....	66
References	.....	83

## List of figures

Figure 2.1	Three types of pension provision: high-end, mass market and National Employment Savings Trust, and the employer types they target.....	14
Figure 3.1	The traditional relationship between provider, intermediary and employer.....	24
Figure 3.2	Relationships in the market after the RDR comes into effect.....	26
Figure 6.1	High-end and mass market pension provision and NEST: principal areas of overlap between their target markets .....	53

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# Abbreviations

ABI	Association of British Insurers
AMC	Annual management charge
DB	Defined benefit
DC	Defined contribution
DWP	Department for Work and Pensions
EBC	Employee benefits consultant
ERSP	Enabling Retirement Savings Programme
FSA	Financial Services Authority
GPP	Group personal pension
IFA	Independent Financial Adviser
ISA	Individual Savings Account
NEST	National Employment Savings Trust
NI	National Insurance
RDR	Retail Distribution Review
SHP	Stakeholder pension
SIPP	Self-invested personal pension
SME	Small and medium enterprise
SPA	State Pension age
TPR	The Pensions Regulator

# Glossary of terms

Active member	A <b>member</b> who is currently accruing benefits in a pension scheme.
Annual management charge	A charge levied annually by a pension <b>provider</b> on a <b>member's pension fund</b> to cover the costs associated with providing that pension scheme. The charge is usually levied as a percentage of the total fund value.
Automatic enrolment	Pension scheme enrolment technique whereby an employer automatically enrolls <b>eligible jobholders</b> in the <b>workplace pension</b> scheme without the employees having to make a separate application for membership. Employees are able to opt out of the scheme if they prefer.
Certification	To be able to use a <b>defined contribution (DC)</b> scheme after the <b>workplace pension reforms</b> are implemented, employers will have to demonstrate that they pay all jobholders that are enrolled who do not decide to opt out the minimum contribution. The process by which this must be done is called certification. Changes to the certification process were recommended in the Making Automatic Enrolment Work Review.
Commission-based	In the context of this study, an <b>intermediary</b> that charges the <b>provider</b> commission, based on the pensions products that are sold. The basis for the commission is individually negotiated between the <b>provider</b> and the <b>intermediary</b> . The <b>provider</b> usually attempts to recover the cost of this commission by increasing the value of the <b>annual management charge</b> applied to the <b>member's</b> fund.
Contract-based pension	A DC pension scheme purchased by an individual, either through their employer or individually, from a pension <b>provider</b> . It is owned entirely by the individual with the contract existing between the individual and the pension provider.
Corporate wrap	An integrated financial planning platform for employees. Rather than just paying into a pension fund, in a corporate wrap arrangement employer and employee contributions can be paid into one of a number of different financial products that are part of the wrap, depending on which product the member deems most appropriate to their needs.
Defined benefit scheme	An <b>occupational pension</b> scheme that provides benefits based on a formula involving how much a person is paid at retirement (or how much a person has been paid on average during their membership of the scheme) and the length of time they have been in the pension scheme.

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Defined contribution scheme	A pension scheme that provides pension scheme benefits based on the contributions invested, the returns received on that investment (minus any charges incurred) and the rate at which the final <b>pension fund</b> is annuitised.
Eligible jobholder	In the context of the <b>workplace pension reforms</b> this refers to those jobholders that will be <b>automatically enrolled</b> into a <b>qualifying workplace pension scheme</b> .
Employee benefits consultant	An adviser, or firm of advisers, that advises employers on employment benefits packages that it might offer to its employees, including pensions and other benefits. In the context of this report, they are a type of <b>intermediary</b> .
Enabling Retirement Savings Programme	Three bodies that are jointly responsible for delivering the <b>workplace pension reforms</b> : the Department for Work and Pensions (DWP), The Pensions Regulator, and the <b>National Employment Savings Trust (NEST)</b> Corporation.
Fee-based	In the context of this study, an <b>intermediary</b> that charges the employer a fee for their services. The terms, basis, duration and frequency of the fee are individually negotiated.
Final salary scheme	A <b>defined benefit (DB) scheme</b> where the benefit is calculated by reference to the final earnings of the <b>member</b> . The benefit is also based on the length of time they have been in the pension scheme.
Flexible benefits platform	Any service that gives the opportunity for employees to ‘trade’ different potential benefits within a single platform, depending on what their priorities are, for example, pension contributions, life insurance, dental cover, childcare vouchers or additional leave entitlement. The different services may be offered by the same provider or different providers, and the platform itself may be operated by an intermediary or administered internally by the employer. Depending on the scheme, some element of <b>salary sacrifice</b> may be involved to receive the different benefits.
FTSE	A UK provider of stock market indices and associated data services. The FTSE 100 Index includes the largest 100 companies in the UK listed on the London Stock Exchange.
Fund manager	A person or organisation appointed to make and implement day-to-day investment decisions for some or all of a pension scheme’s assets.
Group personal pension	An arrangement made for the employees of a particular employer, or for a group of self-employed individuals, to participate in a <b>personal pension</b> scheme on a grouped basis.

<b>Group self-invested personal pension</b>	An arrangement made for the employees of a particular employer, or for a group of self-employed individuals, to participate in a <b>self-invested personal pension</b> scheme on a grouped basis.
<b>Group stakeholder pension</b>	A <b>personal pension</b> that must meet certain legislative conditions including <b>annual management charges</b> of no more than 1.5 per cent. Employers with five or more employees who do not already offer a pension scheme must currently offer a group stakeholder pension scheme. These employers do not have to contribute to a group stakeholder pension but they must allow employees access to the scheme. SHPs will cease to be mandatory after the <b>workplace pension reforms</b> are introduced.
<b>Independent Financial Adviser</b>	An adviser, or firm of advisers, that is in a position to review all the available products and companies in the market as the basis for recommendations to clients. All Independent Financial Advisers (IFAs) are regulated directly by the Financial Services Authority (FSA).
<b>Individual personal pension</b>	A <b>personal pension</b> scheme purchased by an individual, not as part of an arrangement made for the employees of a particular employer. They are not classified as workplace pensions, and not covered by the workplace pension reforms.
<b>Individual Savings Account</b>	A savings product that allows the saver to invest a specified amount without paying tax on the income it generates. HM Revenue and Customs (HMRC) rules specify that in the 2011/12 tax year an individual can save up to £10,680. The full £10,680 can be invested in a stocks and shares Individual Savings Account (ISA) with one provider or up to £5,340 can be saved in a cash ISA with one provider, with the remaining being saved in a stocks and shares ISA with either the same, or another provider.
<b>Inducement</b>	Any action taken by an employer for the sole or main purpose of encouraging an individual to opt out of, or cease being an active member of, a qualifying <b>workplace pension</b> , including by offering alternative benefits that are mutually exclusive of being a member of a pension scheme. This will be against the law under the pension reforms.
<b>Intermediary</b>	An IFA or <b>employee benefit consultant</b> that provides regulated financial advice to its clients on the use of pensions and other financial products. All intermediaries as defined in this report are regulated directly by the FSA.

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Making Automatic Enrolment Work Review	An independent review published by the government in October 2010 that was asked to consider the proposed scope for <b>automatic enrolment</b> and the policy of establishing NEST to serve the automatically enrolled population. It supported the details of the reforms as outlined in the <b>Pensions Act 2008</b> , as well as proposing specific changes that were subsequently introduced to Parliament as part of the <b>Pensions Bill 2011</b> . The proposed changes are in Appendix A.7 of this report.
Master trust	A multi-employer <b>trust-based pension</b> scheme, which enables investors to combine their assets for greater leverage.
Member	A person who has joined a pension scheme and who is entitled to benefits under it.
National Employment Savings Trust	An occupational pension scheme, formerly known as Personal Accounts, established by legislation. NEST will be aimed at eligible <b>jobholders</b> on moderate to low incomes, who do not have access to a good-quality <b>workplace pension</b> .
Occupational pension	See <b>trust-based pension</b> .
Pensions Act 2007	The act introduced to Parliament in November 2006 that put into law reforms to the state pensions system. In the context of the <b>workplace pension reforms</b> it created the Personal Accounts Delivery Authority, subsequently renamed the <b>NEST Corporation</b> .
Pensions Act 2008	The Act introduced to Parliament in December 2007 to take forward measures aimed at encouraging greater private saving for retirement from 2012. Some of the measures in the act are due to be updated through legislation in the <b>Pensions Bill 2011</b> .
Pensions Bill 2011	A Bill introduced in the House of Lords on 12 January 2011. With respect to the <b>workplace pension reforms</b> it will implement measures from the <b>Making Automatic Enrolment Work Review</b> .
Personal pension	See <b>contract-based pension</b> .
Provider	An organisation, usually a bank, life assurance company or building society, that sets up and administers a pension scheme on behalf of an individual or trust.
Qualifying earnings	In the context of the <b>workplace pension reforms</b> this refers to the part of an individuals' <b>earnings</b> on which contributions into a <b>qualifying workplace pension</b> will be made.
Qualifying employer	In the context of the <b>workplace pension reforms</b> this refers to employers that employ any <b>eligible employees</b> .

Qualifying workplace pension	In the context of the <b>workplace pension reforms</b> all <b>qualifying employers</b> must offer their <b>eligible employees</b> a qualifying workplace pension. This is a scheme that must fulfil the core requirements of <b>automatic enrolment</b> and the quality criteria set out in the <b>Pensions Act 2008</b> and <b>Pensions Bill 2011</b> .
Retail Distribution Review	A review launched by the FSA in June 2006, with three main aims: to improve the clarity with which firms describe their services to consumers; to address the potential for adviser remuneration to distort consumer outcomes; and to increase the professional standards of investment advisers.
Salary sacrifice	Under salary sacrifice, an employee agrees to give up the right to receive part of their salary, usually in return for the employer's agreement to provide the employee with some form of non-cash benefit. In the case of pensions, the employer pays additional contributions into the employee's pension of a value equivalent to the amount of salary sacrificed.
Self-invested personal pension	A <b>personal pension</b> scheme under which the member has some freedom to control investments. The requirements governing self-invested personal pensions (SIPP) are set out in the Personal Pension Schemes (Restriction on Discretion to Approve) (Permitted Investments) Regulations 2001.
Short service refund	If an individual ceases to be an <b>active member</b> of a <b>trust-based</b> scheme, or deed poll structure, before the end of the <b>vesting period</b> , the employer may in certain circumstances process a short service refund, whereby the employee contributions are refunded back to the employee, less tax, and the employer contributions are refunded back to the scheme.
State Pension age	The state retirement pension is currently paid to people who reach the State Pension age (SPA) of 65 for men and 60 for women and who fulfil the conditions of the National Insurance (NI) contributions. At the time of fieldwork, legislation was in place to increase the SPA for women to 65 by 2020, and to 66 for both men and women by 2026.
Staging	The process by which all of the employers in the UK will begin <b>automatic enrolment</b> . The very largest employers of 120,000 employees or more will be required to begin automatic enrolment from 1 October 2012, and companies will then be staged on a monthly basis in decreasing order of size, with employers of less than 50 employees and new employers staging between 2014 and 2016.
Trust-based pension	A pension scheme taking the form of a trust arrangement, which means that a board of trustees is set up to govern the scheme. Benefits can be either <b>DC</b> or <b>DB</b> .

Trustee	An individual or company appointed to govern a trust-based scheme, in accordance with the provisions of the trust instrument, the legal document that sets up, governs or amends the scheme, and general provisions of trust law, for the benefit of scheme <b>members</b> .
Workplace pension	Any pension scheme provided as part of an arrangement made for the employees of a particular employer.
Workplace pension reforms	The reforms introduced as part of the <b>Pensions Act 2008</b> and due to be updated as part of the <b>Pensions Bill 2011</b> : the measures include a duty on employers to <b>automatically enrol all eligible jobholders</b> into qualifying <b>workplace pension</b> provision from 2012 to improve pension saving for those who participate. <b>DB</b> and some hybrid schemes must meet a test of overall scheme quality; and <b>DC</b> schemes and some hybrid schemes require a minimum contribution equivalent to eight per cent of qualifying earnings.

# Summary

This report provides the findings of a study conducted by RS Consulting on behalf of the Department for Work and Pensions (DWP) designed to investigate and understand the pensions industry's responses to the workplace pension reforms that were introduced as part of the Pensions Act 2008.

## Background

The Pensions Act 2008 set out a series of measures aimed at encouraging wider participation in private pension saving. The aims of these reforms are to overcome the decision-making inertia that currently characterises many individuals' attitudes to pension saving and to make it easier for people to save for their retirement. The measures in the Act include a duty on employers to automatically enrol all eligible jobholders into qualifying workplace pension provision starting in 2012 and to provide a minimum contribution towards the pension savings of those individuals who participate.

In October 2010, the government published the independent Making Automatic Enrolment Work Review<sup>1</sup>. The review supported the details of the reforms as outlined in the Pensions Act 2008 and proposed specific changes that are being taken forward as part of the Pensions Bill 2011.

## Scope of the research

The study was qualitative in nature, and consisted of in-depth, face-to-face interviews with 35 participants, including:

- 20 workplace pension providers. All of the major UK workplace pension providers participated in this study, covering the vast majority of the market;
- 15 intermediaries that advise employers on workplace pension products. A range of sizes of organisation participated, from the UK's largest employee benefits consultants (EBCs) to medium-sized intermediaries with at least 20 workplace pensions advisers.

## Key findings

### **The workplace pensions industry in 2011**

The pension providers in the study could be grouped into two broad categories:

- High-end providers: these targeted larger employers or those with medium to high average salary levels. They typically offered a wide range of pension products and investment options. They were often reluctant to take on commission-based business, focusing instead on employers that were willing to pay intermediaries a fee for advice.
- Mass market providers: these catered for a wider range of employers in terms of size and salary, potentially including smaller and lower salaried employers that arranged their pension through a commission-based intermediary: such business was often less profitable for the provider, due to lower membership levels and lower average contributions, as well as the need for the provider to pay commission to the intermediary.

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<sup>1</sup> Johnson, P., Yeandle, D. and Boulding, A. (2010). *Making automatic enrolment work – A review for the Department for Work and Pensions*. Available at: <http://www.dwp.gov.uk/docs/cp-oct10-full-document.pdf>

Intermediaries could also be grouped according to their size and function:

- Large intermediaries were typically EBCs that provided advice to employers in a range of areas including pensions, investment strategies and wider employee benefits. They typically worked exclusively on a fee-basis, rather than charging commission on products sold.
- Medium-sized intermediaries typically employed between 20 and 100 consultants. They tended to cater for small and medium enterprises (SMEs) of up to around 100 employees with higher than average salaries. Traditionally, medium-sized intermediaries had operated through a mix of fee-based and commission-based business, although by 2011 most were planning to move to an entirely fee-based model.

### **Background to the pension reforms**

Overall, most providers and intermediaries agreed that the reforms were being introduced into a market that had changed significantly in recent years. It was seen as having evolved from one that was very profitable, with high and complex charging structures, to one with lower margins, greater competition, and increased pressure for each provider and intermediary to occupy a profitable space in the market.

Many providers and intermediaries pointed out that it was impossible to isolate the industry's responses to the reforms without also taking into account factors such as the competitive environment, the recession and the Retail Distribution Review (RDR). While all acknowledged that the pension reforms would entail significant changes to their industry, many also pointed out that these other factors would be just as important, or even more so.

The stakeholder one per cent charging cap that was introduced as far back as 2001 was widely believed to have changed the face of the workplace pension market. While it improved value for members, it also reduced profitability for providers as well as the scope for them to pay commission to intermediaries. There was effectively a 'ceiling' of one per cent above which providers could not charge. As a result:

- higher-end providers became less willing to pay up-front commission to intermediaries, preferring to focus on employers who were prepared to pay a fee for their advice, allowing them to charge a lower and more competitive AMC to members;
- mass market providers had always been more reliant on commission-based business: only those providers with a very low cost-base, usually larger providers, chose to remain in this part of the market. Others had left the market or consolidated.

Most providers and intermediaries agreed that the workplace pensions industry had not been immune from the effects of the recent recession that began in 2008. Employers had been increasingly seeking better value for money and clear return on investment from the fees they paid to intermediaries. As a result:

- providers reported that intermediaries frequently attempted to re-negotiate providers' charges. The impact of this was often that providers' revenues were squeezed further;
- some intermediaries reported that the recent growth in popularity of flexible benefits platforms was accelerated by the recession, because they could be operated in a cost neutral way to the employer, but employees were, nevertheless, likely to value and appreciate the benefits they provided.

## The impact of the RDR

In June 2006, the Financial Services Authority (FSA) launched the RDR.<sup>2</sup> From the end of 2012 adviser firms will no longer be able to receive commission set by product providers in return for recommending their products.

Where commission-based business already existed, some providers and intermediaries predicted that there might be a rush to sell new commission-based business until the RDR is implemented in December 2012, essentially because both providers and intermediaries felt that, as long as the commission-based model is an option, lower-paid and smaller employers would continue to prefer that approach, assuming they would not be prepared to pay for advice.

Post-RDR, relationships between providers, intermediaries and employers were expected to evolve significantly. Few expected employers that previously paid commission to be willing to pay a fee for advice, and most were unsure whether FSA-permitted alternatives to commission, such as consultancy charging, would be accepted in the market. Consequently, in mass market schemes, many providers expected to sell schemes directly to employers with no intermediary involvement at all.

Across both providers and fee-based intermediaries there were comparable levels of criticism and endorsement for the RDR. Some lamented the loss of advice to the part of the market that was currently serviced by commission-based intermediaries. Others felt that after 2012 the nature of the pensions market would not require it. Providers in particular pointed out that the pensions market was already becoming more transparent, with easy access to information making employers self-sufficient; the reforms and other new products offered by providers would simplify pensions while lessening the need to pay for advice.

## Providers' planned responses to the pension reforms

While most providers agreed that automatic enrolment would lead to increased membership within existing schemes, some pointed out that many of the newly-enrolled savers would be the lowest paid on average, and so might be unprofitable. The increase in providers' administration and communication costs relating to the reforms and automatic enrolment were expected to exacerbate this.

Providers agreed that the organisations that are successful after the implementation of the reforms would, therefore, be those that can secure a business stream that is profitable. As a result, providers suggested that they would firstly assess the potential profitability of any employer, before making a decision as to whether to take on that new business. This evaluation would include consideration of a number of factors such as contribution levels, staff turnover, number of scheme members, and the cost of administering these members.

Many providers also felt that their profitability would partly depend on whether they could automate much of the administration surrounding increased membership.

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<sup>2</sup> More information on the RDR can be found on the FSA's website at <http://www.fsa.gov.uk/pages/About/What/rdr/index.shtml>. For the final rules, see Financial Services Authority (2010). *Distribution of retail investments: Delivering the RDR – feedback to CP09/18 and final rules*. Available at: [http://www.fsa.gov.uk/pubs/policy/ps10\\_06.pdf](http://www.fsa.gov.uk/pubs/policy/ps10_06.pdf)

### **Intermediaries' planned responses to the pension reforms**

Intermediaries often predicted that, in the long-term, the reforms would be unlikely to have a significant impact on the overall demand for advice. Most felt that their target customer base already had pension provision in place and would continue to be prepared to pay for intermediary advice after automatic enrolment. Few intermediaries expected to attempt to actively target employers that currently had no pension provision, unless the employers were to approach them proactively and be prepared to pay a fee for advice.

The principal exception to this was expected to come over the next few years: many intermediaries expected more work helping employers to implement the reforms. Intermediaries were typically already using the workplace pension reforms as a discussion point in their current marketing materials and in meetings with current and potential clients. They typically planned to further increase such communications as the reforms approached.

### **Products and services likely to be introduced after the reforms are implemented**

Intermediaries and providers typically said that their strategies would hinge upon remaining profitable in the post-reform, post-RDR market. As a result, both providers and intermediaries were considering the adjustment of existing products as well as creating new products that would be tailored toward the post-reform market. Part of the future success of their organisations was expected to depend on whether they would be able to sell benefits packages and other products that employers and employees valued: in other words, to add value, beyond that offered by a basic pension scheme with no bundled advice.

Providers and intermediaries commonly planned to offer new or existing services through online platforms, as they were seen to offer greater flexibility to employers and employees as well as encouraging greater engagement from employees. Flexible benefits platforms, for example, were often offered by intermediaries at present, and many were planning to increase the functionality of these further in the future, not only by allowing access to a wider range of benefits, but also by improving their functionality in terms of communication.

Many providers were planning to introduce a wider range of workplace savings vehicles over the coming years. A common way that they planned to do this was through the introduction of corporate wraps, or integrated financial planning platforms for employees. While some high-end providers already offered such products in 2011, they were commonly mentioned as an example of a product that could 'add value' after the introduction of the reforms.

Some providers and intermediaries were considering products that offered employers a set of compliance tools that would automatically ensure that the employer was complying with all of the requirements of the pension reforms, without the need for external involvement or advice.

Occasionally providers were also considering offering more 'basic' solutions as an alternative to National Employment Savings Trust (NEST), in particular in terms of access and investment options. They expected to pare down existing products in order to be able to offer these at a charge that was comparable to NEST. However, their products were still expected to hold some advantages over NEST, such as greater fund choice or more flexibility on payments.

Very rarely providers mentioned that they were considering offering a master trust arrangement, consisting of a single trust-based scheme offered to multiple employers, in particular in response to a perceived increased need for improved scheme governance. Providers felt that a master trust could provide this with minimal burden on individual employers.

## Advice and guidance about the reforms given to employers

Intermediaries suggested that the date an employer was likely to begin planning for the pension reforms was dependent on their size. The largest employers, some facing automatic enrolment within two years, were the group most likely to be asking about the reforms currently. Conversations with intermediaries often focused on timings and costs, and well as key operational and administrative challenges, including:

- ensuring that all qualifying staff are automatically enrolled;
- ensuring correct contributions are deducted accurately and on time;
- dealing with opt-outs and general administration of automatic enrolment;
- dealing with the re-enrolment process;
- the cost and training implications of setting up new systems;
- communicating the new benefits to employees in a clear, understandable and positive way.

Intermediaries stressed that the advice given to a particular employer would always be bespoke to their particular circumstances. Typically intermediaries assessed the employer in terms of workforce, their pension objectives and their budget. They would then present them with a number of relevant options, and work through these with the client to decide upon the best fit for the client's own business.

## Sources of advice available to smaller employers

While large firms already had established channels of advice, many small employers had no experience of offering a pension, and some intermediaries and providers felt there was no obvious and well-known source of information about the reforms available to them.

Many predicted that when the time came for small employers to automatically enrol their workforce, they would seek information and advice from their company accountant. This assumption was typically based on the fact that the accountant was the main finance professional available to all small companies, who would already be aware of the intricacies of their specific business. However, both intermediaries and providers suggested that accountants would only be in a position to provide very general information about the reforms and their implications for companies.

Some suggested that more information and advice was needed from the government in response to this perceived information gap, including publicity campaigns and call centre helplines, to ensure that small employers have time to make plans for automatic enrolment and consider whether an alternative provider to NEST would be an appropriate option for them.

## The impact of NEST

Providers and intermediaries typically predicted that NEST would have a significant impact on the pensions market. The anticipated size of the scheme in terms of the number of members and its funds under management, alongside the fact that the NEST Corporation was set up by a government act, meant that some felt it could inevitably become a significant player and set standards in the market. Some predicted that NEST could be a positive influence on the industry, as the publicity surrounding it would create interest in pensions among employers and employees.

Providers rarely predicted that NEST would have a detrimental impact on their own business. Rather than seeing NEST as a direct competitor, they generally believed it targeted the lower end of the market in terms of salary, which was largely un-catered for by current providers.

Providers sometimes told us that they would consider working with NEST to provide a tiered solution to larger employers, whereby lower-paid employees would be enrolled into NEST, and higher-paid employees into the provider's product. Some intermediaries agreed with providers that they would consider NEST alongside a traditional pension provider, as part of such a tiered solution.

NEST was often seen as setting a standard against which other products would be compared in terms of communications, with some providers and intermediaries hoping to emulate NEST's use of plain English in their future communications. NEST was also expected to further push forward the adoption of web-based propositions, with online technology to be more widely utilised by providers and intermediaries in the future.

Many providers and intermediaries expected NEST to have a substantial impact on provider charges, setting the 'baseline' level of charge for the post-reform pensions market: wherever alternative products charged more than NEST, they would be forced to justify what additional value they can provide.

### **Reactions to the Making Automatic Enrolment Work Review**

Providers and intermediaries were typically aware of the recommendations of the review, viewing them as a sensible and pragmatic solution to industry concerns. Providers felt that the government had largely heeded their suggestions and recommendations and acted upon the views of the industry.

With regard to specific recommendations:

- Most providers and intermediaries were in favour of the proposal to align the automatic enrolment threshold with the income tax personal allowance, and align the bottom of the earnings band for contributions with the National Insurance (NI) threshold. Most felt this reduced the possibility of an individual being automatically enrolled into a scheme on a very low income and paying extremely tiny levels of contribution. This was also expected to alleviate the administrative burden on a provider of overseeing a large number of very small pension pots.
- Most intermediaries and providers welcomed the introduction of a three-month waiting period for automatic enrolment, believing it would save on the cost of setting up and administering a pension scheme for short-term and casual staff as well as staff choosing to leave in the first three months.
- Most were in favour of the proposed revisions to the certification process, with some suggesting that the previous definition of 'total earnings' caused unnecessary complexities and could have encouraged employers to decide against paying bonuses or employee overtime.
- Some suggested that the government's commitment to review the regulatory differences between trust-based and contract-based schemes could be a positive move, as it would prevent employers from selecting a scheme as a result of the short service refund rules. However, a minority of providers did suggest that they might consider introducing their own trust-based scheme should the rules not be changed.

While providers and intermediaries typically welcomed the recommendations of the review, many pointed out that several aspects of the reforms were still not finalised, effectively preventing the industry and employers from planning with certainty. Providers and intermediaries often expressed in very strong terms the need for finality in the coming months, given the proximity of the reforms.

# 1 Introduction

This report provides the findings of a study conducted by RS Consulting on behalf of the Department for Work and Pensions (DWP) designed to investigate and understand the pensions industry's responses to the workplace pension reforms that were introduced as part of the Pensions Act 2008.

This chapter outlines the policy background to the study, describes the pensions industry as we define it in this report, gives the aims and objectives of the research, and finally summarises the methodological approach taken.

## 1.1 The workplace pension reforms

The Pensions Act 2008 set out a series of measures aimed at encouraging wider participation in private pension saving. These measures will be taken forward and finalised in the Pensions Bill 2011. The aims of these reforms are to overcome the decision-making inertia that currently characterises many individuals' attitudes to pension saving and to make it easier for people to save for their retirement. The measures introduced are due to come into effect in 2012.

The measures include a duty on employers to automatically enrol all eligible jobholders into a qualifying workplace pension scheme from 2012 and to provide a minimum contribution towards the pension saving of those individuals who participate. Employees will be able to choose whether to remain in the pension scheme or opt out of it. For all those that remain, the reforms will require employers via pension schemes to provide a minimum contribution equivalent to eight per cent of qualifying earnings. At least three per cent of this contribution must come from the employer, and unless the employer chooses to contribute more than three per cent, employees will be required to contribute a further four per cent on the same band of earnings, while the government will contribute around one per cent in the form of normal tax relief.

In addition, the Pensions Act 2008 set up National Employment Savings Trust (NEST), which will serve as a new national low-cost workplace pension scheme. This scheme will be one of the qualifying schemes available to any employer who wants to use it to meet their new duties.

The delivery of the workplace pension reforms is the responsibility of the Enabling Retirement Savings Programme (ERSP). The ERSP consists of three bodies that are jointly responsible for delivering the reforms: DWP, The Pensions Regulator (TPR), and the NEST Corporation. Their main functions are:

- DWP is responsible for the workplace pension reform policy, the legislation, communicating about the changes and providing information about the nature and impact of the changes to individuals;
- TPR is responsible for ensuring employers' compliance with their new duties;
- NEST Corporation is a pension provider available to all employers who want to use it.

### 1.1.1 Automatic enrolment

Starting from 2012, everyone employed in the UK will be enrolled automatically into a pension, provided they:

- are aged at least 22 years old;
- have not yet reached State Pension age (SPA);

- earn more than an earnings trigger based equivalent to the income tax threshold (£7,475 in 2011/12);
- are not already in a qualifying pension scheme.

Other employees will be able to opt into a pension. These include:

- employees aged between 16 and 22 who are earning more than £7,475 will be able to opt in and will receive employer contributions if they do;
- employees aged between SPA and 75 who are earning more than £7,475 will be able to opt in and will receive employer contributions if they do;
- people earning below £7,475 but above the qualifying earning threshold will be able to opt in and will receive employer contributions if they do;
- people earning below the qualifying earnings threshold may opt in – their employer will not be required to make a contribution, but may choose to do so.

Employees will be able to choose to opt out of the pension, if they wish.<sup>3</sup>

### 1.1.2 NEST

NEST has been designed to be a low-cost pension option, and to meet the needs of employers who previously might have not offered a pension provision to their employees. It will operate as a trust-based occupational pension scheme and it will be run by the NEST Corporation. As it has been set up on a trust basis, the NEST Corporation is legally bound to run NEST in the interests of scheme beneficiaries. NEST will impose an annual management charge (AMC) of 0.3 per cent of the value of the fund, with an additional 1.8 per cent charge on the value of each contribution to cover NEST's startup costs.

NEST's main features include:

- It has been designed to be simple and easy to administer with the use of online services and tools.
- It has been designed to meet the needs of low-to-moderate earners; this will be reflected in its investment approach.
- It will offer flexibility over contribution levels and the way these are calculated.
- It has been designed to be portable, i.e. an individual membership can be kept when an employee moves between employers. Also more than one employer will be allowed to contribute to a member's NEST retirement savings pot at the same time.
- It will be open to any employer of any size or any sector.
- Jobholders will be automatically enrolled into the default fund but there is likely to be a choice of investment funds. Those not wishing to make an investment choice will stay in the default fund.
- The self-employed and single person directors are not eligible for automatic enrolment but will be able to join NEST.

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<sup>3</sup> Further information on the pension reforms and automatic enrolment is available on the Directgov website at [http://www.direct.gov.uk/en/Pensionsandretirementplanning/DG\\_183783](http://www.direct.gov.uk/en/Pensionsandretirementplanning/DG_183783)

Additionally, there will be certain limitations:

- There will be an annual contribution limit of £4,200 into NEST (in 2011/12 terms). This will be uprated by earnings year on year. This limit will be reviewed in 2017.
- Transfers in and out of NEST will not be permitted, except in specific limited circumstances. This will be reviewed in 2017.<sup>4</sup>

### 1.1.3 The Making Automatic Enrolment Work Review

Automatic enrolment into a qualifying workplace pension was one of the key recommendations of the Pensions Commission, made in October 2004 and November 2005. Since 2006, DWP has worked to develop the detail of automatic enrolment policy, based on the recommendations of the Pensions Commission. In 2010, the DWP commissioned an independent review, Making Automatic Enrolment Work, to consider the proposed scope for automatic enrolment and the policy of establishing NEST to serve the automatically enrolled population.

In October 2010, the government published the outcomes of this review.<sup>5</sup> It supported the details of the reforms as outlined in the Pensions Act 2008, as well as proposing specific changes. These included:

- jobholders should only be automatically enrolled once they reach the income tax threshold but the contributions should be on earnings in excess of the National Insurance (NI) earnings threshold;
- the introduction of an optional three-month waiting period of up to three months. This would allow employers to automatically enrol their employees at any point in the first three months of their employment;
- introducing a more simplified certification process for employers to show that they are using a qualifying scheme;
- allowing the initial tranche of employers who are to be staged into automatic enrolment in October and November 2012 the flexibility to act as early as July 2012 if they want;
- allowing employers three months' flexibility around their scheduled re-enrolment date;
- a government review into whether the existing regulatory regime for the provision of defined contribution workplace pensions remains appropriate to the post automatic enrolment world.

In addition, the Making Automatic Enrolment Work Review made further recommendations that will be reviewed in 2017 when the pension reforms set out by the Pensions Act 2008 and Pensions Bill 2011 are fully implemented:

- removal of the contributions limit once staging is complete;
- NEST should be able to receive transfers in, but only once auto enrolment is established.

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<sup>4</sup> Further information on NEST is available on NEST's own website: <http://www.nestpensions.org.uk/> and The Pensions Advisory Service website [http://www.pensionsadvisoryservice.org.uk/future-pension-reforms/national-employment-savings-trust-\(nest\)](http://www.pensionsadvisoryservice.org.uk/future-pension-reforms/national-employment-savings-trust-(nest))

<sup>5</sup> Johnson, P., Yeandle, D. and Boulding, A. (2010). *Making automatic enrolment work – A review for the Department for Work and Pensions*. Available at: <http://www.dwp.gov.uk/docs/cp-oct10-full-document.pdf>

### 1.2 The workplace pensions industry: an introduction

This study explores the pensions industry's responses to the workplace pension reforms. The pensions industry as we define it in this study consists of two separate audiences: pension providers and intermediaries.

Pension products are designed, set up and administered by pension providers. A pension provider is an organisation, usually a bank, life assurance company or building society, that designs, sets up and administers a pension scheme on behalf of the member in the case of contract-based schemes, or on behalf of the board of trustees in the case of occupational schemes. In designing the scheme the provider gives the member a number of options of funds to invest in, and appoints fund managers to make and implement day-to-day investment decisions for the members that choose to invest in a particular fund. The provider is also responsible for processing leavers and joiners to its scheme.

Different pension providers may charge members or employers for their services in different ways, for example, as a charge per contribution or through monthly fees, but the most common method of charging is through a single AMC. This charge is levied annually on the total value of a member's pension fund, usually as a percentage of the total fund value.

In many cases an employer will use an intermediary to advise it on the most appropriate choice of pension provider and pension scheme, and often to provide its employees with professional advice regarding their own decisions around retirement saving. Some intermediaries may also advise employers on a wide range of employment benefits packages as well as pensions, and in this case we also refer to them as employee benefits consultants (EBCs).

Intermediaries may currently charge for their services in two ways. They may be fee-based: in this case they charge the employer a fee for their services. The terms, basis, duration and frequency of the fee are individually negotiated. Alternatively, intermediaries may work on a commission basis, in which case the provider pays the intermediary commission based on the pension products that are sold. The basis for the commission is individually negotiated between the provider and the intermediary. The provider usually attempts to recover the cost of this commission by increasing the AMC they apply to members' funds.

An intermediary may, at present, decide on a client-by-client basis whether they wish to charge a fee or commission for their services, or indeed a combination of both. In practice, individual intermediaries have policies that dictate this, and so it is normal to refer to a particular intermediary as either 'fee-based' or 'commission-based'. In general terms, the largest intermediaries and EBCs are often fee-based and deal with larger employers; smaller intermediaries are often commission-based and deal with a wider range of employer sizes.

After December 2012, intermediaries will no longer be able to receive commission on new pension products sold, as a result of a Financial Services Authority (FSA) directive known as the Retail Distribution Review (RDR).<sup>6</sup>

### 1.3 Research objectives

In 2008, DWP conducted a qualitative research study that explored pension providers' and intermediaries' likely behaviour in response to the workplace pension reforms.<sup>7</sup>

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<sup>6</sup> The RDR and its expected impact is explored further in Section 3.3.

<sup>7</sup> Wood, A., Leston, J. and Robertson, M. (2009). *Pensions industry responses to the workplace pension reforms: Qualitative research with pension providers and intermediaries*. Available at: <http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep592.pdf>

In 2011, this research project was designed to further investigate and understand the potential impacts of the reforms on the pensions industry, and the industry's responses to the reforms, in the light of greater policy certainty, the outcomes of the Making Automatic Enrolment Work Review, and closer proximity to the onset of the reforms.

This project aimed to:

- understand how providers and intermediaries position themselves in the market, and how the market and their business strategies have evolved since 2008;
- explore how providers and intermediaries interact with employers and how these relationships might change in response to the reforms and other legislation;
- explore the likely impact of the workplace pension reforms and other legislation on providers and intermediaries;
- explore how providers and intermediaries are planning to alter their business strategies, if at all, in response to the reforms.

## 1.4 Project methodology

The study was qualitative in nature, and consisted of in-depth, face-to-face interviews with 35 participants, including:

- 20 workplace pension providers;
- 15 intermediaries that advise employers on workplace pension products.

A qualitative research approach was considered to be the most effective way to achieve the study objectives and explore opinions and practices in detail. Because the research was qualitative, rather than quantitative, its purpose was not to report on the number or percentage of individuals or organisations holding a particular view or having a particular set of experiences, nor to provide statistical data relating to the frequency of views across the UK. Instead, it explored a range of opinions in depth.

Fieldwork took place in January and February 2011.

This section details the separate stages of the methodology.

### 1.4.1 Identifying providers and intermediaries

The study was designed to include as many of the UK's largest workplace pension providers as possible. This included providers of occupational defined contribution (DC) schemes and contract-based pensions (including group stakeholder pensions (SHPs), group personal pensions (GPPs) and group self-invested personal pensions (group SIPP)). Ultimately, all of the major UK workplace pension providers participated in this study, covering the vast majority of the market.

Intermediary interviews were conducted with a spread of sizes of organisation. This included well-known industry leaders specialising in employee benefits and financial advice, employee benefits consultants, other major pensions consultants, and a range of medium-sized intermediaries. Intermediaries were screened to ensure that at least a quarter of their total revenue came from workplace pensions, or that they had at least 20 advisers giving advice specifically on workplace pensions. This was to ensure that they were sufficiently involved in the market to be able to speak with authority. Smaller independent financial advisers (IFAs) were not included, since their involvement in the workplace pensions market was typically limited. Section 2.2.3 explores reasons for this.

The provider and intermediary sample frames were constructed based on information from a variety of sources.<sup>8</sup> Where providers or intermediaries matched the recruitment criteria and were willing and able to give up the time to commit to a face-to-face interview, the recruitment team sent them an introductory letter from DWP and a summary of the topics that would be discussed.<sup>9</sup>

All participants were assured that all of the information discussed in the interview would remain confidential to the RS Consulting research team and would only be reported in aggregate form; it would not be attributed to specific individuals or organisations, either in presentations to DWP or in this final report.

### 1.4.2 Fieldwork

Interviews were conducted in January and February 2011 by the RS Consulting management team.

In the case of providers, we used a standardised script to identify the most senior decision-makers for workplace pension strategy within each organisation. Examples of job titles were:

- Senior Policy Development Manager.
- Head of Pensions Policy.
- Senior Pensions Policy Manager.
- Group Pensions Director.

A similar approach was taken to identify the most senior decision-makers for workplace pension strategy within the intermediary organisations. Job titles included:

- Head of Employee Benefits.
- Head of Pensions.
- Consultancy Director.
- Senior Manager.
- Senior Consultant.

A common discussion guide was used for all of the individual depth interviews, with some customisation for each audience.<sup>10</sup>

### 1.4.3 Analysis and reporting

Digital audio recordings were made of all of the individual depth interviews for analysis purposes, with the explicit permission of all of the participants. No participants declined permission. We used each recording to transcribe the interviews. The recordings were destroyed at the end of the project.

Working closely together, the team analysed the results of the individual depth interviews at an individual respondent level to produce an internal summary document identifying key emerging themes and provisional findings.

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<sup>8</sup> Sources included the Association of British Insurers (ABI), Presswatch, information held by the DWP policy team and listings of leading providers and intermediaries from published research reports.

<sup>9</sup> The recruitment scripts and the letter sent to participants in advance can be found in Appendices A.1 to A.3 of this report.

<sup>10</sup> The full discussion guide and accompanying show cards can be found in Appendices A.4 to A.7 of this report.

In addition, a custom-made spreadsheet was produced, which allowed the team to collate and analyse the large quantities of data we collected. This allowed specific groups of participants' answers to be analysed together and compared. It also helped the team to identify useful verbatim comments, illustrative examples and attributions, all of which were used to add depth to this written report.

Working together, the team produced an initial document identifying key emerging themes, which formed the basis of an initial report of findings delivered internally to DWP; and subsequently this written report of findings.

## 2 The workplace pensions industry in 2011

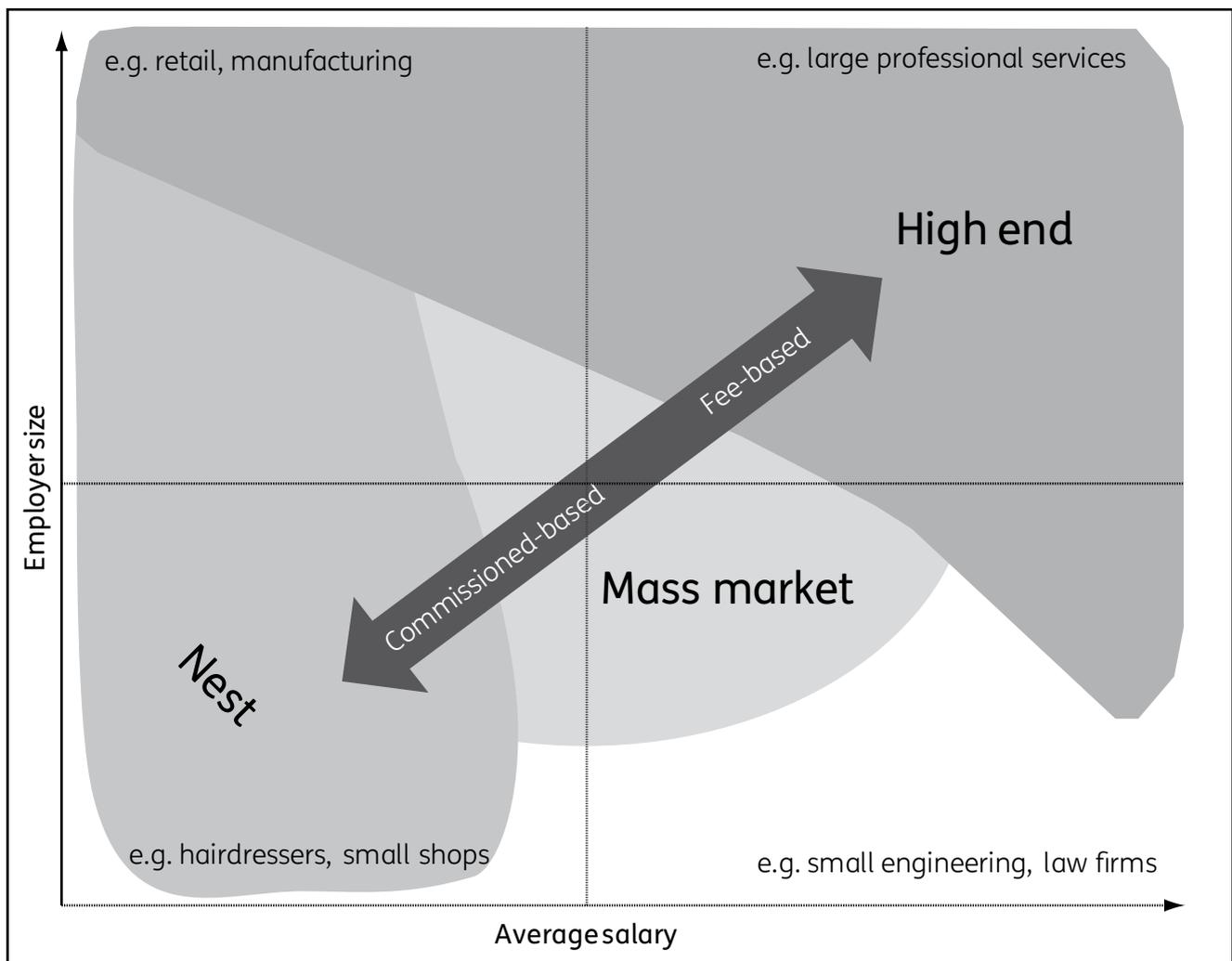
This chapter introduces the different players in the workplace pensions industry, and looks at how they see their own position in the market. Throughout this report, we will define the providers and intermediaries in this study in terms of the different types of employer they serve. This chapter examines what this means for the providers and intermediaries that we interviewed.

### 2.1 Overview of the market for pension provision

This study was designed to include the views of pension providers representing the vast majority of the UK workplace pension market. The 20 providers that participated in this study included the largest providers, servicing many different employer types, as well as some more niche providers focused on relatively small segments of the market.

Providers differed primarily according to what part of the market, in terms of employer size and average salary, their products, sales and marketing efforts were aimed at. Figure 2.1 illustrates this.

**Figure 2.1 Three types of pension provision: high-end, mass market and National Employment Savings Trust (NEST), and the employer types they target**



In this study we have identified two main types of providers:

- mass market providers, described in Section 2.1.1;
- high-end providers, described in Section 2.1.2.

Additionally, NEST has been included in Figure 2.1 to illustrate where the participating providers considered their products to be targeted in relation to NEST. NEST itself will not be introduced into the market until 2012<sup>11</sup> and is expected to cater for the lower end of the market in terms of average employee salary.<sup>12</sup>

It is worth noting that there is overlap between the two categories: many of the providers in this study targeted business across more than one category, although most tended toward one type of business or the other.

We have also given examples of different employer types in different parts of the market. These all reflect examples of employers that were given to us by providers to illustrate their own target market:

- Small employers with low average salaries, including small shops and hairdressers;
- Small employers with high average salaries, including small professional companies such as law or engineering firms;
- Large employers with a mix of salaries and a high proportion of staff on low salaries, including large retail or manufacturing organisations;
- Large employers with a mix of salaries and a high proportion of staff on high salaries, including large professional organisations.

Finally, Figure 2.1 also shows whether intermediaries within the different sections of the market tended to be predominantly fee-based or commission-based.

### **2.1.1 Mass market pension providers**

The mass market pension providers catered for a wide range of employers, from the largest UK employers to smaller and medium-sized employers, and a wide range of salaries. While mass market providers typically had a broad spectrum of clients, they, nevertheless, had criteria on which they based their decision of whether or not they were willing to take on new business. Indeed they often did not cater for the very smallest employers unless they were highly paid, because their small size made them potentially unprofitable for the provider, and they were often considered less likely to want to offer their employees a pension.

Most providers were prepared to turn certain business down, or take on business outside their core market: this would be assessed on an individual basis.

*‘We won’t take anything and we don’t target everything. [...] The business is looked at on an individual basis. There is a target market that we do aim for broadly, and that is your 50 to 500 active member schemes. If we were to go out and target or push it, that is what we would be looking for, but there are businesses outside that that would be equally attractive.’*

(Provider)

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<sup>11</sup> A trial pilot with volunteer employers is also taking place during 2011.

<sup>12</sup> The expected impact of NEST is explored in Chapter 6.

For these mass market providers pension products were just a part of their offering, with a majority also offering banking and insurance products. The pensions they offered included defined contribution (DC) occupational schemes, group stakeholder pensions (group SHPs), group personal pensions (GPPs) and group self-invested personal pensions (group SIPPs). Many had also some defined benefit (DB) schemes on their books, but these had very rarely been sold to new clients in recent years.

Additionally, as mass market providers served almost all types of employer, they also took on commission-based business from smaller and lower salaried employers. Such employers were typically unwilling to pay an advisory fee to an intermediary, and often were less profitable for the provider, due to low membership and low average contributions being paid into the scheme.

The mass market providers typically said they were only able to work with these employers thanks to their own economies of scale as a provider and significant improvements in the efficiency of their processes in recent years. Having many employers on their books and fewer bespoke products, the mass market providers were able to take on more business from the less profitable lower end of the market. Nevertheless, in the past few years even the mass market providers had increasingly attempted to attract more business from the larger employers that offered relatively generous contributions.

*'The main thrust of our target is middle to large businesses. So you are looking at reasonable sized employers who are paying a joint employee and employer contribution, and therefore, you are talking about 100 employees upwards probably and probably more than that really. In our ideal structure at the moment, it is aimed at the higher end of the numbers.'*

(Provider)

### 2.1.2 High-end pension providers

We have defined high-end pension providers as those that specifically, and in some cases exclusively, target larger employers and those paying medium to high average salaries. Although there was no clear cut-off in terms of size, providers often reported that they focused on employers with 500 or more employees, right up to employers from the FTSE 350 list<sup>13</sup>, or on smaller clients in higher paid industries.

Like the mass market providers, high-end providers offered a mix of products to these employers, including GPPs, group SIPPs and DC occupational plans. Additionally, they also looked after some legacy DB business. While the products themselves were typically the same, high-end providers tended to offer a wider selection of bespoke investment options than were offered to the mass market.

In addition, some of the high-end providers were beginning to offer corporate wrap products. These are integrated financial planning platforms for employees. Rather than just paying into a pension fund, in a corporate wrap arrangement employer and employee contributions can be paid into a choice of different financial products, depending on which product the member decides is most appropriate for their needs. Typically, employees would have the ability to manage and monitor their investments online. Corporate wraps can include, for example:

- pension plans;
- Corporate Individual Savings Accounts (ISAs);
- share plans;

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<sup>13</sup> This refers to the largest 350 companies in the UK listed on the London Stock Exchange.

- other savings products;
- life insurance.

*'The big change we have had is that in the last year we introduced something called [name] which is broadly a corporate wrap. It's putting on employer's intranets lots of financial planning tools and information for the staff, access to buying products apart from just pensions.'*

(Provider)

High-end providers were particularly selective about which clients were taken on. They were often reluctant to take on commission-based business, as their principal aim was to offer added-value solutions for higher earners that would lead to high contribution levels.

*'I would say we have a more targeted market than perhaps the big life insurers. So we are quite targeted to the large clients and are selective about which clients we take on.'*

(Provider)

### 2.1.3 Other types of pension provision

A minority of the providers interviewed catered for specific parts of the market, typically employers within a particular industry sector or with a particular need. These niche providers had tailored solutions specifically designed for their specific requirements. For example, providing a single, industry-wide scheme to a low-paid industry such as construction was financially viable thanks to economies of scale.

*'We are a provider of primarily pensions to lower to moderate construction workers and we operate a larger stakeholder pension in terms of numbers, with over half a million members.'*

(Provider)

A minority of providers offered master trusts. This is a multi-employer occupational pension scheme, which is managed centrally by the provider, resources are pooled together and employers do not need to provide their own trustees or administer their schemes as this is done by the provider. The participating providers said that their master trusts were designed for employers interested in a trust-based pension scheme, but not willing to set up an in-house trustee board.

*'We occupy a niche position. [...] The master trust is a way of disengaging the employer from the administration. What the employer has to do is to pay the contributions, and we do all of the administration.'*

(Provider)

## 2.2 The intermediary market: overview

For the purposes of this study we have identified two broad types of intermediary within the workplace pensions market:

- large intermediaries, also referred to as employee benefit consultants (EBCs), described in Section 2.2.1;
- medium-sized intermediaries, described in Section 2.2.2.

Small intermediaries, or independent financial advisers, were not generally considered to represent a significant part of the workplace pensions market in 2011 and so were not included in this study, for the reasons described in Section 2.2.3.

### 2.2.1 Large intermediaries

In this study we use the term ‘large intermediary’ to refer to the intermediary organisations employing the greatest number of consultants, typically 100 or more, that are involved in providing employers with workplace pensions advice. Similar to high-end pension providers, the large intermediaries tended to work with larger employers, including FTSE companies, and smaller clients with high employee average salaries.

*‘I would say we are one of the leading employee benefit consultancy firms. We have something like half the FTSE companies so we advise companies with 100,000 plus employees down to employers of a dozen or less but, by and large, we are more focused on the larger clients.’*

(Intermediary)

These large intermediaries were also characterised by their wide variety of EBC services. They provided advice in many areas including pensions, but also investment strategies and wider employee benefits strategies. Some also provided project management and pension administration services, where the intermediary would take over the administration of an employer pension scheme, including communications with employees. Large intermediaries were often business or management consultants in a far wider sense, and had numerous established relationships with their clients and advised in a variety of areas within the employee benefits arena.

*‘We are advising them on their retirement policies, the philosophy for the retirement treatment of their workforce, for their philosophy around what role retirement provision should play in the reward package as part of the employment deal and to the extent they provide retirement savings. Whether it is occupational, contract-based, DB or DC, their strategies for how to finance and deliver those promises. We get appointed to help clients both on an on-going basis and around specific projects through existing relationships, through referral, through pitching – the whole range.’*

(Intermediary)

Typically, large intermediaries worked exclusively on a fee-basis, rather than charging commission on products sold. Only in very rare cases did large intermediaries work on a commission basis, usually where the organisation had purchased a smaller, commission-based intermediary in the past, and this part of the new company was continuing to operate on commission on a temporary basis.

Occasionally, large intermediaries also offered their own branded pension products such as group SIPPs, which could be tendered directly to the employer alongside external provider products. In such a group SIPP arrangement for example, the intermediary would be responsible for the selection of funds that would be then provided to the employer, usually by a subsidiary of the intermediary.

*‘Historically, we have predominantly used insurance company packaged arrangements such as group stakeholder, group personal pensions for our clients. That is evolving and increasingly these days we are using our own group SIPP as the solution that we are selling to our corporate clients.’*

(Intermediary)

### 2.2.2 Medium-sized intermediaries

The medium-sized intermediaries typically employed between 20 and 100 consultants. They tended to cater for small and medium enterprises (SMEs) with higher than average salaries and up to around 100 employees: indeed, some intermediaries reported that it was normal for their target

clients to be around the same size as them. Whereas the larger intermediaries had always offered a wide variety of EBC services alongside pension advice, most medium-sized intermediaries had traditionally focused primarily on providing workplace pensions advice to corporate clients. However, more recently, this group reported that they were increasingly being engaged by employers to provide a wider range of EBC-style services.

*'We help smaller and medium sized employers with their strategy. We help a lot of trustees who are running occupational schemes as well. We do lots of different types of consultancy and work for employers and trustees including face-to-face work for their employees.'*

(Intermediary)

Additionally, some of the medium-sized intermediaries reported that they had started to focus on larger employers, as this was seen as a part of the market that was more profitable than smaller companies.

*'We have traditionally built our base on the SME market, probably more 'S' than 'M' to start with but I think that is changing now and as we have grown our sights have grown and now an ideal client for us has got 200 to 300 employees. So our sights have grown a great deal.'*

(Intermediary)

Traditionally medium-sized intermediaries had operated through a mix of fee-based and commission-based business. By 2011, however, most were planning to move to an entirely fee-based model, if they had not done so already. This was a result of a range of factors, in particular the Retail Distribution Review (RDR), which will ban commission on new products sold after December 2012 and will be explored in greater detail in Chapter 3. The move from offering commission-based pensions advice, to offering a wider range of EBC services on a fee basis, meant that there were relatively few functional differences between medium-sized and large intermediaries, other than in terms of their client bases. Indeed the aims and planned future strategies of the two groups, which will be explored throughout this report, were essentially very similar.

### 2.2.3 Other intermediaries

Small intermediaries and Independent Financial Advisers (IFAs) were not included in this study. Historically this group worked on a commission basis and catered for smaller and medium-sized employers that were not prepared to pay a fee for advice.

Previous research conducted by the Department for Work and Pensions (DWP) in 2008 had shown that small IFAs' involvement in the workplace pensions industry was very limited and declining: few small IFAs were planning to continue advising in the workplace pensions market in the run up to 2012 and beyond.<sup>14</sup> This was because the nature of the market no longer allowed enough commission to be paid for small IFAs to generate sufficient income. Many of these intermediaries had already left the workplace pensions market in 2008 with many more planning to exit before the RDR was implemented.

Consequently, small IFAs were not interviewed as part of this study, although the views of other intermediaries and providers on the impact of recent changes on commission-based intermediaries is explored in the remainder of this report.

<sup>14</sup> Wood, A., Leston, J. and Robertson, M. (2009). *Pensions industry responses to the workplace pension reforms: Qualitative research with pension providers and intermediaries*. Available at: <http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep592.pdf>

# 3 **The changing pensions market: Impact of the economic downturn and the Retail Distribution Review**

While the central aim of this research study was to explore the expected impact of the workplace pension reforms, it is also important to understand the nature of the market in 2011 and the events that have shaped it. The reforms are expected to have a significant impact on the market, but other recent and current events – most significantly the stakeholder charging cap, the recession and the Retail Distribution Review (RDR) – were often mentioned by providers and intermediaries as being just as important. Their strategies in the future were expected to be a reaction not only to the reforms, but to the overall competitive environment.

This chapter examines the impact of these three recent changes, and goes on to describe the shape of the market in 2011, into which the pension reforms are to be introduced.

## 3.1 The impact of the stakeholder charging cap

Many of the providers and intermediaries interviewed in this study pointed out that the workplace pensions industry was not as profitable as it was ten years ago. In 2001 charges within both occupational and contract-based schemes were typically higher than they are today, and the charging structures that were typically used were relatively complex and often difficult for employers and members to understand.

Group stakeholder pensions (group SHP) were introduced in 2001, by the government, with a view to improving access to pension provision for those individuals who did not have access to a pension. Employers with five or more employees and who did not already offer a pension scheme were required to set up a group SHP scheme that their employees could choose to join, although there was no requirement for employees to join or for employers to contribute.

One of its features, when introduced, was that charges were to be levied on members' funds as a single annual management charge (AMC) of no more than one per cent of the value of the member's funds. This AMC was to incorporate all of the provider's administrative charges, the fund management charges and any increase made to account for commission that the provider paid to the intermediary.

The providers and intermediaries interviewed typically agreed that by around 2005 competition as a result of the charging cap had also forced other contract-based pensions, such as group personal pensions (GPPs) onto an AMC of one per cent or less. Some felt that occupational scheme providers were also put under pressure to reduce and simplify their own charges to remain competitive, although the fact that occupational schemes were traditionally seen as 'superior' products, with fees often paid in part by the employer, meant that price comparisons between the types of products were not as straightforward.

Overall, the stakeholder one per cent charging cap was widely believed to have changed the face of the workplace pension market. While it improved value for members, it also reduced profitability for providers as well as reducing their scope to pay commission to intermediaries, because there was effectively a ‘ceiling’ of one per cent, above which providers could not charge. If intermediaries were to charge the provider initial commission on the schemes they sold to employers, it could take several years for the provider to recoup this cost via the AMC.

While many providers were reluctant to continue paying commission, ceasing commission payments was not always a realistic option: the alternative to intermediary commission was the employer paying a fee to the intermediary, and a significant proportion of employers were not willing to pay for intermediary advice. Consequently, providers’ willingness to continue to pay commission often depended on which part of the market they served. If we consider Figure 2.1 in Chapter 2:

- Higher-end providers, focusing on higher salary or larger employers, became less willing to pay up-front commission to intermediaries, preferring to focus on employers who were prepared to pay a fee for their advice. This remained the case in 2011: a minority of providers were now willing to take on no commission-based business at all, allowing them to charge a lower and more competitive AMC to members.
- Mass market providers, focusing on lower salary or smaller employers, had always been more reliant on commission-based business: after the stakeholder charging cap was introduced, the maximum one per cent AMC levied by these providers needed to cover both the providers’ own costs and the intermediary commission. Consequently, only those providers with a very low cost-base, usually larger providers, chose to remain in this part of the market. Even then, fees paid by members remained relatively high. Some providers, who were either unable or unwilling to compete in this part of the market had left the market or consolidated since 2005.

## 3.2 The impact of the economic downturn

Most providers and intermediaries agreed that the workplace pensions industry had not been immune from the effects of the recent recession that began after the banking crisis of 2008. While it was usual for those interviewed to refer to the negative, short-term business and financial impacts of the downturn, some also discussed a number of longer-term effects that they believed had been brought about by the recession.

### 3.2.1 Short-term impacts of the downturn

Both providers and intermediaries acknowledged the ‘inevitable’ short-term impact of the economic downturn on the pensions industry. Many employers went out of business or reduced their headcount, and employers and employees alike found themselves unable to pay the level of contribution they previously paid into a pension. In some cases this led to a reduction in the number of scheme members and, for some providers, a decrease in the total value of funds under management. This effectively reduced the revenue providers received.

Some providers told us that this effect was minimal, or that the recession had simply led to a decreased growth rate, rather than an absolute drop in membership or funds under management. But other providers had reduced their own headcount during the recession, or imposed recruitment or pay freezes, in response to the reduction in business.

Intermediaries also expressed mixed views in their assessment of the impact the recession had on their own businesses. While many said that fewer employers had been setting up new schemes and some were cutting back on the advice they were willing to pay for, others reported no negative

effects at all, and some intermediaries, as we will explore in Section 3.2.2, suggested that it had in fact led to increased opportunities, as employers looked to intermediaries' services to help them save money.

Overall, most of the providers and intermediaries interviewed agreed that the impacts of the recession had been largely short-term, and that the negative trend that had been witnessed since 2008 had started to improve.

### 3.2.2 Possible longer-term impacts of the downturn

Several intermediaries reported that since the recession, employers had been increasingly seeking better value for money and clear return on investment from the fees they paid to intermediaries. Although not all intermediaries attributed this trend directly to the recession, several did: they pointed out that before 2008 fewer employers had questioned their spend on advisers, or indeed on pension schemes generally, and were more likely to accept the advice they received and the value for money of the pension scheme at face value. Since the recession, however, employers had increasingly questioned this.

*'Since the recession it's all about return on investment. Employers have to justify every penny spent on advice, show that there are some clear benefits coming from it. It's almost like for every penny spent on advice, I need to save them two pence, or at least demonstrate tangible benefits to their business.'*

(Intermediary)

This change in attitude appeared to have had two principal effects. Providers typically reported that intermediaries were increasingly likely to attempt to re-negotiate the fees charged by providers as a result. Because fee-based intermediaries were aware that the cost of commission did not need to be built into a provider's charges and was instead paid by the employer, they typically felt more obliged to negotiate a good deal on behalf of the employer. The impact of this could be that the revenue that the provider received was squeezed further.

*'The employers are telling the advisers, "You need to demonstrate value for money". Well, the easy way that they can do that is by coming straight back to us and re-negotiating on cost. [...] As soon as a book becomes profitable, it gets re-written, active member discounts become involved, and charges get forced down further.'*

(Provider)

Intermediaries themselves were less likely to highlight the fact that they saved employers money in this way, and instead typically focused on the added value, beyond sheer advice, that they as intermediaries could offer employers. In particular, some intermediaries reported that the recent growth in popularity of flexible benefits platforms was in part a reaction to the recession.

Flexible benefits platforms give the opportunity for employees to 'trade' different potential benefits within a single platform, depending on what their priorities are. Platforms can include a range of benefits, for example, pension contributions, life insurance, dental cover, childcare vouchers or additional leave entitlement. Often intermediaries could negotiate certain services at a discount, particularly for larger employers, giving employees a saving on the cost of the service.

These had become reportedly popular with employers since the recession, because they could be operated in a cost-neutral way to the employer, but their employees were, nevertheless, likely to value and appreciate the benefits they provide.

*‘The recession has increased our opportunities beyond doubt. We go in on a USP of “We look to try and save you money, Mr Employer.” We have got a raft of employer benefits that we give to people. Great examples are things like childcare vouchers which save NI [National Insurance] for the employees and employers, and salary sacrifice on pension schemes saving NI. What that then allows the employer to do is to be seen to widen the range of benefits without spending a penny. On virtually every one I have ever done, they have ended up keeping a bit of a saving as well. So they have pushed out fantastic benefits, they have paid us to do it and actually they are still up on the deal.’*

(Intermediary)

Further current and possible future intermediary offerings are discussed in Chapter 4 of this report.

### 3.3 The impact of the Retail Distribution Review

In June 2006 the Financial Services Authority (FSA) launched the RDR. According to the FSA the review has three main aims:

- improve the clarity with which firms describe their services to consumers;
- address the potential for adviser remuneration to distort consumer outcomes;
- increase the professional standards of investment advisers.<sup>15</sup>

With respect to the pensions industry, one specific element of the RDR was seen by providers and intermediaries as critical to the future development of the industry: from the end of 2012 adviser firms will no longer be able to receive commission set by product providers in return for recommending their products, but will have to operate their own charging tariffs in accordance with new FSA rules. This can mean that the intermediary must charge the employer a fee for the services; although the new rules also allow the option of a ‘consultancy charge’, which may be agreed between the adviser and the employer, and would be directly levied on members’ contributions, either as a percentage of the first year’s contributions (up to 35 per cent) or spread over a longer period.

Even in early 2011, providers and intermediaries reported that preparations for the RDR were already impacting the market. The greatest impact was expected to be on the providers and intermediaries that currently operate in the segment of the market where commission was commonly paid since high-end providers and intermediaries were already largely fee-based and so did not expect to be affected.

While small Independent Financial Advisers (IFAs) had typically already departed the market, many medium and some large intermediaries still had some commission-based business. From December 2012, this would no longer be permitted on new schemes sold. Consequently, intermediaries with a significant proportion of commission-based business would need to attract more fee-based business after 2012 to maintain their existing workflow, and mass-market providers were preparing for the need to deal directly with employers that are not willing to pay fees.

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<sup>15</sup> More information on the RDR can be found on the FSA’s website at <http://www.fsa.gov.uk/pages/About/What/rdr/index.shtml>. For the final rules, see Financial Services Authority (2010), *Distribution of retail investments: Delivering the RDR – feedback to CP09/18 and final rules*. Available at: [http://www.fsa.gov.uk/pubs/policy/ps10\\_06.pdf](http://www.fsa.gov.uk/pubs/policy/ps10_06.pdf)

## 24 The changing pensions market: Impact of the economic downturn and the Retail Distribution Review

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The vast majority of the providers and intermediaries felt that they were well-prepared for this change, which they believed would have a significant impact upon relationships in the market. It is important to recognise, however, that the RDR was announced several years before this research was conducted, and many commission-based intermediaries, particularly small, had already departed the market, and so were not included in the research. And providers were usually reluctant to suggest that the RDR would have a significantly detrimental effect on their own business, many providers and intermediaries predicted that there would be significant challenges ahead for the industry overall in ‘reinventing’ itself in a post-RDR environment.

*‘I think it is going to be a very significant shake-up to the industry. We undoubtedly have still got a bit of work to do in that area as our business mix is probably 50:50 fee and commission-based. I think that’s going to be a big challenge for a good number in the industry.’*

(Intermediary)

*‘I think a lot of advisers will struggle to reinvent themselves in a non-commission world, and as a result of that you’ll end up with a large population of people that don’t get good financial advice.’*

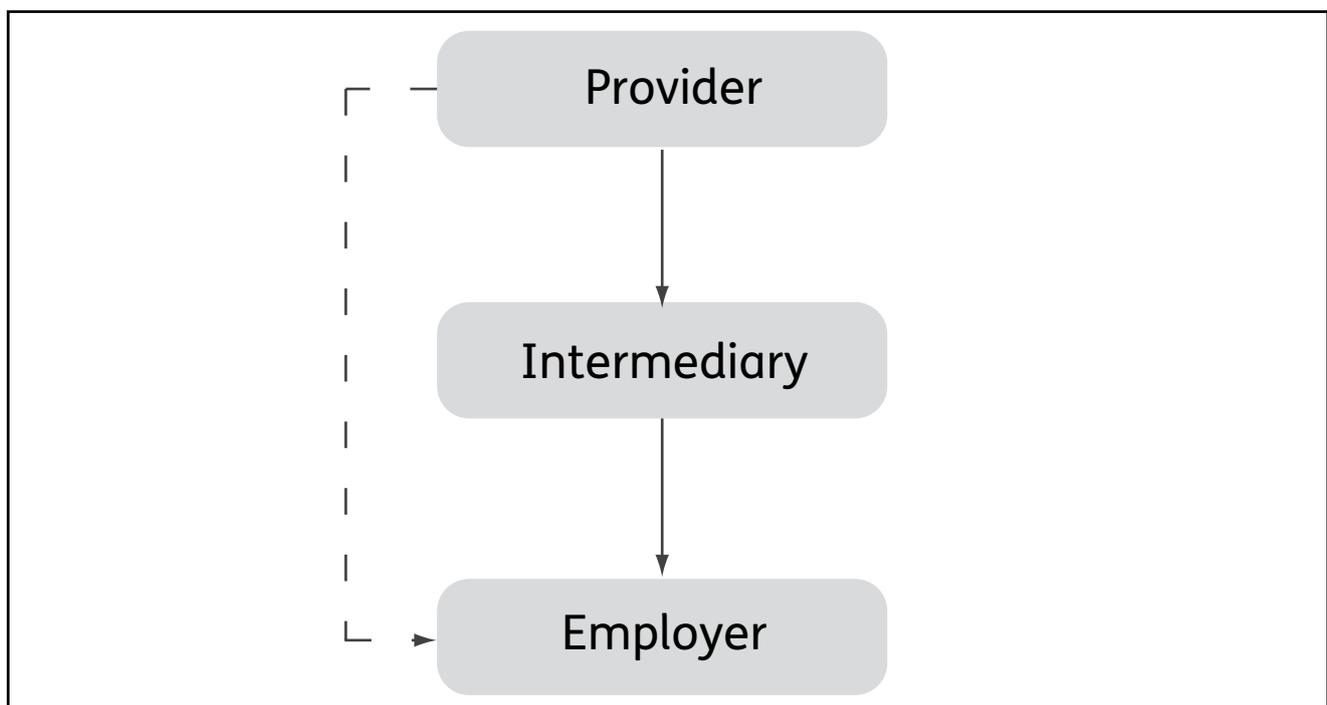
(Provider)

The remainder of this section details providers’ and intermediaries’ views as to what the market might look like after 2012.

### 3.3.1 Impact of RDR on relationships within the market

Traditionally intermediaries have been viewed as the ‘gatekeepers’ between providers and employers, whether they are fee-based or commission-based, as Figure 3.1 shows. In most cases providers currently sell schemes to employers through an intermediary. Most intermediaries reported that they tended to work with the same roster of providers and establish long-term relationships with them, although in principle they could work with any provider.

**Figure 3.1 The traditional relationship between provider, intermediary and employer**



Most providers told us that only a minority of their business, if any, currently came directly from employers, and this was usually in cases where the provider already had an established relationship with the employer in another context. Business banking was occasionally mentioned as an example of this. In other cases, industry-specific providers with a standard pensions offering sometimes sold schemes directly to employers without the need for the employer to take separate advice, although an intermediary was usually still involved in providing employees themselves with advice. Overall, however, direct selling was relatively rare in early 2011.

Where commission-based business already existed, some providers and intermediaries predicted that there might be a rush to sell new commission-based business until the RDR is implemented in December 2012, essentially because both providers and intermediaries felt that, as long as the commission-based model is an option, lower-paid and smaller employers would continue to prefer that approach, assuming they would not be prepared to pay for advice.

*'I think you will probably see a last period of scheme re-write activity in the run up to RDR.'*

(Provider)

Some fee-based intermediaries pointed out that at present, given the fact that commission is allowed, it was often difficult for them to compete with commission based intermediaries, because the employer favoured the advice that would ostensibly be 'free' to them, even though in reality the cost would be covered by the members through a higher AMC.

*'We lost a [fee-based] job to a commission-based intermediary last week. Even now there's still a false belief that IFAs work for nothing somehow. If you are working with a big employee benefits consultant you're expecting to pay. If you are working with an accountant you're expecting to pay. But IFAs supposedly don't charge.'*

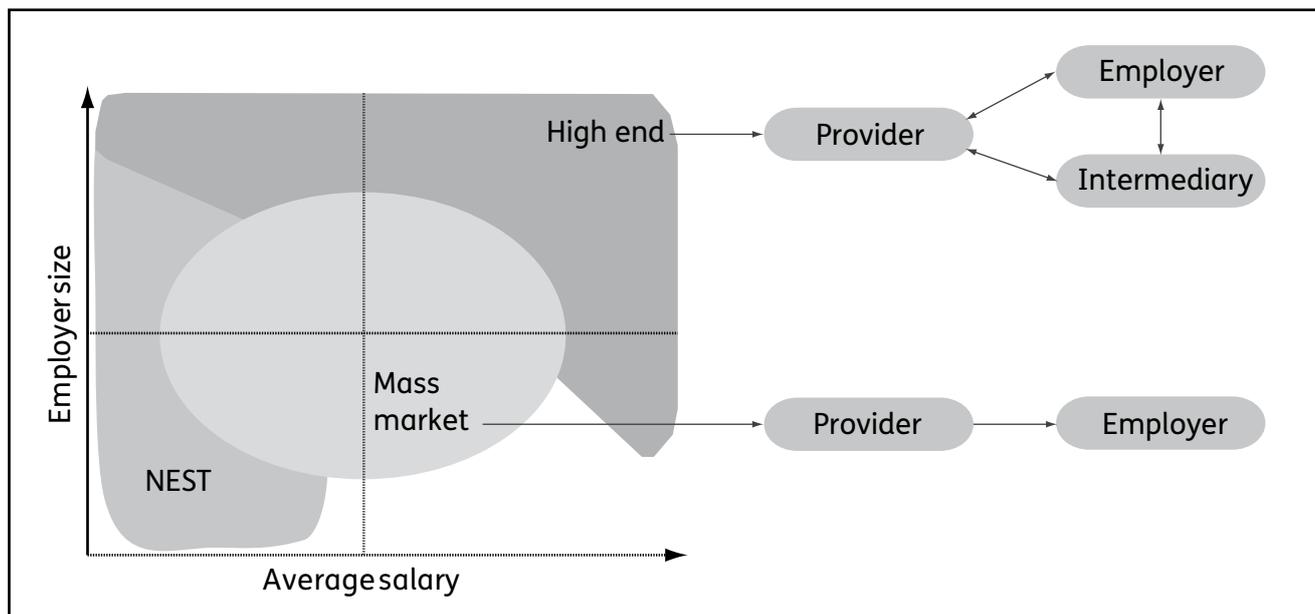
(Intermediary)

Some providers also pointed out that at present, they were reluctant to sell schemes directly to employers, as this risked alienating commission-based intermediaries, who were still expected to be a valuable source of new business for the next two years.

After 2012, however, any perceived advantages for commission-based intermediaries would no longer exist, as commission will no longer be allowed. Post-RDR, relationships between providers, intermediaries and employers were, therefore, expected to evolve significantly. From the 'traditional' model of Figure 3.1, two different models were expected to emerge after the RDR, depending on whether the business was previously fee-based or commission-based, as outlined in Figure 3.2.

The lower section of Figure 3.2 illustrates mass market schemes, where commission-based intermediaries currently still exist. In these cases, providers expected far more direct contact with employers after 2012, believing that such employers will still be unwilling to pay a fee for advice, and indeed in many cases providers were preparing to sell schemes directly to employers with no intermediary involvement at all. As Chapter 4 will explore, this is expected to lead to a range of new products and services offered directly by providers, as well as more competition between them.

Figure 3.2 Relationships in the market after the RDR comes into effect



Some providers pointed out that selling new products and services directly to employers will be more feasible after the reforms for a range of reasons:

- The pension reforms and the surrounding publicity will compel virtually all employers to think about the issue of pension provision.
- The RDR will mean that employers who are unwilling to pay a fee will have no choice but to come directly to either National Employment Savings Trust (NEST) or another provider.
- The abolition of commission will mean that there is more scope for providers to produce a product that is tailored to employers' and members' needs. This could either be a low-cost product that could be a viable alternative to NEST, or one with 'added-value' features with slightly higher charges, neither of which would have been possible within the AMC had providers needed to cover the cost of commission.

*'They won't pay for fees because if they would have paid fees they would have already. If that's the case then where are they going to go? The only thing is the direct model, which would take over for a number of less engaged employers as being an alternative to NEST, which won't be intermediated.'*

(Provider)

Even at the high end, where fee-based intermediaries did not expect to be affected directly by the RDR, the relationship between the three parties was still expected to change to some extent, from a pure intermediated channel to more of a 'three-way' relationship, with the provider and intermediary playing more distinct roles, as shown at the top of Figure 3.2. For example, some fee-based intermediaries expected to play a role in administering a wider range of benefits to employers, with providers expected to be more heavily involved in direct member communications than currently.

*'In the old model we had always sat in the middle between the two and we wanted all the information to pass directly through us and we didn't want much interaction between the client and the provider. That model does become a triangle.'*

(Intermediary)

### 3.3.2 The possibility of consultancy charging

After 2012, the FSA will permit a consultancy charge to be agreed between the adviser and the employer, which can be levied on members' contributions directly, either as a percentage of the first year's contributions (up to 35 per cent) or spread over a longer period.

Overall, most providers and intermediaries were unsure as to whether consultancy charging might become an accepted alternative to intermediary commission after 2012. This was in part because such an approach had not yet been tested in the market, and some were unsure as to whether they would wish to commit themselves to a charging mechanism that had not yet gained acceptance.

In addition, some did predict that the charge would be unpopular, essentially because the apparently high upfront charges that would be applied to an individual's contributions in the formative years, at the point when they are first trying to establish a meaningful pension fund, might be looked upon very negatively, either by employers or employees, particularly if this gained press publicity.

Occasionally, providers and intermediaries themselves also suggested that consultancy charging might not be appropriate for the elements of the market currently paying commission. Examples mentioned during the interviews are given below.

- **Small employers with lower paid employees.** The cost per member of providing advice to smaller employers was typically seen as high, in comparison to providing advice to larger employers. Because the pension contributions paid by members in this group would also be low, the percentage consultancy charge that would have to be levied to cover the cost of advice would, therefore, be high. This would mean that employees in this group may face dis-proportionately high charges overall.
- **Short-term employees and those nearing retirement.** Consultancy charges are expected to be taken disproportionately in the first years of a plan, which would mean that groups of people that might not be saving for very long would be shouldering a very large burden, relative to the final size of their pension pot.

*'If the adviser tries to replicate the commission-based income stream post-2012, what they have to do is have large amounts of consultancy charging coming out of a product within a very short period of the person joining. When you are in this sort of market where most of the customers are going to be low value anyway, how are you going to be able to drag your costs out of there as an adviser? Small schemes, they ain't going to do it.'*

(Provider)

In very rare cases, some intermediaries already used approaches to charging that were comparable to consultancy charging, but these had not been popular with employers in comparison to commission, in part because the cost to members was put in far more stark terms that employers and employees had found difficult to accept.

*'For a few years we have been offering something that is akin to consultancy charging in the market now. It has not been appealing in the market because for most IFAs and for several providers they continue to promote traditional funded commission.'*

(Intermediary)

### 3.3.3 Views toward the RDR

Across both the providers and intermediaries, who were predominantly fee-based, there were comparable levels of criticism and endorsement for the RDR: while many lamented the loss of advice to the part of the market that was currently serviced by commission-based intermediaries, others felt that after 2012 the nature of the pensions market would not require it. Providers and intermediaries often equated the RDR with the ‘removal of the advice channel’ from certain parts of the market.

Where there was criticism for the RDR, this usually came from providers and intermediaries that were in favour of commission as a way of avoiding the upfront fee to employers while still ensuring that appropriate advice was given. Many pointed out that commission effectively enabled the cost of advice to be spread across the lifetime of the product, whereas an upfront fee might simply be prohibitive to small employers. The providers and intermediaries that held this view typically pointed out that this could mean that many smaller employers would lose access to advice at the very time they might need it most: during the introduction of automatic enrolment.

*‘A lot of organisations are needing help and support at the same time as the means and mechanism by which advisers are being remunerated is being switched off, or at least tampered with in a big way.’*

(Intermediary)

There were many providers and intermediaries, however, that either supported the RDR, or at least acknowledged certain advantages, pointing out that the RDR will allow more transparent charging mechanisms and will also protect employees from commission reducing their pension pot, potentially without their knowledge. While few suggested that employers previously paying commission would now pay a fee, many felt that this was not a problem, because they felt that the need for intermediaries would be reduced after the introduction of the workplace pension reforms. Providers in particular pointed out that the pensions market was already becoming more transparent, with easy access to information making employers self-sufficient; the reforms and other new products offered by providers would simplify pensions while lessening the need to pay for advice.

*‘Intermediaries build their business upon complexities that employers can’t handle; but the reforms will simplify pensions and lessen the need to pay for advice.’*

(Provider)

Intermediaries did occasionally express views as to the impact of another aspect of the RDR: the fact that all advisers will need to meet certain appropriate qualification requirements set by the FSA by the end of 2012.<sup>16</sup> Once again, however, views were mixed. Some intermediaries were concerned that the new qualification requirements would compel very mature IFAs, who did not wish to undertake further qualifications, to quit the market, thereby diminishing the supply of experienced advice available. Most did, however, agree that by imposing a minimum level of qualifications, the quality of financial advice available in the workplace pensions market would increase.

*‘What will be left after 2012 will be a leaner and more professional IFA sector.’*

(Intermediary)

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<sup>16</sup> For details of the professionalism requirements, see Financial Services Authority (2010). *Delivering the RDR: Professionalism, including its applicability to pure protection advice*. Available at: [http://www.fsa.gov.uk/pubs/cp/cp10\\_14.pdf](http://www.fsa.gov.uk/pubs/cp/cp10_14.pdf)

### 3.4 Changing costs of administration

In order to understand the background to the reforms, one objective of the study was to look at whether providers felt that their own administrative costs had increased or decreased in recent years. While it was known that provider revenues had fallen since 2001, as this chapter has described, there was less clear evidence as to the costs that they faced.

In fact, the evidence gathered on provider costs during the course of this study was mixed. There was disagreement as to whether providers' administration costs were increasing or decreasing overall: increased provider efficiency was often seen as counterbalancing certain externally-driven increased costs.

Increased costs were largely seen as being a result of:

- increased legislative burden:

*'Legislation, legislation, legislation! Legislative burdens change the administration costs. So simplification in 2006 increased costs. Disclosure and FSA regulation increases cost.'*

(Provider)

- differences between how various products are regulated (see Section 7.1.4, for example):

*'The volume of regulation has certainly meant there has been an awful lot of mandatory development over the last 20 years which inevitably feeds through to our bottom line at the end, and that is obviously going to be on-going because there is still a lot coming through.'*

(Provider)

- increased complexity surrounding disclosure rules:

*'There has been increasing complexity in terms of administration especially in terms of disclosure. It is not specific to the last few years but it has probably got more complex over the last few years as there has been a lot of change in terms of what people are expected to be told and what documentation people are meant to get, and it is an on-going battle to get to a status quo on that one.'*

(Provider)

- updating systems and bringing out new products in preparation for the workplace pension reforms (see Section 4.3).

Equally, however, providers were often keen to point out that they had themselves been able to improve the efficiency of their own processes, allowing them to continue to operate in an industry with extremely low margins, as well as compete with NEST when it is introduced. The primary areas of increased efficiency were in:

- technological advances, and in particular the automation of processes that had been previously conducted manually:

*'We have automated a lot more so in terms of our standard costs, they are coming down.'*

(Provider)

- moves towards online solutions and paperless communication:

*'I would like to think it will get lower as more and more companies move to conducting business electronically.'*

(Provider)

- increased efficiency in dealing with administration: the pressure to reduce costs had led to a number of providers outsourcing much of the activities associated with scheme administration, including offshoring.

*‘The way our business model works, we outsource our back office administration so we agreed with the people we have outsourced to come up with a fixed fee based on our business model. That is how we can afford to be lean and mean.’*

(Provider)

### 3.5 Summary of the pensions market in 2011

Overall, most providers and intermediaries agreed that the market had changed significantly in recent years. It was seen as having evolved from one that was very profitable, with high and complex charging structures, to one with lower margins, greater competition, and increased pressure for each provider and intermediary to occupy a profitable space in the market.

Most agreed that the number of providers and intermediaries in the workplace pensions market in 2001 could not all find revenue in the market in 2011, and so several providers had left the market or consolidated, and smaller commission-based intermediaries had typically also departed.

While the market was seen as less profitable than ever before, new products and services were being introduced to ensure that most innovative providers and intermediaries prospered. At the high end, the focus was often on pensions being offered as part of wider flexible benefits platforms, as employers demanded ever greater value for money from intermediaries and providers. Within the mass market, pensions were becoming more commoditised, with the advice channel in the process of disappearing, and the focus often on online, automated solutions.

Some providers and intermediaries commented on one final impact of the recent changes to the market: where trust-based defined contribution (DC) schemes had traditionally been seen as ‘superior’ products to contract-based schemes, these advantages were often said to have been eroded. Some intermediaries reported that, several years ago, initial discussions with a potential client used to focus on paternalism, and the degree of involvement the employer wanted to have in administering a pension, which then led to the selection of either a defined benefit (DB) scheme, an occupational DC scheme, or a contract-based scheme. Many felt this situation had now changed, because decisions had become based on a more objective analysis of the specific features and benefits of different schemes.

*‘The first part of a discussion with a client was “Do you want trust-based or contract-based?” Even five years ago that was probably the starting point. Now the starting point is describe to me the way in which you want your DC plan to operate in the context of your existing benefits and then further down the track you are saying, “Actually, what you are describing and how you want to structure this going forward looks better suited to contract-based”.’*

(Intermediary)

Indeed, some providers pointed out that much of the innovation in the pensions market was currently being driven by contract-based schemes, in part because they were the most common type of pension sold, and in part because they were ‘owned’ by the member rather than by a trust, which made them more suitable for inclusion within flexible benefits platforms. Some providers that offered both contract-based and trust-based DC schemes, reported that the contract-based schemes were designed to allow online account servicing by members, but the equivalent trust-based schemes could not be, because of the high cost of updating the software infrastructure for a comparatively small number of schemes.

## 4 Planned responses to the reforms

This chapter examines strategies that providers and intermediaries expect to adopt in the coming years, both in response to the overall competitive landscape described in Chapter 3, and more specifically to the workplace pension reforms themselves. The reforms come into effect in 2012 and consist of three key elements:

- New legal duties that require employers to automatically enrol their eligible jobholders into a qualifying pension scheme. The new requirements will be staged in over a four-year period depending on the size of the employer.
- A new workplace pension scheme called National Employment Savings Trust (NEST), which will be one of the qualifying schemes and will be open to any employer who wants to use it to fulfil their duties.
- A compliance regime enforced by The Pensions Regulator (TPR) to ensure the new duties are met.

As well as exploring what providers and intermediaries believe the impact of the workplace pension reforms will be on the pension market, this chapter will examine what this might mean in terms of the products and advice that are available within the market, as well as how providers' and intermediaries' systems are likely to operate in the future.

### 4.1 The expected impact of the reforms on the pensions market overall

As Chapter 3 explored in detail, the pension reforms are just one of several major changes that have shaped the pensions market in recent years. Consequently, many providers and intermediaries pointed out that it was impossible to isolate the industry's responses to the reforms without also taking into account factors such as the competitive environment, the recession and the Retail Distribution Review (RDR). While all acknowledged that the pension reforms would be a significant change to their industry, many also pointed out that other factors such as RDR would be just as important, or even more so.

*'I think RDR will have a bigger impact on what the industry looks like than auto-enrolment.'*

(Provider)

When asked for their initial reactions to the reforms, the two elements widely expected to have the greatest impact on the market were automatic enrolment and NEST. But even in describing the initial impact of these, providers and intermediaries were relatively measured, and often talked in less extreme terms than had been used to describe the impact of the RDR:

- **Automatic enrolment:** typically providers and intermediaries agreed that automatic enrolment would increase the number of individual savers in the market. However, both providers and intermediaries felt that the extent of this increase would be difficult to predict. This meant that neither providers nor intermediaries were able to accurately forecast the possible impact of new savers on their organisations or evaluate what impact the new savers in the market would have on their own profitability and business volumes.

- **NEST:** typically providers and intermediaries felt that launching such a potentially large scheme into the market would undoubtedly have a considerable impact on the pensions market. However, at the same time providers in particular felt that NEST would serve a part of the market that many current providers were uninterested in: the lower end of the market with smaller employers and employees with low average salaries. Most also agreed that the charging structure of NEST, while low with an annual management charge (AMC) of 0.3 per cent and an additional 1.8 per cent contribution charge, was set at a level that ought not to distort choices in the market to an unfair extent.

This section explores providers' and intermediaries' predictions as to the overall impact of the reforms, and automatic enrolment in particular, on the pensions market. The specific impact of NEST will be explored in Chapter 6.

### 4.1.1 The expected impact of the reforms on levels of saving for retirement

While the focus of this research was to examine the expected impact of the reforms on the pensions industry, it is worth noting that providers and intermediaries were usually keen to point out the overall positive impact that they expected the pension reforms to have on the level of pensions saving in society overall. Both providers and intermediaries saw the reforms as a positive move towards achieving greater participation among pension savers, increasing both the absolute number of savers and the amount held in pension funds.

Nevertheless, many also pointed out that the reforms were only a starting point; that if too little was done to encourage increases in total contributions over an individual's lifetime, there was a danger that eight per cent would be seen as enough for retirement. Overall, some felt that there was a need to create a 'savings culture', in which aiming to save enough to meet needs and expectations in retirement would become the norm, and where people understand, are engaged with and value saving in general.

*'I think over time we could look at increasing contributions because we accept that eight per cent is a reasonable starting point but it's not Utopia. It's not going to provide the most spectacular retirement income. I think one of the dangers is that people see it as a government approved savings level and think "I am going to be rich in retirement".'*

(Provider)

### 4.1.2 The expected impact of the reforms on provider profitability

Providers' views as to the impact of the reforms on their own business often depended on whether the expected increase in take-up of pensions among existing clients would offset the associated costs. While most providers agreed that automatic enrolment would lead to increased membership within existing schemes, not all agreed that this would increase profits, as the increased cost to providers of complying with the reforms and administering new members was often predicted to offset this.

Most providers agreed that increased scheme membership would mean more funds coming into their schemes via higher member contributions overall. Some providers anticipated the inertia among automatically enrolled employees would lead to low opt-out levels, which in turn would boost pension scheme membership.

*'I think we would view the reforms as positive [for our business]. There are probably less than 15 per cent of the employees making their own contributions now. I think we're optimistic that the changes will mean that we're likely to see a significant increase in the number of individuals contributing.'*

(Provider)

Some providers pointed out that most of the newly-enrolled savers would, however, be those that were lowest paid on average, and so felt that this might make new savers unprofitable, given that these new members would entail an increase in the provider's administration and communication costs.

*'I think we will have more members in our schemes so take-up rates may be typically 60 per cent at the moment going up to 80 or 85 per cent, so more members in the scheme. That said, those members will be paying less and have less money and are more likely to leave, so a proportion of those members will be not profitable.'*

(Provider)

Some providers felt that the costs of administration would increase, whether or not there was an increase in scheme membership, due to their having to deal with opt-outs, in particular among short-term workers, which was perceived as introducing additional cost without the benefit of further regular contributions.

*'We also expect it to have a large impact on the quality of the business we have coming in, new entrants. So we are expecting lower than average contributions. We are also potentially expecting poorer persistency in that business because people are being auto-enrolled and are job hopping a lot more, and it's also putting in temporary workers as well. So that is going to be worsening our persistency experience. We also have the additional complication of dealing with people who choose to opt out having been auto-enrolled which will have a huge operational impact on us.'*

(Provider)

A minority of providers and intermediaries suggested that the increase in scheme membership would be accompanied by a decrease in the level of contributions being paid overall, because employers might 'level down' contributions paid in for staff already enrolled into a pension scheme, to compensate for having to pay out more in contributions as more staff become eligible for a pension. None was, however, able to give concrete evidence, from employers or elsewhere, as to whether this would in fact happen, and to what extent. Previous research commissioned by the Department for Work and Pensions (DWP) had also suggested that employers were in most cases unlikely to level down contributions in this manner.<sup>17</sup>

A minority of high-end providers predicted that the reforms would have very little impact on their organisations. This was because they felt that, within their part of the market, the vast majority of employers already provided high quality pensions to their employees, often above the minimum requirements set out in the Pensions Act 2008, and the only significant change they faced was automatic enrolment. Because their schemes already had high levels of membership, automatic enrolment was not expected to increase this significantly.

### **4.1.3 The expected impact of the reforms on the demand for advice**

The intermediaries interviewed often predicted that in the long term, the reforms would be unlikely to have a significant impact on the overall demand for advice, and some suggested that they were not preparing for a very significant impact on their organisations. Given that recent changes in the market meant that most intermediaries were already targeting fee-based business, most felt

<sup>17</sup> See, for example, Bewley, H. and Forth, J. (2010). *Employers' attitudes and likely reactions to the workplace pension reforms 2009: Report of a quantitative survey*; and Wood, A., Spinks, S., Leong, J. and Reeve, J. (2010), *Likely treatment of different types of worker under the workplace pension reforms: Qualitative research with employers*.

that their target customer base already had pension provision in place and would continue to be prepared to pay for intermediary advice after automatic enrolment. Few intermediaries had plans to attract new clients that had no current pension provision.

*'I don't think it's going to change us a lot because we've never gone after companies who haven't got a pension scheme. Generally, we don't go after that type of business. The sort of company that we are interested in dealing with, the vast majority of those have already got their pension scheme in place.'*

(Intermediary)

The principal exception to this was expected to occur in the short-term: many intermediaries expected more work due to the increased need for advice and help in implementing the reforms, primarily from current clients, but in some cases from new clients as well. Some also saw this as a potential 'way into' further business opportunities, such as advising on wider pensions and employee benefit strategy as well as administration, potentially providing a service beyond the period of introduction of the reforms.

*'Hopefully quite significant. We see the reforms as an opportunity and we are looking to capitalise on the increased attention that will be directed towards retirement planning.'*

(Intermediary)

*'There will be cases where the sponsor decides that their existing pension scheme is the way to go to deal with auto-enrolment so there will be an impact on our advisory to trustees as well as to sponsors. So in the run up, and during the four year transition, we are supporting clients getting ready to stage auto-enrolment and so on, so there are opportunities for us there.'*

(Intermediary)

## 4.2 Strategy and planning for the reforms

Providers and intermediaries had typically been preparing for the pension reforms for several years, even though many of the details of the reforms were still being established. Knowledge of detail of the reforms among the senior executives interviewed as part of this study was extremely high. Almost all of the providers and intermediaries had teams in place that were responsible for gathering and assimilating the relevant legislation and guidance, and then adjusting their business and product strategies to fit with what they expected the post-reform market to look like.

This section explores providers' and intermediaries current planning for the reforms, as well as their possible future strategies.

### 4.2.1 Providers' current planning for the reforms

Providers' focus was typically on adjusting their existing product offerings and developing new products, as well as updating their systems specifically to deal with automatic enrolment. The providers differed in their perceived readiness for the introduction of the reforms: some had already introduced new products, while others were just in the planning stages. By and large the providers already had, or were in the process of, introducing changes in:

- **Internal systems and technology:** Providers were typically already working on automating their systems to be able to deal with a potentially rapid influx of new scheme members with the minimum additional administrative effort. This was generally seen as part of their on-going wider investment in technology, which was intended to enable automation and improve the process of member communication, via the introduction of online communication tools for example.

*'As a company we need to increase the investment in technology, because we don't want to just use a sticking plaster solution to adjust to automatic enrolment. We want good solutions, so we need to invest to do that.'*

(Provider)

- **Products and tools aimed at employees:** Some of the technological innovation and upgrades that many providers were implementing would also allow them to design specific tools to allow employees to understand their various options and make suitable choices in regard to their pensions. Such tools would typically be introduced as part of an online platform that would allow employees to manage their pension funds online as well as access relevant information regarding their pension. Some providers had already begun to offer such online platforms to their existing scheme members.

*'Platforms now play a much bigger part of how people engage with both pensions and investments. I guess from an individual point of view, the technology is much more improved for people to actually manage things themselves. There is a greater level of engagement. Platforms like [name] have helped the intermediary market manage their business, which I think has helped open up people's understanding of pensions and actual engagement in the product itself.'*

(Provider)

- **Products and tools aimed at employers:** Some providers were also in the process of creating tools for employers. These tools were designed to provide relevant information to help them understand the requirements of the pension reforms and how to comply with the new regulations, as well as offer tools to make these processes easy to implement. In part this was because many providers felt that after the RDR is implemented they would likely deal directly with certain employers, many of whom had no previous experience of setting up or administering a pension scheme.

*'We have a website specifically for advisers and employers in the industry to help them in terms of their requirements around pension reforms so they can get a trusted voice in the market and we are also about to look at ways of communicating on a targeted basis with our own book in terms of what their intentions are.'*

(Provider)

- **Revising their approach to employer and member communication:** Many providers were focusing on the need for clearer, more straightforward communication during and after the introduction of the reforms. This included overhauling the language and approach used in their communications materials, believing that understanding could be improved if information was made engaging, easy to access and understandable.
- **Training staff in preparation for the reforms:** Some of the participating providers also mentioned that they were in the process of training all relevant staff as to the relevant details of the reforms, as well as what this meant for their products or strategies. This process included updating their internal documentation to bring it in line with new pension legislation.

#### **4.2.2 Providers' expected strategies after the reforms are introduced**

All of the participants in this study agreed that the organisations that will be successful after the implementation of the reforms will be those that can secure a business stream that is profitable. For many providers, this hinged upon correctly identifying profitable employers.

Many expected higher membership after automatic enrolment but lower average member contributions and higher administration costs, as described in Section 4.1. As a result, providers suggested that they would firstly assess the potential profitability of any employer before making a decision as to whether to take on that new business. This evaluation would include consideration of a number of factors such as contribution levels, staff turnover, number of scheme members as well as the cost of administering these members. Additionally, providers felt that their profitability would also partly depend on their ability to automate much of the administration surrounding the increased membership.

*'I don't think it makes it attractive enough. In terms of the size of the group book we have currently only got 10,000 members in there. So even if that were to double to 20,000 or 30,000, in terms of the profitability versus the cost involved with making any changes, those profits are going to be absolutely minimal. We have got to look at a significant expansion on that for us to think that it might be commercially viable.'*

(Provider)

Some providers and intermediaries recognised a potential additional opportunity in the market however. Many recognised that the pensions industry, like the financial industry more widely, had experienced a great deal of negative exposure in recent years, particularly since the economic downturn, and there was a general lack of trust among the general public in the industry. Some intermediaries felt that the market strongly needed a 'trusted' provider, to become a trusted source of not just retirement savings, but also reliable information and advice on wider financial issues, shown as having the interests of the saver at heart. Some of the large providers interviewed with a high street banking presence said they were trying to fill this space by extending their product offering to their existing banking clients as well as raising their profile as a trusted one-stop shop for banking, investment and pension needs.

*'As far as the providers are concerned, there are huge challenges and there are huge opportunities. The perennial issue of "there isn't a trusted provider out there," so there is an opportunity for someone, but which entity is going to assume the mantle of being a trusted provider for an industry that doesn't hold a lot of trust among consumers?'*

(Intermediary)

### 4.2.3 Intermediaries' current planning for the reforms

Much of the intermediaries' initial focus in planning for the reforms entailed assimilating the relevant information to gain an in-depth understanding of the reforms' likely impact on their customer base. Intermediaries typically stressed that they would not be changing the underlying principles of how they operated: they would continue to respond to client needs and offer impartial advice to clients, based on the legislation relevant at the time.

*'We think it will have a positive impact. We have been working quite a lot on getting the understanding of auto-enrolment for the last year or 18 months. We believe it will result in employers having to reconsider their pension strategy and we have been doing as much as we can to ensure that we are a central port of call for those employers that feel that they need a bit of guidance and help through the process.'*

(Intermediary)

Intermediaries were typically already using the workplace pension reforms as a discussion point in their current marketing materials and in meetings with current and potential clients. They typically planned to further increase such communications as the reforms approached: it was already usual

for intermediaries to organise free seminars to which potential and existing clients were invited and where the intricacies of the reforms were discussed. These seminars could be used as a sales tool to convince clients of the need to seek advice.

*‘We have a very active seminar programme. For example, we held six seminars in the two weeks following the recent announcement on employer duties, and we had well over 200 attendees at those, which will be a mixture of clients and prospects. We’ve got a schedule of seminars already planned out for this year.’*

(Intermediary)

While not all intermediaries were working to make major changes to their product or service offering beyond extending the scope of their advice, some were working on adapting their businesses:

- **Training staff in preparation for the reforms:** Large intermediaries in particular had set up specific teams responsible for assembling and assimilating relevant information on the pension reforms. Section 5.4 examines the sources currently used by intermediaries in preparing advice to employers.
- **Internal systems and technology:** Some of intermediaries were investing in new technologies to be able to offer online flexible benefits platforms to employees, automate administration of schemes or to offer communication and relevant documentation online.
- **Products and tools aimed at employers:** Some of the participating intermediaries were planning to introduce new products that would help employers to comply with new requirements as well as aid administration.

#### **4.2.4 Intermediaries’ expected strategies after the reforms are introduced**

Intermediaries typically planned to continue to offer unbiased advice on appropriate legislation and on the range of pension products available in the market. They often, therefore, stressed that the workplace pension reforms would not, in general, entail a significant change of strategy for them. Their approach to advice would simply need to be adjusted to include the new requirements.

Few intermediaries expected to attempt to actively target employers that currently had no pension provision, unless the employers were to approach them proactively and be prepared to pay a fee for advice. Although most employers with no current provision were considered unlikely to be willing to pay for advice, some intermediaries predicted that small and medium-sized employers in higher-paid sectors could fall into this category. Small engineering companies or law firms were sometimes cited as examples of employers that may currently offer no pension provision, but might, nevertheless, be willing to consider paying for advice and offering a level of provision above the prescribed minimum after they begin automatic enrolment.

### **4.3 Products and services likely to be introduced after the reforms are implemented**

Intermediaries’ and providers’ strategies hinged upon remaining profitable in the post-reform, post-RDR market, as well as preparing for the specific impacts of the reforms themselves. As a result both providers and intermediaries were considering the adjustment of existing products as well as creating new products that would be tailored to the post-reform market. Part of the future success of their organisations would depend on whether they would be able to sell benefits packages and other bundled products that employers and employees valued: in other words, to add value, beyond that offered by a basic pension scheme.

### **4.3.1**    **The importance of online platforms**

Providers and intermediaries commonly planned to offer a range of new or existing services through online platforms that integrate a variety of different products or services into a single package. Depending on what the platform included, this could be targeted at the employer, the employee or both. Both providers and intermediaries believed that the use of online platforms would become the norm in pension provision. Both groups were planning to introduce online platforms or had already done so, because they were seen to offer greater flexibility to employers and employees as well as encouraging greater engagement from employees.

*‘It’s all about offering an integrated product: pensions as part of an integrated package of services you can only access if you are part of that platform. Products to encourage persistent savings.’*

(Provider)

One type of online platform that was already in common use in 2011 was the flexible benefits platform, as Section 3.2.2 explained. Employees valued the opportunity to ‘trade’ different potential benefits within a single platform, which could be operated in a cost neutral way to the employer, and therefore, these were reportedly very popular with employers. Online platforms were often offered by intermediaries, and many were planning to increase the functionality of these further in the future, not only by allowing access to a wider range of benefits, but also by improving their functionality in terms of communication. This could include access to generic sources of advice, facilitating communication between employees and advisers regarding benefits, and potentially also allowing direct communications with external sources such as pension providers. Some also pointed out that the online platforms could allow members to view and manage a portfolio of products in one place.

*‘We allow people to make all of their investment decisions online now. So they can increase contributions, decrease contributions, change contributions, change investment choices all online. Our next step is being able to request booklets, change their home address, that full area of self-selection so we are almost there.’*

(Provider)

Occasionally, some providers suggested that the online platforms could play an educational role, by explaining not just about the reforms but offering a wider view of investment possibilities. Providers felt that the online platforms could engage employees more and encourage them to think about their financial situation as well as their future.

*‘One is about those online tools and making it easier for people to understand what it is that they need to save to meet their aspirations. We are also then developing online educational capability as well to try and engage with people to make them understand not only the products but again to try and make it aspirational. So it is not just about the product. It is about how you engage the product with the person.’*

(Provider)

### **4.3.2**    **Other potential products**

Typically, providers were planning to introduce a wider range of workplace savings vehicles over the coming years. A common way that they planned to do this was through the introduction of corporate wraps. These are integrated financial planning platforms for employees. Rather than just paying into a pension fund, in a corporate wrap arrangement employer and employee contributions can be paid into one of a number of different financial products that are part of the wrap, depending

on which product the member decides is most appropriate to their needs. These can include pension plans, corporate Individual Savings Accounts (ISAs), share plans, other savings products and life insurance. Corporate wrap products are usually offered by a single provider, typically online. While some high-end providers already offered such products in 2011, they were commonly mentioned as an example of a product that could 'add value' after the introduction of the reforms. The main aim of this approach was to focus on selling more to each employer, as well as to change the employee approach to savings by introducing more flexibility.

*'If you are asking me five years down the road what I think just financial services in general will look like, I think you will see between half a dozen and ten major organisations like ourselves and most of the other life companies, distributing, workplace savings solutions or workplace packages, corporate wraps, whatever you want to call it.'*

(Provider)

Some providers and intermediaries were planning online platforms targeted specifically at employers. For example, some were considering products that offered employers a set of compliance tools that would automatically ensure that the employer was complying with all of the different aspects of the requirements of the pension reforms, without the need for external involvement or advice.

*'It's actually very difficult to make sure that all of these things are absolutely being done on time: auto-enrolment, re-enrolment, the people that reach the age of 22, the people that are going over certain thresholds, people wanting to opt back in. The employer needs a tool to be able to do all that. Current payroll systems won't do it. NEST won't do it, so if we supplied that added value, they would get access to the tools and they lose access if they fail to stay with us.'*

(Provider)

Some providers and intermediaries were also considering introducing new products, typically aimed at higher end employers with higher average salaries. These solutions were based around the idea of adding value and offering more investment flexibility. New products included group self-invested personal pensions (group SIPPs) in which members can play a role in fund choices. Members also have a choice between a wide range of investments, including stocks and shares, commercial property, hedge funds or private equity.

Some providers also mentioned they would introduce new fund options so the scheme members would have more choice. The providers in question stressed that these funds would have different risk categories, to ensure that options were available that could be attractive to an entire workforce, from the lowest earning employees to the highest earning executives.

*'I think we are already planning on introducing two or three more funds. We're likely to introduce a gilts/bonds one for people as they approach retirement, and also perhaps another high risk fund that was perhaps 100 per cent equities rather than our existing managed fund which tends to be about 70 per cent equities [...] What we want to do is to give people a choice of going for high risk, medium risk or low risk and have funds to support that.'*

(Provider)

Conversely, some providers and intermediaries suggested that such an approach would be unlikely to appeal to many employees. They would not want to choose between numerous pension funds but instead were looking for simple solutions. They believed the majority of employees did not feel confident or knowledgeable enough to make their own investment decisions, and therefore, providers were intending to continue to offer a more basic choice of funds.

On a similar note, occasionally providers said they were also considering offering more ‘basic’ solutions as an alternative to NEST, in particular in terms of access and investment options. They expected to pare down existing products in order to be able to offer these at a charge that was comparable to NEST. However, their products were still expected to have some advantages over NEST, such as greater fund choice or more flexibility on payments.

*‘If we offer a direct model it will be a pared down version of our current offering. It will be a head-to-head against NEST in effect. It will look like NEST. It will feel like NEST or have the same capability as NEST but it will have our brand on it and it will have some other bits and pieces that NEST don’t do.’*

(Provider)

Very rarely providers mentioned that they were considering offering a master trust arrangement, consisting of a single trust-based scheme offered to multiple employers, in particular in response to a perceived need from employers for improved scheme governance. Providers felt that a master trust could provide this with minimal burden on individual employers.

*‘It’s looking at our products and looking forward with our product sets to make sure that we have the right products in place and we’re already working on some more product developments: we’re looking at trust-based arrangements and then a master trust possibility, because our customers are telling us they want a solution in that area.’*

(Provider)

### 4.3.3 The changing roles of providers and intermediaries

There was some degree of overlap in the strategies that providers and intermediaries expected to adopt after the reforms are implemented. While intermediaries expected to concentrate on their core proposition of giving impartial advice, some also expected to move into the design and provision of added-value products such as flexible benefits platforms and integrated financial planning tools; and while providers expected to continue to offer pension schemes, some also expected to offer comprehensive employee benefits packages, which could potentially even include advice to employers.

Intermediaries, as well as some of the providers, expected the intermediary role to continue to develop in the future, with more focus on adding value and an even greater involvement in scheme design and setup as well as communication with employees. Some believed that the role of an intermediary could develop further beyond simple advice on which provider products to purchase.

*‘I think it is changing. I think it is less about simply selling a scheme to the employer and I think there is a developing emphasis on communicating with the workforce. That is where the industry adds value or can add value. [...] I think that where the pensions industry will earn its keep is on raising standards and on delivering employee communication and encouraging higher take-up and higher contribution levels. That is what we are doing and I perceive that that is where the marketplace is trending towards.’*

(Intermediary)

At the same time however, some providers were preparing for the opposite scenario: a situation where they provided pensions products alongside other financial products such as corporate wraps and even advice to the employer, entirely without the presence of an intermediary. Providers had not typically decided upon whether such packages that included employer advice would be targeted only at the parts of the market where intermediaries were expected to be absent, or at the wider market.

*'As part of our banking service employers pay us a fee anyway. Within that there is an advice team that work with them, not just for group pensions but for commercial insurance-type products. We can offer them a packaged solution.'*

(Provider)

*'Where employers would have previously paid for services, they will now want to come direct to receive them. So we are seeing some employers trying to do away with certain intermediary services.'*

(Provider)

# 5 Advice and guidance to employers

As Chapter 4 described, some intermediaries had already begun to discuss the workplace pension reforms with employers by the time this research was conducted: some had used them as a discussion point in seminars and meetings with current and potential clients, for example. Chapter 5 will examine in more detail the extent to which intermediaries are discussing the reforms with employers already; and how they expect to advise and guide employers in the run up to the pension reforms.

More specifically, the chapter will examine how aware and prepared intermediaries believe employers to be regarding the reforms, and the questions employers are asking already. It will then describe some of the expected procedural challenges that intermediaries and providers expect employers to face, and the advice that intermediaries expect to give them. Finally, this chapter will outline where providers and intermediaries expect those employers that are not willing to pay for advice to turn in the run up to the implementation of the reforms.

## 5.1 Employers' perceived awareness and preparedness for the reforms

The process by which automatic enrolment will come into action from 2012 is known as staging: the date a company must begin automatic enrolment is determined by its size, with the largest companies staging first. The very largest employers of 120,000 employees or more will be required to begin automatic enrolment from 1 October 2012, and companies will then be staged on a monthly basis in decreasing order of size, with employers of less than 50 employees and new employers staging between 2014 and 2016.<sup>18</sup>

Intermediaries suggested that the date an employer was likely to begin planning for the pension reforms was, therefore, also dependent on their size. Small and medium sized employers were said to have been relatively unreactive to the reforms so far. Intermediaries indicated that was usually because employers perceived their automatic enrolment date to be quite distant, several years in the future. Some others, however, suggested that it was not usually such a conscious decision on the part of small and medium employers to put off considering the reforms until closer to their staging date: in fact they simply had less in-house pensions expertise, and so were not keeping up to date with developments. Many small and medium-sized employers were expected to be unaware of when they were due to stage in any case.

*'I think there's an awful lot of people out there that are either completely unaware or have their heads buried in the sand on it. They have no thought as to how they are going to structure pay rewards going forward or remuneration packages for new employees, that type of thing.'*

(Intermediary)

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<sup>18</sup> The full staging dates by employer are available at: <http://www.dwp.gov.uk/docs/staging-dates-by-employer.pdf>

Conversely, intermediaries indicated that larger employers, some facing automatic enrolment within two years, were currently asking about the reforms: companies in the manufacturing and retail industries were often given as examples of employers that intermediaries were already in active conversations with. These employers had been expressing the desire to be ‘in the driver’s seat’ with regard to the reforms, and to control their options as they approached the automatic enrolment process.

*‘The really astounding thing that has cropped up since about last September is the pro-activeness of some employers. Quite a lot of manufacturing businesses are making money despite what we might read in the press, and want to be proactive, so we’re getting phone calls from existing clients or potential clients rather than us contacting them.’*

(Intermediary)

Many intermediaries were, therefore, focusing on larger employers as a priority, discussing the reforms in seminars, meetings or question and answer sessions in which they claimed to be received by a keen audience.

## 5.2 Employers’ questions about the reforms

Typically, large employers were said to have been asking the most questions about the reforms because they realised that they would be, as one intermediary put it, ‘*hoovered up sooner rather than later*’ by automatic enrolment. Indeed, some intermediaries reported that certain employers were seeking to ensure they were operating a qualifying pension scheme as soon as possible, so that all the features of their pension scheme would not have to be hastily overhauled at the same time as beginning automatic enrolment.

*‘I do believe there will be a massive amount of activity this year [2011], because I think people want to get control of the scheme before 2012.’*

(Intermediary)

Questions that employers were typically asking intermediaries in early 2011 focused on the logistics and administration of automatic enrolment, or about what National Employment Savings Trust (NEST) might mean for their organisation.

*‘If you cast your mind back to last autumn, there was a lot of uncertainty, particularly after the election and even now the I’s are being dotted and the T’s crossed on auto-enrolment and on what NEST is offering.’*

(Intermediary)

Examples of the range of questions reportedly being asked by employers are given below. While some are very general, over-arching questions, others reflect interest or concerns around specific aspects of the reforms.

### *Why did I not know about this?*

Intermediaries reported that this was a recurring question among small and medium-sized organisations in particular, and essentially reflected the fact that knowledge of the reforms among these employers was limited. Intermediaries said that it was common for them to be telling employers about the reforms for the first time in meetings and seminars, and that some employers’ initial reaction was that they should have been informed about such an important change to their business sooner. Some suggested that this might have been a reaction to an initial mis-conception that all employers must automatically enrol from 2012.

### *How much will it cost?*

This was often said to be the most commonly asked question and at the heart of employers' concerns. The additional costs resulting from the reforms were expected by employers to create additional strain on their business during a difficult economic period. Depending on their current state of pension provision, employers would have to increase their employer contributions for some employees and start new schemes altogether for others if they were not previously covered. The potential costs of needing to seek advice and administer a qualifying pension scheme were also a concern.

### *What do I need to do?*

Intermediaries reported that employers often simply did not know where to begin in terms of the process of automatic enrolment, and more specifically what steps they should take and when.

### *How will opt-outs work? What constitutes 'inducement'?*

Intermediaries reported that opt-outs were often a cause for concern to many employers. Intermediaries claimed that employers wanted to know how employees' opting out would function, so that they could prepare the administration processes as well as ensure that they did not mislead their employees or fall foul of regulations around inducement.<sup>19</sup> Examples of questions that employers were asking intermediaries in this area include whether employees can opt in during the three-month waiting period, after what period employers must re-enrol employees who opted out, and other questions around the length of waiting periods.

### *How much time will it take? How much extra work will this impose? How do I deal with administration, logistics and project management?*

Concern around the amount of extra time they would need to set aside to fulfil the administrative requirements of the reforms was said to be common. Employers asked intermediaries about how much effort compliance would take, both from themselves and their employees; and about whether they would need to schedule group or individual meetings for employees with advisers.

The question of who would administer these new systems was frequently asked, with some employers wondering whether they would need to create new divisions within their administration departments to prepare for the reforms, or perhaps send members of staff on training courses. Some intermediaries were already in discussions with some employers about providing them with specialist administrative teams that would run these administrative processes for the employer.

*'So typically you would use one of our administrators at £75 an hour to do all the administration online and you wouldn't be incurring all the more expensive costs of using trained advisers.'*

(Intermediaries)

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<sup>19</sup> Inducement is considered to be any action taken by an employer for the sole or main purpose of encouraging an individual to opt out of, or cease being an active member of, a qualifying pension scheme, including by offering alternative benefits that are mutually exclusive of being a member of a pension scheme. This will be against the law under the pension reforms. For more information, see <http://www.thepensionsregulator.gov.uk/pensions-reform.aspx>

*What kind of scheme design should we have in place? What are our alternatives to NEST?*

Questions around qualifying pension schemes were also at the heart of many employers' concerns, asking whether their current scheme qualified, or failing that, what changes they should enact to make their scheme compliant.

While some employers had heard about NEST, and were potentially interested in using it, others saw NEST only as an option for lower-paid, short-term workers and therefore, wanted to avoid using it, either because they felt this did not match their employee profile or because they wanted to be seen to offer their employees a 'better quality' package.

*'In these sorts of conversations they equate NEST with government which technically it isn't: it's actually its own trust, of course. "How much money should we be starting to think we are going to have to put aside to satisfy NEST?" "What are the options if we want to avoid NEST by doing our own thing?"'*

(Intermediary)

### 5.3 Procedural challenges expected to be encountered by employers

Many of the concerns expressed by employers did, according to intermediaries and providers alike, reflect some of the genuine challenges that employers would face in implementing automatic enrolment.

These could be broadly grouped into:

- operational and administrative challenges;
- challenges around communications.

#### 5.3.1 Operational and administrative challenges

Providers and intermediaries typically identified a range of difficulties which employers could face in administering automatic enrolment, because 'the regulatory hoops which they must jump through' to comply could necessitate a lot of forward planning and incur costs. The main operational and administrative challenges mentioned are described below.

##### *Ensuring that all qualifying staff are automatically enrolled*

Ensuring that the rules around who should be automatically enrolled, and when, is expected to be the greatest challenge for employers. This includes making sure that staff that turn 22 or reach a certain earnings threshold are enrolled, as well as keeping track of employees within companies that have a high level of staff turnover such as in retail. Seasonal workers are also expected to be a challenge, as well as employees that work for multiple employers at the same time.

##### *Ensuring correct contributions are deducted accurately and on time*

Intermediaries expected the timing of contributions to be an important logistical challenge. In the case of a large employer who hired new people throughout the year, deducting contributions at the correct time and at the correct level were expected to be more complex.

### *Dealing with opt-outs and general administration of automatic enrolment*

Once an eligible individual is employed in a company that has begun automatic enrolment, they must be automatically enrolled into a qualifying pension scheme immediately or within three months where an employer operates a waiting period. During this period the employee can opt in early if they choose to by following a set of procedures. Although an employee cannot opt-out from a pension scheme before they are enrolled, if they opt out within a month of being enrolled they must be refunded any pension contributions they paid in. Intermediaries predicted that administrative staff could find many of these processes a challenge.

*'I think it will be getting all the processes set up correctly so that you don't miss anybody. Nobody falls through the net, that contributions are deducted at the right time, that you have got a good opt-out process so that if people opt out they get their contributions back efficiently. Somebody said to me it is not the cost of the contributions that is going to be the issue. It is the cost of making it work that employers are more bothered about.'*

(Intermediary)

### *Re-enrolment*

Re-enrolment was predicted by some to be particularly problematic due to the lack of systems in place to cope with this currently. While many intermediaries expected re-enrolment to be at least partially automated and integrated into payroll some suggested that some employers would need to manage this process manually; one intermediary even mentioned that smaller companies could be reliant on non-specialist systems such as Microsoft Outlook to remind them to do this.

### *The cost and training implications of setting up new systems*

Depending on the size and structure of a company, intermediaries suggested that setting up new systems might be done either by the accounts, the IT or the administration department. Staff would have to be trained to deal with all the possible choices an employee could make. Intermediaries mentioned that this may either be done by sending employees on training sessions or by employing a temporary expert to teach staff on-site. Either way the cost of training staff and buying new software was said to be a concern to employers. Some intermediaries said they were looking at ways to alleviate these costs.

*'Certainly, we would look at options which would minimise the impact of cost on them. Remember, the more cost you put onto the employer, the less is going to go to go the employee. That is just a fact.'*

(Intermediary)

## **5.3.2 Challenges around communications**

Some intermediaries pointed out that in the new pensions landscape, simply offering a pension scheme will no longer be an effective way of attracting new talent, or even retaining existing talent, and so some employers had approached them seeking to add value to their own benefits package. As Section 3.2.2 explained, flexible benefits platforms were one of the ways of doing this that intermediaries were already discussing with employers.

However, intermediaries also reported that communicating these new benefits in a clear, understandable and positive way to all employees would be a challenge in terms of how much effort it would require from the employer, what the best medium might be and indeed the content itself.

*'The way this is communicated is very, very important. If the employer is spending money on this, what you would normally want to do is to communicate that as a positive thing to staff and in a good way, but a lot of employers won't have the resources to do that. So rather than it being something which is perceived as a good benefit because it's helping someone with their retirement, it might not be shown in the same way.'*

(Intermediary)

Occasionally, intermediaries reported that employers, and even some intermediaries themselves, did not always understand the differences between automatic enrolment and NEST. This alleged confusion on the part of the adviser could exacerbate misunderstandings among employers.

*'I think there is a lot of confusion between auto-enrolment and NEST. I hear of advisers making speeches and speaking to my clients and confusing the two.'*

(Intermediary)

Intermediaries stressed that compliance with automatic enrolment would entail some degree of effort from employers across all sectors, whether their existing workplace pension scheme qualified or not. It was often pointed out that each employer's circumstances were different and complicated in their own way. Tiered arrangements were expected to be particularly difficult. For example, a company that had an existing pension vehicle in place for middle managers but whose directors did not want to pay the same high level of contribution to all its members, might seek to provide a tiered arrangement. Communicating this to staff might be quite challenging since it could require two sets of communications materials, extra administration time and potentially even two separate online platforms.

Intermediaries reported that even companies such as large financial services organisations, which had high levels of take-up and a scheme design that met the minimum requirements, still had challenges in ensuring not just that administration processes were complete, but that all communications complied with government requirements.

## 5.4 Intermediary advice to employers

Intermediaries typically reported that until 2010 it had been difficult for them to make concrete plans in terms of what to advise employers regarding the reforms, essentially because of the uncertainty that surrounded many of the details of the regulations. The certification process, the exact definition of a qualifying scheme and the precise opt-in/opt-out scenarios were examples of specifics that had needed to be clarified before plans could be set in motion. Without such information intermediaries had been unable to start printing pamphlets, and company accountants had been unable to begin their preparations. Intermediaries claimed that since the government published the Making Automatic Enrolment Work Review those operating in the pensions market had been ready to act more decisively.<sup>20</sup>

Nevertheless, intermediaries had had teams in place preparing for the reforms for some years; many since they were first announced. A typical strategy within large intermediary practices was to train a core team of four to ten consultants on the reforms. These employees would then head up wider training sessions within the company, as well as oversee relevant client relations and create new, understandable communications materials for employers and employees. These included

<sup>20</sup> Johnson, P., Yeandle, D. and Boulding, A. (2010). *Making automatic enrolment work – A review for the Department for Work and Pensions*. Available at: <http://www.dwp.gov.uk/docs/cp-oct10-full-document.pdf>. Reactions to the review are explored further in Chapter 7.

pamphlets, online tools and seminar discussion guides. Medium-sized intermediaries followed the same approach, but tended to have a far smaller team responsible for training employees internally, and in a minority of cases this was a single consultant that had been recruited specifically for that purpose.

In addition to the information gathered by their research departments through published consultations and other papers from the Department for Work and Pensions (DWP), HM Revenue & Customs (HMRC), The Pensions Regulator (TPR) and Financial Services Authority (FSA), a minority of the largest intermediaries reported that they had a close relationship with government policymakers.

*'My colleague has been extremely well connected to the movers and shakers in all of this. And we have got very good relationships with NEST. There is that, and there are the usual sources, consultations and all the papers and all of that kind of thing. We have got a good research department that keeps on top of stuff and lots of contacts in and around what is going on.'*

(Intermediary)

Some intermediaries said they were also talking to providers, lawyers and insurance companies about the reforms to ensure they were giving their clients the most comprehensive and accurate advice possible.

### 5.4.1 Intermediaries' approach to giving employers guidance

Intermediaries stressed that the advice given to a particular employer was always bespoke to their particular circumstances. Typically, intermediaries assessed the employer in terms of workforce, their budget and their pension objectives, such as whether they favoured a more or less cautious approach to investment decisions. They would then present them with a number of relevant options, and work through these with the client to decide upon the best fit for the client's own business. This might lead to one of several different outcomes, for example:

- the employer continues to use an existing pension scheme, which is adapted to include all qualifying staff;
- the intermediary sets up a new qualifying scheme, which operates alongside existing schemes;
- the intermediary recommends NEST to be used as the qualifying scheme for some or all staff.

*'We have a hugely comprehensive database on a lot of providers. If a client comes to us, whether it is trust-based or contract-based, we have a very, very slick and professional process for getting to a point of recommendation. We have pretty good and close relationships with providers in the sense that we stay close to them to know what their plans are and what developments they have got on the way.'*

(Intermediary)

### 5.4.2 Areas of guidance to employers

While most intermediaries were currently offering only high-level guidance to most employers as to the general requirements of the reforms, some, particularly those working with larger employers, had begun providing education sessions and offering bespoke, one-on-one sessions to employers in a bid to address their specific needs. Intermediaries stressed that each employer would require a different solution dependent on their particular situation: the workforce profile, turnover, age, earnings and current pension provision.

The range of issues that intermediaries reported they advised employers on included:

- **Timings:** including what tasks needed to be completed when, highlighting the most pressing ones. At the time of the study, the largest employers were already beginning preparations and all employers were being advised on how much time would be needed to ensure compliance and implement the changes.
- **Cost:** including how to budget for the reforms. Intermediaries occasionally attempted to predict the long-term impacts the reforms might have on their clients' businesses, although these were always based on estimated participation rates.
- **Level of contributions for different groups of staff:** Intermediaries claimed that some employers were reluctant to offer all newly enrolled employees the same level of contributions they offered currently enrolled employees. Therefore, the issue of tiered arrangements, in which an employer could pay a lower contribution into a separate scheme for certain staff, often arose in meetings with employers.
- **How pensions would tie in with flexible benefit schemes:** Some intermediaries reported that employers were unsure as to what would happen if pension contributions were included in a flexible benefits package, and in particular what would happen if employees attempted to trade their contributions below the permitted minimum.
- **Administration and operations:** including how to organise administration and the specifics of dealing with automatic enrolment, re-enrolment, contribution deductions, certification and the other procedural challenges outlined in Section 5.3. Some intermediaries and even providers were developing specialised tools to facilitate employers' shift to compliance.

*'It's a unique planner whereby employees will be able to set a desired income level at retirement, plus a minimum floor income that they want to achieve. This planner allows them to see what they can achieve with the contributions in terms of income, and it also shows the probability of them achieving that. As markets change, what's getting fed into the system is the market's view of future interest rates, inflation, annuity rates, mortality assumptions and then it's rebalancing the portfolio. What we're doing is removing the need to employ intermediary advisory services.'*

(Provider)

- **Education:** Intermediaries typically said that their priority was in providing employers with concise and easy-to-understand information. They used the knowledge gathered from their research and re-wrote, condensed and focused it into succinct and specialised pamphlets or articles, which were then disseminated according to the needs of each employer's business. Intermediaries also looked to address employers' need for clarity by creating 'automatic enrolment survival guides', answering the main questions raised in client discussions; some created websites designed to provide easy-to-follow instructions and information about the necessary steps employers will need to take.

## 5.5 Sources of advice available to smaller employers

The process of staging companies into automatic enrolment will take place across a four-year period between 2012 and 2016. Because smaller companies will stage later on in that period, they typically have more time to prepare before they need to comply. Nevertheless, many intermediaries felt that smaller companies were the group that would require most help in preparing for the reforms. While large firms already had established channels of advice, many small employers had no experience of offering a pension, and felt there was no obvious and well-known source of information about the reforms available to them.

Many providers and intermediaries predicted that once the time came for small employers to automatically enrol their workforce, they would seek information and advice from their company accountant. This assumption was typically based on the fact that the accountant was the main finance professional available to all small companies, who would already be aware of the intricacies of their specific business.

However, both intermediaries and providers suggested that accountants would only be in a position to provide very general information about the reforms and their implications for companies. As accountants are not advisers, they would most likely simply inform employers where they could go for information, referring them, for example, to an intermediary, a provider or a website such as NEST or TPR. A minority of providers suggested the possibility of giving a 'finder's fee' to accountants that introduced business they deemed to be profitable.

*'They can't go to the bank any more so it's got to be the accountant. I'd suggest the accountancy profession is going to be absolutely key in this because they will know the employers and may even know what the future business prospects might be. So if anyone could help them, it would be them. [...] We don't believe the accountants would want anything more than possibly a finder's fee in effect, if that. They might actually do it on the basis of "I am doing it for my employer because he needs this help".'*

(Provider)

A minority mentioned other possible sources that could be the first port of call to small employers seeking information and advice about the new requirements. However, they were unclear as to who would use these sources and under which circumstances. The examples mentioned included:

- Small Independent Financial Advisers (IFAs): if already using one for other advice and willing to pay a small fee.
- NEST: expected to be the first port of call for many small employers, depending in part on the type of publicity campaigns that NEST operate.
- Banks.
- Llwyers.
- DWP or the Treasury.
- Trade associations.
- Federation of Small Business.
- TPR.
- The FSA.
- The Pensions Advisory Service website.<sup>21</sup>
- The FSA's MoneyMadeClear website.<sup>22</sup>

Overall, many providers and intermediaries highlighted a perceived 'information gap', with no single, widely-publicised, independent port of call for small employers to seek information about the reforms.

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<sup>21</sup> See <http://www.pensionsadvisoryservice.org.uk>

<sup>22</sup> See <http://www.moneymadeclear.org.uk>

*'People just don't understand. I think employers know that something is coming and that something's going to happen, but I mentioned NEST at Christmas to my sister who's employed as a nursery school manager. She didn't even know what I was talking about. It's still a way off for small employers but I would have expected somebody to have an idea that it was coming.'*

(Provider)

Intermediaries and providers claimed that more information and advice was needed from the government in response to this, including publicity campaigns and call centre helplines, to ensure that they have time to make plans and consider whether an alternative provider to NEST would be an appropriate option for them. Some intermediaries and providers did note that smaller employers would be at the tail end of the staging process, by which time the industry should have built up a reasonable level of awareness and understanding of the processes and risks involved, and as such smaller employers should be better informed.

# 6 The impact of National Employment Savings Trust

This chapter will explore provider and intermediary views as to the impact of National Employment Savings Trust (NEST) on the pensions market.

NEST was created in the 2008 Pensions Act to serve as a new national low-cost workplace pension scheme. It will be one of the qualifying schemes employers can choose from to meet their new duties under the reforms. NEST will impose an annual management charge (AMC) of 0.3 per cent on the value of the fund, with an additional 1.8 per cent charge on the value of each contribution to cover NEST's startup costs.

The first part of this chapter outlines what impact providers and intermediaries expect NEST to have on the industry overall, and how both groups expect to work with NEST in the future. It also examines areas where NEST is predicted to have a particular impact on standards in the industry, including communications, technology and charging structures. Finally, it will assess to what extent providers and intermediaries have attempted to measure the possible take-up of NEST.

## 6.1 How NEST is expected to impact the pensions industry overall

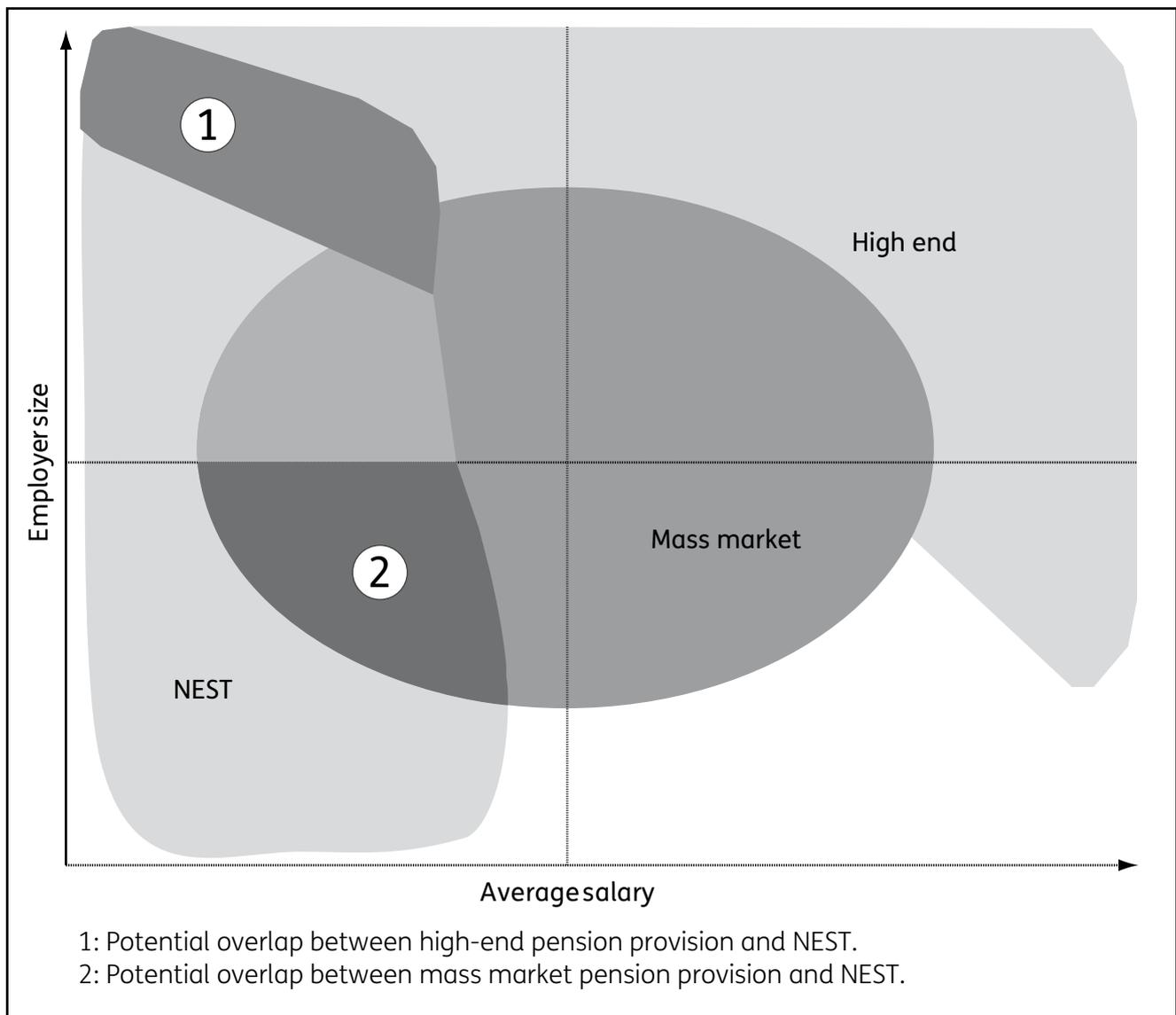
Providers and intermediaries typically predicted that NEST would have a significant impact on the pensions market. The anticipated size of the scheme in terms of number of members and funds under management, alongside the fact that the NEST Corporation was set up by a government Act, meant it would inevitably become a significant player and set standards in the market.

*'NEST will start to influence the pension market in the same way that Jupiter does in the solar system. It also acts as a benchmark to some extent for DC [defined contribution] plans. Not necessarily an aspirational benchmark but certainly a starting point.'*

(Intermediary)

However, providers did not generally predict that NEST would have a detrimental impact on their own businesses. Rather than seeing NEST as a direct competitor, they most typically saw it as catering for a different part of the market. This is illustrated in Figure 6.1, which shows the parts of the market that the providers in the study and NEST primarily targeted.

**Figure 6.1 High-end and mass market pension provision and NEST: principal areas of overlap between their target markets**



Although there were some areas of overlap, in most cases NEST was seen as catering for the lower end of the market in terms of average salary, which was largely un-catered for by current providers. This was primarily because many lower salary employers did not want to offer a pension, and also because providers considered such employers to be unprofitable due to the low potential contributions, small pension pots and high administrative costs.

*'If NEST targets the market it was set up to target, then we're probably not in the same market. Initially NEST was set up to sweep up the employers who couldn't find a pension scheme through private provision because the schemes wouldn't be profitable for providers, and there was a certain reluctant acceptance by the government that if we want to auto-enrol all employers there is a segment of those employers that won't get private provision through providers - therefore, we have to offer a scheme.'*

(Provider)

Some predicted that NEST could be a positive influence on the industry, as the publicity surrounding it would create interest in pensions among employers and employees.

*'NEST will be the catalyst for a whole transformation of the market, which is what we have been waiting for. To us it's nothing but positive because it'll force employers to consider what they need to do.'*

(Provider)

### 6.1.1 How providers expect to work with NEST

Many high-end providers initially predicted that NEST would have little direct impact on their businesses. Some did, however, note that there were some potential employers to whom both NEST's services and their own services could be targeted: these were large employers with low to medium average salaries, for example, in manufacturing and retail, as shown by the shaded area 1 in Figure 6.1. In these cases, senior staff may well have been suitable for a pension provider's product, whereas NEST may have been suitable for the lower paid staff. Providers sometimes told us that they would consider working with NEST to provide a tiered solution, where lower-paid employees would be enrolled into NEST, and higher-paid employees into the provider's product. Some providers said they were in active discussions with NEST regarding a possible partnership in this respect, whereby the provider and NEST might share collection facilities and produce uniform communications.

*'Early days yet but the ideal would be we end up with a common collection facility and in the real ideal world we would end up with common disclosure. You would have common billing. You would have a common look and feel and all information to both sets of employees.'*

(Provider)

*'If it's a massive organisation with a lot of shop floor staff, that's probably when we need to start looking at NEST as a service that sits alongside ours.'*

(Provider)

Some providers also told us that while such an arrangement might be suitable for large employers with lower salaries, for smaller employers it might not be. The shaded area 2 in Figure 6.1 shows where a group of employers seen as less profitable to providers – smaller employers with low average salaries – might also be a target for NEST. Some providers confirmed that they were in active discussions with NEST about moving some of their existing unprofitable employers to NEST for future contributions, if the membership profile was seen as more suited to NEST.

Overall however, most providers did not see significant overlap between their target markets and the market that NEST aimed for, although a minority did suggest that NEST would effectively become a direct competitor if they were unable to demonstrate that their own pension products could provide better value for money to their target market. While a minority did suggest that this could lead them to re-consider whether to continue offering a workplace pension product in the future, most providers felt well equipped to compete with NEST and perceived that traditional provider schemes held the following advantages over NEST:

- Transfers in and out of the scheme.
- No yearly contribution limits or caps, making the scheme available to higher earners.
- More flexibility in terms of fund choice: a provider could offer more funds to choose from and greater flexibility of choice, with a range of risk options.
- Additional services: such as insurance, corporate services, corporate wraps, information and support including helplines, and the range of products and services mentioned in Section 4.3.
- Some providers also pointed out that, unlike NEST, they were able to turn unprofitable business down by limiting the employers they worked with if they wished.

### 6.1.2 How intermediaries expect to work with NEST

Intermediaries typically expected to include NEST within the advice that they gave to employers: they felt that simply because of NEST's anticipated size, its perceived government backing<sup>23</sup> and expected wide publicity, NEST would be considered as a potential provider for many employers. In fact, a minority suggested that, were the contribution cap to be lifted, it would then be a potentially suitable solution for employees in all salary bands, not simply the lowest paid.

Many intermediaries agreed with providers that, in larger companies with low average salaries, they would consider NEST alongside a traditional pension provider, as part of a tiered solution.

*'It will have to be one of the options. If you took as an example an employer with 1,000 employees, they may say, "For our top 50 executives we want to do something special and for our top 150 middle managers we are prepared to offer this but everybody else will go to NEST". You can see a bit of that happening.'*

(Intermediary)

A minority of intermediaries also pointed out that NEST might often be viewed as the 'safest' option by employers. They stressed that this did not necessarily mean that it would be more likely than other schemes to perform well, but instead that, because of its perceived government backing, they as employers would not be at fault if they selected NEST and it was not a success: whereas if they were to select an alternative scheme and this underperformed, they could be seen to be at fault by their employees.

*'I know it isn't government run, but in their head it's government run. So it's kind of a safe choice. If an employer chooses a provider and something goes wrong with the service, security, investment returns or charges, then it's "Why did I choose that provider?" Whereas they can say, "I chose NEST because NEST is a government thing right?" So once I made a decision as an employer to go for NEST, I'm probably an employer who wants an easy life when it comes to pensions.'*

(Intermediary)

## 6.2 The possible impact of NEST on communications and technology

NEST was often seen as setting a model against which other products would be compared, in terms of the principles underlining communication with employers and employees and the continued development of web-based propositions.

*'There's a move towards added value and this sense of creating some clear blue water between what NEST will offer and what we as the pensions industry can offer. I think NEST is going to be a really good thing for the UK and for the pensions industry. So the challenge for us is to show that we can add value because if we can't we are in trouble.'*

(Provider)

<sup>23</sup> The Personal Accounts Delivery Authority was originally set up by the government as part of the Pensions Act 2007, and this later became the NEST Corporation. It is now operated as a trustee body, independent from government.

In terms of communication, many of the participating providers and intermediaries noted that there had already been a growing trend towards using online communication tools as well as focusing more on making information to employers and employees more engaging, straightforward and easier to understand. NEST was expected to further accelerate this trend, with some providers and intermediaries hoping to emulate NEST's use of plain English in their future communications.

*'It'll obviously depend on the communication strategy that NEST come up with, but I do think on a number of areas NEST, because they are starting with a clean sheet of paper, have an opportunity to set standards and are benchmarking the industry for a number of things, whether it is communication, general use of phraseology, charges, investments etc. For example, if we get to a situation where the jargon that's used in the industry is deemed to be keeping people away from the products then I'm sure the industry will gradually start adopting new terms that perhaps NEST will bring into the industry.'*

(Intermediary)

Section 4.3 described how online platforms were expected to be crucial in the future development of the pensions industry, not just improving accessibility to new products but also reducing costs for providers and intermediaries. NEST was also expected to further push forward the adoption of such web-based propositions, with online technology more widely utilised by all providers and intermediaries in the future.

The idea that NEST would be 'starting from scratch' was also relevant in the eyes of providers, in that NEST had the benefit of being able to use the latest technology to build its systems specifically for online use. Nevertheless, some also warned that not all employers and employees would be prepared to do everything relating to their pensions online, and that this could give their own 'online or offline' products an advantage over NEST.

*'For me the thing that I think NEST really challenges us about is our use of technology. Because it's starting off from scratch it can build fancy new systems and web-based and so on, and will probably ramp up the expectations of how much is done online. But I think NEST are being a bit optimistic in talking about everyone dealing online. I think they might get a shock down the line.'*

(Provider)

### 6.3 The possible impact of NEST on charging structures

Many providers and intermediaries expected NEST to have a substantial impact on provider charges, setting the 'baseline' level of charge for the post-reform pensions market: wherever alternative products charge more than NEST, they would in the future be forced to justify what additional value they provide.

Typically, providers did not expect it to be commercially viable for them to offer an AMC as low as 0.3 per cent. Some suggested that the charges were already low and the period of their continuous fall might be coming to an end, as some were reaching levels that already led to very low profit margins.

*'The charges are a lot lower now than they have been historically and they don't seem to go upwards. They seem to continually come down but they can only come down as efficiencies improve and there is only so much more you can do improve efficiencies. So I can't imagine the charges coming down. We have to make a margin of course.'*

(Provider)

Providers typically said that they were not planning to compete with NEST solely on charges, and so generally expected to have a comparable or higher AMC than NEST for most employers. They did, however, stress that they would offer a better, more flexible product with added services, which would justify their higher charges. Some saw it as vital to increase this focus on the suitability of charges to individual employers' needs: while some employers would look for a basic low-cost solution, others would expect additional services that would entail a higher AMC.

*'I think there will be a challenge to charges. I don't think they will necessarily change but I think providers will need to be explicit about value for money and what people get for those charges.'*

(Provider)

Some suggested that NEST's charging structure, consisting of an AMC and an upfront contribution charge, made it harder for employers and employees to compare the overall cost of NEST to other providers. Typically, providers and intermediaries equated NEST's total charges to an AMC of between 0.5 per and 0.55 per cent.

*'I don't think everyone will level down to NEST's charges but it will have to be quite clear why charges are higher so that when employers and advisers are looking they're looking for a suitable pension scheme at a suitable charge, and that suitable charge isn't necessarily the same as NEST.'*

(Provider)

A minority of providers suggested that NEST's dual charging structure could become a model for other providers to follow in the future, although none had concrete plans to do this. Indeed, some felt that this approach was less transparent and so could be more difficult to communicate to employers and employees.

*'The charging structure that NEST proposes could set a new benchmark in the market, and do we need to have a similar type of structure in place where there is comparability: we don't know if we're going to do that yet but it's certainly a question we need to address and look at.'*

(Provider)

## 6.4 Predicting the take-up of NEST

None of the intermediaries or providers interviewed had attempted their own estimates of NEST's ultimate take-up. Where they were able to give predictions, these were typically based on NEST's own data or other estimates that had appeared in the press: usually somewhere between three and nine million, although none expressed any confidence as to the predictions given.

*'We are happy to go along with the fact that it could be somewhere between one million and... I would suggest – and this is a personal feeling – that if it's less than three million it's going to look a bit bare...If it bottoms out at around six million, that's probably about right.'*

(Provider)

*'All we can go on is what they are saying. Some are saying six to eight million people. I've got no real reason to dispute that, but we've not tried to do any analysis of where that figure has come from or how likely or otherwise it is.'*

(Intermediary)

Some predicted that the take-up would be linked to people's personal finances and the economy in general at the time of launch. Others felt that NEST's take-up would largely depend on the publicity surrounding the workplace pension reforms overall, and NEST specifically. Some pointed out that any negative publicity, such as a negative article by a major daily newspaper, could have an extremely damaging effect on participation not just for NEST but for the entire pensions industry; whereas effective government and NEST communications campaigns could potentially increase membership.

*'If [newspaper] say NEST is rubbish, which they could do, then we will end up with a massive problem. From our perspective and I think other providers', if NEST is a failure that's not good news for the industry. It's in all of our interests for NEST to be a success.'*

(Provider)

# 7 Current and future policy developments

This chapter will assess providers' and intermediaries' reactions to the proposed policy developments surrounding automatic enrolment and the expected implications they will have for the UK's pensions landscape.

Chapter 7 will begin by examining intermediaries' and providers' reactions to the overall recommendations in the Making Automatic Enrolment Work Review, as well as their views on some of the specific recommendations. It will then conclude by summarising providers' and intermediaries' views as to how the pensions market might develop beyond 2018, after the reforms are fully implemented.

## 7.1 Reactions to the Making Automatic Enrolment Work Review

On 27 October 2010, the coalition government published the outcomes of an independent review into how to make automatic enrolment work.<sup>24</sup> It supported the details of the reforms as outlined in the Pensions Act 2008, as well as proposing specific changes.<sup>25</sup> Both intermediaries and providers were asked about their reactions to the recommendations in general, as well as to specific parts of the review.

There was a high level of awareness and support for the recommendations overall. The vast majority of providers and intermediaries were aware of the review before being interviewed, and indeed several of the individuals interviewed had personally given evidence to the review itself. The initial reaction of most was to welcome the recommendations, viewing them as a sensible and pragmatic solution to industry concerns that would largely have no negative impact on their own businesses.

*'I thought it was a well-reasoned and pragmatic response to genuine challenges and concerns. I took it all as very good news. In fact, you can see by the fact that I have printed every single page of it...admittedly on A5.'*

(Intermediary)

Many providers expressed satisfaction that the government had invited the industry to communicate their concerns through this review process. Providers felt that the government had largely heeded their suggestions and recommendations and acted upon the views of the industry.

*'They broadly reflected what we had asked for in our responses to the review. So much improved from the situation prior to the review!'*

(Provider)

<sup>24</sup> Johnson, P., Yeandle, D. and Boulding, A. (2010). *Making automatic enrolment work – A review for the Department for Work and Pensions*. Available at: <http://www.dwp.gov.uk/docs/cp-oct10-full-document.pdf>

<sup>25</sup> The review's recommendations were given to all of the participants in the study, and they can be found in Appendix A.7 of this report.

In addition to their overall reactions to the Making Automatic Enrolment Work Review, intermediaries and providers were asked to discuss two specific recommendations: contribution thresholds; and the impact of the proposed optional three-month waiting period. Reactions to both of these are explored in this section, along with two issues brought up spontaneously by some providers and intermediaries: the certification process and the government's commitment to review rules around trust-based schemes.

### 7.1.1 Reactions to proposed changes to the contribution thresholds

The first recommendation made by the review proposed the following:

*'The earnings threshold at which an individual is automatically enrolled into a workplace pension is increased and aligned with the income tax personal allowance, and the threshold at which pension contributions become payable is aligned with the National Insurance primary threshold. Workers can opt in to saving and receive an employer contribution if they earn between these two thresholds.'*

In effect the first recommendation proposed that employees should only be automatically enrolled once they reached the income tax threshold of £7,336, but that contributions should be on earnings in excess of the National Insurance (NI) threshold of £5,715.<sup>26</sup> Workers who earned between these two thresholds would be able to opt in and receive an employer contribution if they chose to.

Reactions to this recommendation were generally positive, with providers and intermediaries pointing out that separating the two thresholds reduced the possibility of an individual being automatically enrolled into a scheme and paying extremely tiny levels of contribution. Some even suggested that being automatically enrolled with such a low income could actually be of detriment to an individual for two reasons:

- Employees on a lower wage may have a greater need to keep all of their income, and may simply be unable to afford to pay into a pension in the short-term, if, for example, they need to raise money to raise a deposit for a house.
- Under rules in place at the time, if lower paid employees were to pay very low sums into a pension over their whole lifetime, the pot generated might only be enough to offset means tested benefits that they might otherwise have received in retirement, leaving them worse off in the long run.

By putting an income threshold on contributions, some pointed out that this also alleviated the administrative burden on a provider, intermediary or employer of overseeing a large number of very small pension pots.

Some intermediaries suggested that the increase in the automatic enrolment threshold did not go far enough, pointing out that the industry would have benefited from an even higher contribution threshold, as the current level could still result in small pots that were costly to administer.

Some intermediaries expressed concerns that the difference between the income tax and the NI thresholds could be seen as complex and difficult to communicate to employers and employees. Some were also concerned that calculating the correct contributions for these employees could be very complex and might increase the likelihood of making accountancy mistakes.

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<sup>26</sup> These are 2011 thresholds, both expressed in 2010 prices for comparison, as used by the Making Automatic Enrolment Work Review.

### 7.1.2 Reactions to the proposed three-month waiting period

The review made the following recommendation:

*Introduce an optional three-month waiting period for employers. Workers can choose to opt in during this three-month period.*

Most intermediaries and providers welcomed the introduction of this three-month waiting period. They felt that one of the main benefits it offered was a saving on the cost of setting up and administering a pension scheme for short-term and casual staff. In addition, it would allow both the employer and employee time to check their suitability for the new role and if they wanted to leave within the first three months, they would be able to do so without incurring the extra administrative burden associated with refunding contributions.

*'The waiting period was a significant one in that it was ridiculous that employers were penalised if they had a lot of short-term workers and the complexity around managing people who only work for a couple of months coming in and out of the scheme. So I think it has taken away a significant amount of complexity and a significant amount of cost for employers, so I think that was definitely the right outcome.'*

(Provider)

Some suggested that the period should even be extended to six months to alleviate further the administrative burden on employers. In addition, a minority was concerned that allowing employees to opt in during the waiting period would introduce an additional administrative burden on the employer, and suggested that this option should not be given to employees.

### 7.1.3 Reactions to proposed revisions to the certification process

The review recommended revisions to the way in which employers could certify that they paid all employees the minimum contribution. The Pensions Act 2008 stated that the eight per cent contribution should be calculated as a percentage of a specific band of total earnings, including overtime and bonuses. The review pointed out that very few employers measured contributions in this way and recommended that they are instead calculated as a simple percentage of basic pay.

To allow this to happen, the review proposed that minimum contributions should be anything between seven and nine per cent of basic pay, as follows:

*A minimum nine per cent contribution of pensionable pay (including a four per cent employer contribution), or*

*A minimum eight per cent contribution of pensionable pay (with a three per cent employer contribution) provided pensionable pay constitutes at least 85 per cent of the total pay bill, or*

*A minimum seven per cent contribution of pensionable pay (three per cent employer contribution), provided that the total pay bill is pensionable.*

This recommendation was not a specific topic for discussion in our interviews. Nevertheless, some intermediaries and providers pointed out that these proposals were a particularly positive development, as they would help employers who were offering good quality pension schemes at the moment to ensure that their schemes were compliant, without the excessive administrative burden of needing to change their current calculation method.

Many intermediaries and providers felt that the previous definition of 'total earnings' posed a very real accountancy problem, stating that total earnings were not certain at the beginning of the year so such a definition would make it difficult for a company to organise its finances. Some

intermediaries mentioned that calculating contributions using total salary could create unwanted side-effects such as encouraging employers to decide against paying bonuses or employee overtime because doing so would affect their contribution calculations.

*'It doesn't take a lot of imagination to work out how difficult this can get when you have got overtime coming into play for some people, fluctuating earnings, someone does four days a week and five the next week. All sorts of different things are going to make it very, very complicated and expensive to run. It is the employer who's been charged with telling The Pensions Regulator that 'yes' we meet the criteria. How on earth they can know that at the start of the year for a lot of employers is beyond me. For some employers, if they suddenly do really well during the year and they want to pay some bonuses out, they might be going, "Hang on a second, if we do that it is going to impact over here".'*

(Intermediary)

While intermediaries and providers typically felt that the details in the review delivered more certainty and enabled employers to assess whether their existing schemes would qualify more easily, a minority did still feel that the overall process surrounding certification was still too complicated and could be simplified further.

### **7.1.4 Reactions to the government's commitment to review rules around trust-based schemes**

Some intermediaries and providers mentioned the government's commitment to review the regulatory differences between trust-based and contract-based schemes. Currently trust-based schemes may allow the contributions of employees that leave a scheme within two years of membership to be refunded, if the employee opts for this. Schemes are also able to give a short service refund as a default if an employee does not make a decision within a reasonable time.

While few expressed strong opinions as to whether they wanted the government to ban such short service refunds in trust-based schemes, some did point out that if the government were to 'level the playing field' this could be a positive move as it would prevent employers from making a biased decision. Indeed one provider mentioned that they had been approached by a very large employer who tended to employ people on short-term contracts – six months to two years – and who was particularly attracted by a trust-based scheme for this reason.

Some intermediaries and providers expressed concerns that some employers might simply choose a trust-based scheme because they have the opportunity to recover the money they contributed to their employees' pension, should the employee not opt to transfer their pension fund to a new scheme when they leave employment. A minority of providers did suggest that they might consider introducing their own trust-based scheme or master trust were the rules not to be changed.

*'Clearly it's down to the individual to decide, but most people unfortunately do choose refunds and of course the employer then gets their money back. We're already seeing evidence of that regulatory arbitrage influencing employers' behaviour and, therefore, I think we have to be mindful that if that's something that our customers want then we have to look at providing that, so we may well change from a contract-based to a trust-based, given that I don't think that the government are likely to introduce any form of level playing field on the issue.'*

(Provider)

It is important to note that regulatory differences were not the only reason for providers' intending to introduce a master trust. As Section 4.3.2 outlined, a minority of providers were considering introducing a master trust because of a perceived need from employers for improved scheme governance: in these cases providers did not claim that legislation against these regulatory differences would affect this decision.

### 7.1.5 Reactions to other recommendations

A minority of providers or intermediaries had comments regarding a number of the other recommendations:

- The review contained a commitment for the government to review the existence of National Employment Savings Trust (NEST's) contribution cap. A minority of the largest providers felt that any change to this rule that could 'widen its net' was to be strongly discouraged, as NEST might then appeal to a whole new section of the market, which could challenge the viability of current providers. A minority of intermediaries were, however, in favour of this change for very similar reasons, and even some providers conceded that it could promote further product innovation throughout the industry.

*'Hopefully, we will see the removal of caps on what you can save into NEST, which I think would be a healthy development for the UK economy generally, because I think appropriate competition into the financial services industry would be helpful, would be a catalyst for financial services businesses to really tackle their cost base and practices that are out of date, build efficiencies into their businesses and clarity into their charging structures, and remove some of the complexity we see in products and the way they are distributed.'*

(Intermediary)

- The review proposed allowing employers, who were set to begin enrolment in October or November 2012, the flexibility to enrol their employees early. Some intermediaries reported that some employers had already expressed a desire to automatically enrol their employees before their set deadlines, and welcomed this particular recommendation as a result.

## 7.2 The need for regulatory certainty in implementing the reforms

While providers and intermediaries typically welcomed the recommendations of the review, many pointed out that several aspects of the reforms were still not finalised, effectively preventing the industry and employers from planning with certainty. Several providers and intermediaries expressed in very strong terms the need for finality in the coming months, given the proximity of the reforms.

*'I've got to say it's good that they're making the changes because they're needed, and there are things that need sorting out. What's not good is the fact that we're getting closer and closer and the regulations are still coming out and being developed. We're going to get to another situation – as seems to happen on a fairly regular basis – that we get to within a month of implementation and the industry just can't cope with some of the new things that start coming out. So there needs to be certainty and it needs to be as soon as possible.'*

(Provider)

The greatest concern expressed was over the possible changes to short-service refund rules in trust-based schemes, as outlined in Section 7.1.4. The lack of clarity was seen as preventing employers, particularly those keen on selecting a qualifying scheme in advance of their qualifying date, from taking an informed decision about what the most appropriate scheme choice was for them.

*'I think trust versus contract has come a bit too late frankly: we've got to wait for this bill to go through Parliament and then have secondary legislation on the back of that. So we won't have a finalised legislative environment for this until well into the summer this year [2011], and frankly that's too late for some employers to have made their decisions.'*

(Intermediary)

Other concerns were also mentioned:

- Although intermediaries reported that the simplified rules over certification would be beneficial to employers, some maintained that clarity was still needed over the details, and that this had to be made final by the government as soon as possible.
- Some providers concerned about the potential removal of NEST's contribution cap in 2017 said they were unable to take certain strategic decisions with certainty as a result.
- Occasionally, intermediaries were unsure about whether NEST might fit into a salary sacrifice flexible benefits platform, and how the rules around flexible benefits will be implemented in practice.

Providers and intermediaries typically felt that, as well as the need for regulatory certainty, full disclosure and clear communications campaigns on the part of the government would be critical as they progressed with the reforms.

*'What's needed now is certainty as soon as possible and again back to a proper communication plan that outlines everything. One of the big issues at the moment is that there are different organisations all with different responsibilities for communicating, but in some areas it's impossible to pin them down as to who's going to be doing what and when. You've got NEST who are going to be communicating. DWP [the Department for Work and Pensions] have got some communication and TPR [The Pensions Regulator] have got some communication. Trying to ascertain exactly who is going to be doing what and when so that you can actually come up with a decent communication plan to fit in with all of that is pretty much impossible and with only a year to go communication needs to be happening now.'*

(Provider)

### 7.3 How the pensions market might develop beyond 2018

At the end of our interviews with providers and intermediaries, they were asked for their closing thoughts about what the pensions market might look like after 2018. Although most expected to see more money in pension schemes after the reforms are fully enacted, providers believed that there would be a significant proportion of 'small pots' to be administered. Consequently costs of administration were largely expected to be higher and as a result the profitability of pension provision uncertain.

*'Margins will be squeezed and the market will be doing more for less.'*

(Intermediary)

Intermediaries and providers expected some players to leave the workplace pension market, with mergers and acquisitions on the horizon for others. This would coincide with many smaller intermediaries having left the industry as a result of the Retail Distribution Review (RDR). Overall therefore, the size of the industry was expected to have contracted significantly by 2018, with only those able to adapt swiftly likely to remain. Providers typically pointed out that by 2018, if providers did not add value to their product offering, there would be no reason for employers to choose them over NEST.

*‘NEST is not just a leveller for new business. It’s a leveller for existing business as well. I don’t think a lot of people have factored that in yet.’*

(Provider)

Both intermediaries and providers suggested that one way to ‘weather the reforms’ would be to become more versatile and invest in new technology and products. As we explored in Section 4.3, providers expected that offerings in the market would become more flexible and sophisticated, and that products would be available with an extensive range of funds to choose from. Some intermediaries also expected to create tools to sell to employers that would make administering pension schemes easier, and make them indispensable as intermediaries.

*‘I think for it to be as profitable as it is at the moment we have to make significant changes to our business. Given the status quo, I think it will be less profitable. The only way it can be more profitable is if we transform our business and make it more efficient.’*

(Provider)

Although providers and intermediaries believed that a large number of employers would seek advice about the pension reforms before and during automatic enrolment, some providers also expected demand for intermediaries to dwindle significantly once all employees were automatically enrolled. Some expected employers to be increasingly self-sufficient because of the market-wide drive to provide transparent, jargon-free information, and also because of the increased online availability of information.

*‘I don’t think advice will necessarily be harder to come by. I think it’ll be more specialised. I think there will be fewer people offering advice and it’ll be of a higher quality which is a good thing.’*

(Provider)

Intermediaries and providers often suggested that the ultimate size of the pensions industry would depend on how successful NEST turns out to be in the first four or five years. If NEST becomes very successful, intermediaries predicted that many more employers would choose to use it, but the knock-on effect would be confidence in the pensions industry in general. Occasionally, providers and intermediaries also speculated that if this was the case, the government might also push the minimum contribution levels up over time, improving retirement provision across the board.

*‘If NEST’s a success, then the pensions industry as a whole is a success, it’s as simple as that.’*

(Provider)

# Appendix A

## Materials used in conducting the research

### A.1 Provider recruitment script

#### **Introduction for Switchboard/Gatekeeper**

Good morning/afternoon. Please could I speak to ..... (named contact)

**Where no named contact:** My name is ..... and I am calling you from RS Consulting, an independent market research agency, on behalf of the Department for Work and Pensions.

The DWP is currently consulting the major pension providers, including [company], about the impact of the workplace pension reforms on the UK pensions market.

I wonder whether I might speak to the head of the workplace pensions business?

**If letter requested, offer to send letter from DWP, either by post or email. Confirm contact details and send. Continue discussion now if possible.**

#### **Introduction for potential respondent**

My name is ..... and I am calling you from RS Consulting on behalf of the Department for Work and Pensions.

All: The DWP is currently consulting the major pension providers, including [company], about the impact of the workplace pension reforms on the UK pensions market. We'd like in particular to look at the impact of NEST and the Making Automatic Enrolment Work Review on [company] and the pensions industry as a whole.

This research will input into DWP's considerations around policy development and how to implement the reforms. We would very much like to ensure that [company]'s opinions are included in the survey.

The results will be published in spring this year.

We would like to conduct a confidential, face-to-face interview with you, which would take no longer than an hour, at your workplace or somewhere else if you prefer.

**Offer to email introductory letter from DWP. Confirm contact details and send. Continue discussion now if possible.**

Read reassurance on confidentiality: Any information you provide will be held in the strictest of confidence and will be handled securely throughout the study. The research findings will not identify you and no personal information will be shared with any third parties. Ensure that respondent is clear on this, and allow them to ask any questions.

I will confirm to you soon which of my colleagues at RS Consulting will conduct the interview.

Would you be prepared for a DWP representative to attend the discussion? Again, they would not reveal to anyone else either your name or that of your company.

But this is entirely optional and you are under no pressure whatsoever to agree to their attendance.

**DWP ATTENDANCE**

Yes	1
No	2

Respondent name:

Respondent job title:

Interview address including company name:

Re-confirm email address:

Re-confirm telephone number:

Interview date:

Interview time:

Any other details for interviewers:

Confirm that you will send them:

- Confirmation of the name of the interviewer and the appointment details.
- An introductory letter from DWP and RS Consulting describing the interview topics.

Confirm appointment with interviewing team then send email to respondent. Remind them that if they do not want to take part they may let RS Consulting know at any time.

## A.2 Intermediary recruitment script

### Introduction for Switchboard/Gatekeeper

Good morning/afternoon. Please could I speak to ..... (named contact)

Where no named contact: My name is ..... and I am calling you from RS Consulting, an independent market research agency, on behalf of the Department for Work and Pensions.

The DWP is currently consulting the major pensions intermediaries, including [company], about the impact of the workplace pension reforms on the UK pensions market.

I wonder whether I might speak to the head of the workplace pensions business?

If letter requested, offer to send letter from DWP, either by post or email. Confirm contact details and send. Continue discussion now if possible.

### Introduction for potential respondent

My name is ..... and I am calling you from RS Consulting on behalf of the Department for Work and Pensions.

All: The DWP is currently consulting the major pensions intermediaries, including [company], about the impact of the workplace pension reforms on the UK pensions market. We'd like in particular to look at the impact of NEST and the Making Automatic Enrolment Work Review on [company] and the pensions industry as a whole.

This research will input into DWP's considerations around policy development and how to implement the reforms. We would very much like to ensure that [company]'s opinions are included in the survey.

The results will be published in spring this year.

### Screening questions for all intermediaries except EBCs

1.1 Could I just briefly confirm that your organisation does provide advice on workplace pensions to employers or employees?

Yes	Continue
No	Does not qualify

1.2 Approximately what percentage of your total revenue does advice around workplace pensions represent?

1.3 And how many qualified advisers do you have who are involved in workplace pensions?

Percentage of total revenue	%	(min. 25%)
Number of advisers handling workplace pensions		(min. 20 advisers)

Need either 25%+ workplace pension revenue; or 20+ advisers to qualify (do not need both).

If organisation does not qualify:

Unfortunately, as workplace pensions only represent a very small proportion of your business we aren't able to interview you as part of this study.

Apologise and remind respondent that the results will be published in late spring.

Thank and close.

**If organisation qualifies:**

We would like to conduct a confidential, face-to-face interview with you, which would take no longer than an hour, at your workplace or somewhere else if you prefer.

**Offer to email introductory letter from DWP. Confirm contact details and send. Continue discussion now if possible.**

**Read reassurance on confidentiality:** Any information you provide will be held in the strictest of confidence and will be handled securely throughout the study. The research findings will not identify you and no personal information will be shared with any third parties. **Ensure that respondent is clear on this, and allow them to ask any questions.**

I will confirm to you soon which of my colleagues at RS Consulting will conduct the interview.

Would you be prepared for a DWP representative to attend the discussion? Again, they would not reveal to anyone else either your name or that of your company.

But this is entirely optional and you are under no pressure whatsoever to agree to their attendance.

**DWP ATTENDANCE**

Yes	1
No	2

**Respondent name:**

**Respondent job title:**

**Interview address including company name:**

**Re-confirm email address:**

**Re-confirm telephone number:**

**Interview date:**

**Interview time:**

**Any other details for interviewers:**

**Confirm that you will send them:**

- Confirmation of the name of the interviewer and the appointment details.
- An introductory letter from DWP and RS Consulting describing the interview topics.

Confirm appointment with interviewing team then send email to respondent. Remind them that if they do not want to take part they may let RS Consulting know at any time.

### A.3 Introductory letter to providers and intermediaries

**DWP** Department for  
Work and Pensions



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Priority House, 8 Battersea Park Road,  
London SW8 4BH VAT No: GB 608 0326 68

Respondent full name

Provider/Intermediary name

Framework Ref No.: RFXXX

Date

Dear Respondent name

#### **Pension industry responses to the workplace pension reforms and the Making Automatic Enrolment Work Review**

I am writing to you to ask for your help in a research study that has been commissioned by the Department for Work and Pensions. The aim of this research is to examine the likely impact of the workplace pension reforms on the UK pensions market.

We are hoping to speak to the major UK pension providers, employee benefits consultants and other pensions intermediaries as part of this study.

Your contribution will provide us with valuable information that will help to inform policy and assist the development and implementation of the reforms. We do hope that you decide to take part.

The research is being conducted on DWP's behalf by RS Consulting, an independent research organisation. A researcher from RS Consulting will have contacted you to ask if you are willing to participate in a **face-to-face interview**. If you choose to take part, it will last no longer than one hour, and the interviewer will agree a location that is most convenient to you, such as your office.

Any information you provide will be held in the strictest of confidence and will be handled securely throughout the study. The research findings will not identify you and no personal information will be shared with any third parties.

If you **do not** want to take part please let RS Consulting know at any time, either in response to the email you received from us or by phone. If you have any questions about the research please contact *[name]* at RS Consulting on *[number]* or the DWP Project Manager, *[name]*, on *[number]*.

Yours sincerely *[RS/DWP project team]*

## **Pension industry responses to the workplace pension reforms and the Making Automatic Enrolment Work Review: agenda**

In our interview, we would like to discuss the following broad areas, in relation to how the reforms are likely to impact upon your own workplace pensions business, and the market as a whole:

- Your position in the market today.
- Market developments since 2007, including the impact of the recession.
- Expected impact of the reforms and other relevant legislation (e.g. the Retail Distribution Review, proposed changes to the FSA's Conduct of Business Sourcebook).
- Changes you expect to make in planning for the reforms.
- Impact of the reforms on interaction and relationships in the pensions market.
- Impact of the reforms on strategies and possible future products available in the market.
- Ways in which you communicate, if at all, with your customers regarding the reforms.
- The impact of NEST on the pensions market and your organisation.
- Your reactions to the Making Auto Enrolment Work review: both to the overall package of recommendations, and to specific aspects of the review.
- Changes that you would implement to ensure that the market operates most effectively after 2018.

Any information you provide will be held in the strictest of confidence and will be handled securely throughout the study. The research findings will not identify you and no personal information will be shared with any third parties.

Thank you again in advance for your help in this important research.

## A.4 Discussion guide for all participants

### INTRODUCTION

My name is ..... from RS Consulting. Thank you very much for agreeing to take part in this study.

As you know, we are conducting this research on behalf of DWP.

We are talking to the UK's leading pension providers and intermediaries, to understand the industry's views on the impact the pension reforms will have on the UK pensions market.

**Confidentiality:** I can assure you that anything you tell me will be treated in confidence by the RS Consulting project team. It will not be attributed to you, or your organisation, either in our presentations or in the final project report which will be published by DWP.

**Ask for permission to record for our analysis purposes.** The recording will not be passed onto any third party and will be destroyed after the project finishes.

The discussion will take approximately 1 hour.

Do you have the agenda for today's discussion? **Give another copy of agenda if necessary.**

Before we start our discussion, do you have any questions?

0.1 Could I first of all re-confirm your job title? And could you summarise your role within your organization?

### SECTION 1: Current position in the market (5 mins)

ALL:

- 1.1. How would you sum up your position in the pensions marketplace?
- 1.2. What proportion of your overall business is accounted for by workplace pensions?
- 1.3. I'd like to understand the relative importance to your business of the different types of workplace pension. **Give self complete.**
  - And what percentage of the new business that you have won in the last year is accounted for by each?

	Percentage of NEW business
DB Occupational	
DC Occupational (including SSAS)	
Group Stakeholder	
GPP	
Group SIPP	
Any others (please specify)	

Should add to 100%

**Important:** If respondent writes down answers, re-confirm them verbally.

1.4. Do you target specific industry sectors, types or sizes of business when selling particular workplace pensions? Why/why not? **Understand overall positioning in market, and any differences by pension type if relevant.**

- **If necessary:** What type of employer is your typical client?

## **SECTION 2: Recent market developments (5-10 mins)**

ALL:

2.1. Has your workplace pension offering changed since 2007? How?

- Has your client base changed?

2.2. In your opinion, has the role of pensions intermediaries changed since 2007? How?

2.3. Has the economic downturn had any impact on your own organisation? What? Has the economic downturn had an impact on the profitability of your workplace pensions business? **If so:** Which areas were most affected?

- Did you implement any changes to your business model as a result? What were these?

PROVIDERS:

2.4. Have any factors led to a change in the administration costs of pension schemes? What are these? **Probe on: developments in technology.**

## **SECTION 3: Planning for the reforms (10-15 mins)**

Let's move on to the workplace pension reforms. This sheet outlines the main details of the reforms that were set out by the Pensions Act 2008. **Show SHOWCARD A: allow time to read if necessary.** [See Appendix A.5]

ALL:

3.1. At an overall level, what kind of impact will the reforms have on your own business? What will be the most important changes for your company?

3.2. Have you begun to plan or make changes to your strategy in the run-up to the pension reforms?

- **If not:** why not? **Probe in detail on any information gaps.**
- **If changes implemented/planned:** What changes have you already implemented? **If necessary probe:**
  - Changes to business structure.
  - Changes to product offering.
  - Change the customers you focus on.
  - Changes to intermediary commission vs. fees.
  - Changes to administration costs.

- 3.3. Aside from the pension reforms, are there any other factors that you feel might impact the pensions market in the next few years? What will the effect of this be? How will this interact with the pension reforms?
- **If not mentioned probe on RDR:** What will be the likely implications of the FSA's Retail Distribution Review on your business? What about the market as a whole? How will this fit in with the reforms?
  - **If not mentioned probe on COBS:** Are you aware the FSA's Conduct of Business Sourcebook is being aligned with automatic enrolment regulations? What impact will this have on your organisation? What about the market as a whole?
  - **If not mentioned probe on recession:** Do you think that the economic downturn will have any impact on how providers/intermediaries respond to the pension reforms? What about your own organisation? If not: why not?

### **SECTION 4: Impact on interaction and relationships (10-15 mins)**

I'd like to look now at how the reforms might impact relationships between providers, intermediaries and employers.

#### **PROVIDERS ONLY:**

- 4.1. Firstly, when you are marketing and selling pension schemes: Do you deal directly with the employer, the intermediary or both?
- How does this interaction work? Who approaches whom?
  - Do you think this relationship will change after the reforms take place? Might the role of the intermediary in selling schemes change? **If so:** What factors will drive this? Any specific legislation?
- 4.2. Secondly, in scheme delivery: Do you deal directly with the employer, the intermediary or both? How does this interaction work?
- Does this vary by product or customer type? How?
  - Do you think this relationship will change after the reforms take place? How? **If so:** What factors will drive this? Any specific legislation?

#### **INTERMEDIARIES ONLY:**

- 4.3. Can you describe your current relationship with providers: how does the interaction work between yourself and providers?
- Who approaches whom? What is your approach to selecting the providers that you work with?
- 4.4. Do you think this relationship will change in the future? What factors will drive this? Any specific legislation? How?
- **If necessary:** could there be a change in the providers that you work with? What factors would drive this change?
- 4.5. Can you describe your current relationship with employers: how does the interaction work between yourself and a potential new client?
- What is your strategy for attracting business from employers?

- 4.6. Do you think this relationship will change in the future? What factors will drive this? Any specific legislation? How?
- **If necessary:** could there be a change in the employers that you work with? What factors would drive this change?
  - How do you anticipate you will charge for your services? Would you consider consultancy charging? In what circumstances? How might this work? [**if necessary:** instead of charging a fee to the employer, under consultancy charging fees can be taken from employees' contributions subject to a valid agreement between the employer, the intermediary and the member.]
- 4.7. Are your clients already asking about the reforms? **If yes:** which type of employer? (by size, industry etc)
- What do they ask about?
- 4.8. Have you started to take into account the reforms in the guidance you give employers?
- **If not:** When might you plan to start? Are you waiting for specific information? How do you expect your guidance to change?
  - **Ask all:** What are you telling the employers regarding the reforms? What level of detail do you expect it will be necessary to give employers: very prescriptive guidance as to the best approach, or more general information?
  - **Ask all:** What sources of information regarding pension reform and other relevant guidance do you use or expect to give to employers? **Be clear on the source of information the intermediary will use.**
  - **Ask all:** Is there anything that you feel you can't advise employers on with certainty, because you feel the legislation is unclear?

**ALL:**

- 4.9. Who do you think employers will look to for advice when the reforms are implemented? Will different types of employer seek help from different sources? **If necessary:** What about small employers? What about employers who have never offered a pension before?

## **SECTION 5: Impact on strategies and pension products (10-15 mins)**

**ALL:**

- 5.1. After automatic enrolment, there will of course be many more pension savers in the wider workplace pensions market than there are now. Do you plan to alter your business strategy in response to this? In what way?
- What do you expect the rest of the market to do? Why?

**PROVIDERS ONLY:**

- 5.2. Are you planning to tailor your workplace pension products or develop new ones in response to the reforms? What kind of products do you expect to offer?
- **If plan to offer new products:** Will these products be targeted at specific areas of the market? **If not mentioned probe on targeting the newly-enrolled savers vs. the high end of the market**

- 5.3. Will you start targeting particular types of employer under the reforms? Which ones? Will you exclude any? Which ones?
- What will be your approach to assessing the profitability of companies? What factors will you use to assess profitability? What role will the intermediary play here? Over what time horizon? How do you calculate what charge is reasonable?
  - How would you approach employers that have a mix of different types of staff with different levels of profitability?
  - What factors will influence whether you are prepared to take on new business? What role will the intermediary play here – can certain intermediaries persuade you to take on new business that you might have considered un-profitable? Under what circumstances?

### INTERMEDIARIES ONLY:

- 5.4. Will you start targeting particular types of employer under the reforms? Which ones? Will you exclude any? Which ones? Why?
- 5.5. What will you advise your current and new employers to do? Will the reforms change the types of products that you advise them to use?
- How does the process of deciding on an appropriate strategy for an employer work?  
**If necessary:** For example, do you recommend a single approach to the employer, or do you provide them with information about several options and let them decide? **Understand the decision-making process, and the role of the intermediary**
- 5.6. Are there any particular difficulties you expect employers to face regarding the implementation of the reforms? **If so:** What will you advise them to do?
- **If not mentioned:** Employers will be required to periodically re-enrol employees that have previously opted out. How do you think employers will approach this? What will you advise them to do?
- 5.7. Do you expect providers to tailor their products or develop new products in response to the reforms? What kind of products do you expect they will offer?
- 5.8. Do you expect the reforms to affect the way that fees are paid to intermediaries? **If yes,** what changes do you expect, and under what circumstances?

## SECTION 6: The impact of NEST (10-15 mins)

I'd like to move onto the impact of NEST specifically. Show SHOWCARD B. [See Appendix A.6]

### PROVIDERS ONLY:

- 6.1. How would you say your workplace pension products are positioned in the market compared to NEST?
- 6.2. What impact do you expect NEST to have on the workplace pension products you offer? What changes do you expect to make? When?
- 6.3. Do you anticipate any changes to charging structures or levels in the future? **If so:** what will drive this change?

- 6.4. Do you anticipate that any of your products will be aimed at the same employees that NEST is targeting?
- **If so:** Which products? How will this operate? Might the products compete with NEST on price? On other features?
- 6.5. Will you try to differentiate your products from NEST? How? What features will you focus on to do this?
- 6.6. Do you expect NEST to have any other impact on the way your workplace pension products operate or are governed? If not mentioned, probe on whether NEST might influence:
- How scheme governance is handled.
  - How investment performance is monitored and benchmarked.
  - The features of the lifestyle funds that you offer.
  - How you communicate with members.
  - The types of investment choices you will offer.
  - How you will interact with members that are approaching retirement.

**INTERMEDIARIES ONLY:**

- 6.7. Will you try to differentiate the pension products that you offer from NEST? How? What features will you use to do this?
- 6.8. Are you likely to incorporate NEST within the portfolio of products you offer? **If so:** Under what circumstances? Which of your current clients would be most likely to consider type of offer?
- 6.9. Do you anticipate any changes to providers' own charging structures or levels in the future? **If so:** what will drive this change?
- What impact will this have on the market overall? Will any change to the charging levels or structures affect the advice you give employers, or the products that you recommend? How?
- 6.10. Do you expect NEST to have any impact on the way that workplace pension products operate or are governed? **If not mentioned probe on whether NEST might influence:**
- How scheme governance is handled.
  - How investment performance is monitored and benchmarked.
  - The features of pension scheme default options.
  - How schemes communicate with members.
  - The types of investment choices you will offer.
  - How you will interact with members that are approaching retirement.

## SECTION 7: Reactions to Making Automatic Enrolment Work (10-15 mins)

As you know, in October the government published the outcomes of an independent review into how to make automatic enrolment work, which produced several recommendations as to how to proceed with the reforms. Show SHOWCARD C, allow time to read if necessary. [See Appendix A.7]

ALL:

- 7.1. At an overall level, what is your reaction to the recommendations that were outlined in the report?
- 7.2. What will be the most important impacts of these recommendations on your organization? And on the whole market?
- 7.3. **If not mentioned:** The first recommendation proposes that people should only be automatically enrolled once they reach the income tax threshold (£7,336), but that contributions should be on earnings in excess of the National Insurance threshold (£5,715)\*. Workers who earn between these two thresholds would be able to opt in and receive an employer contribution if they choose to.
  - What do you believe the impact of this recommendation will be? Why?
  - **Intermediaries only:** Will it impact the advice you give to employers? How?
- 7.4. **If not mentioned:** The review proposes that there should be an optional ‘waiting period’ of up to three months before an employee needs to be automatically enrolled into a workplace pension.
  - What do you believe the impact of this recommendation will be? Why?
  - **Intermediaries only:** Will it impact the advice you give to employers? How?

## SECTION 8: Long-term outcomes (5-10 mins)

Finally, I'd like to look a little further ahead to when the reforms are implemented.

ALL:

- 8.1. Taking into account everything we have discussed today, what do you think the pensions market will look like after 2018, when the reforms are fully implemented?
  - **If necessary:** Will it be larger? Smaller? Significantly re-structured?
  - And how will your own organisation fit into that picture? What areas will your business specialise in?
  - Will the market be as profitable after 2018? For providers? For intermediaries? For your organisation specifically?
- 8.2. What do you envisage the take up of NEST will be? What do you base this on?
  - Has your company made any estimates of the take-up of NEST?
  - **If yes and only if not sensitive:** Would you be willing to share these with us?
- 8.3. Are there changes to any aspects of the reforms legislation that you would like to see implemented, either to the benefit of your own organisation or the industry overall?

8.4. Are there any aspects of automatic enrolment that you feel could be adjusted to favour the savers themselves? What are these?

8.5. Is there anything else you would like to add, in regards to what we discussed today?

Thank you very much for your help.

**IMPORTANT: OBTAIN PERMISSION TO RE-CONTACT:** Occasionally, it is very helpful for DWP to be able to re-contact people we have spoken to, either to clarify certain issues, or to explore similar research topics. Would you be happy for us to call you back if necessary?

Yes \_\_\_\_\_

No \_\_\_\_\_

DWP will be publishing the full report of findings to this study in late spring, and we would be happy to send you an electronic copy of the report if you would like us to?

Yes \_\_\_\_\_

No \_\_\_\_\_

THANK AGAIN AND CLOSE

## A.5 Information for participants: the Workplace Pension Reforms and the Pensions Act 2008

The Pensions Act 2008 introduced workplace pension reforms aimed at encouraging greater individual private pension saving.

From October 2012 all employers will be required to automatically enrol all their employees, aged between 22 and State Pension age who are earning above the annual earnings threshold into a qualifying workplace pension scheme.

Those jobholders not wishing to save will be able to choose to opt out after they have been automatically enrolled.

Automatic enrolment will be introduced over a 48-month period from October 2012 to October 2016 depending on the size of the employer; starting with the largest employers first, through to the smallest.

Employers will be able to choose the pension scheme(s) they want to use to fulfil their new duties provided the scheme(s) meet certain quality criteria. Where the employer chooses to provide a money purchase arrangement, there will be minimum contribution requirements which will be phased in to help both employers and individuals adjust to the additional costs gradually. Minimum contributions require a total of eight per cent of earnings within a set earnings band, with at least three per cent coming from the employer.

A compliance regime enforced by The Pensions Regulator will be in place to ensure employers and others meet their new duties and workers get their new rights.

A new workplace pension scheme called NEST (National Employment Savings Trust) has been set up. NEST will be a qualifying pension scheme open to any employer who wants to use it to meet their duties.

## A.6 Information for participants: NEST

NEST is a new low cost pension scheme any employer can use to meet new duties to automatically enrol their workers into a workplace pension scheme.

Main features:

- NEST offers simple, low cost pension provision to ensure those on low to moderate earnings, or small employers have access to a suitable workplace pension scheme.
- NEST Corporation has a public service obligation to run NEST so it's open to any employer that wants to use it. This means that employers of all sizes and sectors can use NEST.
- Up to £3,600 (in 2005 terms) per year can be paid into each member's retirement savings pot.
- NEST Corporation is not allowed to accept transfers in or pay transfers out except in very limited circumstances.
- NEST will initially have a combination charge made up of an annual management charge (AMC) of 0.3 per cent and a small contribution charge of 1.8 per cent.
- NEST will operate as a trust-based occupational pension scheme with a legal duty to act in members best interests.

## A.7 Information for participants: the Making Automatic Enrolment Work Review

The Coalition Government commissioned the independent Making Automatic Enrolment Work Review to ensure that automatic enrolment is implemented in the most effective way.

### **Outcome of the Review**

- Align the earnings threshold for automatic enrolment with the threshold for income tax and the threshold at which pension contributions become payable is aligned with the National Insurance primary threshold. Workers can opt in to saving and receive an employer contribution if they earn between these two thresholds.
- Introduce an optional three-month waiting period for employers. (Workers can choose to opt in during these 3 months.)
- Simplify the certification process.
- NEST will go ahead as planned to support successful implementation of automatic enrolment.
- There will be no changes to the age bands.
- All employers regardless of size will continue to have a duty to automatically enrol.
- Introduce further deregulatory measures to reduce burdens on employers, including:
  - The largest employers, who are scheduled to be brought into the reforms in October and November 2012 will be allowed to automatically enrol ahead of the planned start date of October 2012, and as early as July 2012, if they wish to do so.
  - Employers will be given flexibility around the date they reenrol employees who have previously opted out by allowing a six month window for this activity to take place.
- The government will be working with employer representatives and other interested stakeholders over the coming months to consider what reassurance can be provided to employers that they will not be held liable for their scheme choice.
- The government remains committed to reviewing:
  - How to ensure that it is more straightforward for people to move their pension pot with them as they move employer.
  - The removal of NEST's contribution cap.
  - The scope for regulatory arbitrage between the trust and contract-based regulatory environments.
  - Whether the existing regulatory regime for the provision of defined contribution workplace pensions remains appropriate in the post automatic enrolment world.

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This report presents findings of a qualitative study carried out in 2011 to explore the pension industry's likely response to the workplace pension reforms. It involved in depth interviews with 20 pension providers and 15 intermediaries. This research was carried out on behalf of the Department for Work and Pensions (DWP) by RS Consulting.

This study was commissioned as part of a programme of research analysis carried out by the DWP to inform estimations of the likely impact of the workplace reforms.

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