

**Response to DWP consultation on occupational pensions:
improving disclosure of costs, charges and investments –
December 2017**

Section I: Questions relating to disclosure of information on costs and charges

Question 2: The proposed Regulations on costs and charges apply to the same schemes to which the existing requirements to assess charges and transaction costs and to prepare an annual governance statement applies currently. Do you agree with this proposal?

We agree with this proposal, as it creates greater transparency for members, while not creating excessive burdens for trustees. As there has been progress in the sector towards ensuring trustees receive accessible disclosures on costs and charges, it is appropriate that this proposal extends this transparency to members.

Question 3: We propose that: The Chair's Statement should be extended to include the actual charges and transaction costs for each default arrangement and any alternative fund choices. Do you agree with this proposal?

We agree with the Chair's Statement should include this additional information. We think the disclosures should be done with a view to what the interests of members will be when reading the information, and how they may wish to make use of it. We believe the Chair should also assess how these costs compare to other schemes, and whether savings could be made by negotiating new arrangements with managers and advisers.

Providing a full disclosure of the figures will allow members to raise any concerns with trustees. Furthermore, it will create greater transparency in the sector about costs and charges – this is particularly important for highlighting excessively high costs, with a view to driving down these costs and promoting good practice in the sector.

However, we would also highlight that the focus on comparing costs and charges does not necessarily mean finding the cheapest option for members. The cheapest available may not necessarily be the best option for members. For example, it is important in our view for pension schemes and their investment intermediaries to actively engage in responsible investment, to ensure secure returns in the long term. This may mean the costs and charges incurred are not the lowest available, as responsible investment may add cost, but the approach is justified in the long term. It will be important that the trustees provide clear context and justification on the reason for the level of costs and charges.

Finally, it is right in principle that members should have rights to information about the charges levied on their savings. We anticipate criticism that people will not understand this information. However, the onus is on the trustees to present it in an understandable form.

We support the accompanying guidance and its suggestions around explanations and presentation in terms of pounds and pence. Furthermore, whilst some people may make bad decisions based on disclosed information, this is not a reason not to provide it. Again, trustees should put in context any costs that look high, and explain why they are justified.

Question 4: We propose that cost and charge information should be; (a) Published annually, (b) The responsibility of the scheme trustees or managers to publish, (c) At the discretion of trustees and managers of where to publish, as long as it is publically available and can be indexed by major search engines. Do you agree with these proposals?

We agree with these proposals, in particular the provisions to ensure the information is publicly accessible. The annual publishing of the information will also ensure members are informed of significant fluctuations in costs/charges in the long term, on which they can then engage with trustees if they wish.

The fact that the information is made public is particularly important, as again it will encourage transparency and good practice in the sector. Having all occupational pension schemes put this information in the public domain would enable third parties to collate and compare information, for the benefit of members who may not feel able to do so. While we acknowledge this is not a 'silver bullet' for driving out bad practice completely, the proposals would go some way to encouraging transparency and ensuring that good practice becomes more prevalent.

Question 5: We recognise that how the information is contextualised and presented to members is important. We therefore propose: (a) that the 'default investment strategy' and 'Costs and charges and value for members' sections be published to provide appropriate contextualisation to the cost and charges information. (b) that schemes are required to show the cumulative effect of costs and charges over time, as set out in the draft Statutory Guidance. Do you agree with these proposals?

We agree with the proposals on this.

Question 6: We propose that a web link to the location where cost and charge information for their pension scheme can be found is given to members as a matter of course when they receive an annual benefit statement. Do you agree with this proposal?

Yes, we think this would not put excessive burdens on trustees and ensures members can obtain the salient information on costs and charges.

Question 8: Do you agree with the proposed penalty regime?

The penalty regime would be enhanced by having clearer provisions to ensure the accuracy of cost and charge disclosures. There may also be instances of asset managers failing to provide disclosures on time to trustees, or providing disclosures that are inaccurate. If trustees are to face penalties, there would need to be equivalent penalties in place for asset managers who fail to disclose requested information. Just as these proposals extend

requirements for disclosures from asset managers to trustees to members, the penalty regime should be streamlined to ensure there is accountability at all levels.

Question 9: Do you agree with the proposal that trustees should only be required to provide a hard printed copy if it would be unreasonable for the individual to access the available information published online? Do you have any other evidence or thoughts about how these proposals will affect members of protected groups and what mitigations, if any, may be required?

Yes, we agree with this proposal.

Question 11: Do the draft Regulations deliver our policy intent or; are there aspects which you believe will not deliver our objectives? Do you foresee any unintended consequences?

We think the draft regulations do deliver the policy intent of ensuring greater transparency for members while not placing excessive burdens on trustees. We welcome the stated aim in the consultation document to look to 'future digital innovations' to enhance the publication of disclosures, and show meaningful comparisons between schemes on costs and charges.

We would suggest, however, that the Government could go even further in delivering on the policy intent by looking into ways that are already available in the short-term to enhance public disclosure for members, rather than waiting for 'future digital innovations' to arise. The industry will only produce innovative new ways of communicating these costs if there is an incentive for them to do so. As at present, it is not clearly in fund managers' interests for trustees and members to be able to make clear comparisons on costs, we thus need to provide incentives for them to enhance their disclosures as soon as the policy is implemented.

Question 12: Are there any other proposals in this consultation on which you would like to offer comments?

We would like to see a focus on ensuring the quality of the disclosures, with a view to whether members will understand the information and ensuring disclosure is not just a box-ticking exercise for trustees. We support the issuing of guidance on the form and content of disclosures to advise trustees. For example, savers will understand the concept of interest, but may not understand compound interest – the guidance accompanying the consultation suggests ways in which such concepts may be explained in an accessible format, and we support this.

With a broader view to creating greater financial literacy among the public, greater transparency will always be the first step required. The provision of contextual information will always be important. Setting out costs and charges in context will give members an informed view of the pension landscape. For example, if the responsible investment policies of asset managers may incur higher costs, the benefits of such policies should be explained.

Section II: Questions relating to disclosure of information on investments

Question 2: Do you believe that members, and recognised trade unions should have the right to request this information and that the requirement to disclose this on request is proportionate?

Yes – members of defined contribution (DC) schemes bear the risk of investment and are entitled to basic information about the funds their scheme invests in. There is evidence that people are interested in where their money is invested. A 2014 survey for PLSA found 70% of respondents thought it was important for pensions to be invested in companies that avoid unethical practices.¹ A 2017 study by Schroders found 78% of people surveyed said sustainable investing has become more important to them.² Despite this, there is little information available to inform savers on how their pension is invested – research by UKSIF has shown 76% of the UK public with a pension don't know how much, if any, of their pension is invested ethically,³ and 30% believe they don't have a say on how their pension is invested.⁴

There is currently very little transparency on how pension funds invest our money. In a survey of 1015 people conducted by ShareAction in 2017, three quarters of them said that neither their pension provider nor their employer had sought their opinion on how or where their savings are invested. While we accept not all members will want to actively scrutinise their scheme's investments, and prefer to pay in their contributions and engage no further, this should be a choice rather than a necessity. These proposals will allow members to better understand their investments if they so wish. Allowing members who are engaged and interested in where their money is invested to find out more could foster a greater culture of transparency in these types of occupational pension schemes.

We believe the proposal for disclosure on request is proportionate. It strikes a balance of not placing excessive burdens on trustees, while ensuring members can receive some salient information about their scheme's investments. The requirement for trustees to supply basic information about the funds such as ISIN codes, and the requirement to look through unit-linked contracts to any underlying authorised funds which have public information, would not create an excessive burden. In practice only the more engaged members of the scheme will request this information, so the quantity of information trustees would need to process would not be excessive.

Question 3: Do you agree with the proposed timing and penalties for pooled fund disclosure on request? Do you agree with the policy that

¹ PLSA (February 2017). ESG risk in default funds: Analysis of the UK'S DC pension market, p. 16. Available online at: <https://www.plsa.co.uk/portals/0/Documents/0619-ESG-risk-in-default-funds-analysis-of-the-UKs-DC-pension-market-260417.pdf> [accessed 6 December 2017].

² FT Adviser (12 October 2017). The importance of ethical investing across the generations. Available online at: <https://www.ftadviser.com/investments/2017/10/12/the-importance-of-ethical-investing-across-the-generations/?page=1> [accessed 13 November 2017].

³ UK Parliament, Written evidence from UK Sustainable Investment and Finance Association (PFC0070), (October 2017), p. 1. Available online at: <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/work-and-pensions-committee/pension-freedom-and-choice/written/71896.pdf> [accessed 6 December 2017].

⁴ Ibid.

trustees should disclose the pooled funds invested in over the previous scheme year? If not, what alternatives would you propose?

We welcome the fact that a regime on timelines/penalties for disclosures is outlined in the regulations, as both trustees and members need to have set expectations on how disclosures are processed and received. However, most members would expect to receive information on the funds they are invested in at the time they make the request, subject to a reasonable timeframe for receiving this information.

We would query the current proposal for the information to be available within 7 months of the scheme year end date, and an additional 2 months for provision of the information to members. As most members will be invested in the default fund, trustees would be supplying the same information to most members who make disclosure requests – they would not be required to provide many ‘bespoke’ disclosures.

We think there is scope to review this aspect of the policy in 2 years’ time. The review could consider whether members are receiving meaningful information, given the lengthy time period trustees are given to prepare the information.

We agree that trustees should also disclose the pooled funds invested in over the previous scheme year. In the spirit of the policy, it will allow members to see the progression of their schemes’ investment policy over time, and any significant changes that have been made to it which may be of interest to members.

Question 4: Do you agree that restricting disclosure on request to only the pooled funds in which members were directly invested is more helpful to members and less burdensome to trustees?

We recognise a balance should be struck between ensuring members get the information they need on request, and ensuring burdens on trustees are proportionate. This should always be done with the aim of optimising member outcomes. We think the policy in the present form maintains this balance. Given the fact that there is currently very little transparency in this area, it is sensible to restrict disclosure to information relating to the funds in which members are directly invested.

Question 5: Do you agree with our proposed policy on disclosure of top-level pooled funds only, combined with ‘look through’ of unit-linked contracts and mandates to the ‘first tier’ of underlying pooled funds?

Yes, we think it is a constructive means of ensuring members can get some information about their schemes’ investments on request. There is comparatively little information available on request at the moment, so this is an improvement on the current requirements. However, whilst not putting a burden on the trustees, the proposed rules put some burden on the member. Once they obtain the ISIN Code for the fund, they have to seek out the fund fact sheet, find the top holdings, look at Morningstar or similar to find out about the fund, look at the managers’ Stewardship Code and PRI statements and piece everything together. The asset managers for the individual funds and/or administrators in pension funds would be much better equipped to do this research.

We think members could be helped further by ensuring trustees have to supply more in-depth information about the pooled funds, and this could still be done in a proportionate way.

NEST currently provides fund brochures⁵ and quarterly fund factsheets⁶ for members that provide useful, accessible information – we would cite this as an example of the kind of information members would like to receive when making disclosure requests. We note that the NEST quarterly fund factsheets no longer include information about top fundings, which we think are important.

We do appreciate that some funds, depending on their size, will not have the resources to provide this kind of information. Therefore we would suggest creating a requirement for schemes above a certain size to provide this kind of information.

Question 6: Are there any circumstances where trustees and scheme managers would not be aware and would be unable to obtain information about the pooled funds in which their members are directly invested? If there are circumstances in which they are unaware, please clarify how trustees remain compliant with their fiduciary duties in these scenarios.

We are not aware of any such circumstances. However in the event that trustees would not be aware/are unable to obtain the information, this would be a cause for concern, particularly given the timeframe allotted to them to obtain the information for members.

Question 7: Do you agree with our proposal that schemes should give standard information about the availability of further information about pension scheme investments in the annual benefit statement? Are there any reasons why this requirement would be burdensome or undesirable?

Yes – trustees are already under an obligation to publish the annual benefit statement so including a paragraph about the process for requesting additional information will not be onerous for them.

We think that where a scheme already has a website, trustees should be required to publish this information online as well. The statement should be published on an organisation's website with a link in a prominent place on the homepage. Again, this will not be onerous since the forum for publishing information is already in existence. This would simply involve adding an additional paragraph to one of the webpages.

Overall we think this requirement would be proportionate and not place burdens on trustees.

Question 9: Are there any areas where the regulations do not meet the policy intent?

We think the regulations in their current form are adequate to meet the policy intent. We would like them to go further in ensuring more information can be disclosed on request, but

⁵ NEST, The Nest Ethical Fund. Available online at: <http://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/NEST-ethical-fund-brochure.pdf> [accessed 6 December 2017].

⁶ NEST, Fund factsheets. Available online at: <https://www.nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/other-fund-choices/fund-factsheets.html> [accessed 6 December 2017].

at present these are constructive and workable proposals that will enhance pension scheme governance.