



Department  
for Work &  
Pensions

# Charges in defined contribution pension schemes

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# Contents

Contents ..... 2

Background ..... 3

Methodology ..... 3

Results ..... 4

Issues that affect the level of the AMC. .... 5

Notes ..... 5

Contact details ..... 6

# Charges in defined contribution pension schemes

## Background

Millions of people in the UK are not saving enough for retirement. The legislative changes set out in the Pensions Act 2008, the Pensions Act 2011 and the packages of associated regulations aim to increase private pension saving in the UK. They form part of a wider pensions strategy designed to ensure that the UK has a pension system that enables individuals to save towards achieving the lifestyle they aspire to in retirement while minimising the burden on employers and industry.

DWP have monitored the pension's landscape and charges in previous publications stretching back over a number of years.<sup>1</sup> The figures presented here are the results of the next wave of the Landscape and Charges<sup>2</sup> report series focusing upon pension charges for defined contract schemes both trust and contract based<sup>3</sup>.

DWP is committed to fully evaluating the effects of the Pension Acts and set out its evaluation strategy in a report published in July 2011<sup>4</sup>. One of the key factors of any pension scheme is the charge levied against the pension fund as this will have a bearing upon the individual's final pension pot.

On the 30<sup>th</sup> October DWP published a consultation document on charges in workplace pensions.

## Methodology

The Landscape and Charges survey from which these results are drawn comprises a quantitative survey of private sector employers offering workplace pensions. The

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<sup>1</sup> Pension landscape and charging: Quantitative and qualitative research with employers and pension providers. DWP research report 804. 2011.

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/193451/rrep804.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/193451/rrep804.pdf).

Charging levels and structures in money-purchase pension schemes: Quantitative survey. Department for Work and Pensions. research report No. 630, 2009

<http://webarchive.nationalarchives.gov.uk/20130314010347/http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep630.pdf>

<sup>2</sup> The 2013 Pension landscape and charging report is due for publication early in 2014 and will appear on the Gov.uk web site.

<sup>3</sup> Trust based pension scheme is a pension scheme taking the form of a trust arrangement, which means that a board of trustees is set up to govern the scheme. A contract based pension scheme is one where a defined contribution pension scheme is purchased by an individual, either through their employer or individually, from a pension provider. It is owned entirely by the individual with the contract existing between the individual and the pension provider.

<sup>4</sup> *Workplace Pension Reforms Evaluation Strategy*, July 2011. DWP At:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/214545/rrep764.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214545/rrep764.pdf)

survey was supplemented by pension provider data. The survey was conducted on behalf of DWP by independent contractors.

The aim of the research was to determine the level of charges to do this the survey looked at two forms of pension scheme, trust and contract based<sup>5</sup>.

### **Trust-based schemes**

- 593 telephone interviews with trust-based schemes that pay an employer contribution with 6+ members

Sourced from the Pensions Regulator's SCORE database.

### **Contract-based schemes**

- 717 telephone interviews with contract-based schemes that pay an employer contribution with 6+ members.

Sourced Dun & Bradstreet All Business database.

There were significant changes in the methods used for determining the level of charges particularly in raising the awareness of charges among employers compared to the same study, reporting in 2011<sup>6</sup>.

In 2011, only 28% of trust-based and 33% of contract-based schemes believed that members paid any charges at all, with significantly lower awareness among smaller firms. While this was a useful finding in itself, in 2013 the research contractors worked with all 1,310 employers to explain, by letter and by telephone, how they could find out the level of Annual Management Charge (AMC)<sup>7</sup> from their pension providers. As a result, this year (2013), 74% of contract-based schemes and 85% of trust-based schemes have been able to confirm member charges allowing the research to draw upon a much larger data set for analysis. This means over 800 employers have been able to report the level of AMC paid by members, compared to around 300 in 2011.

## **Results**

The average AMC for **trust-based** schemes was 0.75% with members of the largest schemes paying far less (0.42%).

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<sup>5</sup> Small schemes of 1-5 members were excluded due to the low incidence of contributory pension at this time.

<sup>6</sup> Pension landscape and charging: Quantitative and qualitative research with employers and pension providers. DWP research report 804.  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/193451/rrep804.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/193451/rrep804.pdf)

<sup>7</sup> Pension fund managers apply an Annual Management Charge (AMC) which is deducted directly from the fund to cover ongoing management of the pension scheme. The charge is taken to pay for investment management services, such as research analysts and portfolio managers.

- Members paying the highest charges (>1%) were those on low salaries and with low employer contributions; as well as those whose employers used a commission-based adviser.

The average AMC for **contract-based** schemes was 0.84%, again with members of the largest schemes paying far less (0.51%).

- Older contract-based schemes, such as those sold before 1991, were most likely to face charges of >1%; as were Stakeholder Pensions, smaller schemes and schemes with lower employer contributions.

## Issues that affect the level of the AMC.

The research found a number of factors that contribute to the level of AMC, in brief these will include;

- Commission on pension schemes sold in the last year added around 0.2% to the AMC according to providers, and 0.2-0.4% according to data from employers.
- Salary and level of employer contributions also had an impact on the AMC, according to both employers and providers.
- Just over 60% of trust-based and contract-based schemes used an adviser, particularly the larger and higher-paying employers. Large schemes, and trust-based schemes, were the most likely to be prepared to pay a fee for advice, as opposed to using a commission-based adviser. Employers that paid a fee for advice, also tended to pay their employees higher contributions. Where they did pay a fee, fees were related to size of the scheme, with the largest paying the least per member and employers claimed that these fees were virtually never passed onto the members.
- Employer awareness of additional member-specific and fund-specific charges was low. While active member discounts<sup>8</sup> were rare in both trust-based schemes and contract-based schemes.
- The average discount applied to active members was 0.38%
- Around half of employers claimed to have reviewed their choice of scheme provider in the past 12 months; although switching provider was rare<sup>9</sup>, with smaller employers very unlikely to switch.

## Notes

The research was conducted in April and May of 2013 by an independent research organisation, RS Consulting. Full findings from this research will be published in early 2014 on the DWP's research pages at GOV.UK<sup>10</sup>.

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<sup>8</sup> Employers can arrange a lower annual charge for their workers with the pension provider. The discount applies while the individual remains an active member of the employers pension scheme.

<sup>9</sup> For employers with 1000 workers who had already undertaken automatic enrolment only 22 trust and 89 contract based schemes had actually switched scheme.

<sup>10</sup> At: <https://www.gov.uk/government/organisations/department-for-work-pensions/about/research>

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