

Briefing: Pensions Bill 2013

An opportunity to raise standards

Following our Queen's Speech 2013 briefing¹, this briefing focuses on the Pension Bill's proposals regarding governance of pension schemes. Much of the debate surrounding the Bill has centred on the changes to the state pension, but the Bill also includes key proposals relating to private pensions which will greatly impact the quality of schemes in which people are invested and, if implemented well, could go some way to fulfilling the government's promise to "better support people to save for their retirement"².

Setting the bar for automatic enrolment schemes

- Over the next few years, 6 to 9 million employees³ will be auto-enrolled into workplace pensions. Not only will auto-enrolment help individuals save for their retirement, if managed well it should lessen the financial burden on the state of supporting pensioners.
- But auto-enrolment will only be a success if the schemes into which people are enrolled are well run and invest people's savings responsibly. This is particularly vital in defined contribution schemes, where savers bear the investment risk of complex decisions made without their knowledge or input.
- It cannot be left to the market to raise these standards because the pensions market is not truly competitive: auto-enrolled savers do not choose their pension provider, there is no repeat business and poor performance may not be evident until it is too late.
- The Pensions Bill is an opportunity for the government to set high standards of governance for all schemes into which employees may be auto-enrolled. ShareAction is pleased that the Bill contains provisions for the government to prohibit qualifying auto-enrolment schemes from using certain charging structures⁴, but good governance goes beyond this and requires robust oversight of savers' interests and open communication with savers.

The Pension Bill's proposals for quality requirements

- The Bill contains powers for the government to impose quality requirements relating to the governance and administration of some pension schemes⁵. The relevant schemes will be work-based defined contribution schemes into which a person's pension may be automatically transferred if they change jobs. This is part of the government's proposal for employees' small pension pots to follow them to new employment.
- **ShareAction welcomes these powers:** if the imposed quality standards are robust, people should not see their pension transferred from a "good" to a "bad" scheme simply because they have moved jobs. **ShareAction calls on the government to use its powers to set high standards of governance to ensure that savers' best interests are promoted by their pension providers⁶.**

¹ http://shareaction.org/sites/default/files/uploaded_files/policy/QueensSpeech.pdf

² https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/184899/state-pension-21st-century.pdf.pdf

³ According to DWP estimates

⁴ s.35, <http://www.publications.parliament.uk/pa/bills/cbill/2013-2014/0006/2014006.pdf>

⁵ Sch. 16, Part 1, para. 12, <http://www.publications.parliament.uk/pa/bills/cbill/2013-2014/0006/2014006.pdf>

⁶ For example, as set out in ShareAction's 2012 publication: Whose Duty? Ensuring effective stewardship in contract based pensions: http://shareaction.org/sites/default/files/uploaded_files/policy/WhoseDuty.pdf

- These high standards should extend to all auto-enrolment schemes. The current qualifying standards for auto-enrolment schemes to meet are minimal, even though auto-enrolment has commenced. **ShareAction is concerned that the Pensions Bill is unclear about which schemes will be covered by the new quality standards.** If the quality standards do not apply to all auto-enrolment schemes then ShareAction is concerned that people may still be enrolled into poor quality schemes.
- **It is also unclear how the powers announced in the Pensions Bill will interact with the government's proposed review of auto-enrolment⁷.** If this review recommends changes to the quality standards for auto-enrolment schemes then the government must ensure that this does not lead to loopholes or undue complexity in the regulation of pension schemes, especially if some schemes will end up being governed by multiple sets of rules.

What does good governance look like?

Auto-enrolment is predicated on inertia – the decision to invest is taken on behalf of people who have not provided for their own retirement. But in making this decision, the government must protect their interests by ensuring that pension schemes are well-run. This is particularly true in contract-based pension schemes, where it is not clear that anyone in the investment chain has the incentive or obligation to protect savers' best interests. **As a minimum, good governance should include:**



Independent structures to embed policyholders' interests into decision-making, such as boards with duties to act in savers' interests (as in the Australian system). We welcome the Work & Pensions Committee's recommendation for 'governance committees' to be set up at employer level to oversee contract-based pension schemes⁸. However, this does not preclude the need for governance structures at provider level to ensure savers' interests are protected.



Improved communication between pension schemes and savers, with clear and relevant information being disclosed to savers as well as mechanisms for savers to easily obtain information about their savings.



Investment strategies focussed on securing sustainable long-term returns, and not simply on maximising profits on a quarterly basis. Schemes should be required to:

- comply with the UK Stewardship Code on engagement with investee companies;
- have – and report on the implementation of – clear policies on environmental, social and governance issues; and
- disclose how they vote as shareholders at company AGMs, thus promoting better oversight of investee companies and improved accountability to savers.



Fiduciary-like duties to be applicable consistently across the market to all those exercising discretion over other people's money, thus ensuring that savers' best interests are promoted and conflicts of interest are avoided.

Further information:

ShareAction, 2012, [Whose Duty? Ensuring effective stewardship in contract based pensions](#)

Bethan Livesey | Policy Officer, ShareAction | bethan.livesey@shareaction.org | 020 7403 7800

⁷ ShareAction understands that the auto-enrolment process will be reviewed in 2017.

⁸ See paragraph 28 the Work and Pensions Committee's 2013 report 'Improving governance and best practice in workplace pensions': <http://www.publications.parliament.uk/pa/cm201213/cmselect/cmworpen/768/76805.htm>