Research report

Pension landscape and charging: Quantitative and qualitative research with employers and pension providers

by Andrew Wood, Dominika Wintersgill and Niall Baker

DWP Department for Work and Pensions

Department for Work and Pensions

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Any errors in the report remain the responsibility of the three authors.

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Abbreviations and glossary of terms

Active member	For **defined contribution** pension schemes, this is a member who is currently making contributions into the scheme. For **defined benefit** pension schemes this is a member who is currently accruing benefits in the scheme.
Active Member Discount (AMD)	A charging model that some **providers** may apply to members of a particular pension scheme. Under this model, **active members** of that scheme pay a lower **Annual Management Charge** than **deferred members**.
Annual Management Charge (AMC)	A charge levied annually by a pension **provider** on a member's pension fund 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 enrols eligible jobholders in the **workplace pension** scheme without the employees having to make a separate application for membership. Employees are able to opt out of the scheme if they prefer.
CATI	Computer-aided Telephone Interviewing.
Commission-based	In the context of this study, an **intermediary** that charges the **provider** commission, based on the pensions 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 value of the **AMC** applied to the member's fund.
Contract-based pension	A **defined contribution** pension scheme 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.
Contribution charge	Contribution charges are levied as a percentage of each contribution paid into an individual's pension pot. Unlike an **AMC**, once the contribution, net of the charge, has reached the member's pension pot, no further charges are levied on it.
Default fund	The pre-assigned fund or funds into which a member's contributions are invested, if no decision is made by the individual regarding which funds they wish their contributions to be invested in.

Deferred member	For **defined contribution** pension schemes this is a **member** who no longer contributes to the scheme but has not yet begun to receive retirement benefits from that scheme.
Defined benefit (DB) scheme	A **trust-based pension** 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.
Defined contribution (DC) 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 pension fund is annuitised.
DWP	Department for Work and Pensions.
Employee benefits consultant (EBC)	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.
Fee-based	In the context of this study, an **intermediary** that charges the employer a fee for their services. The terms, basis, duration and frequency of the fee are individually negotiated.
FSA	Financial Services Authority.
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 (GPP)	An arrangement made for the employees of a particular employer, or for a group of self-employed individuals, to participate in a **personal pension** scheme on a grouped basis.
Group Self-invested Personal Pension (GSIPP)	An arrangement made for the employees of a particular employer, or for a group of self-employed individuals, to participate in a **Self-invested Personal Pension** scheme on a grouped basis.
Group Stakeholder Pension (GSHP)	A personal pension that must meet certain legislative conditions including an **AMC** 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 GSHP. These employers do not have to contribute to a GSHP but they must allow employees access to the scheme. GSHPs will cease to be mandatory after the **workplace pension reforms** are introduced.
Hybrid scheme	A private pension scheme which is neither a pure **DB** nor **defined contribution** arrangement. Typically, a hybrid scheme is a DB scheme, which includes elements of DC pension design.

Independent Financial Adviser (IFA)	An adviser, or firm of advisers, in a position to review all the available products and companies in the market as the basis for recommendations to clients. All IFAs are regulated directly by the FSA.
Insurer-administered scheme	In the context of this report, this refers to **trust-based** schemes that are offered through a single pension provider or insurance company.
Intermediary	An adviser, or firm of advisers, in a position to review all the available products and companies in the market as the basis for recommendations to clients.
Master trust	A multi-employer **occupational pension** scheme, which a pension provider manages under a single account. The **trustees** of the scheme are professionals that are usually employed by the provider. **NEST** is an example of a master trust.
Member	A person who has joined a pension scheme and is entitled to benefits under it.
Minimum employer contributions	In the context of the **workplace pension reforms** this refers to the minimum amount of three per cent of qualifying earnings that all qualifying employers will be required to contribute to eligible employees' workplace pension scheme from 2012.
National Employment Savings Trust (NEST)	An **occupational pension** scheme, formerly known as Personal Accounts, established by legislation. NEST is aimed at eligible jobholders on moderate to low incomes, who do not have access to a good-quality **workplace pension**.
Occupational pension	See **trust-based pension**.
ONS	Office for National Statistics.
Open scheme	A pension scheme that admits new active members.
Pension fund	The assets that form a pension scheme.
Pensions Act 2007	The act introduced to Parliament in November 2006 that put into law reforms to the state pensions system, covering the Basic State Pension and the State Second Pension, and changed some of the qualifying conditions for both. In the context of the workplace pension reforms it created **NEST**.
Pensions Act 2008	The act introduced to Parliament in December 2007 to take forward measures aimed at encouraging greater private saving: from 2012, it proposes that a system of automatic enrolment, together with minimum employer contributions will provide access to a pension to all eligible employees between 22 and State Pension age, who are not currently enrolled in a workplace pension scheme. The Act received Royal Assent in November 2008.

Personal pension	See **contract-based pension**.
Portfolio Turnover Rate (PTR)	A measure of how frequently assets within a fund are bought and sold by the managers. Portfolio turnover is calculated by taking either the total amount of new securities purchased or the amount of securities sold – whichever is less – over a particular period, divided by the total net asset value of the fund. The measurement is usually reported for a 12-month time period.
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.
Retail Distribution Review (RDR)	The RDR was launched in June 2006 in response to problems in the market for retail investment products and services. The RDR aims to ensure that consumers are offered a transparent and fair charging system for the advice they receive; consumers are clear about the service they receive; advisory firms are more stable than now, and better able to meet their liabilities; and consumers receive advice from highly respected professionals. Most RDR-related rules will take effect from 31 December 2012.
Self-invested Personal Pension (SIPP)	A **personal pension** scheme under which the **member** has some freedom to control investments. The requirements governing SIPPs are set out in the Personal Pension Schemes (Restriction on Discretion to Approve) (Permitted Investments) Regulations 2001.
Small Self-administered Scheme (SSAS)	A special type of small, **trust-based DC pension**, set up for a small group of key staff, usually directors or key employees, within which every member is a **trustee**.
Third-party administrator (TPA)	An external organisation responsible for the day-to-day administration around processing pension scheme transfers, on behalf of a **provider**.
Total Expense Ratio (TER)	A measure of what it costs an investment company to operate a fund. The TER is determined through an annual calculation, where a fund's operating expenses are divided by the average value of its assets under management.
TPR	The Pensions Regulator
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 **DC** or **DB**.
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 **members**.

Unbundled scheme	In the context of this report, this refers to **trust-based** schemes where the **trustees** work with a range of different **providers** or investment managers to administer the scheme.
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 Pensions Act 2008 and updated as part of the Pensions Bill 2011: the measures include a duty on employers to **automatically enrol** all eligible jobholders into qualifying **workplace pension** provision from 2012 to improve pension saving for those who participate. **DB** and some hybrid schemes must meet a test of overall scheme quality; and **DC** schemes and some hybrid schemes require a minimum contribution equivalent to eight per cent of qualifying earnings.

Reporting conventions used in all chapters

Presenting the results from three separate audiences

This report presents results from three separate research audiences:

- a quantitative survey of employers with trust-based schemes;
- a quantitative survey of employers with contract-based schemes;
- a qualitative survey of providers of contract-based schemes, supported by administrative data from these providers.

Because trust-based schemes and contract-based schemes operate under quite different structures and have different charging levels, results for trust-based schemes and contract-based schemes are shown separately. Providers were interviewed and provided data about contract-based schemes only, to support and provide context to the employer interviews.

In this report, results are organised thematically, with each section of the report covering a different topic – and within each section of the report, we present the results for each audience, usually in the following order:

- trust-based schemes (employer data);
- contract-based schemes (employer data);
- contract-based scheme providers, where providers gave information relevant to that topic.

Providers were also interviewed about certain topics that were not included as part of the employer survey: these appear as dedicated sections or chapters in the report.

Tables and related conventions for quantitative data

In tables based on data from the quantitative (employer) survey, the following conventions are used when displaying results:

- Non-italic denotes a statistically significant difference against all except that sub-group.
- *Italic* denotes a statistically insignificant difference against all except sub-group.
- *[ ]* percentages based on fewer than 50 observations.
- * a result of less than 0.5 per cent.
- 0 no observations.
- – category not applicable.

The base, or number of respondents (unweighted), is shown beneath each table. In most questions, the base of the question represents all respondents that were asked that question: respondents that answered 'don't know' or could not give an accurate answer are included as discrete categories in tables and in percentage calculations, because we believe it is important for the reader to understand where there was uncertainty, or lack of knowledge, about particular subject areas.

The exception to this is where tables show averages (for example, Table 3.1 shows average employer and employee contributions paid by employers of trust-based schemes). In these cases, the base excludes those answering 'don't know', and the percentage answering 'don't know' is shown in the footer of the relevant table.

Results in tables based on the employer surveys are tested to a confidence interval of 95 per cent. Thus, if a result in a table is shown as statistically significant, there is just a five per cent chance that the difference could have happened by chance.

Data given to us by providers as part of the qualitative research exercise is sometimes also presented in table format. However, this data is not representative of the whole market, because not all providers were able to give a breakdown of their charges, and such data should consequently be treated as indicative only. This is explained in the footer of each relevant table.

Summary

This report provides the findings of a study commissioned by the Department for Work and Pensions (DWP), designed to explore and understand the charging structures in trust and contract-based pension schemes.

Background

The Government has put measures in place to help support existing pension provision in light of the workplace pension reforms, and has made a commitment to monitor the possible impacts of the reforms. As part of DWP's ongoing workplace pension reform research programme, this study was designed to monitor the charging structures, types and levels of charges in trust- and contract-based workplace pension schemes.

Scope of the research

This study comprised a combination of quantitative research with private sector employers offering a defined contribution (DC) workplace pension, supplemented by qualitative and administrative data supplied by providers themselves. It was split into three parallel elements:

- **trust-based DC schemes:** 719 telephone interviews with trust-based schemes with six or more members, where the employer makes a contribution;
- **contract-based schemes:** 514 telephone interviews with contract-based schemes with six or more members, where the employer makes a contribution;
- **contract-based pension providers:** a qualitative survey of ten leading contract-based pension providers in terms of market share, comprising a self-completion questionnaire and in-person follow-up interview.

Employer interviews took place with the individual best placed to answer our questions: in most schemes this was a senior employee of the sponsor company and in trust-based schemes often a trustee; but in some cases we interviewed an external professional with responsibility for the scheme, most often a financial adviser or administrator.

Key findings

Profile of pensions included in the study

The trust-based schemes included in this study were typically insurer-administered, single employer schemes; although larger schemes were more likely to use multiple providers for different services like fund management, scheme administration and investment consultancy.

Over two-thirds of the contract-based schemes used by employers were Group Personal Pensions (GPPs); just under a third were Group Stakeholder Pensions (GSHPs). Providers reported that GSHPs had declined in sales in recent years, and they represented fewer than one in five of the contract-based pensions sold in the 12 months prior to the research. GPPs were seen as offering greater flexibility than GSHPs, providing a 'happy medium' between more expensive trust-based schemes and less flexible GSHP schemes, which often offered members fewer investment choices.

Group Self-invested Personal Pensions (GSIPPs) were rare. Providers noted that, while individual Self-invested Personal Pensions (SIPPs) were popular as a product sold directly to individuals, they were typically most appropriate for high earners such as directors or senior managers as opposed to entire workforces, and so very few employers considered them relevant as a workplace pensions product. Charges for GSIPPs are not covered in this report.

Employers with trust-based schemes typically paid employees higher contributions (at 6.2 per cent on average) than those with contract-based pensions (5.0 per cent on average). Employers willing to pay a fee for advice also tended to be those that paid members higher contributions.

Employee contributions did not vary by scheme type, averaging around 3.7 per cent.

Charges paid by scheme members

In most DC pension schemes, members are required to pay an Annual Management Charge (AMC), which covers the costs that the pension provider incurs in setting up and running the pension scheme, and in some cases, commission paid to an intermediary.

Employers' awareness of the charges that their members paid was, however, low. Only around a third of trust- and contract-based employers were aware that members paid any charges at all, with significantly lower awareness among smaller firms. Awareness was also lower among those employers that did not use an adviser: while they were often aware that there were some fund-related charges, typically they were unsure what these were or how they were charged.

Where employers were aware of charging levels, the most common approach to charging was where members paid a fixed percentage of their total pension fund to the provider per year. Providers confirmed that this 'traditional' AMC charging structure was usual, as it was a simple and transparent way of charging customers, and since the introduction of GSHPs had become the 'norm' in the marketplace.

The average AMC for trust-based schemes was 0.71 per cent of the fund per annum; the average AMC of contract-based pensions was higher at 0.95 per cent. Apart from scheme type, the key determinants of the AMC were:

- size of the scheme: members of the largest schemes were likely to pay significantly lower charges, a result demonstrated both by the employer and the provider surveys;
- commission: where a commission-based adviser was used, this led to an average increase in the AMC paid by members of trust-based schemes by around 0.3 percentage points; and in contract-based schemes of around 0.2 percentage points;
- contributions: higher contributions, which were driven both by salary and the percentage of salary contributed by employers, also led to lower charges being paid by members.

Providers also considered a range of other factors in setting the AMC, including likely employee turnover, how long the employer is likely to stay with the provider, and in some cases average workforce age and the relationship the provider has with the adviser.

Fees paid for advice and other services

Almost 60 per cent of trust-based schemes had used an adviser in relation to their scheme in the past 12 months, with schemes of over 100 members significantly more likely to do so. The largest schemes were also more likely to pay a fee for their advice. While a similar proportion of trust- and contract-based schemes used an adviser, employers with contract-based schemes were far less likely to pay a fee for advice.

Although commission is being banned for new schemes sold from 2013 under the Retail Distribution Review (RDR), 20 per cent of trust-based schemes and 28 per cent of contract-based schemes had used a commission-based adviser in the 12 months prior to this research. Paying for advice through commission was more common among smaller schemes, with around a quarter of schemes with six to 99 members having done so.

Where employers with trust-based schemes paid a fee, this was on average £210 per active member; those with contract-based schemes paid £160 per active member. Employers claimed that such fees were virtually never passed onto members.

Almost half of trust-based schemes used one or more additional services, with larger schemes more likely to use a wider range of services: auditors and accountants were the most commonly-used service, used by 42 per cent of schemes; no other service was used by more than 20 per cent of schemes. Where employers with trust-based schemes did pay for additional services, they spent an average of £300 per member on these, with larger schemes spending less per member than smaller schemes.

Additional charges for specific funds

While providers typically set a basic AMC, normally paid by the majority of a scheme's members, there were circumstances under which some members of a particular scheme might pay higher charges than others.

Most commonly this happened where a member chose to invest in certain funds other than the default fund. The vast majority of contract-based pensions and two-thirds of trust-based schemes offered members a choice of funds, although most scheme members tended to invest only in the default fund, which did not carry additional charges: providers themselves pointed out that between 80 and 95 per cent of members were invested in such funds.

Just under a third of employers reported that their schemes had certain funds that carried an additional charge; indicative information from providers suggested that somewhere between ten and 20 per cent of members and funds might be subject to additional fund management charges, most commonly where they choose to invest in the following:

- externally-managed funds, which tended to carry additional charges for the external fund to be added to the provider's platform;
- certain specialist actively-managed funds, which were more complex or required more intense management. Examples included property or emerging market funds.

Charges for fund switching were extremely rare.

Other member-specific charges

Some providers offered lower AMCs to members currently making contributions into the scheme (active members) than to members no longer making contributions (deferred members). There was evidence that such Active Member Discounts (AMDs) were gaining in popularity among contract-based schemes.

Sixteen per cent of contract-based schemes used AMDs, compared to just four per cent of trust-based schemes. In addition, some large providers claimed to have sold the majority of their contract-based schemes on this basis in the past 12 months, as they have reportedly become increasingly popular with employers who liked the idea of encouraging employee persistency. AMDs were also favoured by some of the providers, who could charge a higher AMC on deferred pots that were no longer growing and which might otherwise become unprofitable.

Other member-specific charges, including member joining fees, charges for transfers in or out of the scheme, higher charges in the early years of an individual's scheme membership and discounts for large funds or high contributions were all reported as being extremely rare by both employers and providers.

Providers' costs of pension provision

One objective of this study was to understand the costs incurred by pension providers in setting up and running a pension scheme for an employer. However, while providers were able to discuss broad elements that impacted their costs, most found it difficult to break down their own costs in detail as part of this study.

Provider costs for scheme set-up, largely consisting of sales efforts, technical set-up of the scheme and initial communications, varied and depended mostly on scheme size. Set-up costs appeared to be as low as £50 to £100 per member in larger schemes, but the very smallest schemes could cost the provider much more per member because of fixed set-up costs for each employer. Higher set-up costs often put providers in a loss-making situation in the early years of a scheme, because the costs could only be recovered over the long term via the AMC.

Ongoing costs were extremely difficult for providers to measure. Annual estimates varied from £30 to £166 per active member, mostly comprised of internal time, plus fund management costs. Costs for deferred members were lower, estimated at between £25 and £55 per member.

Fund management costs to the provider for a typical passive default fund ranged between 0.06 per cent and 0.12 per cent of the fund per annum, and costs for this were covered by the basic AMC. Additional fund management costs for specific fund choices were typically passed on to members via an increase in the AMC.

Where a commission-based intermediary was in place, the commission they charged also represented an additional cost to the provider. Adviser charging was expected to replace commission from 2013, which would not then represent an additional cost to providers as it would instead be taken directly from members' funds.

Transfer costs were perceived to have little impact on charges because they were generally seen as a low one-off cost. Typically, the cost to transfer a pension pot was reported at around £50 per member.

Impact of the pension reforms on provider costs and charges

There was some uncertainty and disagreement between providers as to the likely effects of the pension reforms on provider costs. While all agreed that there would be initial set-up costs which could be considerable, there were mixed views as to whether in the long term, increased automation would lead to lower running costs or the increased administration required would lead to higher running costs.

Some providers did feel that the reforms would reduce scheme set-up costs per member, because of a reduction in sales effort and in the communications required. With a larger number of members across the board, costs per member could decrease, particularly if processes can become more automated.

Conversely, many providers felt that automatic enrolment would lead to the creation of many very small pension pots, which, combined with high employee turnover, could lead to an increase in administration costs, with large numbers of members needing to be enrolled and de-enrolled on a regular basis, while contributing little to their pension schemes. Their funds might, therefore, never reach the level required to generate enough revenue through the AMC to offset the provider's initial set-up costs.

1 Introduction

This report provides the findings of a study commissioned by the Department for Work and Pensions (DWP), designed to explore and understand the charging levels and structures in trust- and contract-based pension schemes. This chapter introduces the relevant policy background and the objectives of the research, as well as describing the methodological approach taken.

1.1 Background

In November 2008, the Pensions Act 2008 introduced measures aimed at encouraging greater private pension saving. The aim of the workplace pension reforms was to overcome the decision-making inertia characterising many individuals' attitudes towards pension saving and to make it easier for individuals to save for their retirement. Most of the measures in the Act will start to come into effect from 2012.

The workplace pension reforms will require employers to automatically enrol all eligible workers aged between 22 and State Pension age into a workplace pension scheme, unless the worker chooses to opt out. Employers will be required to contribute a minimum of three per cent on a band of earnings for eligible jobholders. This will be supplemented by the jobholder's own contribution and one per cent in tax relief. Overall contributions will total at least eight per cent.

Employers will be free to choose the pension scheme(s) that best suits them. This may include defined benefit (DB), defined contribution (DC), hybrid, Group Stakeholder Pensions (GSHPs) or Group Personal Pensions (GPPs). As part of the reforms, a new work-based pension scheme called NEST (National Employment Savings Trust) has been set up. NEST is a simple, low-cost pension savings vehicle. Existing workplace provision provides valuable benefits to those workers it covers and NEST has been designed to complement, rather than replace, that provision. NEST will levy a 0.3 per cent Annual Management Charge (AMC) of the value of the fund over the longer term and will make an additional charge of 1.8 per cent of contributions until the set-up costs of the scheme have been met. NEST will be open to any employer who wants to use it to meet their duties.

1.2 Research objectives

The Government has made a commitment to monitor the possible impacts of the reforms on the pensions industry. The DWP commissioned this study to measure a range of key indicators across the DC pensions landscape before the reforms were implemented. The results will be used in monitoring the charging structures, types and levels of charges in trust- and contract-based pension schemes.

The survey was designed to:

- monitor charging structures, types and levels, as well as scheme turnover, in trust- and contract-based schemes;
- provide a baseline from which to measure the impact of the workplace pension reforms on the pensions market in future years;
- feed into key analytical and policy decisions for DWP.

Specifically the study covered the following subject areas:

Profile of workplace pensions

- Types of pension used by employers.
- The membership demographics.
- Employer and employee contributions.
- Pensions sold by providers in the last 12 months.

Member charges

- AMCs.
- Key factors influencing AMCs.

Intermediary and professional charges

- Basis and level of charges applied by intermediaries.
- Who pays these charges.

Additional scheme charges

- Total Expense Ratio (TER).
- Portfolio Turnover Rate (PTR).
- Charges for specific fund choices.
- Charges for transfers in or out of the scheme.
- Discounts for active members; large schemes; high contributions.
- Front loaded charges and set-up charges.

Providers' administrative costs

- Providers' current costs associated with pension provision.
- The likely impact of the pension reforms on future costs.

1.3 Approach to the study

This study comprised a combination of quantitative research with private sector employers offering workplace DC pensions, supplemented by qualitative and administrative data supplied by providers themselves. It was split into three parallel elements:

- trust-based DC schemes: 719 telephone interviews with trust-based schemes with six or more members, sourced from the SCORE database provided by The Pensions Regulator (TPR);
- contract-based schemes: 514 telephone interviews with contract-based schemes with six or more members where the employer makes a contribution, sourced from a publicly available sample source;
- contract-based scheme providers: a qualitative survey of 10 leading contract-based pension scheme providers in terms of market share, comprising a self-completion questionnaire and an in-person follow-up interview.

DB and public sector schemes were excluded from this study.

Fieldwork was conducted between 6 September and 2 November 2011.

1.4 Methodological development

This study partly builds on the 2009 DWP commissioned survey, Charging levels and structures in money-purchase pension schemes.[1] That study was commissioned in January 2009 in order to provide quantitative evidence on the nature and prevalence of different charge structures and levels in both trust- and contract-based DC schemes. The research was also designed to inform policy decision-making for NEST.

The 2009 study faced a number of methodological challenges, which we outline in this section. Before embarking upon fieldwork for the 2011 study, we therefore conducted a methodological development exercise, the aim of which was to use evidence from the 2009 Charges survey and other surveys and data available to us, to establish the most effective survey design going forward.

1.4.1 The 2009 charges survey

The 2009 study comprised a survey of DC occupational pension schemes designed to report on the level, structure and types of charges in trust-based pension schemes. It did not include the equivalent survey of contract-based pensions, as the 2011 study has, but it did include a separate qualitative survey of contract-based pension providers.

The aims of the 2009 research were similar to those of this study. Specifically, it aimed to examine:

- which charges (if any) are met by the employer and which are met by the scheme member;
- how the charges paid by the member are structured and levied, what they cover, and how much they are on average;
- whether the charge level varies between members (e.g. Active Member Discounts (AMDs)) or over time/other factors;
- details of any additional ad hoc charges.

1.4.2 Issues faced by the 2009 survey

The 2009 study delivered a great deal of information with regard to many of the different charging structures in trust- and contract-based pensions. There were also several areas where we were able to learn from the methodological issues encountered and improve upon the methodology in 2011.

The issues were primarily centred around the fact that the aim of the study was to gain quite detailed information about the charging structures of pensions from employers; but the nature of pension scheme charges meant they were complex and not always well understood, even by those who are responsible for offering the scheme to employees. In particular:

- Knowledge of even basic scheme charges paid by members can be low, especially among smaller employers. Recall of many elements of the charging structures was very low in 2009, but even some of the more straightforward and important questions about overall charges produced a significant proportion of answers that were difficult to interpret.

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1 Croll, A. *et al.* (2009). *Charging levels and structures in money-purchase pension schemes: Quantitative survey*, DWP Research Report No. 630.

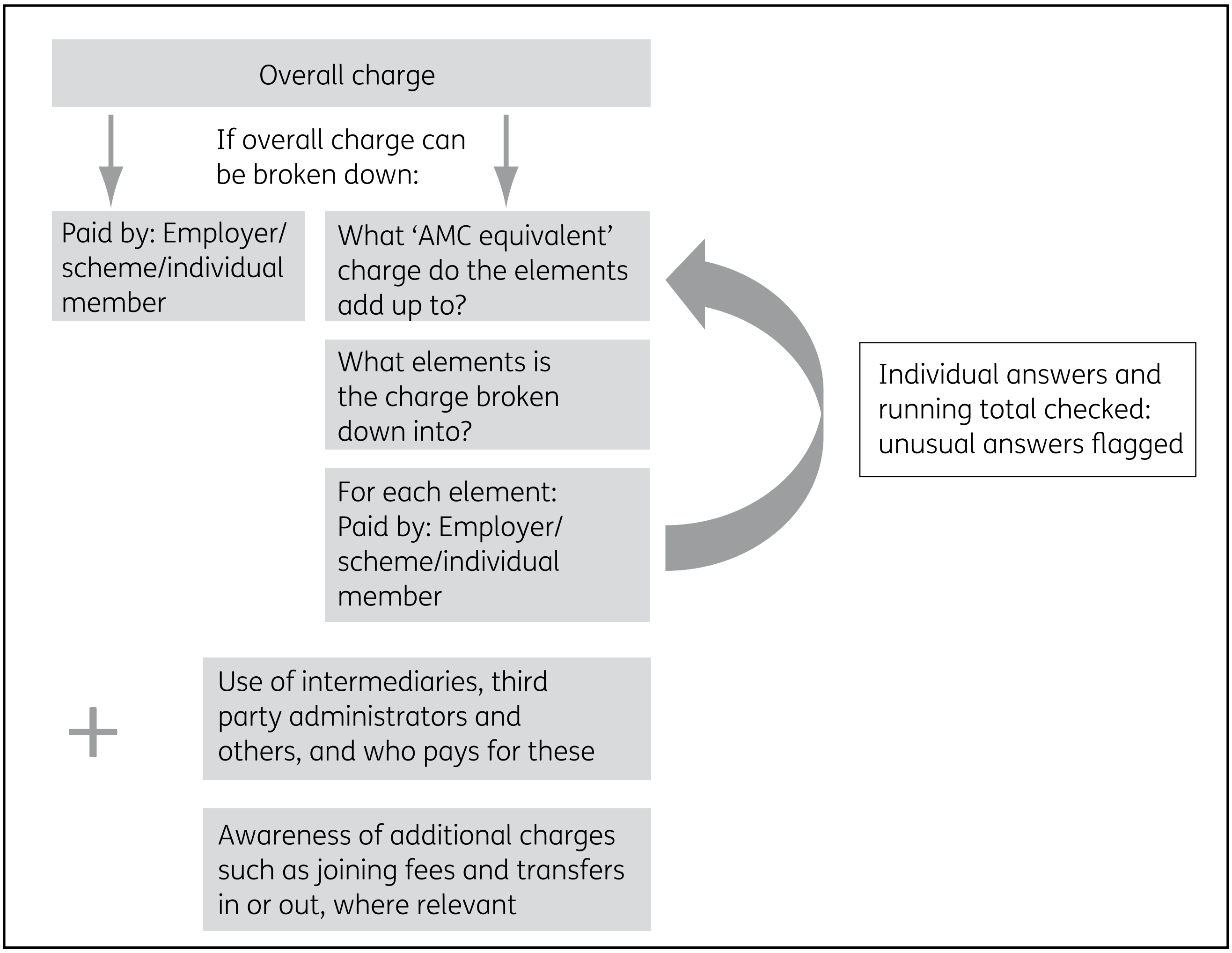
- While pension charges are often made up of several different elements, it is extremely difficult, in a research study, to calculate the overall charge by attempting to add up the component parts.
- Particular subjects, such as the commission paid by a provider to a commission-based intermediary, are seen as particularly complex, and employers cannot typically assess to what extent these are passed onto members.
- If not managed carefully, smaller employers in particular are likely to 'guess' inaccurate answers, rather than state 'don't know', when a high proportion of the questions in a questionnaire are unknown to them.

1.4.3 Learnings implemented in the 2011 survey

The 2011 survey has attempted to address many of the comprehension and accuracy issues faced in 2009, primarily through careful revision of the questionnaire followed by piloting and testing. In particular:

- The questionnaire attempted to accommodate the fact that knowledge of certain scheme charges was low, by first establishing an overall level of charge paid by scheme members, and then breaking this overall charge down into the component parts to the best of respondents' knowledge. That way, even if employers did not know each of the individual elements, we were still able to reach a figure for the total AMC for as many employers as possible. Figure 1.1 illustrates this approach.

Figure 1.1 Approach taken in the questionnaire to establishing member charges



- The trust- and contract-based employer questionnaires were designed to broadly follow the same structure, as was the contract-based provider questionnaire, which ensured that results could be presented thematically for both types of pension, comparing and contrasting results from different research audiences where they differed.
- It was agreed that information on the extent to which intermediary commission is passed onto members would be better collected from providers. Only providers can tell us at an overall level how much commission increases their scheme charges, because they can give us their charges both for schemes sold directly to employers and the same schemes sold through a commission-based intermediary.

1.4.4 Limitations of the 2011 research

Our primary task in deciding upon the most appropriate methodology in the 2011 study was to balance the need for a robust, consistent methodology for both trust- and contract-based schemes, which was comparable with the 2009 survey, with the need to be flexible enough to adapt and improve the methodology, and to give us confidence that we were collecting the right data from the right people.

Prior to beginning the research, it was agreed that we should aim for comprehension and consistency of data between trust- and contract-based schemes, ahead of consistency with the 2009 survey findings. This meant changing the questionnaire to the extent that we cannot now compare results directly between 2009 and 2011, and this report does not attempt to do so. In future waves, the current methodology will be retained, and future changes will be tracked robustly.

In reporting the results of this study, we have been careful to show clearly where employers were unable to answer particular questions. In some cases, particularly the awareness of more 'unusual' charging structures, 'don't know' results represent a high proportion of those answering, and consequently this reduces the number of observations we were able to gain about the actual charging level. While this has slightly reduced the robustness of these results, this approach was seen as preferable to the risk of allowing potentially inaccurate 'guesstimates', which itself would cast doubt on the accuracy of the results. Because our sample sizes were sufficiently high despite the 'don't knows', we are able to report statistically significant results throughout the report with confidence.

The quantitative data was supplemented with qualitative information from providers to provide context and deeper understanding of charging levels. We do stress throughout the report, however, that providers gave us data only for new schemes sold in the previous 12 months, whereas the employer data covers, in principle, all pensions in the market. Therefore, if the profile of products sold in the 12 months prior to the research had changed significantly, this was likely to be reflected in the provider data. There are cases where we believe this happened, for example the recent trend towards AMDs (see Section 7.6.1).

In addition, it is important to remember that the data that we collected from providers, although referring to charging levels and often based on large numbers of schemes sold, was essentially qualitative: we were not able to ask all providers in the market to participate in the study, and not all providers were able to give us breakdowns on all questions, particularly when discussing their own costs. Therefore, it is not representative of the whole market, and when we provide numeric data given to us by providers, we stress that it should be treated as indicative only.

1.5 Scope of employer research and sample source

The employer research was conducted with two separate audiences:

- Trust-based schemes: 719 telephone interviews with open, private sector, trust-based DC schemes with six or more members, where the employer makes a contribution, sourced from the SCORE database provided by TPR.
- Contract-based schemes: 514 telephone interviews with open, private sector, contract-based workplace pensions with six or more members that pay an employer contribution, sourced from a publicly available sample source.

Interviews were conducted with the individual best placed to provide the information required. Where an external pensions intermediary or administrator was able to provide more detailed information than the employer was able to, and with the permission of the employer, we completed the interview with them.

The screener used to establish qualification and the most appropriate respondent appears at the start of the employer survey questionnaire, in Section A.2.

1.5.1 Trust-based schemes

In principle, this study was designed to include all private sector, trust-based DC schemes that were open to new members. Schemes with fewer than six members were, however, excluded, because DC schemes of this size are usually Small Self-administered Schemes (SSASs), set up for a small group of key staff, usually directors or key employees, within which every member is a trustee. Typically no decisions are made on behalf of other members, and the charging structures, as such, can vary widely. In addition, where schemes with six or more members were shown during sampling or screening to be SSASs, they were excluded.

The sample for trust-based schemes was provided by TPR. The regulator administers a single database of all trust-based schemes, known as the SCORE database. This offered an appropriate source from which to draw a sample of trust-based schemes to be used in this study. Sampled schemes were contacted and screened to check qualification and ensure that the right respondents were interviewed.

1.5.2 Contract-based schemes

This study was designed to include any open, private sector, contract-based workplace pensions with six or more members that pay an employer contribution.

We excluded workplace pensions where no contributions were paid on the basis that most were likely to be shell GSHPs with no members, and consequently no associated charges. Schemes of fewer than six members were also excluded as a result of the extremely low incidence of such schemes.

Because there is no single database of contract-based pension schemes, we decided that the most effective and methodologically sound approach was to free-find contract-based schemes, using a publicly available sample source of employers: in this case, Dun & Bradstreet's All UK Businesses database. Employers were then screened to establish whether there was a contract-based scheme into which employer contributions were made.

1.6 Employer research: piloting and fieldwork

We used computer-assisted telephone interviewing (CATI) as our preferred data collection methodology for both the pilots and the main stage interviews with trust- and contract-based schemes. We knew that employers varied in terms of the information different individuals could provide about their charges, and so to collect the data needed for a single interview we knew that we might need to speak to multiple individuals: this was much easier to achieve via CATI rather than other interview methods, because our expert interviewing team was able to help individuals through this process on the telephone.

Extensive revisions were made to the 2011 employer questionnaire to improve wording and clarity, and because of this, it was tested extensively, initially with a leading pensions provider, and then with 60 employers, to establish whether the new or revised questions worked as intended, to gauge the interview length and the appropriateness of the mode of collection. The pilot demonstrated that, subject to the study limitations already outlined in Section 1.4.4, the questionnaire did appear to work and was likely to achieve the objectives of the study.

The recruitment and interviewing process for each interview worked as follows:

- the research team made first contact with the organisation by phone, to establish the most appropriate contact. In most trust-based schemes, a named individual was present in the sample. In all other cases we initially sought the most senior person responsible for employee salaries and benefits;
- before asking any screening questions, the respondent was offered written confirmation about the study from DWP. Respondents were also assured about the confidentiality of the information collected. That letter appears in Section A.1;
- on average the interview consisted of around 15 minutes' worth of data collection in total for trust-based schemes, and 10 minutes for contract-based schemes;
- we were flexible in allowing the respondent to hand over to an alternative respondent, who could better answer particular questions, where necessary. Contact details of the second respondent were gathered from the first contact, where permission was given.

1.7 Provider research

The data required from providers was initially collected via a self-completion questionnaire, followed by an in-depth, qualitative interview with a senior representative from each provider to fully contextualise and understand the individual complexities of each provider's products.

We made first contact with senior decision-maker(s) within each provider's organisation who had experience of working with DWP in the context of the pension reforms. This is for three reasons:

- there was a finite number of providers available for an interview, and securing the co-operation of as many of them as possible was crucial;
- while the administrative data obtained from the companies' systems was useful, there was a need for a recognition of the unique and complex features of different providers' schemes, and a face-to-face follow-up interview was important in completing that picture;
- there was a number of questions around providers' own costs and expected future developments both in trust- and contract-based schemes that could best be answered by senior individuals with an overview of both types of scheme.

Initial contact was made with providers by the research team, and a letter sent from DWP, describing the purpose of the research (see Section B.1).

Following this, an electronic copy of the data collection template was sent to all relevant providers (see Section B.2). Once the template had been completed by providers a face-to-face interview was arranged, where both the data collection template and other subject areas were discussed in detail (the discussion guide appears in Section B.3).

All interviews were recorded using encrypted dictaphones with the agreement of the respondent. All respondents were assured that all data collected were to be kept entirely confidential. This meant:

- data was not be passed back to DWP or any third party in any way that could identify them or their organisation;
- data has not been included in the published report in any way that could identify them or their organisation;
- we did not inform DWP of the identity of participating organisations;
- recordings were not passed back to DWP or any third party, and were due to be deleted after publication of this report.

1.8 Employer research: interview targets, response rates and weighting

This section describes the interview targets set at the start of fieldwork, the number of interviews achieved, and the weighting process carried out to ensure that the interviews were representative of all qualifying trust- and contract-based pension schemes.

1.8.1 Interview targets set

In designing the interview targets, we took into consideration the fact that the sample needed to be sufficient to report findings separately by a range of variables such as type of pension scheme, scheme size, member salary or type of charging structure, all to accepted levels of statistical precision.

In particular, in order to be able to report robust findings for the largest schemes (those with 1,000 or more members, of which there are few in the market), it was necessary to over-sample that group. Consequently, stratified random sampling was used, whereby a minimum quota of interviews was set for four size bands within each of the two pension types (trust- and contract-based). The initial quotas set are shown in Table 1.1. Within each of the eight 'quota cells', qualifying employers were recruited at random.

Table 1.1 Initial interview quotas set for employer interviews

Scheme size band (number of members)	Trust-based target	Contract-based target
6 to 11	200	150
12 to 99	200	150
100 to 999	200	100
1,000+	150	100
Total	750	500

1.8.2 Interviews achieved

We conducted 719 CATI interviews with trust-based schemes. The distribution of interviews is shown in Table 1.2. It is somewhat different to the initial targets shown in Table 1.1 for two principal reasons:

- the population of qualifying small schemes of six to 11 members was far smaller than expected: just 24 per cent of the schemes in the SCORE database met the recruitment criteria;
- the population of schemes with 1,000 members or more was also lower than anticipated.

Table 1.2 Total number of trust-based interviews conducted

Scheme size band (number of members)	Total number of schemes in SCORE database	Percentage confirmed as qualifying in screening	Number of interviews conducted
6 to 11	1,740	24	121
12 to 99	890	66	259
100 to 999	350	81	215
1,000+	140	90	124
Total	3,120		719

We conducted 514 CATI interviews with employers with contract-based pensions. The distribution of interviews is shown in Table 1.3.

Table 1.3 Total number of contract-based interviews conducted

Scheme size band (number of members)	Total population of UK employers	Percentage confirmed as qualifying in screening	Number of interviews conducted
6 to 11	174,795	5	116
12 to 99	138,160	16	162
100 to 999	13,850	49	157
1,000+	1,425	46	79
Total	328,230	11	514

1.8.3 The weighting process for trust-based schemes

The final distribution of interviews with trust-based schemes was, deliberately, not in exact proportion to the total population of trust-based schemes, so that we could achieve minimum sample sizes across all cells. Therefore, the completed interviews in each of the four size categories were assigned a relative weight. This adjusted for the imbalance, and so ensured that the survey results are representative of all open, trust-based DC schemes with six or more members.

TPR provided the research team with information about the total number of schemes that met all of the qualifying criteria that appeared in their database. The qualifying criteria were:

1. Scheme type – Trust-based.
2. Benefit structure type – DC.
3. Status – Open.
4. Minimum number of scheme members – 6.

TPR reported to us that there were 3,120 schemes in their database that met these criteria, and the breakdown for these is shown in Table 1.4.

Table 1.4 Population of trust-based, DC, open schemes with six members or more, recorded in TPR's SCORE database

Scheme size band (number of members)	Population of schemes in TPR's SCORE database
6 to 11	1,740
12 to 99	890
100 to 999	350
1,000+	140
Total	**3,120**

We knew, however, that not all of the schemes in the population would in fact qualify. There was no way for TPR to exclude SSASs at source, for example, and it was possible that the data held by TPR had not recently been updated by the employer. Therefore, all employers that were contacted as part of the study were screened, and the following types of employer were removed from the population:

- SSASs;
- employers with no pension provision at all;
- employers with no open, trust-based scheme with six members or more;
- employers paying no employer contribution into that pension.

Table 1.5 shows what percentage of schemes in each of the size bands actually qualified for the study. This gives us our 'revised' population of qualifying schemes, to which each of the interviews completed are weighted.

Table 1.5 Percentage of schemes in TPR's SCORE database that qualified, and revised population of qualifying trust-based schemes

Scheme size band (number of members)	Population of schemes in TPR's SCORE database	Qualification rate (%)	Revised population of trust-based schemes
6 to 11	1,740	24	411
12 to 99	890	66	584
100 to 999	350	81	284
1,000+	140	89	125
Total	**3,120**		**1,404**

The weighting calculations for trust-based schemes are shown in Table 1.6. The column 'revised population' shows how the actual population of qualifying trust-based schemes is distributed. The 'achieved sample spread' column shows how our own interviews were distributed. The third column, therefore, shows the weight that must be applied to each of our completed interviews in the four size categories, to ensure that they are representative of the population.

Table 1.6 Weighting calculations for trust-based schemes

Scheme size band (number of members)	Revised population (%)	Achieved sample spread (%)	Weight (= revised pop/achieved spread)	Unweighted sample size	Weighted sample size
6 to 11	29	17	1.7380	121	210.3
12 to 99	42	36	1.1551	259	299.2
100 to 999	20	30	0.6762	215	145.4
1,000+	9	17	0.5174	124	64.2
Total				**719**	**719.0**

The process of weighting has the design effect of slightly reducing the statistical confidence levels of any survey. In this case, the weighting approach adopted adjusts the actual sample size of 719 to a 'net effective sample' size of 614; it is this latter figure that was used when calculating confidence intervals in the estimation of sampling errors, and therefore, in indicating whether a finding is statistically significant or not. In this report we have focused on results that are statistically significant at the 95 per cent confidence level (see the reporting conventions, which appear before the summary of this report).

1.8.4 The weighting process for contract-based schemes

Similar to trust-based schemes, the final distribution of interviews with contract-based schemes needed to be weighted, to ensure that they were representative of all open, contract-based schemes with six or more members, into which the sponsoring employer pays a contribution.

As Section 1.5 explained, there is no single database of contract-based pension schemes, and so we screened a publicly available sample source of all UK private sector employers to establish whether there was a contract-based scheme into which employer contributions were made.

Our 'starting population' for contract-based pensions is the population of all private sector enterprises in the UK. The Office for National Statistics (ONS) was able to provide us with data on this, which is shown in Table 1.7.

Table 1.7 Population of private sector enterprises, from ONS data

Scheme size band (number of members)	Population of private sector enterprises
6 to 11	174,795
12 to 99	138,160
100 to 999	13,850
1,000+	1,425
Total	328,230

As happened in the case of the trust-based schemes, all of the employers in this group were screened to establish whether they contributed to a contract-based pension with six or more members. The following were excluded:

- employers with no pension provision at all;
- employers with no open, contract-based scheme with six members or more;
- employers paying no employer contribution into that pension.

Table 1.8 shows what percentage of employers in each of the size bands qualified for the study. This gives us our population of qualifying contract-based pensions, to which each of the interviews completed are weighted.

Table 1.8 Percentage of UK employers that qualified as having a contract-based pension, and revised population of qualifying contract-based schemes

Size category	Population of private sector enterprises	Qualification rate (%)	Population of contract-based schemes
6 to 11	174,795	5	7,945
12 to 99	138,160	16	22,284
100 to 999	13,850	49	6,721
1,000+	1,425	46	654
Total	**328,230**		**37,604**

The weighting calculations for contract-based schemes are shown in Table 1.9, calculated in exactly the same way as the trust-based schemes.

Table 1.9 Weighting calculations for contract-based schemes

Scheme size band (number of members)	Revised population (%)	Achieved sample spread (%)	Weight (=revised pop/achieved spread)	Unweighted sample size	Weighted sample size
6 to 11	21	23	0.9362	116	108.6
12 to 99	59	32	1.8802	162	304.6
100 to 999	18	31	0.5852	157	91.9
1,000+	2	15	0.1132	79	8.9
Total				**514**	**514.0**

The process of weighting has the design effect of slightly reducing the statistical confidence levels of any survey. In this case, the weighting approach adopted adjusts the actual sample size of 514 to a 'net effective sample' size of 362; it is this latter figure that was used when calculating confidence intervals in the estimation of sampling errors, and therefore, in indicating whether a finding is statistically significant or not. In this report we have focused on results that are statistically significant at the 95 per cent confidence level (see the reporting conventions, which appear before the summary of this report).

2 Scheme demographics

This chapter explores the demographics of the schemes included in the quantitative research, as well as their sponsoring employers and members.

As we discussed in Chapter 1, this study was designed to ensure that we achieved a robust number of interviews with both trust- and contract-based pension schemes across four different member size bands. In all other respects, employers were sampled at random, which means that the schemes covered by the study can be considered to be representative of all open pension schemes with six or more members, into which the employer offers a pension contribution.

This chapter focuses on the following aspects of those schemes:

- the job title of the person interviewed;
- the type of pension scheme;
- the age of the pension scheme;
- membership demographics (gender, age and salary);
- the proportion of active compared to deferred members.

Where relevant, we compare information given in the employer survey to information given to us by the contract-based scheme providers that we interviewed, as well as with other comparable survey sources, such as the *2011 Annual Survey of Hours and Earnings* conducted by the Office for National Statistics (ONS)[2] and the 2011 Employers' Pension Provision Survey conducted for the Department for Work and Pensions (DWP).[3]

2.1 Interviewee job roles

Key findings

- In most schemes our interviewee was a senior employee of the sponsor company: in large companies typically a pensions manager, otherwise often a finance director.
- In trust-based schemes, almost half of these sponsor company employees were also trustees.
- In 28 per cent of trust-based schemes, and 13 per cent of contract-based schemes, we interviewed an external professional, most often a financial adviser or administrator.

Because this study asked respondents to provide quite detailed information regarding their pension scheme, it was vital for us to speak to the individual who was most knowledgeable about its charging structures. This could vary from employer to employer, and from scheme to scheme.

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2 The results of the survey can be accessed on the ONS website at http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2011-provisional-results--soc-2010-/stb---ashe-results-2011--soc-2010-.html

3 Forth, J., Fitzpatrick, A., Grant, C. and Stokes, L. (2012). *Employers' Pension Provision Survey 2011*. DWP Research Report No. 802.

In trust-based schemes, a board of trustees is responsible for providing members with a safe and secure investment framework. Trustees could be nominated by the employer or scheme members, and usually had other roles within the sponsor company. Some trust-based schemes have external trustees, and may also have an internal or external pensions manager and/or scheme administrator. Conversely, in contract-based schemes, there is no board of trustees and fewer employer responsibilities, since contract-based pensions are administered by a pension provider. Consequently, an internal employee, such as a finance director, HR manager or, in larger organisations, pensions manager, is often most knowledgeable about the scheme.

Trust-based schemes

In 72 per cent of trust-based schemes the individual interviewed was an employee of the sponsor company, with the remaining 28 per cent of schemes providing an external professional. There were no significant differences by size, with the smallest six to 11-member schemes only marginally more likely than the others to refer us to an external respondent (31 per cent did so).

Of the internal employees interviewed, just over a quarter (27 per cent) were finance directors or managers, although there was a very wide spread of job roles, with pensions managers, accountants, owners and HR directors all proving to be the most knowledgeable person about their own companies' pension schemes. Typical internal job roles are listed in Table 2.1.

Table 2.1 Internal interviewee job roles in trust-based schemes

All trust-based schemes where internal employee was interviewed (column percentages)	
Finance director/manager	27
Director/General manager/Senior manager	15
Pensions manager/Administrator	12
Accountant/Book-keeper/Bursar	10
Owner/Managing director	9
Company secretary	8
Administrator/Office manager	8
HR director/manager	6
Payroll manager	2
Benefits/Reward/Compensation manager	2
Other	1

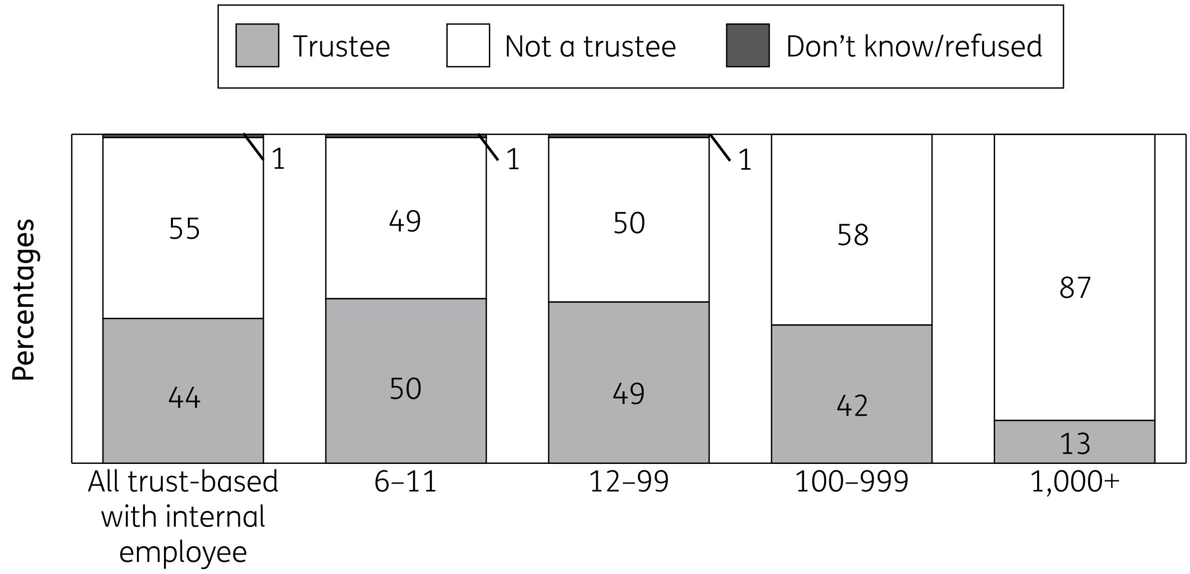
B2. What is your job title?
Base: All trust-based internal employees (523).

While there were some differences by scheme size, the main one was that in the very largest schemes of 1,000 or more members we were significantly more likely to interview a dedicated pensions manager or administrator (67 per cent compared to 12 per cent overall). In the smallest schemes of six to 11 members we were significantly more likely to interview the owner or managing director (18 per cent compared to nine overall) or their accountant (17 per cent compared to ten overall).

Of these internal employees interviewed, 44 per cent were also trustees of the scheme. This was far more likely in small schemes than in large, as Figure 2.1 illustrates: half of internal employees in the smallest schemes of six to 11 members also performed trustee duties, compared with just over one in ten (13 per cent) in schemes with 1,000 or more members.[4]

[4] This finding is unsurprising, as dedicated pensions managers, most common in large schemes, do not typically also act as a trustee of the scheme, to avoid any possible conflict of interest between the employer and the scheme.

Figure 2.1 Whether internal employee interviewed in trust-based scheme was a trustee, by scheme size



B3. Are you also a trustee of the scheme?
Base: All trust-based internal employees (523), 6–11 (84), 12–99 (185), 100–999 (156), 1,000+ (98).

Of the 28 per cent of external interviewees, we were equally likely to interview the scheme's financial adviser (24 per cent) or administrator (23 per cent), with pensions consultants and external trustees also interviewed less commonly, as Table 2.2 shows.

Table 2.2 External interviewee job roles in trust-based schemes

All trust-based schemes where external employee was interviewed (column percentages)	
Financial adviser	24
Administrator/Scheme manager	23
Pensions consultant/adviser	16
Trustee	9
Accountant/Book-keeper	7
Director	6
Pensions manager	4
Benefits/Reward/Compensation manager	2
Other	9

B4. What is your job title?
Base: All trust-based external employees (195).

Contract-based schemes

In contract-based schemes we were more likely to interview an internal employee than in trust-based schemes (87 per cent were internal, compared to 72 per cent in trust-based schemes). This was particularly the case in the largest schemes: 95 per cent were internal in schemes with 1,000 or more members, compared to 79 per cent in schemes with six to 11 members. Where employers had a Group Stakeholder Pension (GSHP) we were also more likely to interview an internal employee: 92 per cent compared with 84 per cent of schemes with a Group Personal Pension (GPP).

Nearly a third (28 per cent) of internal employees interviewed were finance directors or managers, as Table 2.3 shows. HR directors were more likely to be interviewed than they were for trust-based schemes, with 13 per cent working in HR.

Table 2.3 Internal interviewee job roles in contract-based schemes

All contract-based schemes where internal employee was interviewed (column percentages)	
Finance director/manager	28
HR director/manager	13
Accountant/book-keeper/bursar	12
Director/General manager/Senior manager	11
Owner/Managing director	8
Company secretary	7
Pensions manager/administrator	6
Administrator/Office manager	6
Payroll manager	6
Benefits/Rewards/Compensation manager	2
Other/don't know	*

B2. What is your job title?
Base: All contract-based internal employees (454).

Almost half of external interviewees in contract-based schemes (49 per cent) were financial advisers of consultants, with further 15 per cent working as a scheme administrator (see Table 2.4).

Table 2.4 External interviewee job roles in contract-based schemes

All contract-based schemes where external employee was interviewed (column percentages)	
Financial adviser	49
Administrator/Scheme manager	15
Director	12
Pensions consultant/adviser	3
Benefits/Reward/Compensation manager	3
Pensions manager	2
Accountant/Book-keeper	1
Other	15

B4. What is your job title?
Base: All contract-based external employees (58).

2.2 Type and age of main scheme

Key findings

- Most trust-based schemes were insurer-administered, single employer schemes; although larger schemes were more likely to use multiple providers for different services.
- Over two-thirds of contract-based schemes were GPPs; GSHPs had declined in sales in recent years, representing fewer than one in five of the contract-based pensions sold in the 12 months prior to the research.
- Contract-based schemes tended to have been set up more recently than trust-based schemes, reflecting the continued trend away from trust-based schemes.

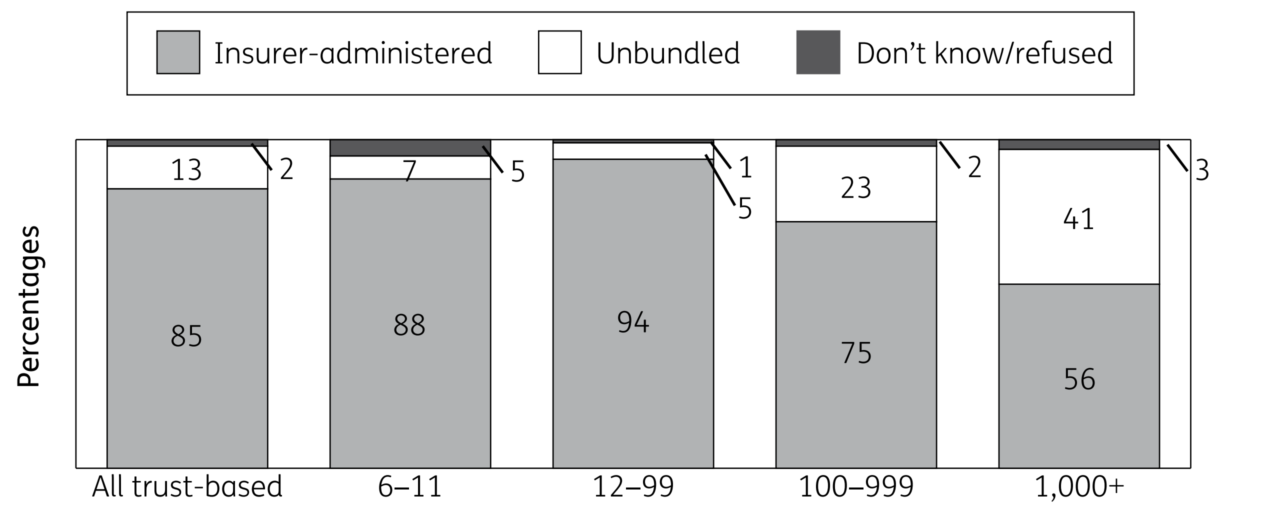
2.2.1 Scheme type

Trust-based schemes

In this study we have identified two broad types of trust-based pension, depending on whether the scheme used a single pension provider to deliver investment and administration services (which we have referred to as an insurer administered scheme) or used multiple providers for different services like fund management, scheme administration and investment consultancy (which we have referred to as an unbundled scheme).

A majority of trust-based schemes (85 per cent) were insurer administered, although Figure 2.2 shows that the likelihood of choosing an unbundled scheme was strongly driven by size, with the largest schemes far more likely to choose an unbundled arrangement (56 per cent of 1,000 or more member schemes did so) than the smallest (around five per cent of schemes with fewer than 100 members chose an unbundled arrangement).[5]

Figure 2.2 Type of main trust-based scheme, by scheme size



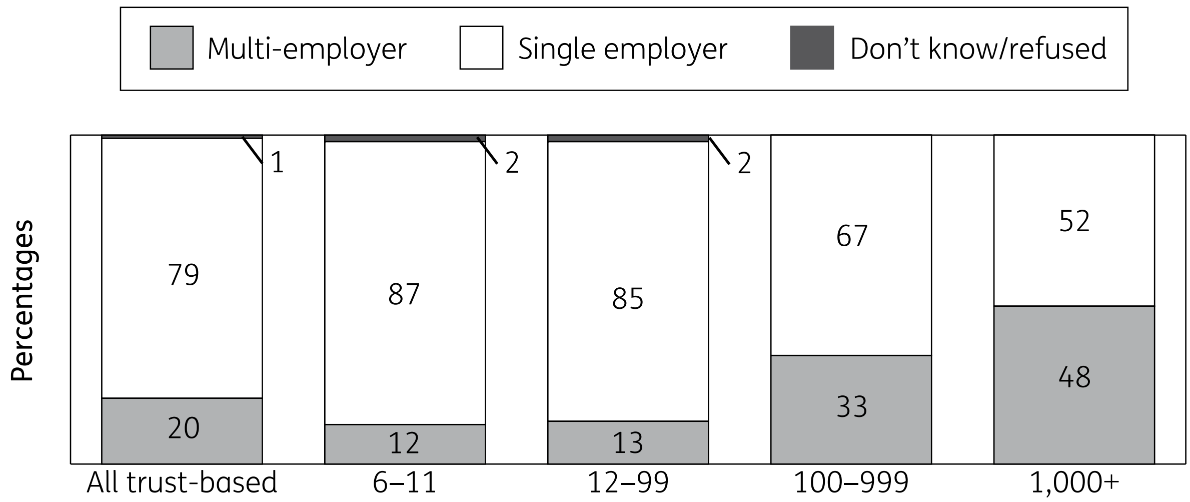
C4. Is the pension scheme offered through a single pension provider or insurance company, or do the trustees work with a range of providers or investment managers?
Base: All trust-based (719), 6–11 (121), 12–99 (259), 100–999 (215), 1,000+ (124).

[5] In Chapter 6 we will show that the use of an unbundled arrangement increases the costs of pension scheme administration for the employer.

All trust-based schemes were asked whether theirs was a multi-employer scheme, or a single employer scheme. In part, this question was designed to understand the incidence of multi-employer 'master trusts', which are multi-employer occupational pension schemes, which a pension provider manages under a single account.[6] Because recognition of the term 'master trust' was very low, employers were simply asked whether they had a multi-employer scheme or a single employer scheme.

Figure 2.3 shows that, the larger the scheme, the more likely it was to define itself as a multi-employer scheme with almost half (48 per cent) of schemes with 1,000 or more members covering more than one employer, often subsidiaries of a parent company, compared to just 12 per cent of schemes with six to 11 members covering multiple employers.

Figure 2.3 Whether the trust-based scheme was single or multi-employer, by scheme size



A9. Is your scheme a multi-employer scheme or a single employer scheme?
Base: All trust-based (719), 6–11 (121), 12–99 (259), 100–999 (215), 1,000+ (124).

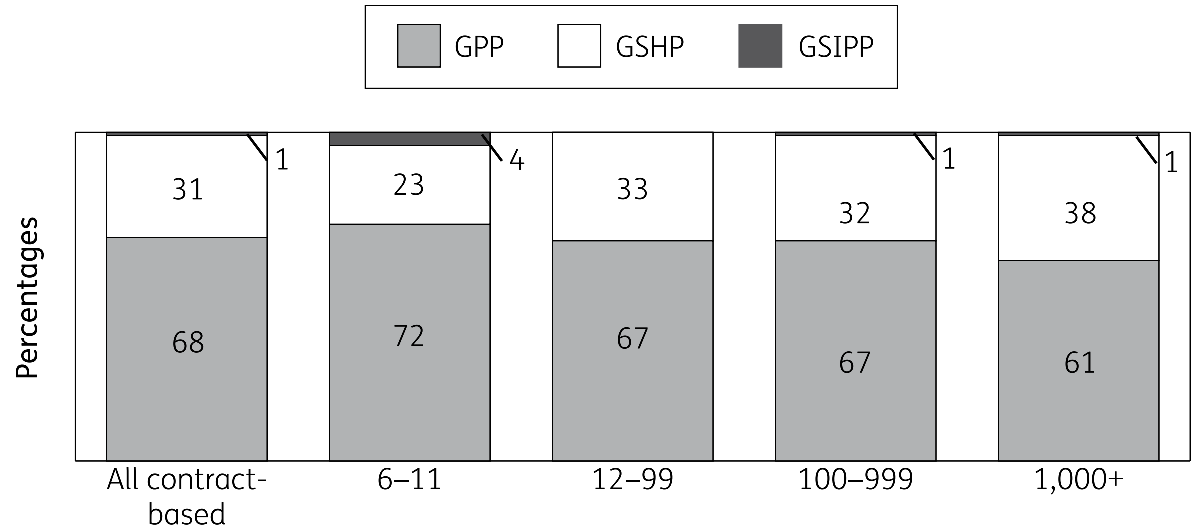
Contract-based schemes

This study included employers that offered an employer contribution to any of the three main types of contract-based pension: a GSHP, a GPP or a Group Self-invested Personal Pension (GSIPP). In the rare cases where employers contributed to more than one type of qualifying contract-based pension, we focused solely on the one that had the highest proportion of active members.

Figure 2.4 shows that the majority of contract-based schemes were GPPs (68 per cent overall) or GSHPs (31 per cent). GSIPPs were extremely rare. The pattern was broadly similar across all size categories, although a slightly higher proportion of GSHPs were found in the largest organisations of 1,000 members or more (38 per cent), than the smallest of six to 11 members (23 per cent).

6 In a master trust, the trustees of the scheme are professionals who are usually employed by the provider. This means that employers under this arrangement are not required to set up their own trustee boards, and investment decision-making does not need to take place at employer level.

Figure 2.4 Type of main contract-based scheme, by scheme size



A2-1. Can you please confirm which types of pension the organisation offers to staff?
Base: All contract-based (514), 6–11 (116), 12–99 (162), 100–999 (157), 1,000+ (79).

Whereas the number of members had a limited impact on the type of scheme chosen by employers, the salary of members did appear to influence this: where members had higher salaries, this increased the likelihood of the employer choosing a GPP (see Table 2.5). The vast majority (85 per cent) of schemes where members earned £40,000 or more per annum were set up as GPPs, compared to 65 per cent of those on less than £25,000.[7]

Table 2.5 Type of main contract-based scheme, by active member salary

	All contract-based schemes (column percentages)					
	All contract-based	**Less than £20k**	**£20k to less than £25k**	**£25k to less than £30k**	**£30k to less than £40k**	**£40k+**
GPP	68	65	65	68	70	85
GSHP	31	34	33	32	29	11
GSIPP	1	1	2	0	1	4

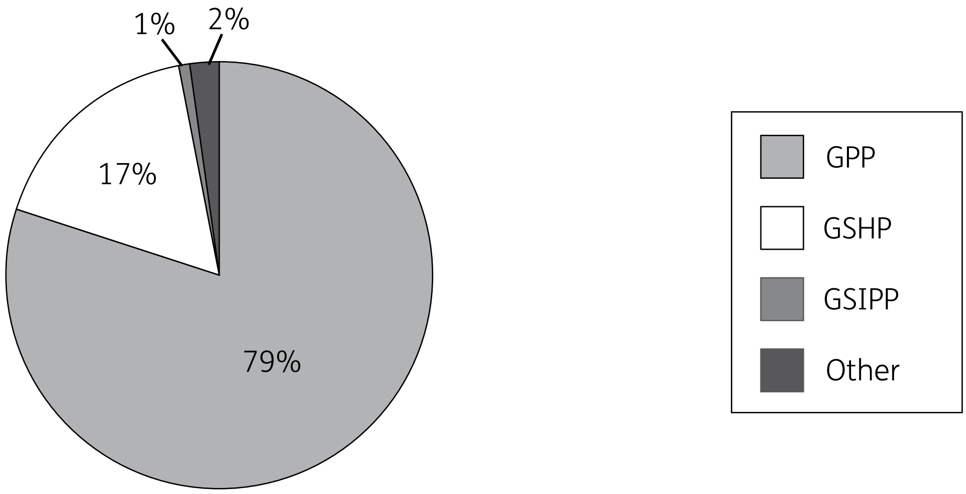
A2-1. Can you please confirm which types of pension the organisation offers to staff?
Base: All contract-based (514), less than £20k (76), £20k to less than £25k (94), £25k to less than £30k (94), £30k to less than £40k (88), £40k+ (55).

Contract-based scheme providers

The providers interviewed as part of this study were also asked to confirm how many contract-based pensions their organisations had sold in the previous 12 months. They reported that in the 12 months prior to the research, a majority of their sales comprised of GPPs, representing almost 80 per cent of schemes sold, as shown in Figure 2.5. This figure is even higher than the 68 per cent of all schemes currently operated by employers, suggesting that, in the previous 12 months at least, there had been a trend away from GSHPs towards GPPs.

[7] This finding is unsurprising: although GSHPs are rarely actively marketed nowadays, they were originally introduced by government to encourage those on lower pay, or with no current pension provision such as a GPP, to save for their retirement.

Figure 2.5 Contract-based schemes sold by providers in the 12 months prior to the research



Provider Q1: Please fill in the table below to indicate the types of defined contribution workplace pension schemes you sold in the last 12 months.
Base: 3,956 schemes sold by six providers. Provider data is not representative of the whole market, and should be treated as indicative.

Providers confirmed to us that this was indeed a result of the ongoing trend whereby GSHP schemes were slowly being phased out of the market, with customers now tending to prefer GPPs, because they offered a greater flexibility than GSHPs, providing a 'happy medium' between the more expensive trust-based schemes and the less flexible GSHP schemes, which often offered fewer investment choices and customisation options (such as employer branding and online member account administration).

From the provider perspective however, there was very little difference between GPPs and GSHPs, in particular in terms of charging structures or cost of administration. Providers reported that both pension types were essentially administered in the same way. While there was no charging cap imposed on GPPs by the government, competition ensured that providers kept their charges as low as possible.

> *'There is absolutely no differentiator between GPP and stakeholders. Our governance is the same ... From our perspective, I can't think of any difference other than the disclosure regulations.'*
>
> (Provider)

Some providers also noted that trust-based schemes, which had been in decline for several years were now close to non-existent in terms of new business, with hardly any new schemes being set up in trust. Some attributed this, in part, to the economic conditions, where employers were looking for ways to reduce costs, which meant fewer employers were prepared to set up a more costly to administer trust-based scheme.

GSIPPs were rare. Providers noted that, while individual Self-invested Personal Pensions (SIPPs) were popular as a product sold directly to individuals, they are typically most appropriate for high earners such as directors or senior managers as opposed to entire workforces, and so very few employers considered them relevant as a workplace pensions product. Some observed that the fact that most scheme members chose to invest in the default fund, without making any active choice to switch, partly explained why a SIPP arrangement might not be seen as attractive to most employees. Charges for GSIPPs are not covered in this report.

Looking forward to the sales trends expected after the workplace pension reforms are in place, most providers expected that the decline of GSHP would continue, with GSHPs eventually disappearing from the market. More details on this can be found in Chapter 8.

2.2.2 Scheme age

Overall, contract-based schemes tended to be 'younger' than trust-based schemes, with the average contract-based scheme having been set up in 2001, whereas the average trust-based scheme was set up eight years earlier (1993). Scheme age was only loosely linked to size of the scheme, with the smallest schemes more likely to be the oldest in both trust- and contract-based schemes, as Tables 2.6 and 2.7 show.

Table 2.6 Average year of commencement of trust-based scheme, by scheme size

	All trust-based schemes (average year that scheme membership started)			
All trust-based	**6–11**	**12–99**	**100–999**	**1,000+**
1993	1991	1992	1998	*1994*

A10 In what year did membership of the scheme start?
Base: All trust-based (682), 6–11 (108), 12–99 (250), 100–999 (204), 1,000+ (120). Bases exclude don't know/refused (five per cent of those asked).

Table 2.7 Average year of commencement of contract-based scheme, by scheme size

	All contract-based schemes (average year that scheme membership started)			
All contract-based	**6–11**	**12–99**	**100–999**	**1,000+**
2001	1999	2002	2004	2003

A10 In what year did membership of the scheme start?
Base: All contract-based (469), 6–11 (108), 12–99 (140), 100–999 (142), 1,000+ (79). Bases exclude don't know/refused (nine per cent of those asked).

2.3 Membership profile

Key findings

- Contract-based schemes had a higher proportion of female members (33 per cent compared with 29 per cent in trust-based schemes).
- The membership age profile was somewhat related to scheme size, with larger schemes having a slightly younger membership profile than smaller ones.
- Members of trust-based schemes tended to have a slightly higher average salary than contract-based scheme members.

2.3.1 Gender profile of active members

According to the employers interviewed, on average 29 per cent of the active members of trust-based schemes were female, compared to a slightly higher 33 per cent of contract-based active members. While this did not vary significantly by size or salary in contract-based schemes, smaller trust-based schemes tended to have fewer female members, with only 23 per cent being females in schemes with six to 11 members.

Our employers' estimates of gender make-up in trust-based schemes in this study were slightly below those of other studies. For example, according to the ONS' *Annual Survey of Hours and Earnings*,[8] 35 per cent of all employees with a pension provision were women. This proportion is also confirmed by the 2011 Employers' Pension Provision Survey[9] where 39 per cent of all active members of occupational schemes were women. To put both of these figures into context, of all employed individuals, 45 per cent were women, suggesting that pension provision among women is lower than among men.[10]

Additionally, there was a higher proportion of female members in schemes where the average active member pay was below £20,000, particularly in trust-based schemes (37 per cent) (see Table 2.8).

Table 2.8 Proportion of female members in schemes, by active member salary

	All schemes (column percentages)					
	Total	**Less than £20k**	**£20k to less than £25k**	**£25k to less than £30k**	**£30k to less than £40k**	**£40k+**
Women in trust-based	29	37	28	28	29	24
Women in contract-based	33	34	37	28	28	[27]

G4a. What percentage of active scheme members are: women? G4b. What percentage of active scheme members are: men?
Base: All trust-based (589), less than £20k (68), £20k to less than £25k (121), £25k to less than £30k (85), £30k to less than £40k (104), £40k+ (99); all contract-based (429), less than £20k (68), £20k to less than £25k (81), £25k to less than £30k (83), £30k to less than £40k (83), £40k+ (46). Bases exclude don't know/refused (18 per cent of those asked in trust-based and 16 per cent in contract-based).

2.3.2 Age profile of active members

Trust-based schemes

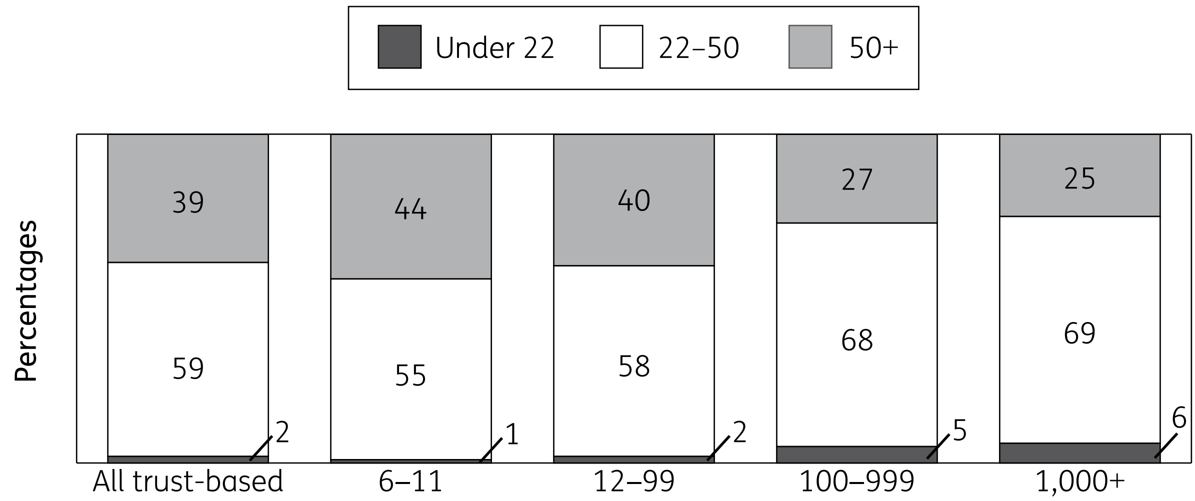
The age profile of active scheme members varied somewhat depending on the size of the scheme, with larger schemes reporting a slightly younger membership profile overall than smaller schemes: Figure 2.6 illustrates this. While 39 per cent of members were aged 50-plus overall, this decreased from 44 per cent in the smallest schemes to 25 per cent in the largest. And while a very small proportion (just one per cent) of scheme members in the smallest schemes were under 22, this increases to five per cent or more in companies with over 100 employees.

8 See the ONS website: http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2011-provisional-results--soc-2010-/stb---ashe-results-2011--soc-2010-.html

9 Forth, J., Fitzpatrick, A., Grant, C. and Stokes, L. (2012). *Employers' Pension Provision Survey 2011*. DWP Research Report No. 802.

10 See the ONS website: http://www.ons.gov.uk/ons/guide-method/surveys/list-of-surveys/survey.html?survey=Labour+Force+Survey

Figure 2.6 Age profile in trust-based schemes, by scheme size

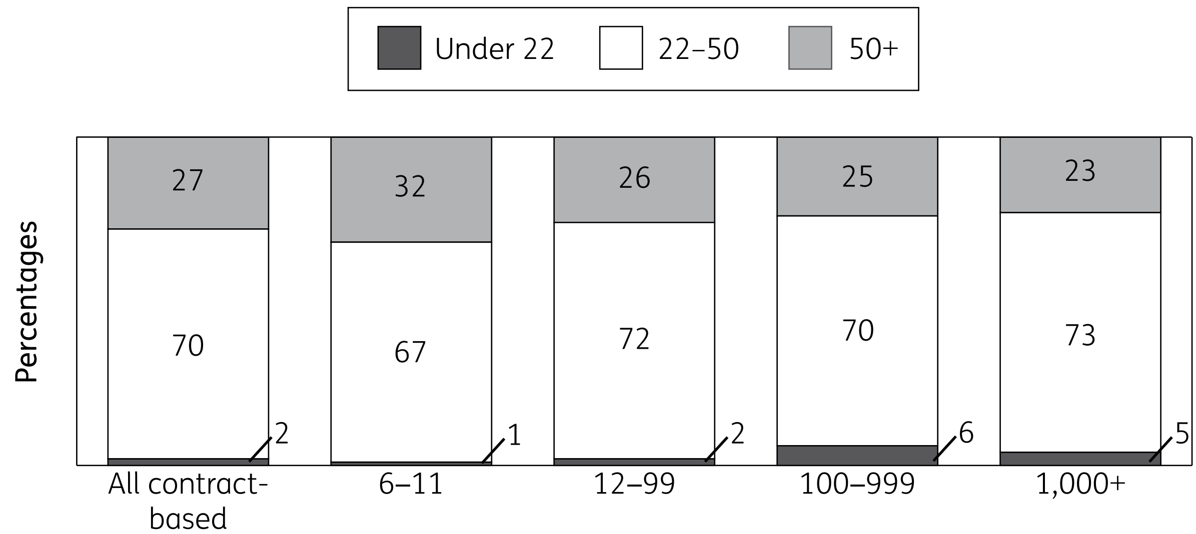


G5a. What percentage of active scheme members are: under 22? G5b. What percentage of active scheme members are: between 22 and 50? G5c. What percentage of active scheme members are: over 50?
Base: All trust-based (531), 6–11 (121), 12–99 (224), 100–999 (131), 1,000+ (55).
Bases exclude don't know/refused (26% of those asked).

Contract-based schemes

As with trust-based schemes, the age profile of contract-based active scheme members was somewhat older in the smaller organisations, although the variation by scheme size is far less marked, as Figure 2.7 shows.

Figure 2.7 Age profile in contract-based schemes, by scheme size



G5a. What percentage of active scheme members are: under 22? G5b. What percentage of active scheme members are: between 22 and 50? G5c. What percentage of active scheme members are: over 50?
Base: All contract-based (386), 6–11 (112), 12–99 (136), 100–999 (96), 1,000+ (42).
Bases exclude don't know/refused (25% of those asked).

2.3.3 Average salary and pension pot

An average trust-based scheme member earned around £32,700 per annum, while an average contract-based scheme member earned £3,200 less (around £29,500 per annum).

In trust-based schemes, the members of smallest schemes tended to have the highest salaries, a trend less evident in contract-based schemes. In particular, members of trust-based schemes with six to 11 members tended to have a significantly higher average salary of £36,600 (see Table 2.9), suggesting that smaller schemes, with higher per-member running costs, were more likely to be set up for those on higher salaries.

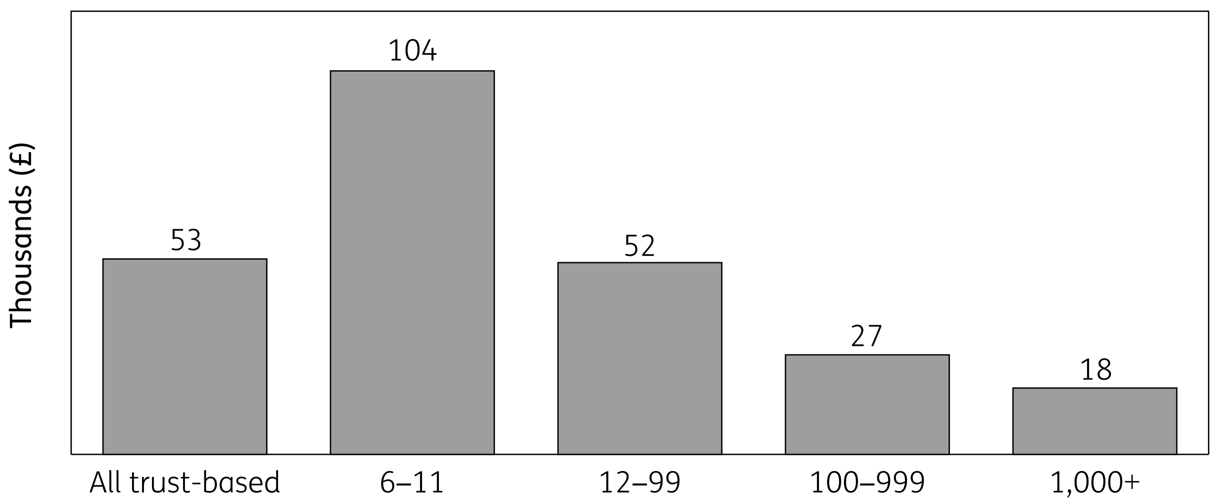
Table 2.9 Average active member salary, by scheme size

	All schemes (average salary in pounds)				
	Total	**6–11**	**12–99**	**100–999**	**1,000+**
All trust-based	£32,700	£36,600	£30,300	£32,300	£30,700
All contract-based	£29,500	£32,900	£28,000	£30,000	£30,100

G3. What is the average gross pay of your active scheme members?
Base: All trust-based (527), 6–11 (107), 12–99 (208), 100–999 (142), 1,000+ (70); all contract-based (407), 6–11 (100), 12–99 (128), 100–999 (114), 1,000+ (65). Bases exclude don't know/refused (27 per cent of those asked in trust-based schemes and 21 per cent of those asked in contract-based schemes).

Trust-based schemes were also asked to estimate the value of the total pension fund, and using this, an average pension pot size per member has been calculated in Figure 2.8. The average estimated pension pot stood at around £53,000 per member, with members of smaller schemes having larger pot sizes on average. Members of schemes with six to 11 members had an average pot size of £104,000, reflecting the fact that members in the smallest schemes tended to be older and earn more, leading to higher contributions and a longer accrual period.

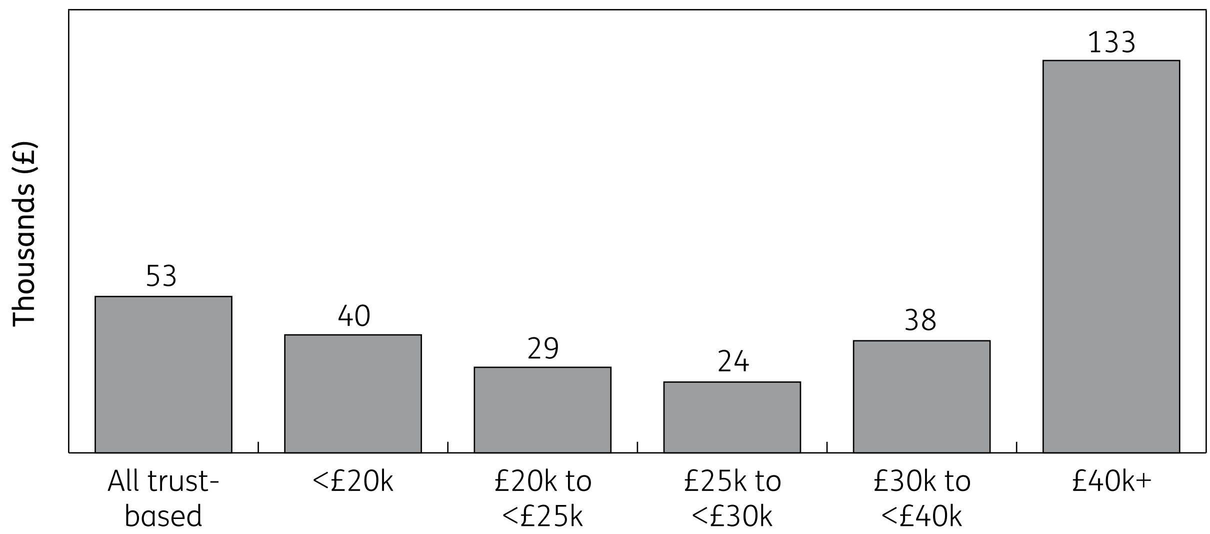
Figure 2.8 Average fund size per member, by scheme size, shown in £000s



G2. So given the number of scheme members, can you confirm that the average pension fund of each member is approximately [x]?
Base: All trust-based (525), 6–11 (59), 12–99 (183), 100–999 (171), 1,000+ (112).
Bases exclude don't know/refused (27% of those asked).

Data in Figure 2.9 further illustrates the relation between higher salaries and larger pension pots, with members earning £40,000 or more per annum having accumulated on average £133,000 in their pension pot.

Figure 2.9 Average fund size per member, by active member salary, shown in £1,000s



G2. So given the number of scheme members, can you confirm that the average pension fund of each member is approximately...?
Base: All trust-based (525), less than £20k (51), £20k to less than £25k (92), £25k to less than £30k (71), £30k to less than £40k (94), £40k+ (80). Bases exclude don't know/refused (27% of those asked).

3 Employer and employee contributions

For a scheme to be included in this research study, the sponsoring employer had to offer an employer contribution to at least some members of the scheme. Schemes where the employer did not contribute at all were excluded.

This section examines the average level of employer and employee contributions made in the 12 months prior to the research, and briefly looks at the scheme characteristics that drive employer contributions. Both employer and employee contributions are important because, as Chapter 4 will show, contribution levels play a role in determining the Annual Management Charge (AMC) that members pay.

Key findings

- Contract-based employer contributions were lower than trust-based (5.0 per cent compared to 6.2 per cent), with larger schemes paying higher employer contributions.
- Employee contributions did not vary by scheme type, averaging around 3.7 per cent.
- In trust-based schemes, employer contributions increased significantly with employee salary, but employee contributions did not; whereas in contract-based schemes, both employer and employee contributions increased with salary to some extent.
- Employers willing to pay a fee for advice also tended to pay members the highest contributions.

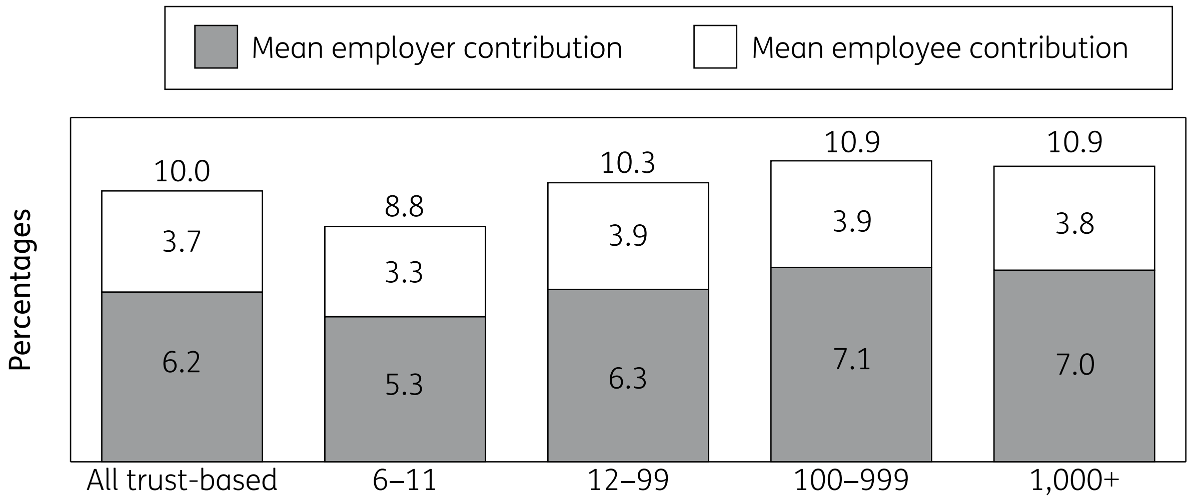
Trust-based schemes

On average, the members of trust-based schemes received total contributions of ten per cent of their gross pay, made up of 6.2 per cent employer contribution and 3.7 per cent employee contribution.

Figure 3.1 shows that members of larger schemes received higher employer contributions: employers with schemes of 100 members or more contributed just over seven per cent on average. In comparison, the smallest schemes of six to 11 members contributed just 5.3 per cent on average; this is despite the fact that salaries in this group are somewhat higher than other groups. It appears that it is only the larger trust-based schemes that offer the very highest employer contributions, although it is worth noting that even the smallest trust-based schemes offer higher contribution levels than most contract-based pensions (see later this section).

Employee contributions did not increase to the same extent by scheme size, averaging just below four per cent, and slightly less in the smallest schemes.

Figure 3.1 Average contributions in trust-based schemes, by scheme size



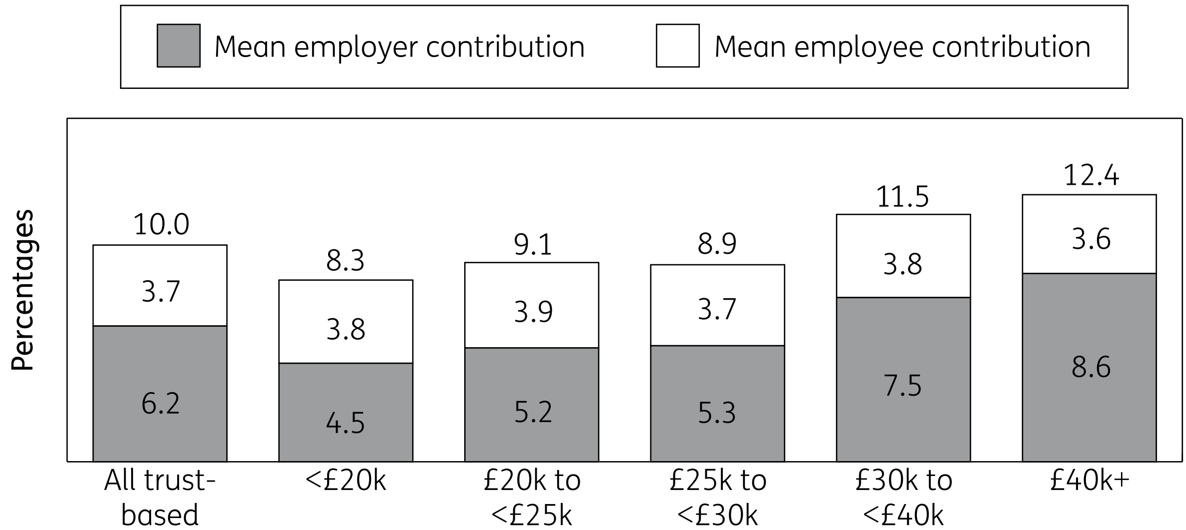
A7. What was the average employer contribution in the last 12 months as a percentage of employees' gross pay? A8. And what was the average employee contribution in the last 12 months as a percentage of their gross pay?
Base: All trust-based (640), 6–11 (108), 12–99 (230), 100–999 (197), 1,000+ (105).
Bases exclude don't know/refused (11% of those asked).

While all of the employers recruited to this study made an employer contribution, the employees did not necessarily have to. In total, 11 per cent of trust-based schemes reported that their employees typically made no contributions at all; this proportion was significantly higher among the smallest schemes (those with six to 11 members), where 17 per cent of employees made no contributions.

Unsurprisingly, the level of contribution paid by employers with trust-based schemes was also strongly related to salary. Employer contributions increased significantly from 4.5 per cent in schemes with the lowest-paid members (less than £20,000) to 8.6 per cent in schemes where members earned £40,000 or more (see Figure 3.2). It is interesting to note, however, that employee contributions did not increase significantly in line with average member pay – trust-based scheme members seem to differ from contract-based scheme members (see later this section) in that they do not increase their percentage employee contribution as their salary increases, perhaps because they are able to rely on their employer to do this.

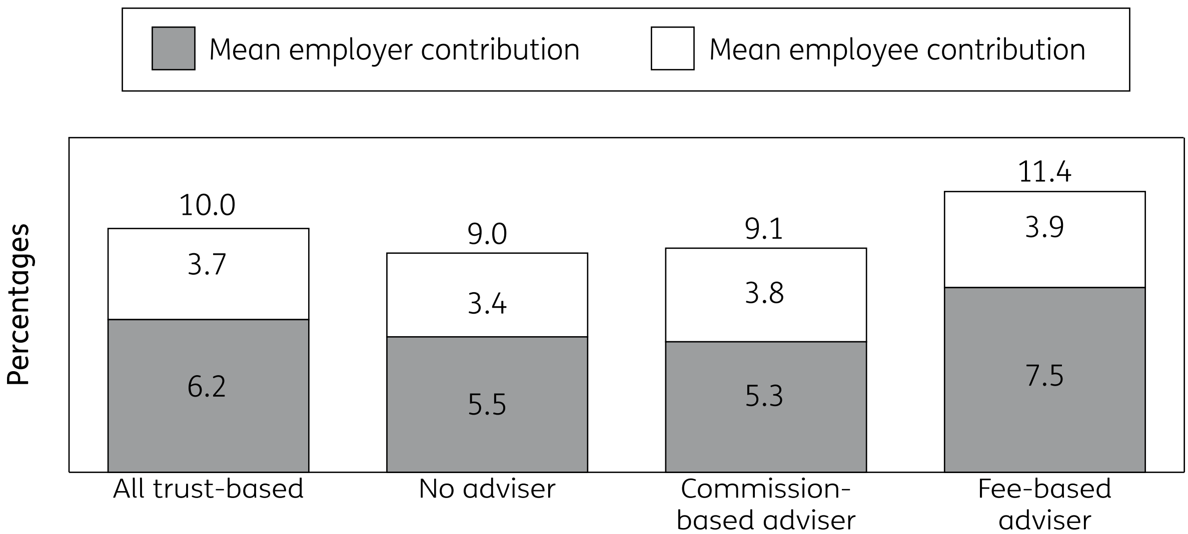
Additionally, employers that paid a fee for advice with regard to the pension scheme tended also to pay their employees higher contributions (7.5 per cent) than employers who used a commission-based adviser or no adviser at all (see Figure 3.3). Employers' use of advisers, and their willingness to pay a fee for them, is examined further in Chapter 5.

Figure 3.2 Average contributions in trust-based schemes, by active member salary



A7. What was the average employer contribution in the last 12 months as a percentage of employees' gross pay? A8. And what was the average employee contribution in the last 12 months as a percentage of their gross pay?
Base: All trust-based (640), less than £20k (69), £20k to less than £25k (125), £25k to less than £30k (89), £30k to less than £40k (107), £40k+ (100). Bases exclude don't know/refused (11% of those asked).

Figure 3.3 Average contributions in trust-based schemes, by use of advisers



A7. What was the average employer contribution in the last 12 months as a percentage of employees' gross pay? A8. And what was the average employee contribution in the last 12 months as a percentage of their gross pay?
Base: All trust-based (640), no adviser (177), commission-based adviser (109), fee-based adviser (307). Bases exclude don't know/refused (11% of those asked).

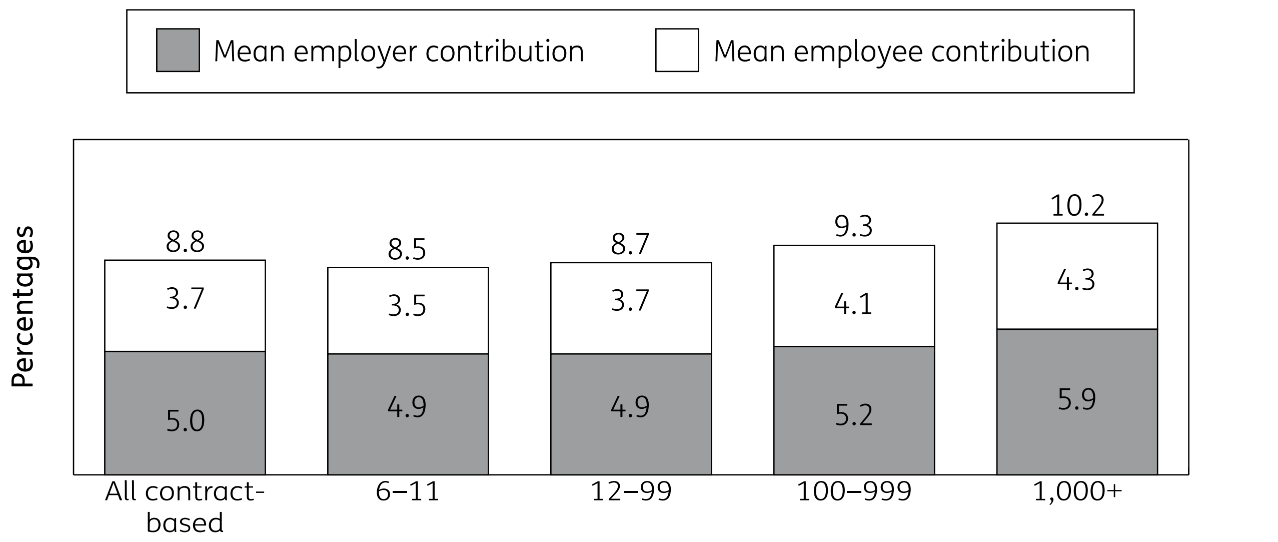
Contract-based schemes

Employer contributions in contract-based schemes were lower than those in trust-based schemes (5.0 per cent compared to 6.2 per cent). Of the members of contract-based schemes, members of Group Stakeholder Pensions (GSHPs) received lower average employer contributions (at 4.5 per cent) than members of Group Personal Pensions (GPPs) (at 5.1 per cent).

Employee contributions for contract-based schemes were the same as for trust-based schemes, at 3.7 per cent, and this did not vary significantly by scheme type (GPP compared to GSHP). This meant that on average, the members of contract-based schemes received a total contribution of 8.8 per cent.

Employer contributions in contract-based schemes did not increase with scheme size to the same extent as they did in trust-based schemes. Figure 3.4 shows that employers with the very largest schemes pay slightly more than those with the smallest, but this increase is not statistically significant.

Figure 3.4 Average contributions in contract-based schemes, by scheme size

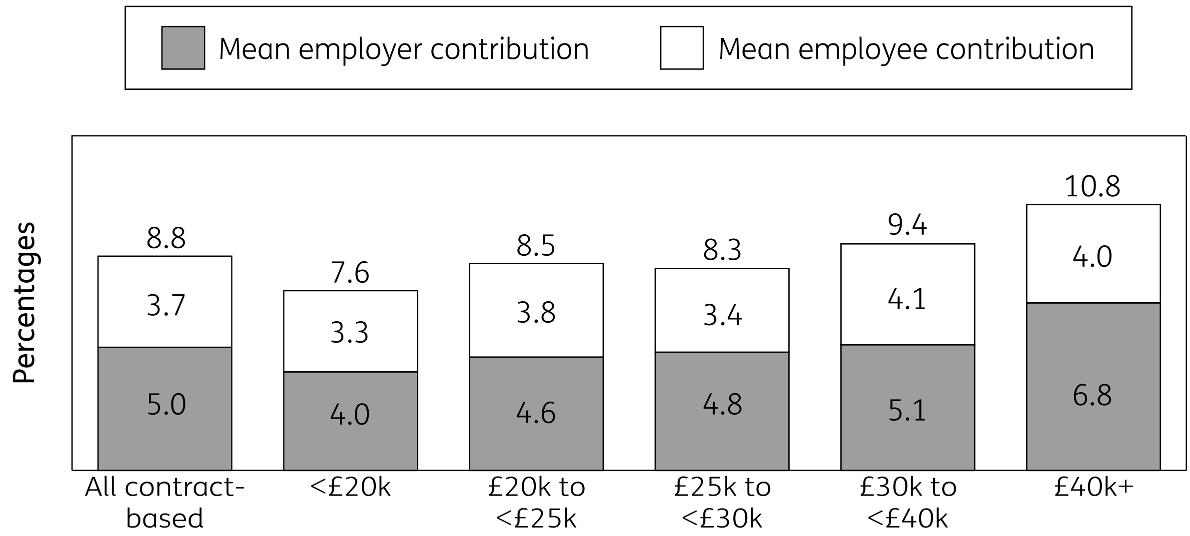


A7. What was the average employer contribution in the last 12 months as a percentage of employees' gross pay? A8. And what was the average employee contribution in the last 12 months as a percentage of their gross pay?
Base: All contract-based (448), 6–11 (97), 12–99 (140), 100–999 (140), 1,000+ (71).
Bases exclude don't know/refused (13% of those asked).

Overall, seven per cent of contract-based schemes reported that their employees made no contributions; as was the case with trust-based schemes, this proportion was significantly higher among the smallest schemes (with six to 11 members) where 15 per cent of employees made no contributions.

The link between employer contributions and member salary was also present in contract-based schemes, with employers whose active members were earning above £40,000 per annum contributing 6.8 per cent on average, compared to four per cent in the smallest schemes. Employees also appeared to increase the percentage they themselves contributed as their salary increased, which meant that total contributions among the highest paid members were as high as 10.8 per cent, as Figure 3.5 shows.

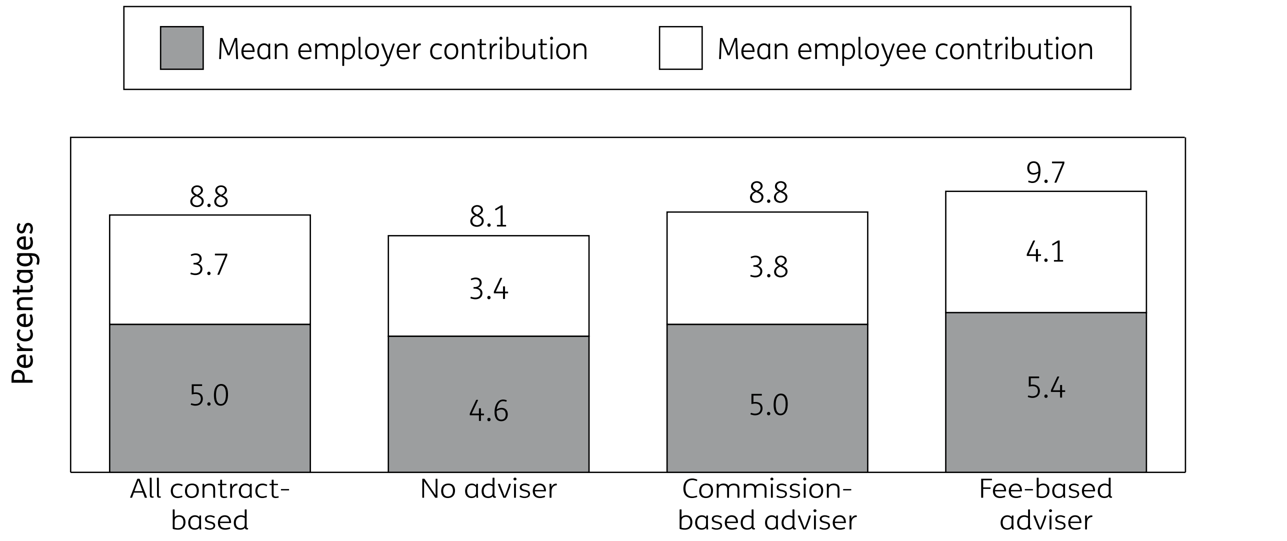
Figure 3.5 Average contributions in contract-based schemes, by active member salary



A7. What was the average employer contribution in the last 12 months as a percentage of employees' gross pay? A8. And what was the average employee contribution in the last 12 months as a percentage of their gross pay?
Base: All contract-based (448), less than £20k (63), £20k to less than £25k (87), £25k to less than £30k (88), £30k to less than £40k (80), £40k+ (52). Bases exclude don't know/refused (13% of those asked).

Employers with contract-based schemes that were unwilling to pay for an adviser tended to offer significantly lower employer contributions than other employers (at 4.6 per cent). This is shown in Figure 3.6, and employers' use of advisers is explored further in Chapter 5.

Figure 3.6 Average contributions in contract-based schemes, by use of advisers



A7. What was the average employer contribution in the last 12 months as a percentage of employees' gross pay? A8. And what was the average employee contribution in the last 12 months as a percentage of their gross pay?

Base: All contract-based (448), no adviser (148), commission-based adviser (124), fee-based adviser (125). Bases exclude don't know/refused (13% of those asked).

4 Charges paid by scheme members

In most defined contribution (DC) pension schemes, members are required to pay a charge to the pension provider, which covers the costs that the pension provider incurs in setting up and running the pension scheme (these costs are covered in Chapter 8). In some cases this charge may need to cover the cost of commission paid by the provider to the intermediary (see Chapter 5).

In trust-based schemes it is possible, although rare, for the sponsoring employer to cover all the charges associated with administering a pension scheme, and so no charge is payable by the scheme members. In most trust-based schemes however, and in all contract-based schemes, these charges are payable by the member.

The most common approach to charging is where members pay a fixed percentage of their total pension fund per year to the provider; this charge is typically referred to as the Annual Management Charge (AMC).[11] Most commonly, providers set a basic AMC for a particular employer or scheme (for example, one per cent of each member's total fund value per year), which will normally be paid by the scheme members. This chapter reviews the basic level of AMC set by providers, and also looks at what the key determinants are of these charges.

Chapter 7 will go on to examine the circumstances under which some members of a particular scheme might pay higher charges than others.

4.1 Employers' awareness of member charges

Key findings

- Employers' awareness of the charges that their members paid was low.
- Only around a third of trust- and contract-based employers were aware that members paid any charges at all, with significantly lower awareness among smaller firms.

Data for this survey was collected from two sources: the quantitative survey of trust- and contract-based pension schemes, and data on new contract-based pension schemes sold to employers in the previous 12 months, which was sourced directly from providers. We examine first of all the information gathered in the survey of pension schemes.

We were, of course, reliant on the information provided to us by employers as to the pension scheme charges paid for by their scheme members. It was known at the outset that some employers would be unaware of the charges paid by their scheme members, particularly those contributing to contract-based schemes where the contract was between the provider and the member.[12] Therefore, before asking employers to tell us about their charging structures and levels, it was important to ascertain whether they were aware of the charges incurred by scheme members.

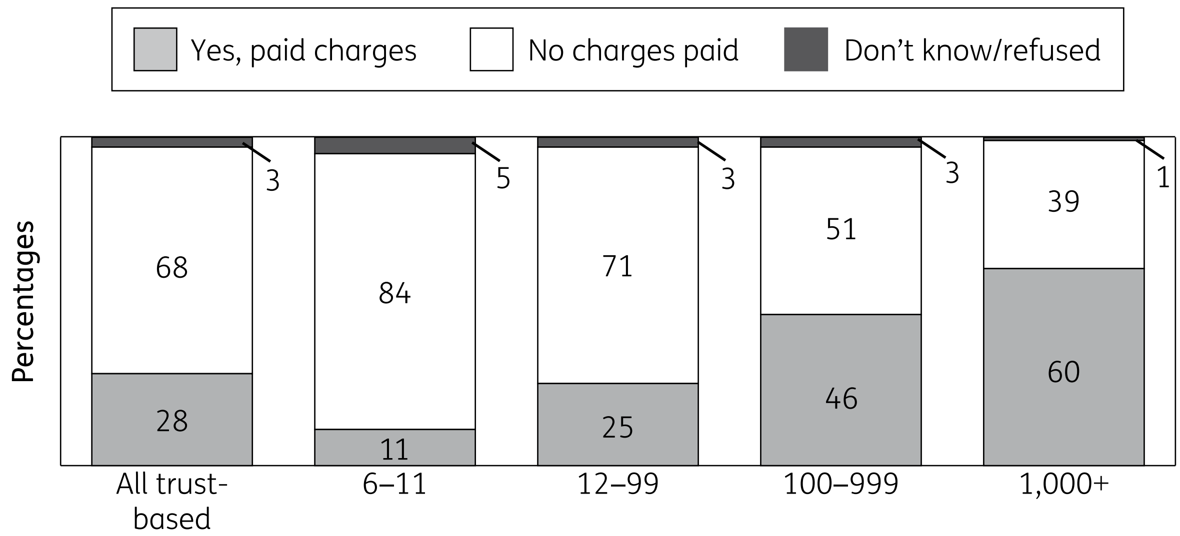
11 Other member charging structures are possible, for example, charges may be levied as a percentage of the members' total contributions (contribution charging).

12 This was in part a key driver of the decision to include contract-based pension providers in the survey.

All employers were asked the question, '*Have the scheme members themselves paid any charges relating to the pension scheme in the past 12 months?*'

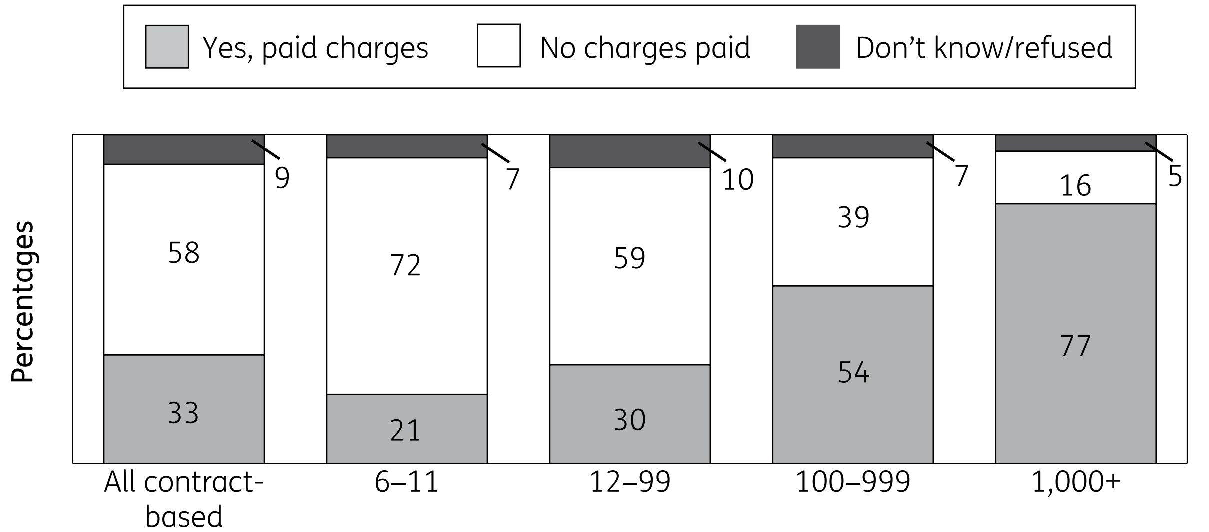
Only a minority (28 per cent of trust-based and 33 per cent of contract-based schemes) believed that members themselves paid any charges at all, with significantly fewer of the smaller schemes reporting any member charges (only 11 per cent of trust-based schemes with six to 11 members and 21 per cent of contract-based schemes in the same size category thought their members incurred any charges). Figures 4.1 and 4.2 demonstrate this.

Figure 4.1 Proportion of schemes where members are thought to pay charges, by scheme size



C1a. Have the scheme members themselves paid any charges relating to the pension scheme in the past 12 months?
Base: All trust-based (719), 6–11 (121), 12–99 (259), 100–999 (215), 1,000+ (124).

Figure 4.2 Proportion of schemes where members are thought to pay charges, by scheme size



C1a. Have the scheme members themselves paid any charges relating to the pension scheme in the past 12 months?
Base: All contract-based (514), 6–11 (116), 12–99 (162), 100–999 (157), 1,000+ (79).

It is reasonable to conclude that there is low employer awareness of charges, as opposed to concluding that members are not paying charges: we know that members do pay charges in most cases. It is clear that awareness of member charges was strongly correlated with size: most employers with schemes with 100 members or more did know that their scheme members paid charges.

Also, awareness of charges was not only linked with the size of the scheme, but also with the use of an adviser. In trust-based schemes, where advisers were used and were paid for via a fee, awareness of charges was significantly higher (40 per cent of trust-based schemes paying a fee for an adviser were aware of member charges) than among schemes which have not been using advisers (only 15 per cent of these were aware of any charges). As Table 4.1 shows, similar to the trust-based schemes, contract-based schemes where advisers were not used showed significantly lower awareness of charges.

Table 4.1 Proportion of schemes where members are thought to pay charges, by use of advisers

	All schemes (column percentages)			
	Total	**No adviser**	**Commission-based adviser**	**Fee-based adviser**
All trust-based	28	15	*28*	40
All contract-based	33	*28*	43	*36*

C1a Have the scheme members themselves paid any charges relating to the pension scheme in the past 12 months?
Base: All trust-based (719), no adviser (200), commission-based adviser (119), fee-based adviser (338); all contract-based (514), no adviser (171), commission-based adviser (137), fee-based adviser (145).

Although many employers insisted that members did not pay charges, they were often aware that there were some fund-related charges, but typically were unsure what these were or how they were charged, as the three quotations below from employers illustrate:

> *'As far as I'm aware members don't pay any fees, so any fees that they charge are built in to the actual scheme rather than added on top, so they don't pay any charges whatsoever.'*

> *'That depends what you mean, the insurance company takes charges out of the payment, but it's not identified so I would say no.'*

> *'Not scheme members no, there's just a fund charge, but that's not part of the scheme charges.'*

Where employers were unaware that the charges existed, we did not, of course, ask them about the level of charges paid by members. Despite this, we were able to gain enough responses from employers who were aware of their members' charges to achieve statistically robust information on this: Sections 4.2, 4.3 and 4.4 explore this further.

4.2 Basis on which member charges were paid

Key finding

- Where employers knew their members' charges, most (67 per cent of trust-based schemes and 61 per cent of contract-based schemes) reported that it was charged as a percentage of the member's fund per annum.

Trust-based schemes

Where employers with trust-based schemes knew their members' charges, two-thirds reported that it was charged as a percentage of members' funds per annum. Other charging structures used are outlined in Table 4.2: a small proportion (14 per cent) reported charging as a percentage of members' contributions, with fewer still reporting a flat fee charge per member. It was possible for an employer to state that there was more than one charging basis in operation,[13] although very few did so.

[13] For example, the National Employment Savings Trust (NEST) will operate initially on the basis of a 1.8 per cent charge on the value of each contribution plus an AMC of 0.3 per cent of the value of the fund.

Table 4.2 Basis on which member charges are paid in trust-based schemes, by scheme size

	All trust based schemes aware of member charges (column percentages)				
	Total	6–11	12–99	100–999	1,000+
Percentage of pension fund	67	(Very low base)	55	74	76
Percentage of contributions	14		18	13	4
Flat fee per member	8		11	5	5
Other	6		9	3	7
Don't know/refused	8		12	7	8

C1a Have the scheme members themselves paid any charges relating to the pension scheme in the past 12 months? C2a. Was this overall charge paid as a percentage of members' pension funds, as a percentage of their contributions, as a flat fee per member, or a combination of these?
Base: All trust-based where members pay charges (253), 6–11 (13), 12–99 (66), 100–999 (99), 1,000+ (75). Multiple answers are possible: totals may add up to more than 100 per cent.

This report will only focus on the level of charges paid as percentage of a pension fund, as there are too few observations of other charging methods to report reliably. As we will show in Section 4.3, for all trust-based schemes, the average AMC was 0.71 per cent of the fund per year, with members of larger schemes paying significantly less.

Contract-based schemes

The majority of contract-based schemes that were aware of member charges said that they were charged as a percentage of the overall fund. In total, 61 per cent of employers reported this, slightly fewer than for trust-based schemes (see Table 4.3), with more of the very largest schemes of 1,000 members or more charging a percentage of the fund (84 per cent). A higher percentage than for trust-based schemes (21 per cent) reported that contribution-based charging was in place, although there was also a relatively high percentage (13 per cent) that was unaware of the charging basis.

Table 4.3 Basis on which member charges are paid in contract-based schemes, by scheme size

	All contract-based schemes aware of member charges (column percentages)				
	Total	6–11	12–99	100–999	1,000+
Percentage of pension fund	61	(Very low base)	[55]	68	84
Percentage of contributions	21		[22]	21	8
Flat fee per member	4		[4]	4	2
Other	2		[4]	0	0
Don't know/refused	13		[14]	8	7

C1a Have the scheme members themselves paid any charges relating to the pension scheme in the past 12 months? C2a. Was this overall charge paid as a percentage of members' pension funds, as a percentage of their contributions, as a flat fee per member, or a combination of these?
Base: All contract-based where members pay charges (219), 6–11 (24), 12–99 (49), 100–999 (85), 1,000+ (61). Multiple answers are possible: totals may add up to more than 100 per cent.

As for trust-based schemes, this report will only focus on the level of charges paid as a percentage of the pension fund only, as there are too few observations of other charging methods to report reliably. As we will show in Section 4.3, the average AMC in contract-based schemes was 0.95 per cent, with no significant differences between Group Personal Pensions (GPPs) and Group Stakeholder Pensions (GSHPs). Both were higher than the average AMC of 0.71 per cent in trust-based schemes. Section 4.4 will look at the factors that impacted the level of AMC.

Contract-based scheme providers

Providers confirmed that the AMC was typically the only charging structure used, as it was a simple and transparent way of charging customers, and since the introduction of GSHPs had become the 'norm' in the marketplace.

> *'Virtually all contract-based schemes are on a single mono charge.'*
>
> (Provider)

The AMC typically covered the following elements of the provider's administration costs:

- the initial set-up costs of the product and initial marketing efforts;
- the ongoing administration of the products;
- servicing (including communications to members);
- fund management costs;
- overheads including IT costs, building maintenance costs and salaries;
- commission or any other payments to advisers;

Chapter 8 examines these costs in more detail.

4.3 The level of charge paid by members

Key finding

- The average AMC for trust-based schemes was 0.71 per cent of the fund per annum; the average AMC of contract-based pensions was higher at 0.95 per cent.

Overall, members of trust-based schemes paid lower charges than those of contract-based schemes. In all trust-based schemes, the average AMC was 0.71 per cent of a member's fund per year, while for an average contract-based scheme member the AMC was 0.95 per cent.

Table 4.4 illustrates the spread in the level of charges paid by members of trust- and contract-based schemes. It shows that members of trust-based schemes were likely to pay the lowest charges: members in 41 per cent of trust-based schemes paid less than 0.6 per cent, whereas only 17 per cent of contract-based schemes had charges this low. At the higher end of the charging scale the difference between scheme types is less pronounced: almost a third of trust- and contract-based schemes had an AMC of exactly one per cent, with a relatively low proportion paying more than this.[14]

Table 4.4 Range of AMCs paid by members of trust- and contract-based schemes

	All trust-based schemes where charges are paid as % of fund (column percentages)	
	Trust-based (mean: 0.71%)	Contract-based (mean: 0.95%)
AMC up to 0.19%	10	0
AMC between 0.2% and 0.39%	10	7
AMC between 0.4% and 0.59%	21	10
AMC between 0.6% and 0.79%	9	19
AMC between 0.8% and 0.99%	5	18
AMC of 1%	31	32
AMC over 1%	6	10
Don't know/refused	8	4

C1a Have the scheme members themselves paid any charges relating to the pension scheme in the past 12 months? C3a. What percentage of the fund per year did active members pay on average over the last 12 months?
Base: All trust-based where members pay charges as a percentage of fund (176); all contract-based where members pay charges as a percentage of fund (151).

4.4 Factors impacting the AMC

Key findings

- Apart from scheme type, the size of the scheme was the greatest determinant of the AMC: members of the largest schemes were likely to pay significantly lower charges.
- If a commission-based adviser was used, this also led to an increase in the AMC paid by members.
- Higher contributions, which were driven both by salary and the percentage of salary contributed in total, also led to lower charges being paid by members.
- Providers also considered a range of other factors in setting the AMC, including likely employee turnover and how long the employer is likely to stay with the provider.

[14] The difference between trust- and contract-based schemes may, in part, be driven by size. Section 4.4 will show that larger schemes pay lower charges on average, and 29 per cent of trust-based schemes within scope of this study have 100 members or more, compared to just 20 per cent of contract-based schemes. But even if we compare results within the same size categories (as we do in Section 4.4.1), contract-based schemes typically pay more than trust-based schemes.

As we showed in Section 4.2, the average AMC among trust-based schemes was 0.71 per cent; for contract-based schemes this was 0.95 per cent. One objective of this study was to understand the drivers of charges – what factors determine whether members pay more or less than average for their pension – and so this section examines the variables that drove the AMC. We show that the AMC related to a number of variables, with the size of the scheme taking prominence, but with other scheme characteristics such as the use of advisers, member salaries or the level of employer contributions also of significance.

4.4.1 Scheme size

The size of the scheme was the greatest determinant of the AMC, as Table 4.5 shows, although in the case of the smallest schemes low base sizes do hamper our ability to report the AMC by size category within scheme type.

Table 4.5 AMC levels and scheme size, compared to the average AMC

		All trust-based and all contract-based schemes (mean AMC %)				
	Number of scheme members	**6–11**	**12–99**	**100–999**	**1,000+**	**Total**
Trust-based	Average AMC	(Very low base)	[0.82]	0.66	0.48	0.71
Contract-based	Average AMC			0.82	[0.48]	0.95

C3a. What percentage of the fund per year did active members pay on average over the last 12 months?
Base: All trust-based where members pay charges as a percentage of fund (164), 6–11 (8), 12–99 (34), 100–999 (69), 1,000+ (53); all contract-based where members pay charges as a percentage of fund (141), 6–11 (14), 12–99 (27), 100–999 (53), 1,000+ (47). Bases exclude don't know/refused (seven per cent of those asked in trust-based schemes and seven per cent of those asked in contract-based schemes). Statistical significance not shown.

If we examine trust-based schemes first of all, there is a decrease in the average AMC paid by members as the scheme size increases: those with smaller schemes with 12 to 99 members pay more than average, at 0.82 per cent. Members of larger schemes pay below the average: those in schemes of 100 to 999 members pay 0.66 per cent, and those in the largest schemes of 1,000 members or more pay less than 0.5 per cent on average.

Although the figures for the smallest contract-based schemes cannot be shown, we do see that members of schemes with 100 members or more pay lower charges than the average, with the very lowest rates again reserved for members of schemes of 100 members or more. Interestingly, the rates for the very largest schemes of 1,000 members or more are exactly the same as for trust-based schemes (0.48 per cent), suggesting that providers are consistently willing to give the largest employers the most attractive rates for their employees, whatever type of scheme they have.

Contract-based scheme providers

For contract-based pensions only, we asked providers to tell us how many schemes they had sold in the previous 12 months in each of five size categories. This would provide a useful comparison to the data gained during the employer survey. In Table 4.6, we compare the results from the providers with those of the employer survey.

In comparing the results, it should be noted that the large size categories are different in the two studies. In the employer study, we used the categories ‘100 to 999 members’ and ‘1,000 members or more’. Because the number of schemes that providers would have sold to employers with 1,000 members or more in the past 12 months would have been very low, the size categories ‘100 to 249 members’ and ‘250 members or more’ were used.

Table 4.6 AMC in contract-based schemes reported in provider survey, by scheme size

	Number of scheme members	All participating providers (column percentages)					
		1–5	**6–11**	**12–99**	**100-249**	**250+**	**Total**
Provider data	Average AMC	0.88	0.88	0.75	0.54	0.42	0.72

Provider Q2 Thinking about pension charges for GPPs and group SHPs, please indicate the total number of new schemes sold in each category in the last 12 months. Provider data is not representative of the whole market, and should be treated as indicative.

Overall, the providers’ reported AMC for schemes sold in the 12 months prior to the research was slightly lower, at 0.72 per cent, than the AMCs reported by the survey of employers (0.95 per cent), which covered all schemes in the market. This implies that charges for schemes sold in the 12 months prior to the research may have fallen compared to their previous levels – this is backed up by qualitative information given to us by providers in this and other research,[15] who told us that charges have fallen significantly since the introduction of GSHPs in 2001 and may continue to do so as a result of the pension reforms. Section 8.7 explores this further.

The patterns observed in the employer data were confirmed by the providers: providers agreed that the AMC for contract-based schemes decreased the more members there were – larger schemes were able to negotiate better rates because they were cheaper to administer relative to the contributions paid in. Some providers also said that the larger schemes were easier to administer on a ‘per-member’ basis, because there were fixed costs associated with setting up and administering any pension scheme, irrespective of the number of members (see Chapter 8).

> *‘I think that does vary by size of employer without a doubt. At your top end they are obviously for a lot cheaper than that, but then that is the bulk buying effect.’*
>
> (Provider)

The provider interviews were also able to report on charges for schemes that had between one and five members, a category that was not included in the employer interviews. They reported that the average AMC applied to these schemes – at 0.88 per cent – was exactly the same as the AMC applied to schemes of six to 11 members, suggesting that it is only as schemes increase in size to beyond 12 members that cost reductions begin to be felt.

15 See, for example, Wood, A. *et al.* (2011). *Likely industry responses to the workplace pension reforms*. DWP Research Report No. 753.

4.4.2 Commission

If an employer chooses to use an adviser in relation to their pension scheme, in most cases they currently choose whether to pay a fee for the service, thus covering the costs of advice themselves (we have described this as using a 'fee-based adviser'), or whether to use a 'commission-based adviser'. In the latter case the employer pays no fee to the adviser, but instead the pension provider pays the adviser commission for the business that they have introduced. The provider then passes this commission on to the member, indirectly, via an increase in the AMC.[16]

We might expect, then, that the AMC for employers using a commission-based adviser would be higher than for those using a fee-based adviser. Although low base sizes allow only for indicative analysis in this area, it appears that members of schemes where employers were willing to pay for advice did tend to benefit from lower charges: in trust-based schemes with fee-based advisers the average AMC was 0.62 per cent (compared to 0.71 per cent overall), and in contract-based schemes with fee-based advisers the average AMC was 0.62 per cent (compared to 0.95 per cent overall).

Overall, in trust-based schemes use of a commission-based adviser appeared to increase the AMC by around 0.3 percentage points. In contract-based schemes, it did so by around 0.2 percentage points.

Contract-based scheme providers

The data given to us by providers produced the same results: that schemes sold with commission faced, on average, an AMC that was 0.2 percentage points higher. Table 4.7 shows the level of charges paid by scheme members in the schemes sold by providers in the 12 months prior to the research.

Table 4.7 Impact of commission on AMC in contract-based provider data, by scheme size

	All participating providers (column percentages)					
GPP/SHP scheme members	**1–5**	**6–11**	**12–99**	**100–249**	**250+**	**Total**
Average AMC	0.88	0.88	0.75	0.54	0.42	0.72
Average AMC (nil commission)	0.74	0.76	0.61	0.50	0.35	0.61
Average AMC (with commission)	0.99	0.96	0.85	0.63	0.48	0.79
Impact of commission on AMC	+0.25	+0.20	+0.24	+0.13	+0.13	+0.18

Provider Q2 Thinking about pension charges for GPPs and group SHPs, please indicate the total number of new schemes sold in each category in the last 12 months. Provider data is not representative of the whole market, and should be treated as indicative.

Providers' own data confirms that commission tends to increase the AMC, as the cost of adviser services has to be built into the AMC. This means that the AMC would not only cover the provider costs but also the adviser costs. Where providers sold commission-based schemes they would sometimes be asked to provide two prices: one with commission and one without the commission built in.

> *'Our average commission-free charge ends up as being around about .35 and our average commissioned charge ends up being about .6. So it is about a quarter per cent.'*
>
> (Provider)

16 Commission will be banned on new pensions sold from 2013 under the Retail Distribution Review (RDR). For more information see Section 8.5.1.

Rarely, providers said that using a commission-based adviser could in fact contribute to a scheme achieving lower AMCs, as these advisers had a vested interest in ensuring employee persistency, as this would ensure they continued to receive commission through the life of the scheme. As a result, a provider might feel more confident in the amount of time that the employer would be likely to retain the scheme.

> '[Under commission] *we are likely to have a much better relationship with the customer, which is likely to last longer. That therefore means that we can offer a better charge than if we have the impression that the agent is going to basically just sell the scheme and walk away.*'
>
> (Provider)

4.4.3 Member salary

There was some indication that higher member salaries were also likely to lead to members benefitting from lower charges.

Although low base sizes do not allow for in-depth analysis, there is an overall trend evident that higher salaries lead to lower charges: this is only statistically significant, however, at levels of annual salary of at least £40,000, where the charges applied to such schemes (0.56 per cent for trust-based schemes and 0.71 per cent for contract-based schemes) were significantly below the average.

Contract-based scheme providers

Although we did not ask providers to give us charging data related to employee salary, as they did not typically hold such information, they confirmed to us that, when selling a scheme to a new employer, they did investigate the prospective members' average salary.

Employers whose employees received higher salaries did indeed typically pay lower charges. This was because overall, the total contributions that the scheme was likely to receive over time (in absolute cash terms) were likely to be far higher, and members would grow a sizeable pension fund at a far higher rate, thus generating a greater income for providers through the AMC. As a result the provider could offer the employer a lower AMC to compensate for this.

4.4.4 Employer contributions

While we have seen that member salary was an important determinant of the AMC providers could offer, the percentage of that salary that was actually paid into the pension was also of significance: higher employer contributions did appear to be related to the level of AMC received, but this only becomes significant where contribution levels were at eight per cent or above. Charges applied to members with eight per cent employer contribution or above were typically lower than the average, at 0.58 per cent for trust-based schemes and 0.86 per cent for contract-based schemes. This may, in part, be driven by salary, as higher employer contributions do also correlate with higher member salaries.

In contrast, the AMC levels did not correlate with employee contributions in the same way as the employer contribution levels did: there were no significant differences between level of employee contribution and level of AMC.

Contract-based scheme providers

Alongside member salary, providers agreed that the employer contribution was a determinant of the likely premiums to be paid by employees. Providers said that, in reality, they were interested in the absolute monthly payment, rather than the percentage of salary contributed, or how this split into employer or employee contribution: but they took both into account when setting the AMC.

'Typically we are looking at more generous levels of contributions so higher premiums. We wouldn't take a scheme on if the average contribution was less than £100 a month. That would be uneconomic for a more comprehensive proposition such as ours.'

(Provider)

It is interesting, then, that AMC appeared to be related more to employer contribution than the employee contribution. It is possible that providers found it easier to predict employer contributions when setting the AMC than employee contributions.

4.4.5 Other factors impacting charges in contract-based schemes – providers' views

We have seen that scheme size, commission, member salary and employer contributions all have an impact on the AMC that the provider is willing to offer an employer, all of which were borne out to some extent by the survey of employers. There were in addition a number of other characteristics that some providers told us that they would consider when setting the AMC for individual schemes, which we could not use the employer survey to investigate. These are outlined below:

- Likely employee turnover. Providers told us that, due to the administrative costs of enrolling and de-enrolling members, certain industries (such as hospitality or retail) that they associated with a high level of employee turnover might be offered a higher AMC. This was because they were seen as less attractive business by the providers due to these predicted higher administrative costs.

  'We take the view that the main reason that people will leave the pension scheme is when they leave the employer. So if you have an employer that tends to have high turnover, you are probably going to end up with smaller pots in the scheme ... So we price more aggressively schemes where we expect that there will be lower turnover.'

  (Provider)

- Employer persistency: i.e. how long the employer is likely to stay with the provider. A long-term relationship typically would benefit from better rates as providers said they typically needed time to recoup set-up costs once a scheme was up and running.

  'Up there with that is persistency, and that is how long we think we are going to have the scheme: some schemes have a history of moving around every few years, so if we don't think we are going to have the scheme for very long we will price it more highly, because the funds will never grow to any reasonable size.'

  (Provider)

- Average workforce age. Term to retirement was a factor for some providers, who told us they prefer younger workforces that were expected to remain contributing to a pension pot for a longer period of time, thus accruing larger pension pots. Occasionally providers said they would actively avoid schemes where most members were close to retirement age, as this would lead to small pension pots that were potentially unprofitable.

  'A small pot is either caused through high staff turnover or a scheme where everybody is very close to retirement. That would normally be a small employer. Most large employers have a diverse enough workforce so that not enough members are aged 63, but you do get some small schemes where there are older folk. That is more rare.'

  (Provider)

- **The adviser relationship.** In a minority of cases providers mentioned that the advisers themselves and their relationship with the provider could also have an impact on the AMC level. Some providers said that a trusted adviser might be able to negotiate a lower charge, because they know that they are likely to bring higher-value, more persistent business.

  'We would tend to want to compete or be more competitive for distributors we like. Ones we have a better business relationship with, that we trust more. We are likely to give them better terms on the basis that they are less likely to move the business away from us.'

  (Provider)

- **Transfers in.** Some providers also mentioned that if employers were transferring in a large pension fund, this would certainly be considered when setting the AMC.

  'Where they are bringing their existing pension fund with them, that brings the charges down.'

  (Provider)

5 Intermediary services and fees

Chapter 4 examined the charges that are paid by most of the scheme members. The next two chapters examine the fees paid by employers: this chapter will examine the services provided by intermediaries and the fees that are paid for this; Chapter 6 will then go on to examine other fees that may be paid for by employers.

The typical role of the intermediary is to provide the employer with advice regarding the most appropriate choice of pension scheme for their scheme members, usually leading the process of selection of the provider. In many cases, intermediaries will also provide individual members with personalised advice.[17]

5.1 The use of commission-based versus fee-based intermediaries

Key findings

- Almost 60 per cent of trust-based schemes used an adviser in relation to their scheme, with schemes of over 100 members significantly more likely to. The largest schemes were also more likely to pay a fee for their advice.
- While a similar proportion of trust- and contract-based schemes used an adviser, employers with contract-based schemes were far less likely to pay a fee for advice.

If an employer chooses to use an intermediary, they currently choose whether to pay a fee for the service or whether to use a commission-based adviser. If they choose the latter, the employer pays no fee to the adviser, but instead the pension provider pays the adviser commission for the business that they have introduced. As Chapter 4 demonstrated, the provider then passes this commission on to the member, indirectly, via an increase in the Annual Management Charge (AMC).[18]

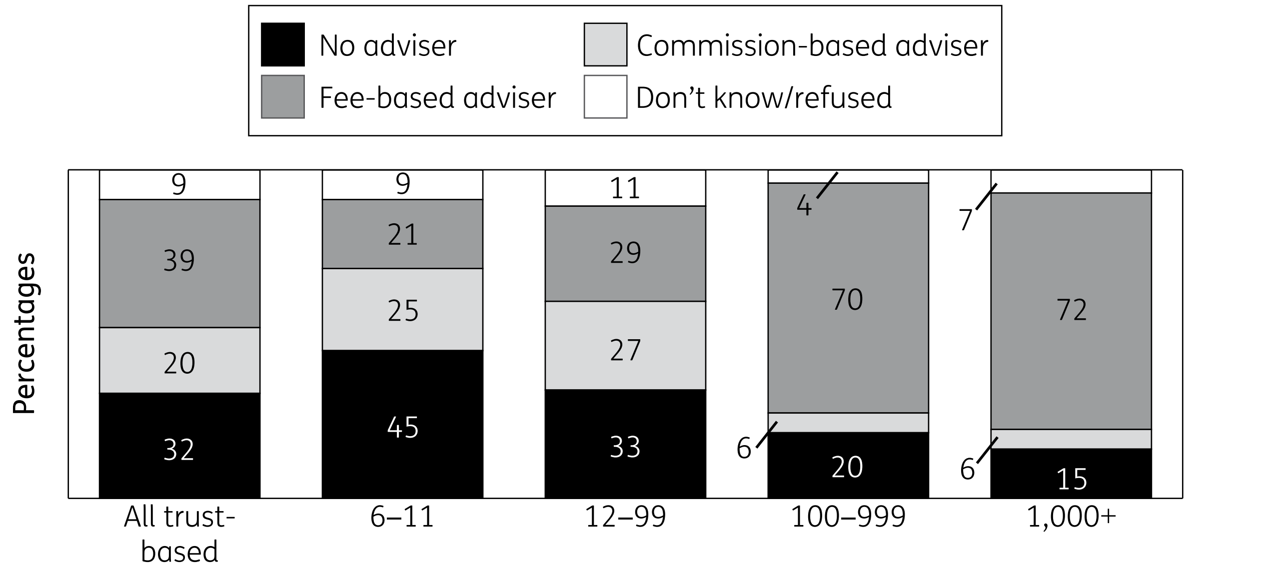
Trust-based schemes

Most trust-based schemes had used an adviser in relation to their scheme in the 12 months prior to the research (59 per cent). Their likelihood of having done so increased with scheme size, with 78 per cent of trust-based schemes with 1,000 or more members having used an adviser. Figure 5.1 breaks down the type of adviser used by size category.

17 In the context of this report the term 'intermediary' is synonymous with 'adviser'.

18 Commission will be banned on new pensions sold from 2013 under the Retail Distribution Review (RDR). For more information see Section 8.5.1.

Figure 5.1 Use of advisers in trust-based schemes, by scheme size



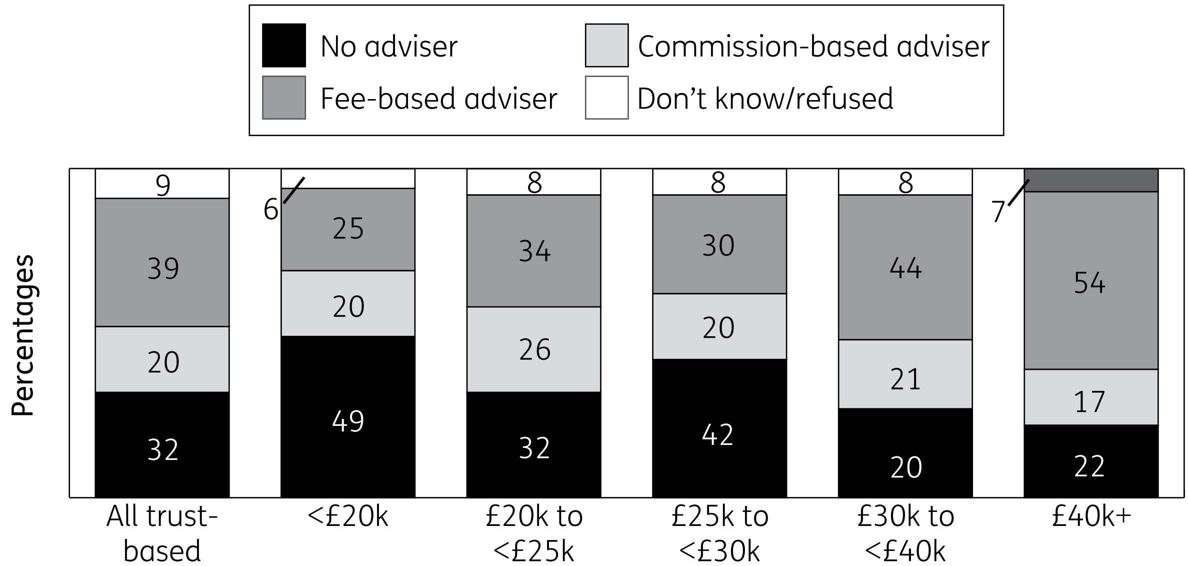
C6a. Has the employer/scheme used the services of an employee benefit consultant, adviser or intermediary in relation to the scheme in the last 12 months? C6b. Did they charge on a commission basis, or did they charge in some other way such as via a fee?
Base: All trust-based (719), 6–11 (121), 12–99 (259), 100–999 (215), 1,000+ (124).

As well as being less likely to use an adviser, the smallest schemes were also the least likely to pay a fee for this advice. Only 21 per cent of schemes with six to 11 members paid a fee for advice, compared to 72 per cent of schemes with 1,000 members or more.

Although commission is being banned for new schemes sold from 2013 under the RDR, 20 per cent of trust-based schemes had used a commission-based adviser in the 12 months prior to this research. Paying for advice through commission was more common among smaller schemes, with around a quarter of schemes with six to 99 members having done so.

Employers paying lower salaries and lower employer contributions were less likely to use advisers: 71 per cent of schemes where pay was above £40,000 used an adviser, compared to only 45 per cent of schemes where pay was less than £20,000. This is shown in Figure 5.2.

Figure 5.2 Use of advisers in trust-based schemes, by active member salary



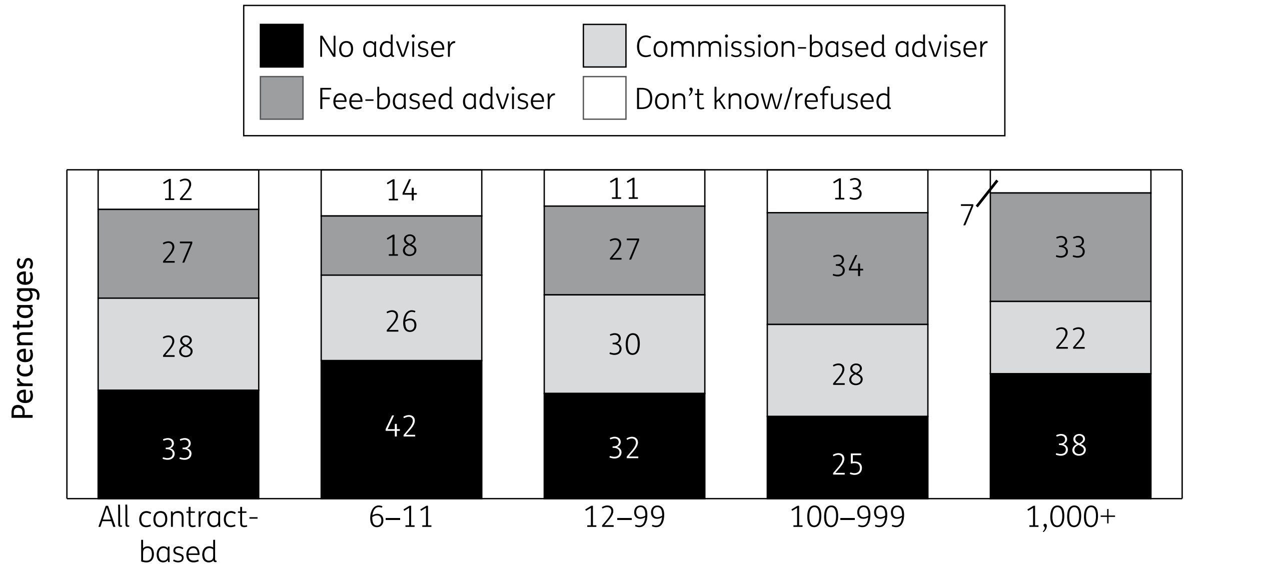
C6a. Has the employer/scheme used the services of an employee benefit consultant, adviser or intermediary in relation to the scheme in the last 12 months? C6b. Did they charge on a commission basis, or did they charge in some other way such as via a fee?
Base: All trust-based (719), less than £20k (75), £20k to less than £25k (132), £25k to less than £30k (98), £30k to less than £40k (114), £40K+ (108).

Contract-based schemes

The proportion of contract-based schemes that used an adviser was slightly lower than trust-based, at 55 per cent, although more significantly, contract-based schemes were far less likely to pay a fee: only 27 per cent of contract-based schemes paid a fee for advice, compared to 39 per cent of trust-based schemes. That difference between trust- and contract-based schemes is most marked in the largest size categories: while over 70 per cent of trust-based schemes with 100 members or more paid a fee for advice, only around a third of contract-based schemes in the same size category did.

Again, smaller schemes were less likely to use an adviser, with only 44 per cent of schemes with six to 11 members having done so in the 12 months prior to the research, as Figure 5.3 shows.

Figure 5.3 Use of advisers in contract-based schemes, by scheme size

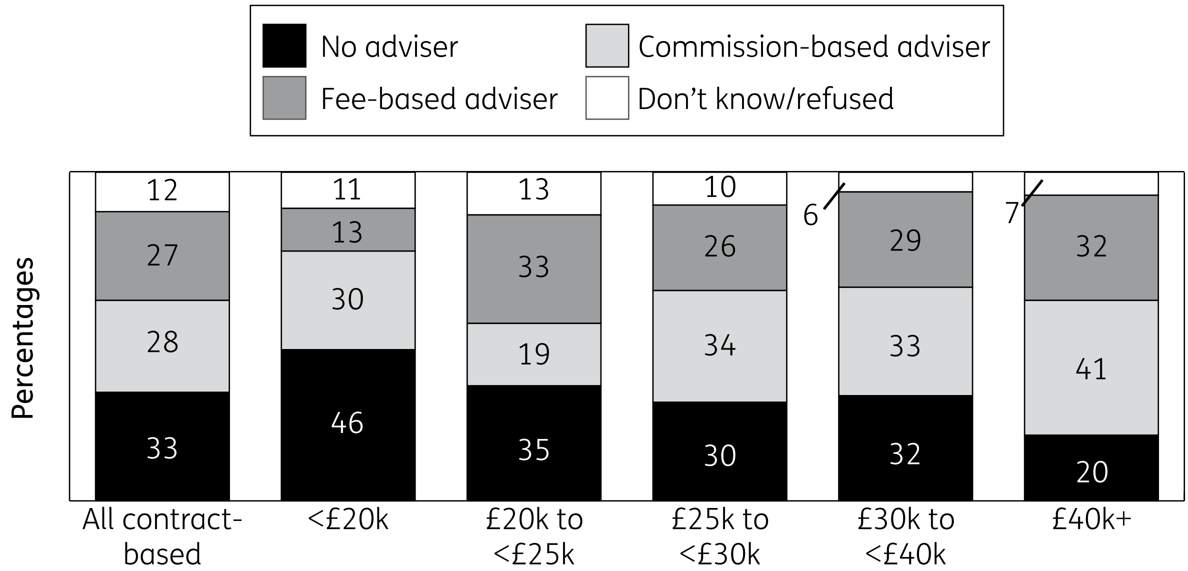


C6a. Has the employer/scheme used the services of an employee benefit consultant, adviser or intermediary in relation to the scheme in the last 12 months? C6b. Did they charge on a commission basis, or did they charge in some other way such as via a fee?
Base: All contract-based (514), 6–11 (116), 12–99 (162), 100–999 (157), 1,000+ (79).

Similar to trust-based schemes, employers with small contract-based schemes were less likely to pay a fee for advice.

Employers paying lower salaries and lower employer contributions were less likely to use advisers: around three-quarters of schemes where pay was above £40,000 used an adviser, compared to less than half of schemes where pay was less than £25,000. This is shown in Figure 5.4.

Figure 5.4 Use of advisers in contract-based schemes, by active member salary



C6a. Has the employer/scheme used the services of an employee benefit consultant, adviser or intermediary in relation to the scheme in the last 12 months? C6b. Did they charge on a commission basis, or did they charge in some other way such as via a fee?
Base: All contract-based (514), <£20k (76), £20k to less than £25k (94), £25k to less than £30k (94), £30k to less than £40k (88), £40K+ (55).

Employers with Group Personal Pension (GPP) schemes were also more likely to use an adviser, with 71 per cent having done so, compared with 53 per cent of those with a Group Stakeholder Pension (GSHP). Where they did use an adviser, a similar proportion in both scheme types paid via commission.

5.2 Fees paid by employers for fee-based intermediaries

Key findings

- Where employers with trust-based schemes paid a fee, this was on average £210 per active member; those with contract-based schemes paid £160 per active member.
- In both types of scheme, the largest schemes paid the least per member.
- Employers claimed that such fees were virtually never passed onto members.

Trust-based schemes

Where schemes paid for adviser services through a fee, we asked employers to tell us how much they paid in the last 12 months for these services. Unfortunately, in a high proportion of cases (around 38 per cent in total), employers were unable to estimate the total paid for these services. Consequently, the data shown is based upon a relatively low number of observations and should be treated with caution.

Although larger schemes paid more in absolute terms, it is useful to examine how much the employer is paying per active member. In this case, as Table 5.1 shows, the amount spent was overwhelmingly related to size of the scheme, with the average scheme paying around £210 per member, but the largest schemes paying far less than this (around £50 per member).

Table 5.1 Fees paid to advisers in trust-based schemes, by scheme size

	All trust-based schemes paying a fee for advice (shown in £)				
	All trust-based	6–11	12–99	100–999	1,000+
Total adviser charge paid by employer	25,000	(Very low base)	[4,000]	*30,000*	*[81,000]*
Total adviser charge paid by employer per active member	210		*[220]*	*210*	*[50]*

C6d1. How much as a flat or hourly fee/annual retainer was paid in total in the last 12 months?
C6e. Was any of this paid for by, or re-charged to, the pension scheme members, or did employer/ scheme cover the entire cost?
Base: All trust-based schemes paying a fee (179), 6–11 (12), 12–99 (42), 100–999 (84), 1,000+ (41). Bases exclude don't know/refused (38 per cent of those asked).

Almost all employers (90 per cent) reported that they covered the entire cost of advice, with negligible amounts re-charged to members overall in the few cases that any costs were passed onto members: in these cases, the base was too small to provide a reliable measure of sums re-charged to members.

Contract-based schemes

In contract-based schemes, adviser fees also related to size of the scheme, with the largest schemes paying the least per member, however the overall fees paid were lower than in trust-based schemes, with the average spent per member at £160, £50 per member less than in trust-based schemes. A high proportion of employers were unable to estimate the total paid for advice (around 43 per cent in total), which means that robust figures cannot be provided by size category.

Again, the employer covered most of the cost of advice, with negligible amounts re-charged to members overall in the very small number of cases that employers reported any costs were passed onto members: in these cases, the base was too small to provide a reliable measure of sums re-charged to members.

6 Other services and fees

As well as the fees paid for intermediaries, which were examined in Chapter 5, employers may also have paid for certain other services in relation to the pension scheme:

- employers with an insurer-administered trust-based scheme, or a contract-based scheme, may choose to pay a fee to their pension provider, to offset some of the charges that would otherwise be paid for by scheme members;
- employers with trust-based schemes may pay for a variety of other services and fees, such as auditors or third-party administrators, that are related to the operation of the pension scheme.

This chapter examines these other fees employers might pay.

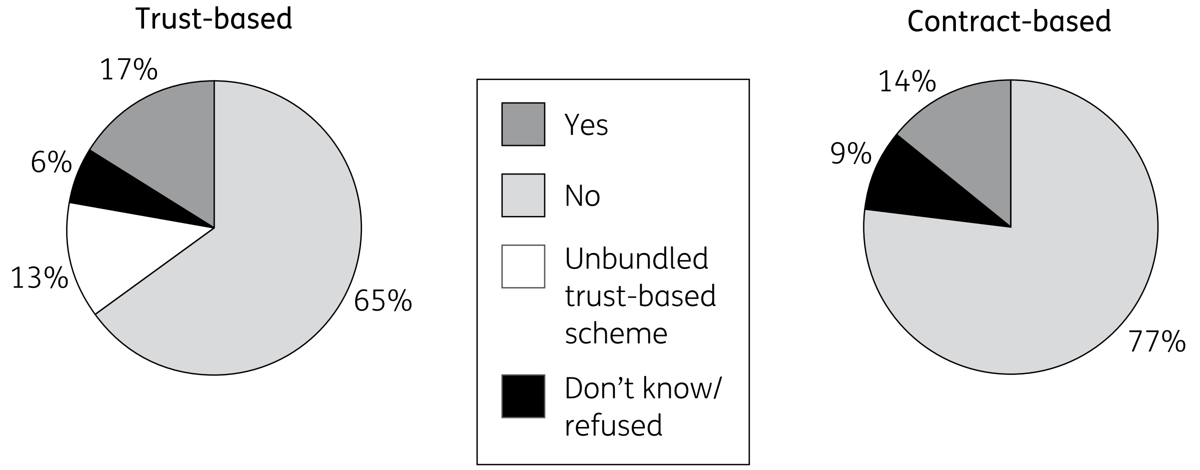
6.1 Fees paid by the employer to the provider

Key finding

- Only a small minority of trust- and contract-based schemes chose to pay a fee to their provider in the 12 months prior to the study.

It was rare for employers to choose to pay a fee to their pension provider. Only 17 per cent of all trust-based schemes and 14 per cent of all contract-based schemes had paid a fee to their provider in the previous 12 months, as Figure 6.1 shows. Note that this question was only asked to contract-based schemes, and insurer-administered trust-based schemes. Where employers had unbundled trust-based schemes (i.e. they used multiple providers for different services like fund management, scheme administration and investment consultancy – see Section 2.2.1 for more details), this question was not relevant.

Figure 6.1 Whether employer or scheme paid any fees to pension providers



C5a. Has the employer/scheme paid any fees to its pension provider in the last 12 months? Please exclude any charges or commission paid to an intermediary.
Base: All trust-based (719); all contract-based (514).

There were no significant differences by scheme size in trust-based schemes; employers with smallest contract-based schemes, however, were significantly less likely to say they paid fees to pension providers (only eight per cent did so).

A high proportion of those who reported paying their provider a fee in the previous 12 months were unable to estimate the total additional charges paid (28 per cent of trust-based schemes and 41 per cent of contract-based schemes were unable to recall this).

Based on a very low number of responses, indicative employer data suggests that smaller employers paid a greater amount per member on average to their provider than larger schemes. Employers whose schemes were in the range of six to 99 members typically paid approximately £100 per member to the provider for administration; schemes of 100 or more members typically paid around £20 per member.

6.1.1 Scheme set-up fees

In rare cases, it is possible for providers to charge a scheme set-up fee to the employer for setting up a scheme. However, awareness of any scheme set-up fees was extremely low. In total 14 per cent of trust-based and 12 per cent of contract-based schemes set up after 2001 said that they may have been charged a set-up fee, but only a very small proportion (around one per cent) were able to estimate a figure.

Providers themselves told us that they do not typically charge set-up fees, as it is now the norm to include all set-up charges as part of the AMC, which they felt employers found easier to understand.

> *'We only have a single charge because we are trying to go for simplicity and transparency. It is always a percentage of the funds under management.'*
>
> (Provider)

6.2 Use of other services by trust-based schemes

Key findings

- Almost half of trust-based schemes used one or more additional services, with larger schemes more likely to use a wider range of services.
- Auditors and accountants were the most commonly used service, used by 42 per cent of schemes; no other service was used by more than 20 per cent of schemes.
- Where employers with trust-based schemes did pay for additional services, they spent an average of £300 per member on these, with larger schemes spending less per member than smaller schemes.

All trust-based schemes were asked whether they used any additional services in relation to their pension scheme. This applied both to unbundled schemes, who used multiple providers for different services like fund management, scheme administration and investment consultancy, and insurer-administered schemes who relied on a single pension provider, but may still have chosen to use external services such as a professional trustee.

Overall, almost half of the trust-based schemes paid for at least one additional service (48 per cent). Usage was mainly driven by the size of the scheme, as Table 6.1 shows. The largest schemes were more likely to use a wider range of services, with 72 per cent of schemes with 1,000 or more members paying for additional services.

Table 6.1 Use of other services by trust-based schemes, by scheme size

	All trust-based schemes (column percentages)				
	All trust-based	6–11	12–99	100-99	1,000+
Auditors/accountants	42	22	38	67	65
Solicitors/legal advisers	17	3	5	41	59
Third party administrators	14	6	8	23	46
Investment consultants	10	2	2	21	47
Investment manager	8	2	3	16	31
Professional/independent trustees	5	2	2	10	19
Paid for any additional service	48	26	46	73	72
Don't know	7	5	4	13	19

C7 Has the employer/scheme used and paid for any of the following services in the last 12 months in respect to this pension scheme?
Base: All trust-based schemes (719), 6–11 (121), 12–99 (259), 100–999 (215), 1,000+ (124). Multiple answers possible.

Moreover, schemes where advisers were used were also more likely to use other services: only 35 per cent of schemes with no advisers purchased any additional services, compared with 67 per cent of schemes that used a fee-based adviser.

The two most commonly used services were auditors/accountants and solicitors/legal advisers. These are examined in turn in the following sections.

6.2.1 Auditors and accountants

Auditor and accountancy services were the most commonly used other service, used in some way by 42 per cent of trust-based schemes. The vast majority of these schemes paid for the services via a fee or annual retainer (92 per cent). Where employers did pay such a fee, the amount paid is shown in Table 6.2.

Table 6.2 Fees paid to auditors and accountants in the 12 months prior to the research, by scheme size

	All trust-based schemes (column percentages)				
	All trust-based	6-11	12-99	100-99	1,000+
Fee or annual retainer	4,600	[1,500]	2,200	4,200	[17,600]

C8b. How much was paid in total as a flat or hourly fee/annual retainer in the last 12 months?
Base: All trust-based schemes where auditors and accountants were paid for in fees (224), 6–11 (18), 12–99 (73), 100–999 (85), 1,000+ (48). Bases exclude don't know/refused (29 per cent of those asked).

The total spend on these services increased with scheme size, and in virtually all cases the employer covered the whole cost without passing it onto members (97 per cent).

6.2.2 Solicitors/legal advisers

Legal advice was paid for by 17 per cent of trust-based schemes. The majority of schemes paid for these services via a fee or annual retainer (84 per cent), with the employer typically covering the entire cost.

Table 6.3 shows that, as with other services, the total spent on solicitors and legal advisers depended on the size of the scheme, with the largest schemes spending the most in total. Note that a high proportion of employers were unsure of the total amount spent on solicitors or legal advisers, and so the individual size breakdowns are based upon extremely low sample sizes, and so should be treated as indicative only.

Table 6.3 Fees paid to solicitors/legal advisers in the 12 months prior to the research, by scheme size

	All trust-based schemes where solicitors/legal advisers were paid in fees (in £)				
	All trust-based	**6–11**	**12–99**	**100–999**	**1,000+**
Fee or annual retainer	£9,000	(Very low base)		[£7,700]	[£17,400]

C8b. How much was paid in total as a flat or hourly fee/annual retainer in the last 12 months?
Base: All trust-based schemes where solicitors/legal advisers were paid for in fees (85), 6–11 (2), 12–99 (7), 100–999 (46), 1,000+ (30). Bases exclude don't know/refused (45 per cent of those asked).

6.2.3 Other charges

The use of other services is too low to give individual breakdowns, because the number of observations is low. We do, however, calculate the total spent on any other services later in the section.

6.2.4 Total fees paid for other services by trust-based schemes

Where employers with trust-based schemes told us that they used any of the other services listed in this chapter, we asked them to tell us how much they spent on each service in the previous 12 months. In this section, we show the total spent by employers on additional services, where they could give us this information – in total 45 per cent of employers with trust-based schemes were able to estimate this.

Employers with trust-based schemes that paid fees for services other than advice spent an average of around £26,000, a total of £300 per member per year. Almost all employers reported that they covered the entire cost of advice, with negligible amounts re-charged to members overall. As Table 6.4 shows, spend per member decreased with scheme size, with the smallest schemes spending around £600 per member, and the largest spending around £100 per member on non-advice-related services.

Table 6.4 Total fees paid by employers with trust-based schemes for services other than advice

	All trust-based schemes where services other than advice were paid in fees (shown in £)				
	All trust-based	6–11	12–99	100–999	1,000+
Total charge paid by employer	26,000	[2,900]	4,400	24,300	144,000
Total charge paid by employer per active member	300	[580]	280	200	120

C5b. How much did the employer/scheme pay in total to the pension provider in the last 12 months? C8b_1 (1). [Service]: how much was paid in total as a flat or hourly fee/annual retainer in the last 12 months? E3 [Additional charges]: how much was paid on a flat or hourly fee or annual retainer basis?
Base: All trust-based schemes that could estimate flat fees/fee per member for provider/any other services (321), 6–11 (33), 12–99 (105), 100–999 (116), 1,000+ (67).

7 Member-specific fees

As we saw in Chapter 4 of this report, in most defined contribution (DC) pension schemes, members are required to pay an Annual Management Charge (AMC), which covers the costs that the pension provider incurs in setting up and running the pension scheme.

Most commonly, providers set a basic AMC for a particular employer or scheme, which will normally be paid by the scheme members. There may, however, be circumstances under which some members of a particular scheme might pay higher charges than others.

This chapter explores circumstances where charges might vary. More specifically, we examine employers' awareness of the following charges, where relevant supported by information provided by the providers themselves:

- member joining fees;
- the Total Expense Ratio (TER);
- the Portfolio Turnover Rate (PTR);
- charges for specific fund choices or fund switching;
- charges for transfers in or out of the pension scheme;
- other member-specific discounts, including Active Member Discounts (AMDs).

7.1 Member joining fees

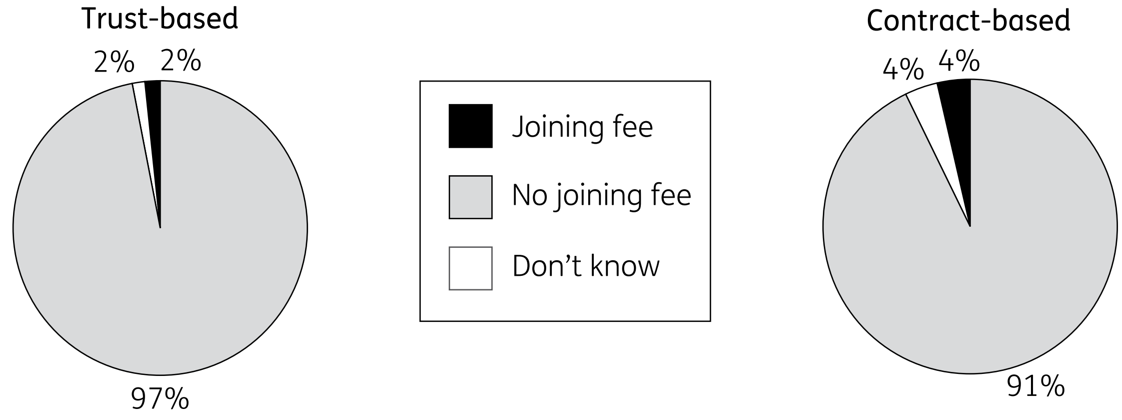
Key finding

- Just two per cent of trust-based schemes and four per cent of contract-based schemes reported that any members were subject to joining fees.

Employers were asked whether there is a one-off joining fee when a new member joins the scheme – this may be levied by providers to cover some of the administrative costs associated with setting up their membership. However, as Figure 7.1 shows, only a very small minority of schemes reported any joining fees: two per cent of all trust-based schemes and four per cent of contract-based schemes claimed that their schemes carried a joining fee, with almost none able to state the level of the fee.

Providers said that set-up costs would be generally covered by the ongoing AMC and joining fees were not applied, although a small minority used front-loaded charges in the first year of membership (see Section 7.6.2).

Figure 7.1 Awareness of joining fee for new members



C11. Is there a one-off joining fee when a new member joins the scheme?
Base: All trust-based schemes (719); all contract-based schemes (514).

7.2 Total Expense Ratio

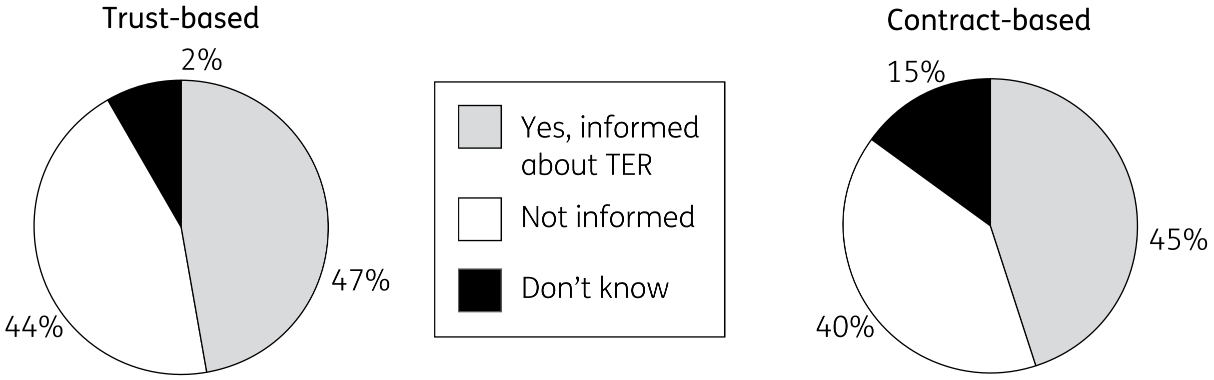
Key findings

- Around half of trust- and contract-based schemes said they had been informed of the TER by their pension provider.
- Only a minority of those were able to estimate the TER, and most of these said it was the same as the AMC.

The TER is a method of measuring the total costs associated with managing and operating a pension fund. These costs include management fees (i.e. the basic AMC), plus any additional expenses such as trading fees, legal fees, auditor fees and other operational expenses. To calculate the TER the charge applied to the fund is divided by the fund's total assets to arrive at a percentage amount. If all of these additional expenses are already included as part of the AMC levied by the provider, it is possible for the AMC to equal the TER.

Around a half of trust and contract-based schemes told us that they had been informed of the TER by their pension provider, as Figure 7.2 shows. There were no significant differences in awareness by scheme size.

Figure 7.2 Awareness of TER



C15. Has your pension provider informed you about the Total Expense Ratio in regard to charges you pay for members invested in the scheme's default fund?
Base: All trust-based schemes where members pay charges (253); all contract-based schemes where members pay charges (219).

While just under a half of schemes claimed that they had been informed of their TER, only around 20 per cent of these could estimate the level of the TER, and in most cases they stated that the TER equalled the AMC (see Table 7.1).

Table 7.1 TER levels reported by employers

	All schemes where TER was estimated (column percentages)	
	Trust-based	**Contract-based**
TER is lower than AMC	10	[9]
TER equals AMC	61	[49]
TER is higher than AMC	29	[42]

C15a. What is the Total Expense Ratio for your scheme?
Base: All trust-based schemes where TER is estimated (62); all contract-based schemes where TER is estimated (47). Bases exclude don't know/refused (48 per cent of those asked in trust-based schemes and 56 per cent of those asked in contract-based schemes).

Most providers reported that, when members made no active fund choices and so invested in the scheme's default fund, meaning there were no additional costs, the TER for the members would be the same as the AMC. There were circumstances where additional charges could be applied to certain fund choices – this is covered in Section 7.4.

7.3 Portfolio Turnover Rate

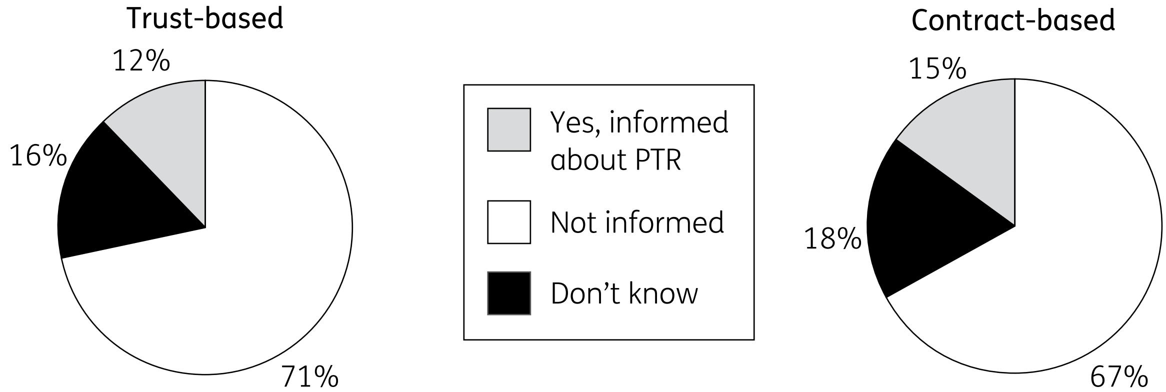
Key finding

- Only 12 per cent of trust-based and 15 per cent of contract-based schemes claimed they had been informed about their PTR.

The PTR is a measure of how frequently assets within a pension fund are bought and sold by the fund managers. Typically, the PTR is calculated by dividing the total of assets sold or purchased (whichever amount is higher) by the total net asset value. This is estimated over a set amount of time, typically a 12-month period.

Only a minority of schemes were aware of their PTR: 12 per cent of trust-based and 15 per cent of contract-based schemes claimed they had been informed about the PTR, as Figure 7.3 shows. Almost no schemes that were informed of their PTR were able to estimate the PTR level.

Figure 7.3 Awareness of PTR



C16. Has your pension provider informed you about the Portfolio Turnover Rate in regard to charges you pay for members invested in the scheme's default fund?
Base: All trust-based schemes where members pay charges (253); all contract-based schemes where members pay charges (219).

7.4 Choice of funds

Key findings

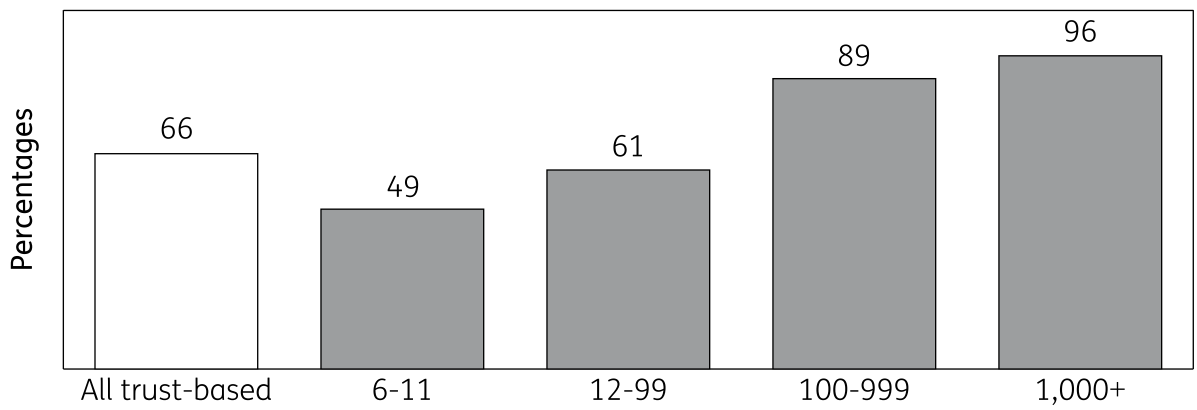
- While the vast majority of contract-based pensions offered members a choice of funds to invest in, trust-based schemes often did not, particularly smaller schemes.
- Most scheme members tended to invest in the default fund, which did not carry additional charges: providers themselves pointed out that between 80 and 95 per cent of members were invested in such funds.
- Just under a third of employers reported that their schemes had funds that carried an additional charge; whereas charges for fund switching were rare.

There are many ways in which pensions can be set up for individual employers or schemes: many schemes offer a choice of pension funds from which members can choose one or a selection of funds they would like their pension contributions to be invested in. While the vast majority of contract-based schemes offered their members a choice of funds to invest in (81 per cent), significantly fewer trust-based schemes offered a choice (66 per cent).

Trust-based schemes

The likelihood of a trust-based scheme offering a choice of funds related to size, with trust-based schemes with six to 11 members the least likely to offer a choice of funds (49 per cent), compared to almost all schemes with 1,000 members or more (96 per cent), as Figure 7.4 shows.

Figure 7.4 Choice of funds offered to members in trust-based schemes, by scheme size



D1. Do members have a choice of funds that they can invest their pension in?
Base: All trust-based (719), 6–11 (121), 12–99 (259), 100–999 (215), 1,000+ (124).

Additionally, trust-based schemes that paid a fee for their advice were more likely to offer a choice of funds (78 per cent of schemes that paid fees to advisers offered a choice, compared with only 53 per cent of schemes that did not pay for advisers).

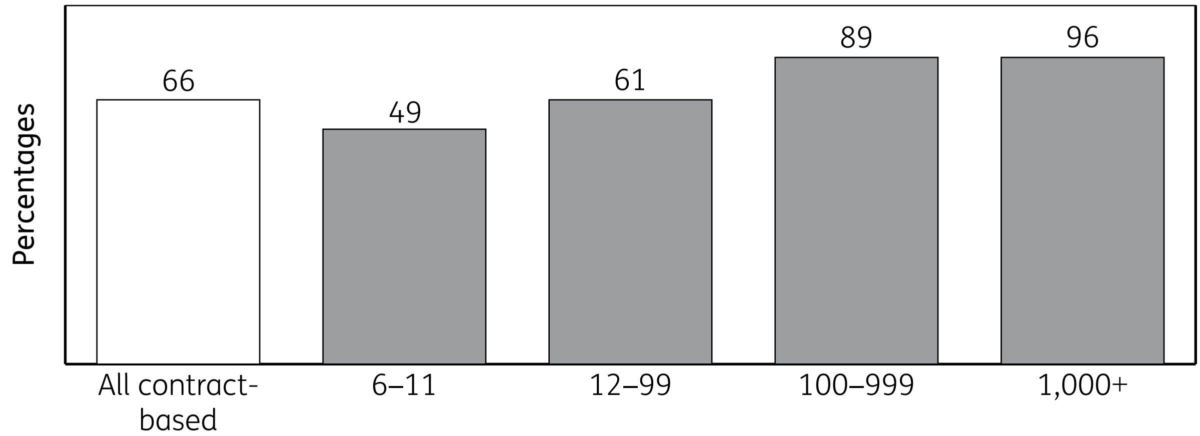
It is worth noting that there was some indication that these figures given to us by employers did somewhat understate the true percentage of schemes offering a choice of funds. While 66 per cent of all trust-based schemes were said to have offered a choice of funds, if we only examine the group of employers who believed that their members paid no charges, only 57 per cent said that their scheme offered a choice of funds. This significant difference is likely, to some extent, to reflect a gap in awareness, suggesting that some employers may simply be unaware of the fact that a choice of funds is offered. Since we cannot estimate the true impact of this effect, it does mean that these particular results need to be treated with some caution.[19]

Contract-based schemes

In total, 81 per cent of contract-based schemes offered members a choice of funds, with a link between scheme size and the likelihood of offering a choice, albeit less clear than for trust-based schemes (see Figure 7.5).

19 Other results in this chapter, and elsewhere, did not show the same gap in awareness, except where we have stated this.

Figure 7.5 Choice of funds offered to members in contract-based schemes, by scheme size



D1. Do members have a choice of funds that they can invest their pension in?
Base: All contract-based (514), 6-11 (116), 12-99 (162), 100-999 (157), 1,000+ (79).

Members of Group Personal Pension (GPP) schemes were more likely to be offered a choice of funds (85 per cent compared with 73 per cent of Group Stakeholder Pension (GSHP) members). Unlike in trust-based schemes, the use of an adviser by contract-based schemes had no significant impact on their likelihood of offering a choice of pension funds.

Once again, while 81 per cent of all contract-based schemes were said to have offered a choice of funds, if we only examine the group of employers who believed that their members paid no charges, only 73 per cent said that their scheme offered a choice of funds. This significant difference is likely, to some extent, to reflect a gap in awareness, suggesting that some employers may simply be unaware of the fact that a choice of funds is offered. Since we cannot estimate the true impact of this effect, it does mean that these results need to be treated with some caution.

Providers typically reported that, regardless of the choice available, the vast majority of members (typically 80 per cent or more) tended to invest only in the default fund, and so ensuring that this particular fund meets the majority of members' needs was seen as more important than offering several options.

7.4.1 Charges for fund choices and switching

As different fund choices entail different fund management costs, certain fund choices may carry additional charges to members. Under certain circumstances, some schemes may also charge for switching between funds. Both of these possible charges are examined in this section.

Trust-based schemes

Just under a third (30 per cent) of trust-based schemes reported that members would have to pay additional charges for certain fund choices. Table 7.2 shows that the likelihood of additional charges applying was higher among larger schemes (41 per cent of schemes with 1,000 or more members).

Table 7.2 Whether any fund choices carry an additional charge to members of trust-based schemes, by scheme size

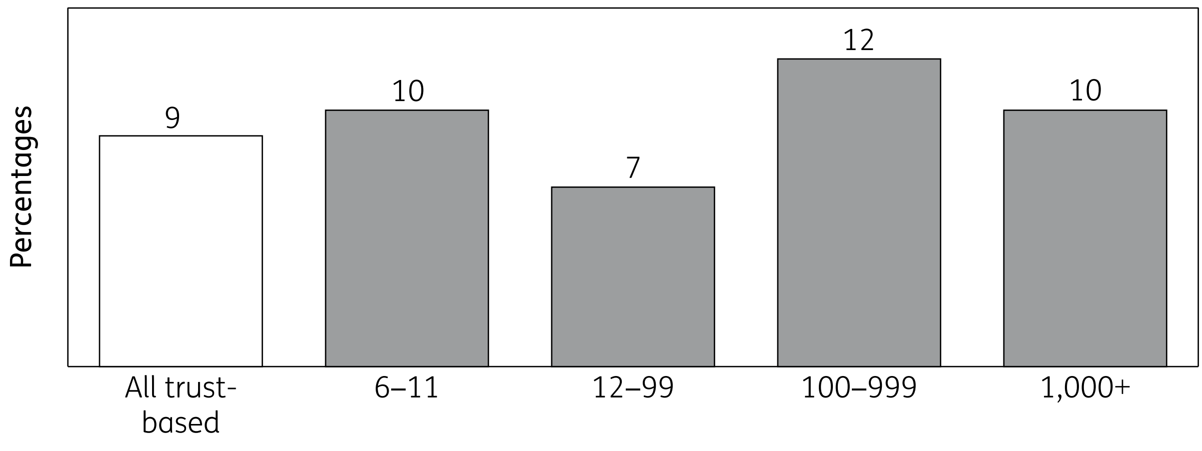
	All trust-based schemes where members have a choice of funds (column percentages)				
	All trust-based	**6–11**	**12–99**	**100–999**	**1,000+**
Yes – there are charges	30	22	22	40	41
No – there are no charges	65	66	73	57	56
Don't know/refused	6	12	5	3	3

D2. Do any fund choices carry an additional charge to scheme members, over and above the charges applied to the default fund? All trust-based schemes where members have a choice of funds (526), 6–11 (59), 12–99 (157), 100–999 (191), 1,000+ (119).

Employers using an adviser were significantly more likely to report that certain fund choices carried an additional charge (36 per cent of schemes using an adviser compared to 14 per cent of schemes not using an adviser). This may suggest that employers using an adviser have a more detailed knowledge of the characteristics of their own scheme than those that do not.

Only a small minority of trust-based schemes reported that charges were levied if members switch funds (nine per cent), with no significant differences by scheme size, as Figure 7.6 shows.

Figure 7.6 Whether there are charges to members for switching funds in trust-based schemes, by scheme size



D6. Are there any charges to members for switching funds?
Base: All trust-based schemes where members have a choice of funds (526), 6–11 (59), 12–99 (157), 100–999 (191), 1,000+ (119).

In the minority of cases where charges for switching funds applied, most (62 per cent) said that such charges applied only above a certain number of switches (an average of three switches).

Contract-based schemes

As was the case in trust-based schemes, just under a third (30 per cent) of contract-based schemes carried additional charges for certain fund choices, and the likelihood of doing so increased with scheme size, as Table 7.3 shows.

Table 7.3 Whether any fund choices carry an additional charge to members of contract-based schemes, by scheme size

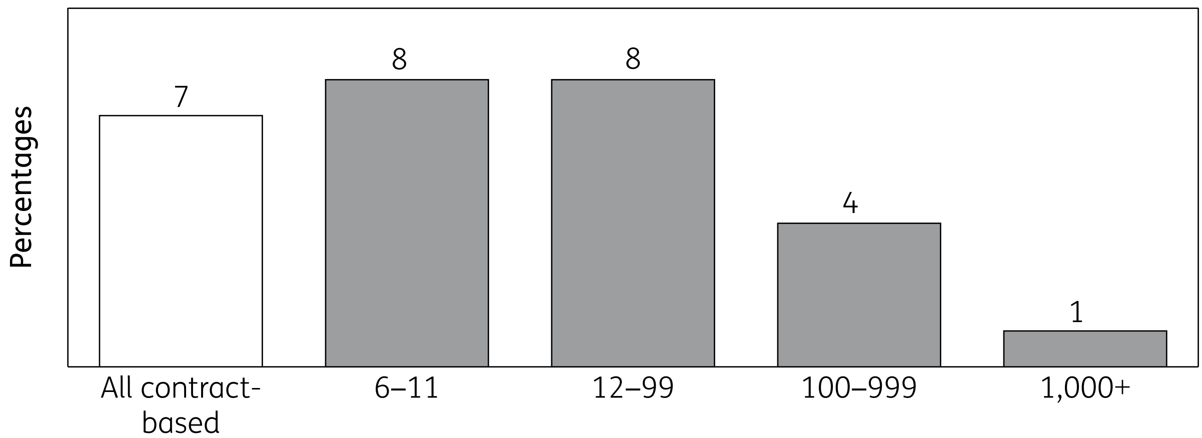
	All trust-based schemes where members have a choice of funds (column percentages)				
	All trust-based	6–11	12–99	100–999	1,000+
Yes – there are charges	30	22	28	38	65
No – there are no charges	55	67	56	44	30
Don't know/refused	15	11	15	18	5

D2. Do any fund choices carry an additional charge to scheme members, over and above the charges applied to the default fund? All contract-based schemes where members have a choice of funds (435), 6–11 (83), 12–99 (131), 100–999 (147), 1,000+ (74).

Employers with GPPs were more likely than those with GSHPs to report additional charges (34 per cent compared to 18 per cent), as were employers using advisers (34 per cent compared with 23 per cent of schemes not using advisers).

A very small minority of all schemes (seven per cent) schemes reported that charges for fund switching ever applied, as Figure 7.7 shows.

Figure 7.7 Whether there are charges to members for switching funds in contract-based schemes, by scheme size



D6. Are there any charges to members for switching funds?
Base: All contract-based schemes where members have a choice of funds (435), 6–11 (83), 12–99 (131), 100–999 (147), 1,000+ (74).

In the few cases where the fund switching charges applied, a quarter of schemes reported that charges applied to all switches, while 46 per cent said charges applied only above a certain number of switches (average of seven switches).

Contract-based scheme providers

Providers typically stressed that in most schemes the majority of scheme members invested in the default fund, which typically did not carry any additional charges. Even if individuals chose funds other than the default, most other internally managed funds would still carry no additional charges. Providers most commonly reported that between 80 per cent and 95 per cent of all members were invested in funds that carried no additional charges.

> *'About 95 per cent of the monies invested with us are in our internal funds. They are in a fund that carries no additional charge. Just less than five per cent would carry an additional charge, and that additional charge is usually about 0.5 per cent.'*
>
> (Provider)

Overall, providers reported that only a minority of members would pay any additional charges. Providers listed two main fund types where additional charges would apply:

- externally managed funds, which tended to carry additional charges for the external fund to be added to the provider's platform;
- certain specialist actively managed funds, which were more complex to manage and required more intense active management. Examples included property or emerging market funds. These could be both internal or external funds.

> *'So most of these additional charges are* [there] *because people are selecting funds from a fund manager for a specific type of investment that comes at a higher cost. So generally it applies to more specialist funds, more actively managed type funds. So* [provider] *isn't charging that. It's the fund manager. Not many people do that because your average investor doesn't know what they are doing on this side of things, so they will go with the default fund which will generally be a passive fund with no additional charge at all.'*
>
> (Provider)

Some providers pointed out that members who did invest in funds attracting higher charges would typically only invest a proportion of their pension pot in these funds, so the higher charge would only apply to a proportion of their investments.

Two examples of providers' additional fund management charges for certain funds are given below. In Table 7.4, just under 14 per cent of members are invested in funds that are subject to additional fund management charges, all of which are less than one per cent. In Example B in Table 7.5, 21 per cent of funds invested are subject to additional fund management charges, most of less than one per cent.

Table 7.4 Example of additional fund management charges (Provider A)

Provider A, where 13.6 per cent of members are subject to additional fund management charges	
Level of additional fund management charge (%)	**Percentage invested in such funds (%)**
0.00 – 0.5	5
0.51 – 0.75	6
0.76 – 1.00	2

Provider Q6: We would like to understand what percentage of all SHP/GPP members are invested in funds that are subject to additional fund management charges, over and above the basic AMC. Provider data is not representative of the whole market, and should be treated as indicative.

Table 7.5 Example of additional fund management charges (Provider B)

Provider B, where 21 per cent of funds invested are subject to additional fund management charges	
Level of additional fund management charge (%)	**Percentage invested in such funds (%)**
>0.00 – 0.5	11
0.51 – 1.0	10
1.01 – 1.05	0.3

Provider Q6: We would like to understand what percentage of all SHP/GPP members are invested in funds that are subject to additional fund management charges, over and above the basic AMC. Provider data is not representative of the whole market, and should be treated as indicative.

7.5 Transferring funds out and in

Key findings

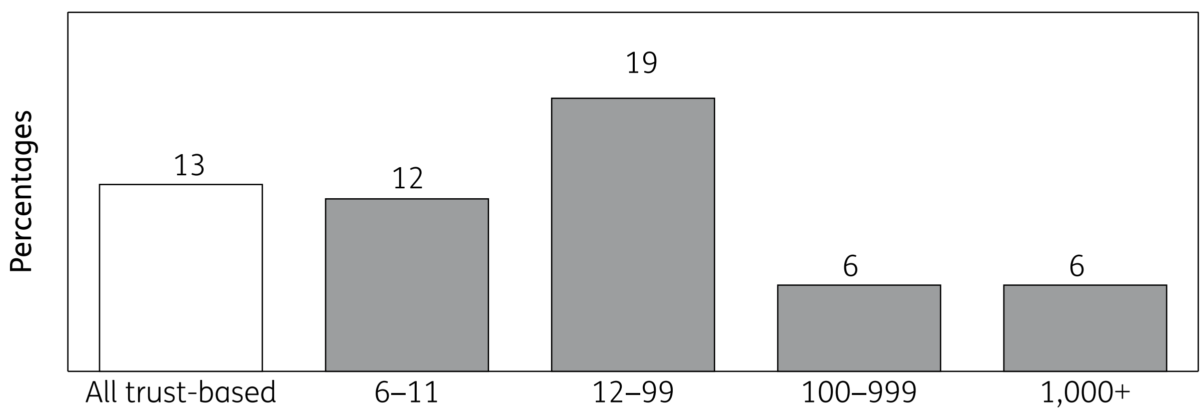
- Just over one in ten schemes believed that members were charged for transferring funds out of the scheme, with far fewer aware of any charges for transfers in.
- No providers said they charged any members for transfers out or in.

Charges for a member transferring their entire pension pot either out of or into a scheme were rare among both trust- and contract-based schemes.

Trust-based schemes

Just over one in 10 trust-based schemes (13 per cent) believed that members were charged for transferring funds out (Figure 7.8), while only three per cent were aware of any charge for transfers in (Figure 7.9). Larger schemes were the least likely to carry a charge for transfers out of or into a scheme.

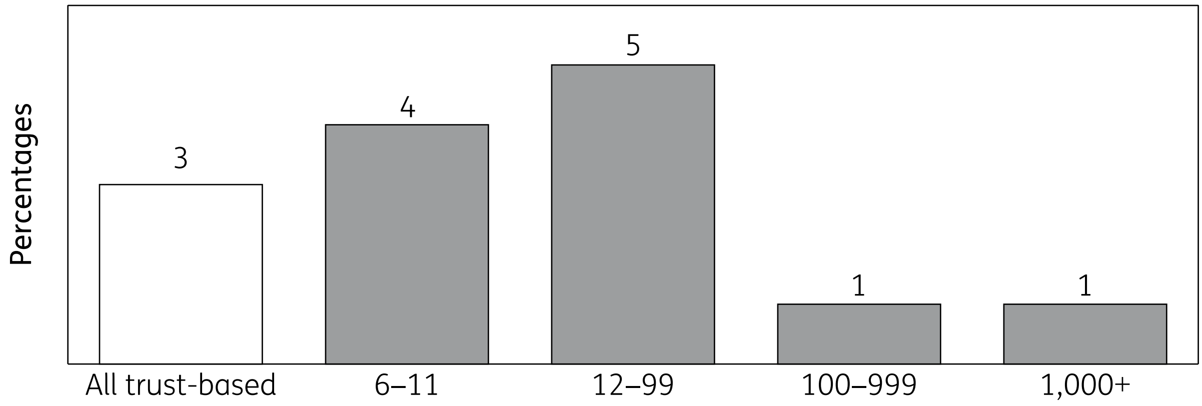
Figure 7.8 Trust-based schemes where charges for transfers out apply, by scheme size



D11. Are there any charges to members for transferring funds out of the scheme?
Base: All trust-based (719), 6–11 (121), 12–99 (259), 100–999 (215), 1,000+ (124).

In the rare cases where charges for transfers out applied, these were charged as a percentage of the pension fund (47 per cent of trust-based schemes where these charges applied), while almost a third of trust-based schemes did know the charging method (29 per cent). However, most were unable to estimate the actual level of charge.

Figure 7.9 Trust-based schemes where charges for transfers in apply, by scheme size



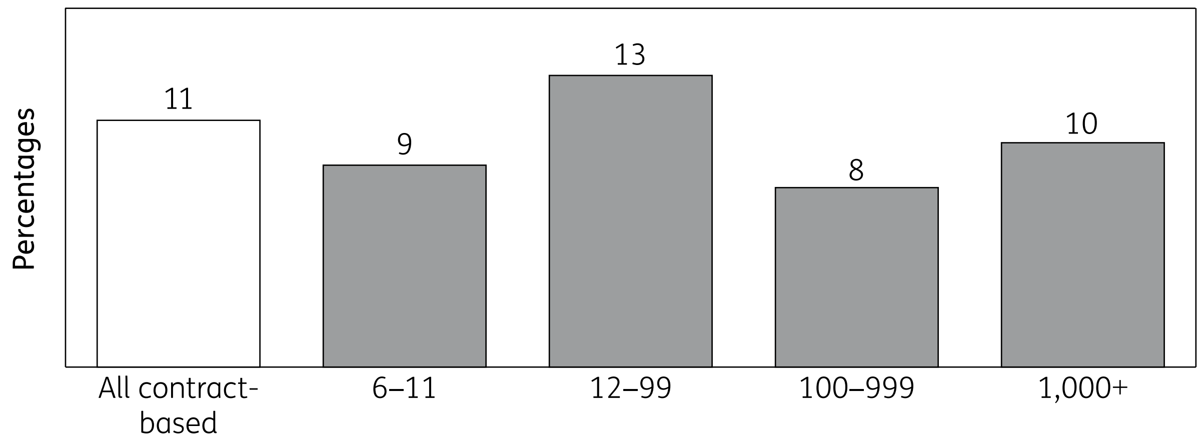
D14. Are there any charges to members for transferring funds into the scheme?
Base: All trust-based (719), 6–11 (121), 12–99 (259), 100–999 (215), 1,000+ (124).

The very few schemes where charges for transfers in applied said that the charge was structured either as a percentage of the pension fund (37 per cent) or charged as a flat fee (28 per cent). Almost none could estimate the charge level.

Contract-based schemes

Charges for transfers out of and into a scheme were equally rare among contract-based schemes. Eleven per cent said that the charges for transfers out applied (see Figure 7.10).

Figure 7.10 Contract-based schemes where charges for transfers out apply, by scheme size

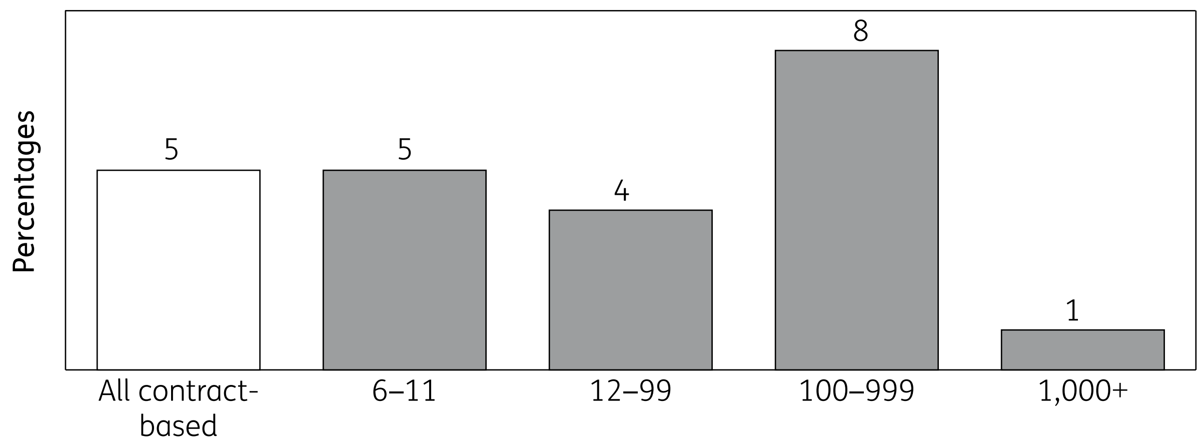


D11. Are there any charges to members for transferring funds out of the scheme?
Base: All contract-based (514), 6–11 (116), 12–99 (162), 100–999 (157), 1,000+ (79).

Where charges for transfers out applied, a third of contract-based schemes said these were paid as a percentage of the pension fund (32 per cent), while over half were unable to specify payment method (51 per cent). Virtually none could estimate the actual level of charge.

Only five per cent reported charges for transfers in, declining to only one per cent of schemes with 1,000 or more members, as Figure 7.11 shows.

Figure 7.11 Contract-based schemes where charges for transfers in apply, by scheme size



D14. Are there any charges to members for transferring funds into the scheme?
Base: All contract-based (514), 6–11 (116), 12–99 (162), 100–999 (157), 1,000+ (79).

Contract-based scheme providers

No provider said that they charged any members for transfers out or in at the time this research was conducted.

7.6 Member-specific discounts

Key findings

- Four per cent of trust-based and 16 per cent of contract-based schemes operated AMD.
- While AMDs were rare among employers, some large providers claimed to have sold the majority of their contract-based schemes on this basis in the past 12 months, as they have reportedly become increasingly popular with employers.
- Awareness of other member-specific discounts was low.

In this section we will review usage of four types of member-specific discounts that may apply to certain members' funds:

- AMDs;
- front-loaded charges;
- discounts for large funds;
- discounts for high contributions.

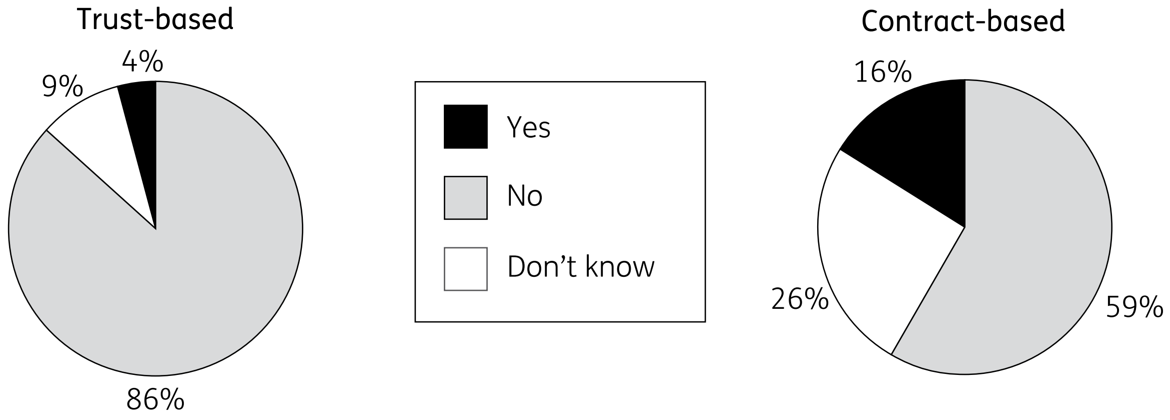
Of these four types of charging variation, only AMDs were used by a large proportion of employers and providers.

7.6.1 AMDs

Some providers offer lower AMCs to members who are currently making contributions into the scheme (active members) than to members who are no longer making contributions (deferred members). In part this is to encourage employee persistency, as well as to offset the administrative costs of administering the funds of members whose pots are not increasing in size.

It was extremely rare for employers with trust-based schemes to mention that AMDs were in operation on their scheme (just four per cent said their active members benefit from a discount). A significantly higher proportion of contract-based schemes used an AMD (16 per cent, as illustrated by Figure 7.12).

Figure 7.12 Use of AMDs



F1. Do active scheme members pay lower charges than deferred scheme members?
Base: All trust-based schemes where members pay charges (253); all contract-based schemes where members pay charges (219).

Contract-based scheme providers

Providers reported that the AMDs had become increasingly popular with employers, who reportedly liked the idea of encouraging employee persistency. AMDs were also favoured by some of the providers, who could charge a higher AMC on deferred pots that were no longer growing and which could otherwise become unprofitable.

Some of the very large providers had sold the majority of their GPPs with AMDs in the 12 months prior to the research.

> *'I can give you the exact figure: 85 per cent of the schemes we have written in the last year have gone for the AMD option.'*
>
> (Provider)

The exact level of AMD would be negotiated between the provider and the individual employer as well as the adviser if their services were used. Table 7.6 illustrates the range of typical discounts offered by providers, which range from as little as 0.1 per cent to as much as 0.9 per cent.

Table 7.6 Typical range of AMDs used by providers

Typical minimum percentage point discount applied to AMC	Average percentage point discount applied to AMC	Typical maximum percentage point discount applied to AMC
0.05%-0.15%	0.45%-0.55%	0.5%-0.9%

Provider Q3 How many SHP and GPP schemes have you sold in the last 12 months where an Active Member Discount has been applied? Where you have given a discount to active members, we would like to understand the level of discount typically offered. If possible please quote the typical minimum; the average; and the typical maximum discount offered. Provider data is not representative of the whole market, and should be treated as indicative.

Some providers felt that the AMD helped to distribute the cost of pensions more fairly between members. The exact level of discount would depend upon what the employer wanted to achieve and how much subsidy of the active members by the deferred members would be seen as acceptable by the employer and adviser (where relevant).

'So deferred members are subsidising the actives. [...] If you are in at .25 for actives you would want to set a price for the deferred members which is fair for that individual in the market. So you wouldn't have a scheme where you are maybe offering 1.5 per cent AMC for deferred members because the individual can clearly get better than that going elsewhere.'

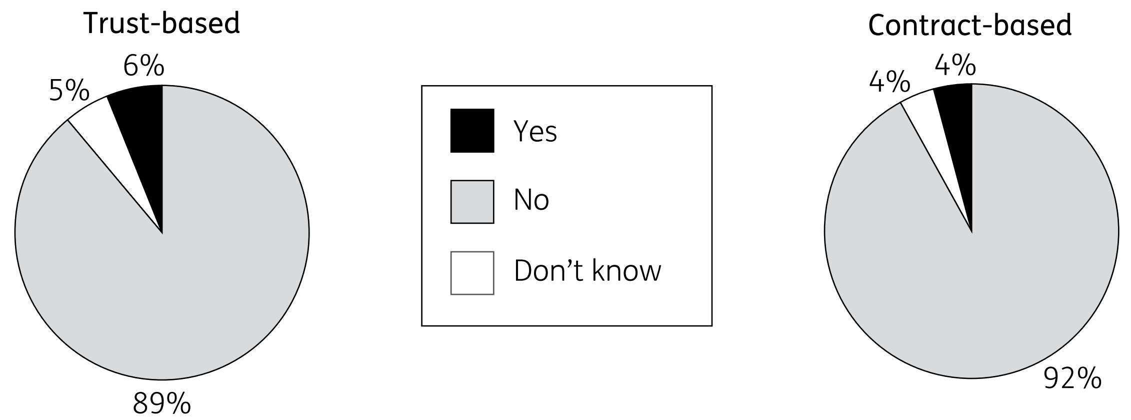
(Provider)

However, not all providers sold schemes with AMDs. Some providers said they were cautious over the use of AMDs, because of the risk involved in anticipating staff turnover. If the turnover proved to be unexpectedly low and the differential set too high, the provider could make a loss.

7.6.2 Front-loaded AMC

Some providers may charge new members a higher AMC for a limited period of time (typically in the first years of membership), so to recoup set-up costs more quickly than would be possible through the usual AMC. Only a small minority of trust-based (six per cent) and contract-based schemes (four per cent) said that their new members could pay higher AMC in first years of membership, as Figure 7.13 shows.

Figure 7.13 Use of front-loaded AMC



F10. Do members pay higher charges in their first years of scheme membership?
Base: All trust-based schemes where members pay charges (253); all contract-based schemes where members pay charges (219).

Contract-based scheme providers

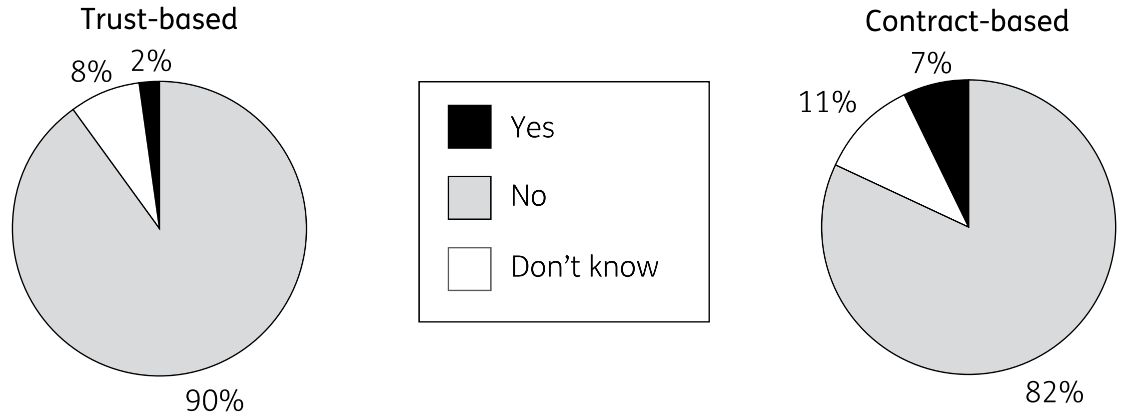
Extremely rarely, providers had sold a minority of their schemes with a front-loaded contribution charge for members. In these cases, members typically paid a percentage of their first year contributions to the provider (usually around seven per cent) for a subsequent discount on the AMC in further years. Such schemes were only ever used when agreed with the employer and adviser in advance.

7.6.3 Large fund discounts

Occasionally, providers may offer lower AMCs to members with pension funds above a certain amount.

Only a very small minority of trust-based schemes said their members with large pension funds received a discount (two per cent), while a slightly higher proportion of contract-based schemes said their members benefited from this type of discount (seven per cent), as Figure 7.14 shows.

Figure 7.14 Use of large fund discounts



F3. Do members with larger funds pay lower charges than other scheme members?
Base: All trust-based schemes where members pay charges (253); all contract-based schemes where members pay charges (219).

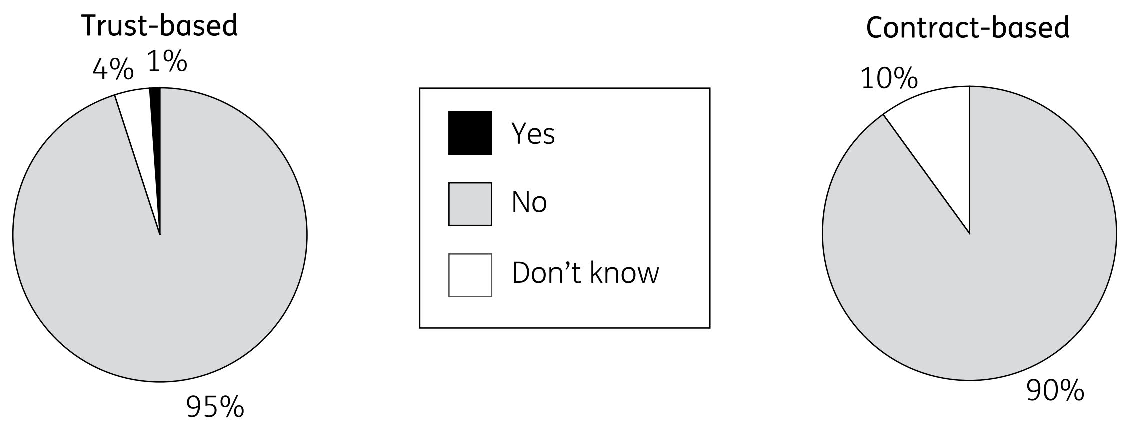
Contract-based scheme providers

A small number of providers sold a minority of schemes with a large fund discount, with discounts in the range of 0.25 to 0.3 per cent for fund sizes in excess of £25,000 to £50,000.

7.6.4 Higher contribution discounts

Employers were asked whether there was a discount for members who received total contributions above a certain level. Only one per cent of trust-based and virtually no contract-based schemes said that a higher contribution discount applied to their schemes (see Figure 7.15).

Figure 7.15 Use of higher contribution discounts



F7. Do members that pay higher contributions pay lower charges than other scheme members?
Base: All trust-based schemes where members pay charges (253); all contract-based schemes where members pay charges (219).

Contract-based scheme providers

No provider mentioned use of high contribution discounts for individual members – although as Section 4.3 discussed, expected pension contributions were taken into consideration when setting the AMC to be applied to a particular employer’s scheme.

8 Provider costs

This chapter examines the costs incurred by pension providers in setting up and running a pension scheme for an employer. Results are based solely on the qualitative interviews that were conducted with pension providers, alongside data that they could provide with regard to their own costs.

We will examine the following topics:

- the approach providers took to measuring their own costs as part of this study;
- scheme set-up costs;
- ongoing administrative costs;
- ongoing fund management costs;
- the cost of commission;
- transfer costs;
- expected de-enrolment costs under automatic enrolment;
- the expected impact of the pension reforms and other legislation on costs.

8.1 Providers' approach to measuring costs

Key findings

- While providers were able to discuss broad elements that impacted their costs, no provider had ever attempted to break down their own costs in detail.
- Overall costs comprised a number of fixed and ad hoc elements including administration, fund management and various overheads.

Measuring the providers' total costs in running a pension scheme was seen to be an extremely complex process, and many providers had not done such calculations themselves in the past.

Since information regarding providers' own costs was not readily available, as part of this study we asked them to provide any data that they were able to uncover via their systems. The process included a combination of face-to-face interviews, as well as phone and email communication over a period of a few weeks. Most of the data shared by the providers included rough estimates, as none of the organisations had attempted to break down their costs in the requested way before. Therefore, the costs outlined in this section should be treated as indicative only.

A full copy of the table that providers were asked to complete with costs information can be found in Section B.2.

The total costs incurred by a provider could include the following elements:

- fixed costs, such as IT systems, building maintenance, regulatory fees, etc., which were said to be very hard to calculate, and providers did not include these in their calculations;
- administrative costs: these were based on providers' internal time, and would typically include set-up and administration of schemes but also the cost of communication and adhering to regulations. Some providers were able to estimate these;
- direct costs, such as commission and fund management costs: these could be estimated more easily, as they were a direct cost levied by the fund manager and passed onto scheme members.

8.2 Scheme set-up costs

Key findings

- Provider costs for scheme set-up varied and depended mostly on scheme size.
- Set-up costs appeared to be as low as £50 to £100 per member in larger schemes, but the very smallest schemes could cost the provider much more per member because of fixed set-up costs for each employer.
- Higher set-up costs often put providers in a loss-making situation in the early years of a scheme, because the Annual Management Charges (AMCs) to members were too low to cover the costs.

When providers were required to set up a new pension scheme for an employer, they were typically required to perform a number of administrative tasks entailing internal staff time and, in rare cases, payment of external sales consultants. These costs varied between individual providers, although most agreed that they were driven by the following tasks:

- producing a tender document for employers and in some cases attending a 'beauty parade' of different providers;
- the technical set-up of schemes;
- providing initial communications to new members.

These costs would differ from provider to provider, partially depending on how automated their systems were (the greater the level of automation achieved by the provider, the lower their costs were).

Providers had difficulty in providing exact figures for these set-up costs, but typically providers' costs were estimated to be around £50 to £100 per member. Only a minority of providers were able to provide more detailed set-up costs broken down by scheme size, and these are outlined in Table 8.1. In both of these cases the costs given were more than £100 per member. Provider A used a flat cost per member for schemes of all sizes, based on around three hours' work charged at £45 per hour. Conversely, Provider B indicated that set-up costs decreased for larger schemes as there were a number of fixed costs involved in the set-up of any scheme. In this case, the cost varied from around £800 for the smallest schemes to £130 for the largest schemes.

Table 8.1 Example set-up costs per member, by scheme size

	Two participating providers (shown in £)				
	Less than 12	**12–99**	**100–249**	**250–499**	**500+**
Provider A	134	134	134	134	134
Provider B	800	300	170	140	130

Provider data is not representative of the whole market, and should be treated as indicative.

Other factors impacting the set-up costs included the degree of effort needed in the selling process and during the set-up of the scheme. This would partially depend on how the scheme was commissioned: whether it was commissioned directly or via an intermediary. Where the scheme was sold through an intermediary, employers often required minimal support from the providers, while others often may have needed more complex advice.

> *'The set-up cost will contain a large variable amount depending on whether or not it is direct or indirect, or whether the adviser is involved in the process, etc.'*
>
> (Provider)

Some providers pointed out that the costs incurred during set-up would typically put a provider in a vulnerable position, because charges collected on the first contributions would be low and would not cover the cost of set-up. Providers often said that recouping initial set-up costs would take time, and they could incur losses if a member left the scheme shortly after joining it.

> *'In an ideal world you would have a charging structure that would say "It has cost us per member £50, say, to set up a policy. You pay that Mr Member and then that is you covered", but in reality the market doesn't work that way. They have always worked off the one per cent AMC to begin with, which has been dragged down over time. So the exposure for providers is quite high in the early years, because the income they are actually getting from these policies is very, very low. It is simple arithmetic. If you suddenly stick in £100 a month, £1,200 at the end of that year, and you are only taking one per cent of that, so you are in at £12, and £12 doesn't go a long way to covering all these costs.'*
>
> (Provider)

8.3 Ongoing administrative costs

Key findings

- Ongoing costs were extremely difficult for providers to measure.
- Annual estimates varied from £30 to £166 per active member, mostly comprised of internal time, plus fund management costs.
- Costs for deferred members were lower, estimated at between £25 and £55 per member.

Ongoing administrative costs to a provider typically consisted of the internal time required in providing scheme administration. Typically, this included processing member contributions, any fund switches, new members and departing members. Additionally, providers needed to produce the associated communications to members and employers.

Providers could not break down the administrative costs into separate totals, as the costs were influenced by a number of interlocking variables, including:

- scheme characteristics (scheme size; the proportion of active and deferred members in a scheme; employee turnover);
- member characteristics (salary and contributions; the member's term to retirement; the likelihood of members continuing to contribute to the scheme);
- individual member requirements, including making fund switches;
- bespoke employer or intermediary requirements, including the possible need to 're-broke' or re-tender the scheme;
- the role of intermediaries in ongoing scheme management.

Some providers were able to estimate an annual cost per member, but these varied widely between different providers, as shown in Table 8.2. Costs per active members were reportedly between £30 and £170, with costs for deferred members lower at between £25 and £55 per member.

Table 8.2 Examples of ongoing costs per active and deferred member

	Three participating providers (shown in £)	
	Annual cost per active member	**Annual cost per deferred member**
Provider A	30	25
Provider B	40	35
Provider C	166	55

Provider data is not representative of the whole market, and should be treated as indicative.

Some providers mentioned that there was a cost associated with processing member fund switches. When a member decided to switch funds, the provider would need to instruct the fund manager to make the switch, and provide them with information about the proportion of their total pension pot the member wanted invested in each fund. This created an administrative cost to the provider, but this was not typically passed onto the member.

8.4 Fund management costs

Key findings

- Fund management costs to the provider for a typical passive default fund ranged between 0.06 per cent and 0.12 per cent of the fund per annum.
- Where additional fund management costs for certain member fund choices were significant, they were passed on to members via an increase in the AMC.

Fund management costs differed from providers' other ongoing costs in that they were direct costs, levied in proportion to the size of the individual's pension pot. In comparison other ongoing administrative costs essentially represented internal time, which could only be recouped over time via the AMC.

Providers typically paid fund management fees to fund managers as a percentage of members' funds. These ranged from 0.06 per cent to 0.12 per cent of the fund per annum for the provider's in-house funds and for passively managed funds that were typically used as default funds. Whatever the precise level of charge to the provider, the costs of fund management for such funds were included as part of the members' basic AMC.

Certain other types of funds, such as those requiring more active management, or external funds (i.e. those run by other providers' fund managers), attracted higher fund management costs. Providers sometimes passed these on to members through the AMC: the circumstances where this happened are detailed in Section 7.4.1.

Providers typically reported that the majority of members were invested in default funds. Only a minority, therefore, would be incurring the higher costs associated with active funds.

> *'It would just be the cost that the external fund manager puts on it. Often these ones are actively managed funds. If you have an external fund, it is actively managed therefore there is a higher cost. In terms of what we do, it will actually be slightly cheaper having an external fund because all we are doing is taking the information from it, whereas when we have an internal fund we are actually doing the management of the monies.'*
>
> (Provider)

8.5 Cost of commission

Key findings

- Intermediary commission, where paid, was seen as complex, and varied depending on the approach taken by the intermediary.
- The cost of commission was passed on to scheme members indirectly through the AMC, with a typical increase of between 0.2 per cent and 0.4 per cent.
- Adviser charging was expected to replace commission from 2013.

Providers' approaches to commission did vary somewhat. There was recognition that not all employers would be willing to pay a fee for a pensions intermediary, but that some would, nevertheless, need advice. The current alternative to fees – the provider paying the intermediary commission for the new business they introduced – was an approach used by some providers, although others said that they did not use commission-based intermediaries at all.[20]

Where providers did use commission-based intermediaries to sell new pension schemes there were two main approaches taken: trail commission and initial commission. In the case of trail commission, the intermediary charges the provider a percentage of the regular contributions made over the lifetime of a policy, typically between two and five per cent of the ongoing contributions. In contrast, where initial commission is in place, the intermediary charges the provider a higher percentage of regular contributions in the first year or years of the individual's membership only, which would typically cost a provider between ten and 30 per cent of the first year's contributions.

[20] Providers' views on the use of commission-based and fee-based intermediaries is explored in other Department for Work and Pensions (DWP) research, see for example: Wood, A. *et al.* (2011). *Likely industry responses to the workplace pension reforms: Qualitative research with pension providers and intermediaries*. DWP Research Report No. 753.

It is important to appreciate that the cost of commission was not passed onto members directly – in other words, the initial or trail commission did not come directly from the individual's pension fund. Instead it was passed onto the scheme members indirectly through the AMC, with a typical increase of between 0.2 per cent and 0.4 per cent, as we saw in Section 4.3.2.

> '*They* [employers] *don't want to pay a fee – the only other way is to do it via commission. If you are an independent adviser today you have to offer your customer both options, but inevitably they go for commission because they can't afford to pay the fee. So they load it into the product and that is what pushes the charge up.*'
>
> (Provider)

In practice, this meant that schemes could run at a loss for providers in the early years, because the cost of commission could only be recouped over time via the AMC – but for many providers commission was seen as a 'necessary evil', as it was the only way to attract certain business. A minority of providers even said that the schemes they sold via commission-based intermediaries were in fact cheaper to them in the early years than those sold directly, because of the cost of compliance: if a scheme was sold via an adviser, the cost of compliance would be covered by the adviser.

> '*Directly they would generally be more expensive, and the reason for that is that we have to bear all the compliance costs and all the risk of the mis-selling. So we tend to always charge our direct schemes to be a higher cost than maybe some of the commission payment or IFA-advised schemes.*'
>
> (Provider)

8.5.1 Impact of the Retail Distribution Review on commission

In preparation for the Retail Distribution Review (RDR), which will ban trail commission on new policies sold, some providers had developed support for an alternative charging mechanism, through which intermediaries take the charges that they previously took as commission directly from members' funds. This was known as 'adviser charging', which could be taken either as a percentage of the member's contributions or as a percentage of members' funds per annum.

> '*We would add* [the adviser charge] *to the AMC, so we might say that our own charges are 0.5 per cent, which covers our investing the money and us doing all the administration. If the intermediary then wanted to use* [adviser charging] *we would either add to that 0.5 per cent, so we might say the AMC is one per cent including the adviser's charge, or, we would say "Okay, the AMC is still half a per cent", but the intermediary would take their fees out of the member's contributions.*'
>
> (Provider)

Consequently, some providers predicted that dual charging structures would become more common, comprising an AMC with additional charges levied directly by the intermediary. This would provide additional transparency, and allow the provider's AMC to fall, as they do not need to cover the cost of commission.

> '*Well obviously it won't be commission post-RDR. Obviously that impacts on our pricing because if there is commission there then obviously the price gets loaded up to cover the cost of that.*'
>
> (Provider)

As a result, some providers were already actively marketing consultancy charging, and avoiding traditional commission-based business, even though this was not due to be banned on new business sold until the start of 2013.

'Whilst we still sell AMC funded commission schemes, it is at far lower rates than other providers so we don't try and win that business. We try and win business that is much closer to your consultancy type charging. Probably over time we have been increasing the number of schemes that we can write on that basis. Last year we had quite a focus on advertising and marketing that.'

(Provider)

Certain providers also pointed out that Group Stakeholder Pensions (GSHPs) would not be compatible with adviser charging, because it was likely that the consultancy charge would increase costs to beyond the maximum permitted stakeholder charging cap.

'We don't plan to make the stakeholder product compatible with adviser consultancy charging, because basically there is a charge cap on stakeholder which includes the advisory costs. In factoring in the adviser costs we are always going to be breaching the charge cap.'

(Provider)

8.6 Transfer costs

Key findings

- Transfer costs were perceived to have little impact on charges because they were generally a low one-off cost.
- Typically the cost to transfer a pension pot out or in for a provider was reported at around £50 per member.

Most providers said the cost of transferring a pension fund from one provider to another had a relatively low impact on charges, because these were generally one-off costs, and relative to the other expenses, represented a very small proportion of the overall costs.

'Your new business costs and your transfer costs at the end are one-offs, so they are not a big element of the pricing. The other big element of cost is all of our overheads so the computer systems, the buildings, having a compliance department and HR department, all these sort of things. Transfer costs would just disappear into the ether. It would be 0.001 per cent.'

(Provider)

The interviews for this study were conducted at the same time as another study for the Department for Work and Pensions (DWP) with the same providers, which was dedicated to the subject of transfer costs.[21] Full details of transfer costs are available in that report. In summary, no provider that we interviewed had ever attempted to measure the cost of making a pension transfer. In most cases providers claimed that this was in part because it varied so much depending on the complexity of the transfer; but also because it was generally viewed as a relatively low cost, and an inherent part of their service.

Based on the cost of internal time and other related costs, some providers were able to provide an estimate of the minimum cost of a straightforward Group Personal Pension (GPP) to GPP transfer. The average marginal cost to a provider of a straightforward transfer out from a GPP to another GPP was just under £50. The average marginal cost to a receiving provider of the equivalent transfer was around £55.

21 Wood, A. *et al.* (2012). *Processes and costs of transferring a pension scheme: Qualitative research with pension providers and third-party administrators*. DWP.

However, all providers stressed that the figures they gave us were the minimum possible, for the most straightforward transfers, and only represented a fraction of the providers' actual transfer costs.

8.7 Impact of the pension reforms on provider costs and charges

Key findings

- The pension reforms were expected to increase providers' costs in the short term: stakeholder pensions were expected to be phased out and new systems set up.
- In the longer term there was disagreement as to whether increased revenue through the AMC and increased automation would offset increased administration due to opt-outs.
- Providers had not yet attempted to calculate what likely de-enrolment costs would be after automatic enrolment is introduced.

There was some uncertainty and disagreement between providers as to the likely effects of the pension reforms on provider costs. While all agreed that there would be initial set-up costs which could be considerable, there were mixed views as to whether in the long term increased automation would lead to lower running costs or the increased administration required would lead to higher running costs.

Taken together the RDR and the pension reforms were expected to have a significant impact on the pensions industry and the amount of schemes sold. Demand was expected to increase towards the end of 2012, when commission is banned. Then business was expected to slow down once the RDR was in place, and accelerate yet again once automatic enrolment became a requirement for medium-sized employers.

> *'So we are seeing a massive increase in the amount of business that we are writing and we suspect that this business will continue to be written and possibly an accelerating rate up until the end of 2012 and then we are expecting a sudden cliff edge to occur as in the amount of new schemes we write will certainly markedly reduce, and then it will pick up as auto-enrolment then brings the employers into the frame. So what we are seeing is a sudden cliff edge but then a pick-up of new business.'*
>
> (Provider)

In preparation for automatic enrolment, providers stressed the importance of updating IT systems: many already had plans to update their systems to allow for high volumes of new employers and their employees to be processed, as well as to allow for an influx of newly-enrolled members at employers already on their books. This would represent a substantial investment for most providers. While most could not make an estimate of these costs, one of the largest pension providers estimated a fixed cost of between 1.5 and three million pounds.

> *'The fixed costs, I would guess for us get a starting toehold – as in electronic transactions – would be somewhere in the region of £1.5 to three million. Given the fact that the amount of new business that you are going to get from these older schemes is likely to be quite low, it is very unlikely we will ever make that money back.'*
>
> (Provider)

In particular, providers believed that GSHPs, which had already declined in the market, would be phased out after automatic enrolment, partly because consultancy charging could be incompatible with GSHPs post-RDR (see Section 8.5.1), and partly because charging levels for GPPs had now come down to the levels of GSHPs (and our employer study confirmed this – see Section 4.2), meaning that GSHPs offered no additional benefits to the member above those of a GPP.

> ‘*Stakeholder cannot be seen to be a very actively sold product in the post auto-enrolment world. The need for it will decline as NEST* [the National Employment Savings Trust] *and other auto-enrolment products become product which people then benchmark charging.*’
>
> (Provider)

In the long term, some providers did feel that the reforms would reduce scheme set-up costs per member, because of a reduction in sales effort and in the communications required. With a larger number of members across the board, costs per member could decrease particularly if processes can become more automated.

> ‘*So I think when you get more mass, that should hopefully have a downward impact on your overall cost per member.*’
>
> (Provider)

Conversely, many providers felt that automatic enrolment would lead to the creation of many very small pension pots, which, combined with high employee turnover, would lead to an increase in administration costs, with large numbers of members needing to be enrolled and de-enrolled on a regular basis, while contributing little to their pension schemes. Their funds might, therefore, never reach the level required to generate significant revenue through the AMC.

In short, there was real uncertainty about the impact of the pension reforms on costs (and, in turn, profits) but providers typically felt this should become clearer over the next 12 months.

> ‘*It is almost impossible to say whether we will end up being better or worse off at the end of it. It will definitely be different. The main factor here is we can't anticipate in advance opt-out rates.*’
>
> (Provider)

After the reforms there would be conflicting pressures to increase versus decrease the AMCs applied to members' funds, and some providers felt that the introduction of NEST could lead to a marketplace where traditional pension providers could not compete, as they would be unable to match NEST's charging structures and remain profitable at the same time.

> ‘*It could end up with the fact that nobody can actually compete in this market, and then NEST becomes the only provider.*’
>
> (Provider)

8.7.1 Expected de-enrolment costs

Under the pension reforms, employers will be expected to automatically enrol all eligible employees into a qualifying workplace pension. Employees will have a specific window to opt out of the scheme. If an employee opts out within that window, the provider must refund any contributions deducted from pay, within specific timescales.

As part of this study, we asked providers to estimate what their expected de-enrolment costs might be, on a per-member basis. At the time of survey, however, providers typically reported that they were primarily focused on working out the details of automatic enrolment, rather than on the specific procedures and costs of this one specific element of the process. Some providers were still in the process of setting up the relevant IT systems, and were yet to fully decide the level of automation that might be involved in the de-enrolment process. Typically, the cost was expected to decrease the more automated the process became.

> *'We just haven't got our processes designed to that level of detail yet where we could stick a cost on it. It is going to depend on how automated we can get. If we get quite automated the costs will be quite low, but we just don't know how automated we will be able to get the whole thing.'*
>
> (Provider)

The costs associated with de-enrolment were expected to cover additional administration processes and implementing new technology to enable employers to de-enrol employees. Additionally, the cost was also expected to be influenced by member-specific circumstances, such as whether a member de-enrols just days after being automatically enrolled or whether they de-enrol closer to the maximum permitted time.

One provider did give an estimate of potential de-enrolment costs if automation could be achieved, but stressed that this was an estimate and likely to change as the processes involved become more certain:

- if an individual opts out during the opt-out period, and a refund must be processed: approximately £5 (around £2 to action the opt-out and £3 to process the refund of contributions);
- if an individual decides to leave the scheme after the opt-out period: approximately £1.50 (this was cheaper because no refund needs to be processed).

It was expected that most providers would be able to share more accurate data on de-enrolment costs at the end of 2012 or early 2013, once automatic enrolment begins.

Appendix A Materials used in conducting the research – employers

A.1 Introductory letter to the employer

[EMPLOYER NAME]

Dear [NAME]

Pension landscape and charges research

We are writing to you to ask for your help in a research study that has been commissioned by the Department for Work and Pensions. This research forms part of the DWP's ongoing research into pension provision to enable it to be fully informed about the pensions market.

The purpose of the research is to measure and monitor the charging structures, types and levels, as well as scheme turnover, in trust-based pension schemes and work-based personal pension schemes before the implementation of the workplace pension reforms in 2012. Trust-based only: We are contacting you for research purposes only. We would like to include you to learn more about your pension scheme. Contract based only: Your company has been selected at random from a database of all UK businesses and we are contacting you for research purposes only. We realise that many companies have no, or very limited, pension arrangements in place currently. However, we would still be interested in speaking to you if this is the case.

The research is being conducted on DWP's behalf by RS Consulting and Critical Research, who are independent research organisations. You will be contacted by Critical Research to take part in a telephone survey which it is estimated will last [Trust-based only: around/Contract based only: no more than] 15 minutes, depending on your answers. The attached fact sheet explains more about what this will entail.

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 or your organisation and no personal information will be shared with any third parties.

If you have any questions about the research or do not want to take part please let Critical Research know: you can contact the project team at Critical Research on [details withheld].

If you have any wider questions about the research study, my own contact details are at the top of this letter.

Your contribution will provide us with valuable information that will help to inform policy and improve the services we provide. We hope that you decide to take part.

Yours sincerely,

A.2 Employer questionnaire

Introduction for switchboard/gatekeeper: trust-based

Good morning/afternoon. Please could I speak to [FIRST CONTACT]?

If unavailable and alternative names in sample: Could I then speak to [NEXT SAMPLE CONTACT]?

If unavailable and no alternative names available: Could I then speak to the person responsible for dealing with pension scheme administration for [EMPLOYER]?

If asked: My name is... And I'm calling you from Critical Research, on behalf of the Department for Work and Pensions.

The DWP is currently conducting research into pension scheme charges. We are contacting you because [EMPLOYER] provides a pension scheme for its employees. We understand that [CONTACT] is responsible for dealing with pension scheme administration for [EMPLOYER].

Introduction for potential respondent: trust-based

Hello my name is... And I'm calling from Critical Research on behalf of the Department for Work and Pensions. We would like to ask you about costs and levels of charges involved in the [EMPLOYER] pension scheme. The information you give will form part of the DWP's ongoing research into pension provision to enable it to be fully informed about the pensions market.

Your participation in the research is entirely voluntary and will not affect your future dealings with the Department. You can withdraw from the research at any time.

I can assure you that anything you tell us during the course of the research will be treated in confidence by the 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. We will not tell DWP which organisations participated in this research.

If respondent asks where we got their contact details: Details were provided by The Pensions Regulator solely for the purposes of this research. The details indicated that you are responsible for dealing with pension scheme administration for [EMPLOYER]?

We would very much like to interview [EMPLOYER] as part of this study. The interview would take approximately 15 minutes depending on your answers, and would be conducted over the phone.

Once the research is completed we can send you the full findings of the study, if you would like to receive them.

Do you consent to take part in this research?

I will send you a letter from the Department for Work and Pensions, which gives you more information about the research, and the subjects we would like to discuss. If you do not wish to participate in the research you can let Critical Research know at any time; the letter includes a number and email address you can use for this. **Confirm contact details and send. Arrange a suitable time to re-contact respondent. If no firm appointment agreed, allow at least 3 days before re-contacting.**

Introduction for switchboard/gatekeeper: contract-based

Good morning/afternoon. Please could I speak to ...

1-4 employees: the owner of your company?

5-249 employees: your Finance Director?

250+ employees: your Pensions Manager? If not: In that case, could I please speak to your Finance Director?

If positions do not exist: In that case, could I speak to the most senior person responsible for employee salaries and benefits?

If asked: My name is... And I'm calling you from Critical Research, on behalf of the Department for Work and Pensions. The DWP is currently conducting research into company pension schemes.

If necessary, offer to send letter from DWP, either by post or by email to explain the purpose of the research. Confirm contact details and send.

Introduction and screening questions for potential respondent: contract-based

Hello my name is ... And I'm calling from Critical Research on behalf of the Department for Work and Pensions. The DWP is currently conducting research into company pension schemes. The information you give will form part of the DWP's ongoing research into pension provision to enable it to be fully informed about the pensions market.

Do you mind if I ask you a couple of questions first of all about pension provision at [EMPLOYER]?

Read re-assurance on confidentiality: I can assure you that anything you tell us during the course of the research will be treated in confidence by the 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. We will not tell DWP which organisations participated in this research.

If respondent asks where we got their contact details: Your company was selected at random from a database of all UK businesses.

S1 Can I just check that you are the best person to speak to regarding employee pensions and benefits at [EMPLOYER]?

SINGLE CODE

1	Yes	GO TO S2
2	No	SEEK REFERRAL
99	Refused	THANK AND CLOSE

S2 Does [EMPLOYER] offer any pension scheme that is open to new members?

SINGLE CODE

<table>
<tr><td>1</td><td>Yes</td><td>GO TO S3</td></tr>
<tr><td>2</td><td>No</td><td rowspan="3">THANK AND CLOSE</td></tr>
<tr><td>98</td><td>Don't know</td></tr>
<tr><td>99</td><td>Refused</td></tr>
</table>

S3 And does [EMPLOYER] make a contribution to any employees' pensions?

SINGLE CODE

1	Yes	GO TO S4
2	No	THANK AND CLOSE
98	Don't know	
99	Refused	

S4 And finally, does [EMPLOYER] have a pension scheme that has 6 members or more in total? **If unclear:** please include all active and deferred members.

Interviewer note: 'active member' is a member who is building up pension benefits from their present job. 'Deferred member' is a member who has left a scheme, but will get the pension benefits when they retire. This would usually be because they have left your organisation.

SINGLE CODE

1	Yes	QUALIFIES
2	No	THANK AND CLOSE
98	Don't know	
99	Refused	

If thank and close: I am sorry to say that you actually fall outside of the range of companies that we need to recruit as part of this study. **Apologize for taking up respondent's time.**

Otherwise: We would very much like to interview [EMPLOYER] as part of this study. The interview would take no more than 15 minutes depending on your answers, and would be conducted over the phone.

Once the research is completed we can send you the full findings of the study, if you would like to receive them.

Do you consent to take part in this research?

I will send you a letter from the Department for Work and Pensions, which gives you more information about the research, and the subjects we would like to discuss. If you do not wish to participate in the research you can let Critical Research know at any time; the letter includes a number and email address you can use for this. **Confirm contact details and send. Arrange a suitable time to re-contact respondent. If no firm appointment agreed, allow at least 3 days before re-contacting.**

Section A: Scheme classification

ASK A1a and A1b TO TRUST-BASED ONLY.

CONTRACT-BASED AUTO-CODE FROM S1 and S2

A1 Can I just check that you are the best person to speak to regarding the details of your pension scheme's costs and charges?

SINGLE CODE

1	Yes	GO TO A1a
2	No	SEEK REFERRAL
99	Refused	THANK AND CLOSE

A1a Do you have any pension schemes that are open to new members?

1	Yes	GO TO A2
2	No	THANK AND CLOSE
99	Refused	THANK AND CLOSE

IF FROM TRUST-BASED SAMPLE AND A1a=2

A1b According to The Pensions Regulator records, the [Named Scheme] is open to new members. Is this correct?

1	Yes	GO TO A2
2	No, the TPR record must be wrong	THANK AND CLOSE
98	Don't know	SEEK REFERRAL
99	Refused	THANK AND CLOSE

A2 Can you please confirm which types of pension you offer to your staff?

Initially, do not read out. If unclear or if categories below not given, prompt for contract-based: Is it, for example, a group stakeholder pension, a group personal pension, or a trust-based defined contribution scheme? **Prompt for trust-based:** Is it, for example, a trust-based defined contribution scheme run by a board of trustees?
Explain definitions if necessary.
If scheme type is described only as 'DC' confirm whether it is a trust-based DC scheme.
DO NOT FORCE INTO A SCHEME TYPE – IF RESPONDENT DOES NOT KNOW SEEK REFERRAL
Immediately after each answer coded: Is the scheme open to new members?
Prompt after answers: Do you offer any other types of pension to any other staff?
IF MORE THAN ONE IN EACH CATEGORY: Please focus on the larger of the schemes

MULTICODE; ONLY OPEN SCHEMES CAN QUALIFY

	Scheme	Definition	Open to new members?	
1	Trust-based defined contribution (DC)/ Trust-based money purchase/Multi-employer master trust	A scheme run by a board of trustees. The size of pension that members receive is not guaranteed by the employer: it will depend on the contributions invested and the returns received on the investment.	Y/N	IF ONLY QUALIFYING SCHEME GO TO A3, OTHERWISE GO TO A2c
2	Defined benefit/ Final salary/Career average	A scheme run by a board of trustees. Members receive a guaranteed pension depending on how much they are paid and the length of time they have been in the scheme.	Y/N	NOT A QUALIFYING SCHEME: THANK AND CLOSE IF ONLY SCHEME
3	Group Personal Pension (GPP)	A type of contract-based pension. It is set up by the employer, but the contract is between the individual member and the pension provider.	Y/N	IF ONLY QUALIFYING SCHEME GO TO A3, OTHERWISE GO TO A2c
4	Group Stakeholder Pension (SHP)	A contract-based pension that must meet certain legislative conditions set by the government.	Y/N	IF ONLY QUALIFYING SCHEME GO TO A3, OTHERWISE GO TO A2c
5	Group Self-invested Personal Pension (SIPP)	A special type of contract-based pension under which the members may choose to have additional freedom to control their own investments.	Y/N	IF ONLY QUALIFYING SCHEME GO TO A3, OTHERWISE GO TO A2c
6	Small, Self-administered Scheme (SSAS)	A scheme usually set up exclusively for a group of directors, all of whom are trustees of the scheme.	Y/N	ASK A2b
7	Hybrid scheme	A scheme that provides both defined benefit and defined contribution benefits.	Y/N	NOT A QUALIFYING SCHEME: THANK AND CLOSE IF ONLY SCHEME
8	NEST (The National Employment Savings Trust)	An occupational pension scheme that was established by legislation, aimed at jobholders on moderate to low incomes. Only a small number of employers have been specially invited to offer their employees NEST on a pilot basis: no other employer can yet offer the scheme.	Y/N	NOT A QUALIFYING SCHEME: THANK AND CLOSE IF ONLY SCHEME
97	Other			THANK AND CLOSE
98	Don’t know			
99	Refused			

IF FROM TRUST-BASED SAMPLE AND A2=3-5 ONLY

A2a Is the [SCHEME FROM A2] managed by a board of trustees?

SINGLE CODE

1	Yes	GO BACK AND RE-CODE AS TRUST-BASED SCHEME
2	No	CONTINUE AS CONTRACT-BASED SCHEME
98	Don't know	
99	Refused	

IF A2=6 (SSAS)

A2b You mentioned that you have a Small Self-administered Scheme, or SSAS. This is a scheme usually set up for a group of directors, all of whom are trustees of the scheme. Is this correct?

IF IN DOUBT: If your scheme has any members who are not trustees, it is not a SSAS.

SINGLE CODE

1	Yes – SSAS	NOT A QUALIFYING SCHEME: THANK AND CLOSE IF ONLY SCHEME. OTHERWISE FOLLOW RULES FOR OTHER SCHEMES AT A2
2	No	GO BACK TO A2 TO RE-CODE AS NO
98	Don't know	
99	Refused	

IF HAVE MORE THAN ONE QUALIFYING SCHEME AT A2

A2c You mentioned that [EMPLOYER] has [QUALIFYING ANSWERS FROM A2] schemes that are open to new members. Just looking at these schemes, could you tell us approximately what percentage of members are in each type of scheme?

1	A trust-based DC scheme	_______%
3	A Group Personal Pension	_______%
4	A Group Stakeholder Pension	_______%
5	A Group SIPP	_______%
98	Don't know	OBTAIN REFERRAL OR THANK AND CLOSE
99	Refused	

READ OUT: For the reminder of the interview, let's focus only on the **[REFERENCE SCHEME]**

ASK ALL

A3 Approximately how many active members does your [ANSWER FROM A2/A2c] scheme have?
PROBE FOR BEST ESTIMATE

Interviewer note: 'active member' is a member who is building up pension benefits from their present job. Retired members should not be included.

<table>
<tr><td>1</td><td>NUMBER:______________</td><td rowspan="9">GO TO A4</td></tr>
<tr><td colspan="2">BAND</td></tr>
<tr><td>2</td><td>Fewer than 6</td></tr>
<tr><td>3</td><td>6 to 11</td></tr>
<tr><td>4</td><td>12 to 99</td></tr>
<tr><td>5</td><td>100 to 249</td></tr>
<tr><td>6</td><td>250-499</td></tr>
<tr><td>7</td><td>500-999</td></tr>
<tr><td>8</td><td>1,000 or more</td></tr>
<tr><td>98</td><td>Don't know</td><td rowspan="2">OBTAIN REFERRAL OR THANK AND CLOSE</td></tr>
<tr><td>99</td><td>Refused</td></tr>
</table>

A4 Approximately how many deferred members does your [ANSWER FROM A2/A2c] scheme have?
PROBE FOR BEST ESTIMATE

Interviewer note: 'deferred member' is a member who has stopped contributing to a scheme, but will get the pension benefits when they retire. This would usually be because they have left your organisation. Retired members should not be included.

1	NUMBER:______________
BAND	
2	Fewer than 6
3	6 to 11
4	12 to 99
5	100 to 249
6	250-499
7	500-999
8	1,000 or more
98	Don't know
99	Refused

IF A3 and A4 both coded 2 or DK/Ref, with no exact number given to at least one of the questions (i.e. the total number of members may be less than 6, but this is unclear), ask A5a. Otherwise go to A5b.

A5a In total does your scheme have 6 or more members?

SINGLE CODE

1	Yes	GO TO A6
2	No	NOT A QUALIFYING SCHEME: THANK AND CLOSE IF ONLY SCHEME. OTHERWISE FOLLOW RULES FOR OTHER SCHEMES AT A2
98	Don't know	
99	Refused	

A5b Can I confirm that, in total, the scheme has **[A3 + A4] or if only bands were used @ A3/4,** approximately **[A3 midpoint + A4 midpoint]** members?

SINGLE CODE

1	Yes	GO TO A6
2	No	GO BACK TO A3 AND A4 TO CORRECT
98	Don't know	GO TO A6
99	Refused	

IF (A3+A4) <6 – THANK AND CLOSE

ASK ALL

A6 Can I just check whether your organisation pays an employer contribution to employees who are active members of this scheme?

SINGLE CODE

1	Yes	GO TO A7
2	No	NOT A QUALIFYING SCHEME: THANK AND CLOSE IF ONLY SCHEME. OTHERWISE FOLLOW RULES FOR OTHER SCHEMES AT A2
98	Don't know	
99	Refused	

READ OUT: For all the following questions, I would like you to base your answers on your [reference scheme] only, over the last 12 months.

Can we confirm the name of the **[reference scheme]** is **[scheme/employer name from sample data]**? **If not, amend scheme name.**
Interviewer note: Please monitor for, and record, any responses where last 12 months not an appropriate period. Note the period respondents' answers will be provided for.

A7 What was the average employer contribution in the last 12 months as a percentage of employees' gross pay?

IF NECESSARY: If the percentage varies between employees please just give your best overall estimate. If don't know, ask for a range.
IF MENTION SALARY SACRIFICE: Please include the salary sacrifice element as part of the average employer contribution.
Interviewer note: 'salary sacrifice' is where an employee agrees to give up the right to receive part of their salary, in return for a higher employer pension contribution.

1	%:_______________	
2	% RANGE:_________	
98	Don't know	
99	Refused	

A8 And what was the average employee contribution in the last 12 months as a percentage of their gross pay?

IF NECESSARY: If the percentage varies greatly between employees please just give your best overall estimate. If don't know, ask for a range.

1	%:_______________	
2	% RANGE:_________	
3	Employees make no contribution	
4	Information not held by the company	
98	Don't know	
99	Refused	

Trust-based only:

A9 And is your scheme a multi-employer scheme or a single employer scheme?
Multi-employer schemes are also known as Master Trusts.

Interviewer note: a multi-employer scheme is a single scheme run by a provider, which is shared between multiple employers.

SINGLE CODE

1	Multi-employer	
2	Single employer	
98	Don't know	
99	Refused	

ASK ALL

A10 In what year did membership of the [EMPLOYER] scheme start?

Interviewer note: an estimate is acceptable. If respondent not able to give an estimate offer bands; code answer below.

1	ENTER YEAR _______	
2	2006-2011	
3	2001-2005	
4	1991-2000	
5	Before 1991	
98	Don't know	
99	Refused	

IF A10=2-3

A11 When the scheme was first set up, was there a set-up fee paid to the scheme provider?

SINGLE CODE

1	Yes	GO TO A12
2	No	GO TO SECTION B
98	Don't know	
99	Refused	

IF A11=1

A12 How much was this fee?

PROBE FOR BEST ESTIMATE

1	FIGURE:_____________	
98	Don't know	
99	Refused	

Section B: Scheme administration and trustees

B1 Are you an employee of the company where the scheme operates?

SINGLE CODE

1	Yes- internal	Go to B2
2	No- external	Go to B4
98	Don't know	GO TO NEXT SECTION
99	Refused	

ASK IF B1=1 (INTERNAL), ANY SCHEME:

B2 And what is your job title?

Interviewer note: allow Director/Manager/Controller/Executive/Supervisor interchangeably

SINGLE CODE

1	Accountant/book-keeper	
2	Administrator	
3	Company secretary	
4	Director	
5	Finance Director	
7	HR Director	
8	Pensions Manager/Administrator	
9	Owner/Managing Director	
10	Payroll Manager	
97	Other (specify)__________	
98	Don't know	
99	Refused	

ASK IF B1=1 AND TRUST-BASED SCHEMES ONLY:

B3 Are you also a trustee of the scheme?

Interviewer note: a 'trustee' is an individual appointed to govern a trust-based scheme, on behalf of the members, in accordance with legal requirements.

SINGLE CODE

1	Yes	
2	No	
98	Don't know	
99	Refused	

ASK IF B1=2 (EXTERNAL), ANY SCHEME:

B4 And what is your job title?

Interviewer note: allow Director/Manager/Controller/Executive/Supervisor interchangeably

SINGLE CODE

1	Accountant/book-keeper	
2	Administrator	
3	Financial adviser	
4	Investment manager	
5	Pensions consultant/adviser	
6	Pensions manager	
7	Trustee	
8	Director	
97	Other (specify)__________	
98	Don't know	
99	Refused	

Section C: Overall scheme charges

I would now like to understand the <u>total</u> charge paid by members of the **[reference scheme]**, and by [EMPLOYER], over the past 12 months.

Looking at the charges paid by <u>members</u> first. **For all schemes except Group SIPPs:** Please just focus on existing members invested in the scheme's default fund.

C1a Have the scheme members themselves paid any charges relating to the pension scheme in the past 12 months?

SINGLE CODE

1	Yes	GO TO C1b
2	No	GO TO C4
98	Don't know	
99	Refused	

C1b Over the past 12 months were the fees paid by active members structured as a single overall charge, or were there a number of separate charges?

Interviewer note: if necessary remind respondent to focus only on existing members invested in the scheme's default fund.

SINGLE CODE

1	Overall charge	GO TO C2a
2	Broken down into separate charges	GO TO C2b
98	Don't know	GO TO C2b
99	Refused	

IF C1b=1

C2a Was this overall charge paid as a percentage of members' pension funds, as a percentage of their contributions, as a flat fee per member, or a combination of these?

MULTICODE POSSIBLE

1	% of pension fund	ASK C3a
2	% of contribution	ASK C3b
3	Flat fee per member	ASK C3c
97	Other (specify):________	ASK C3d
98	Don't know	GO TO C4
99	Refused	

IF C1b=2, 98, 99

C2b I would like you to estimate, if possible, the total charges relating to the pension scheme paid in the last 12 months by a typical active scheme member.

If respondent asks what is a typical member: Please take an existing member invested in the scheme's default fund, with a £5,000 pension pot, who pays around a £50 contribution a month.

In which of the following ways can you best estimate these total charges: as a percentage of the members' pension funds, as a percentage of their contributions, as a flat fee per member, or a combination of these?

MULTICODE POSSIBLE

1	Yes, as a % of pension fund	ASK C3a
2	Yes, as a % of contribution	ASK C3b
3	Yes, as a flat fee per member	ASK C3c
97	Other (specify):______	ASK C3d
98	Don't know	GO TO C4
99	Refused	

ASK ALL CODING 1 @ C2a/b

C3a What percentage of the fund per year did active members pay on average over the last 12 months?

If respondent asks what is a typical member: Please take an existing member invested in the scheme's default fund, with a £5,000 pension pot, who pays around a £50 contribution a month.

1	%:______________	
98	Don't know	
99	Refused	

ASK ALL CODING 2 @ C2a/b

C3b What percentage of their contributions did active members pay on average over the last 12 months?

If respondent asks what is a typical member: Please take an existing member invested in the scheme's default fund, with a £5,000 pension pot, who pays around a £50 contribution a month.

1	%:______________	
98	Don't know	
99	Refused	

ASK ALL CODING 3 @ C2a/b

C3c What was the average fee per member over the last 12 months?

If respondent asks what is a typical member: Please take an existing member invested in the scheme's default fund, with a £5,000 pension pot, who pays around a £50 contribution a month.

1	%:______________	
98	Don't know	
99	Refused	

ASK ALL CODING 97 @ C2a/b

C3d What was the cost per member over the last 12 months?

If respondent asks what is a typical member: Please take an existing member invested in the scheme's default fund, with a £5,000 pension pot, who pays around a £50 contribution a month.

1	WRITE IN:______________	
98	Don't know	
99	Refused	

TRUST-BASED SCHEMES ONLY; CONTRACT-BASED SKIP TO C5a

C4 Is the pension scheme offered through a single pension provider or insurance company, or do the trustees work with a range of providers or investment managers?

Interviewer note: 'investment manager' is the person or organisation responsible for implementing a fund's investing strategy and managing its assets.

SINGLE CODE

1	Single pension provider/insurance company	GO TO C5a
2	Multiple providers/investment managers	GO TO C6a
98	Don't know	
99	Refused	

IF C4=1 OR ALL CONTRACT-BASED

C5a Has [EMPLOYER] paid any fees to its pension provider in the last 12 months? Please exclude any charges or commission paid to an intermediary.

SINGLE CODE

1	Yes	GO TO C5b
2	No	GO TO C6a
98	Don't know	
99	Refused	

IF C5a=1

C5b How much did [EMPLOYER] pay in total to the pension provider in the last 12 months? Please exclude any charges or commission paid to an intermediary.

1	£:______________	
98	Don't know	
99	Refused	

ASK ALL

C6a Has [EMPLOYER] used the services of an employee benefit consultant, adviser or intermediary in relation to the **[reference scheme]** in the last 12 months?

Interviewer note: EBCs and intermediaries both provide regulated financial advice on the use of pensions and other financial products. EBCs also provide employers with advice on a wider range of employee benefits packages.

SINGLE CODE

1	Yes	GO TO C6b
2	No	GO TO INSTRUCTION BEFORE C7
98	Don't know	
99	Refused	

ASK IF C6a= 1

C6b Did they charge on a commission basis, or did they charge in some other way, such as via a fee?

Interviewer note: If an intermediary charges commission they receive payment from a pension provider when they sell one of their schemes – the commission covers the cost of the advice they give. If an intermediary does not charge commission, then their fees would need to be paid by the employer, the scheme members or both.

MILTI-CODE POSSIBLE

1	Commission
2	Other way
3	Information not held
98	Don't know
99	Refused

ONLY ASK IF 2 CODED @ C6b (irrespective of other answers). OTHERWISE SKIP TO INSTRUCTION BEFORE C7:

C6c On what basis did the adviser charge? **If 1 coded @ C6b:** Please <u>exclude</u> commission.

READ OUT ONLY IF NECESSARY; MULTI-CODE POSSIBLE

C6d **For each relevant answer @ C6c:** How much [IF MORE THAN ONE ANSWER CODED @ C6c: as a [answer from C6c]] was paid in total in the last 12 months? **If 1 coded @ C6b:** Please <u>exclude</u> commission.

	C6c	C6d
1	Flat or hourly fee/annual retainer	£_____________
2	Fee per member	£_____________
3	Percentage of total pension fund	%_____________
4	Percentage of **all** contributions	%_____________
5	Percentage of **member** contributions	%_____________
97	Other (specify):________	
98	Don't know	GO TO INSTRUCTION BEFORE C7
99	Refused	

C6e Was any of this paid for by or re-charged to the pension scheme members, or did [EMPLOYER] cover the entire cost?

SINGLE CODE

1	Some re-charged	GO TO C6f
2	Employer covered entire cost	GO TO INSTRUCTION BEFORE C7
98	Don't know	
99	Refused	

C6f What percentage of the total amount charged was paid for by or re-charged to the pension scheme members?

1	_______ %	
98	Don't know	
99	Refused	

TRUST-BASED ONLY; CONTRACT-BASED SKIP TO C11

C7 Has [EMPLOYER] used and paid for any of the following services in the last 12 months in respect to this pension scheme? **IMPORTANT:** Please <u>don't</u> include any services we have talked about already.

MULTICODE POSSIBLE

1	Third party administrators	ASK C8a/b
2	Investment consultants	
3	Investment managers	
4	Professional/Independent trustees	
5	Auditors/Accountants	
6	Solicitors/Legal advisers	
97	Other (specify)_______	
98	Don't know	GO TO C11
99	Refused	

IF NONE USED GO TO C11

LOOP C8a-C10 FOR EACH MENTIONED AT C7

C8a You said that you used [ANSWER FROM C7]. On what basis was the fee paid? READ OUT ONLY IF NECESSARY; MULTI-CODE POSSIBLE

C8b **For each relevant answer @ C8a:** How much was paid in total [IF MORE THAN ONE ANSWER CODED @ C8a: as a [answer from C8a]] in the last 12 months?

IF MORE THAN ONE USED ASK FOR TOTAL

	C8a	C8b
1	Flat or hourly fee/annual retainer	£_____________
2	Fee per member	£_____________
3	Percentage of total pension fund	%_____________
4	Percentage of contributions	%_____________
97	Other (specify):________	
98	Don't know	**LOOP END**
99	Refused	

C9 Was any of this paid for by or re-charged to the pension scheme members, or did [EMPLOYER] cover the entire cost?

SINGLE CODE

1	Some re-charged	GO TO C10
2	Employer covered entire cost	LOOP END/GO TO C11
98	Don't know	
99	Refused	

C10 What percentage of the total amount charged by the [ANSWER FROM C7] was paid for by or re-charged to the pension scheme members?

1	_______ %	
98	Don't know	
99	Refused	

LOOP END

ASK ALL

C11 Is there a one-off joining fee when a new member joins the scheme?

SINGLE CODE

1	Yes	GO TO C12
2	No	GO TO C15
98	Don't know	
99	Refused	

C12 How much is this fee?

PROBE FOR BEST ESTIMATE

1	FIGURE:_______________	
98	Don't know	
99	Refused	

C13 Is this fee paid by the employer, by the scheme members or by both?

SINGLE CODE

1	Employer	GO TO NEXT SECTION
2	Scheme members	
3	Both	GO TO C14
97	Other (specify)_______	GO TO NEXT SECTION
98	Don't know	
99	Refused	

IF C13=3

C14 What proportion is paid by the scheme members and what proportion is paid by the employer?

1	% SCHEME MEMBERS:_______________	MUST ADD UP TO 100%
2	% EMPLOYER:_______________	
98	Don't know	
99	Refused	

IF C1A IS NOT 1 [MEMBERS DO NOT PAY ANY CHARGES] – SKIP TO SECTION D

C15 Has your pension provider informed you about the Total Expense Ratio in regard to charges you pay for members invested in the scheme's default fund?

IF NECESSARY: The Total Expense Ratio includes the fund's annual management charge plus any audit, custodian, registration or compliance fees paid out of the fund's assets.

SINGLE CODE

1	Yes	GO TO C15a
2	No	GO TO C16
98	Don't know	
99	Refused	

C15a What is the Total Expense Ratio for your scheme?

PROBE FOR BEST ESTIMATE

1	%:______________	
98	Don't know	
99	Refused	

C16 Has your pension provider informed you about the Portfolio Turnover Rate in regard to charges you pay for members invested in the scheme's default fund?

IF NECESSARY: Portfolio Turnover Rate is a measure of how frequently assets within a fund are bought and sold by the managers.

SINGLE CODE

1	Yes	GO TO C16a
2	No	GO TO NEXT SECTION
98	Don't know	
99	Refused	

C16a What is the Portfolio Turnover Rate for your scheme?

PROBE FOR BEST ESTIMATE

1	%:______________	
98	Don't know	
99	Refused	

Section D: Additional scheme charges – fund switching and transfers out

ADDITIONAL CHARGES FOR FUND MANAGEMENT

ASK ALL

D1 Do members have a choice of funds that they can invest their pension in?

SINGLE CODE

1	Yes – choice of 2 or more funds	GO TO D2
2	No – there is just one fund	GO TO D11
98	Don't know	
99	Refused	

IF D1=1

D2 Now looking at the funds that members of the **[reference scheme]** can choose to invest in:

Do any fund choices carry an additional charge to scheme members, over and above the charges applied to the default fund?

SINGLE CODE

1	Yes – there are charges	
2	No – there are no charges	
98	Don't know	
99	Refused	

ADDITIONAL CHARGES FOR FUND SWITCHING

ASK ALL

D6 Are there any charges to members for switching funds?

SINGLE CODE

1	Yes – there are charges	GO TO D7
2	No – there are no charges	GO TO D11
98	Don't know	
99	Refused	

IF D6=1

D7 Is this charged for all switches or just for above a certain number of switches per year?

SINGE CODE

1	For all switches	GO TO D9
2	Above a certain number of switches per year	GO TO D8
98	Don't know	GO TO D9
99	Refused	

IF D7=2

D8 In a year, what is the maximum number of switches allowed before charges are made?

PROBE FOR AN AVERAGE OR ALLOW A RANGE

1	FIGURE:______________	
2	RANGE:_________	
97	Other (specify)________	
98	Don't know	
99	Refused	

D9 Is the charge for switching funds a percentage of the total value of the fund or a flat fee? SINGLE CODE

D10 For relevant answer @ D8: And what is the typical charge for switching funds?

	D9	D10
1	As percentage of fund	_______%
2	As a flat fee	£_____________
97	Other (specify)_______	
98	Don't know	
99	Refused	

ADDITIONAL CHARGES FOR TRANSFERS OUT

D11 Are there any charges to members for transferring funds out of the scheme?

Interviewer note: this does not include when the member retires.

SINGLE CODE

1	Yes – there are charges	GO TO D12
2	No – there are no charges	GO TO D14
98	Don't know	
99	Refused	

D12 Is the charge for transferring funds out: a percentage of the total value of the fund or a flat fee? SINGLE CODE

D13 **For relevant answer @ D12:** And what is the typical charge for transferring funds out?

D12 D13

1	As percentage of fund	_______%
2	As a flat fee	£_____________
97	Other (specify)_______	
98	Don't know	
99	Refused	

ADDITIONAL CHARGES FOR TRANSFERS IN

D14 Are there any charges to members for transferring funds into the scheme?

SINGLE CODE

1	Yes – there are charges	GO TO D15
2	No – there are no charges	GO TO E1
3	Not an option for this scheme/Not applicable	
98	Don't know	
99	Refused	

D15 Is the charge for transferring funds in: a percentage of the total value of the fund or a flat fee?
SINGLE CODE

D16 **For relevant answer @ D15:** And what is the typical charge for transferring funds in?

D15 D16

1	As percentage of fund	_______%
2	As a flat fee	£_____________
97	Other (specify)_______	
98	Don't know	
99	Refused	

Section E: Miscellaneous scheme charges

ASK ALL

E1 Have any charges been incurred for any other services relating to your **[reference scheme]** in the last 12 months that we have not covered here already? These could include:

DO NOT READ OUT; MULTICODE

1	Advisory/consultancy	GO TO E2-E5 LOOP
2	Accounts preparation	
3	Actuary	
4	Administrative	
5	Annuity	
6	Audit	
7	Death benefits	
8	Life insurance	
9	Loans/borrowing	
10	Management	
11	Property purchase	
12	Transactions	
97	Other (specify)_______	
96	None	GO TO F1
98	Don't know	GO TO F1
99	Refused	

LOOP E2-E5 FOR EACH MENTIONED AT E1

E2 You mentioned [ANSWER FROM E1] charges. On what basis were these charges paid? READ OUT ONLY IF NECESSARY; MULTI-CODE POSSIBLE

E3 For each relevant answer @ E2: How much was paid in total in the last 12 months [IF MORE THAN ONE ANSWER CODED @ E2: as a [answer from E2]]?

IF USED MORE THAN ONCE ASK FOR TOTAL

	E2	E3
1	Flat or hourly fee/annual retainer	£_____________
2	Fee per member	£_____________
3	Percentage of total pension fund	%_____________
4	Percentage of contributions	%_____________
97	Other (specify):________	
98	Don't know	
99	Refused	

E4 Was this paid by [EMPLOYER], scheme members or both?

SINGLE CODE

1	The employer	LOOP END
2	Scheme members	LOOP END
2	Both	GO TO E5
98	Don’t know	LOOP END
99	Refused	LOOP END

E5 What percentage of [service from E1] was paid for by [EMPLOYER]?

1	_______ %	
98	Don’t know	
99	Refused	

LOOP END

Section F: Charge variation

Now let's move on to questions about possible charge variations.

DEFERRED AND ACTIVE MEMBER CHARGES

IF C1A IS NOT 1 [MEMBERS DO NOT PAY ANY CHARGES] – GO TO SECTION G

F1 Do active scheme members pay lower charges than deferred scheme members?

Interviewer note: 'active member' is a member who is building up pension benefits from their present job. Retired members should not be included.

Interviewer note: 'deferred member' is a member who has stopped contributing to a scheme, but will get the pension benefits when they retire. This would usually be because they have left your organisation. Retired members should not be included.

SINGLE CODE

1	Yes	GO TO F2
2	No	GO TO F3
98	Don't know	
99	Refused	

IF F1=1

F2 On average, by how many percentage points are the active members' charges lower?

Interviewer note: e.g. If active members pay 0.7%, and deferred members pay 1%, then enter 0.3

1	PERCENTAGE:______________%	If > 5% WARN: 'that is a very large difference between different members' charges. Are you sure that this is correct?'
98	Don't know	
99	Refused	

ASK ALL

F3 Do members with larger funds pay lower charges than other scheme members?

SINGLE CODE

1	Yes	GO TO F4
2	No	GO TO F7
98	Don't know	
99	Refused	

IF F3=1

F4 What value of fund leads to a reduced rate?

PROMPT FOR BEST ESTIMATE

1	FIGURE: £______________	
2	Alternative approach (e.g. sliding scale): please give details (open-end)	
98	Don't know	
99	Refused	

F5 On average, by how many percentage points are the charges lower for members with larger pension funds?

1	PERCENTAGE:______________%	If > 5% WARN: 'that is a very large difference between different members' charges. Are you sure that this is correct?'
2	Alternative approach: please give details (open-end)	
98	Don't know	
99	Refused	

ASK ALL

F7 Do members that pay higher contributions pay lower charges than other scheme members?

SINGLE CODE

1	Yes	GO TO F8
2	No	GO TO F10
98	Don't know	
99	Refused	

IF F7=1

F8 What level of contribution leads to a reduced rate?

ALLOW EITHER A FIGURE OR A PERCENTAGE

1	FIGURE: £______________	
2	PERCENTAGE:______________%	
98	Don't know	
99	Refused	

F9 On average, by how many percentage points are the charges lower for members paying larger contributions?

1	PERCENTAGE:_______________%	If > 5% WARN: 'that is a very large difference between different members' charges. Are you sure that this is correct?'
98	Don't know	
99	Refused	

FRONT LOADED CHARGES

ASK ALL

F10 Do members pay higher charges in their first years of scheme membership?

SINGLE CODE

1	Yes	GO TO F11
2	No	GO TO G1
98	Don't know	
99	Refused	

IF F10=1

F11 On average, by how many percentage points are the charges higher for members within the first few years of scheme membership?

1	PERCENTAGE:_______________%	If > 5% WARN: 'that is a very large difference between different members' charges. Are you sure that this is correct?'
98	Don't know	
99	Refused	

Section G: Funds under management

Finally, just a few questions about the size of the pension fund.

ASK TRUST-BASED ONLY

G1 What do you estimate is the total value of the funds under management for the **[reference scheme]**?

PROBE FOR BEST ESTIMATE, TO NEAREST £

1	FIGURE:______________	
98	Don't know	
99	Refused	

ASK TRUST-BASED ONLY

G2 So given the number of scheme members, can you confirm that the average pension fund of each member is approximately:

READ OUT SINGLE CODE

1	Yes, correct	GO TO G3
2	No	RE DO G1, A3 or A4
98	Don't know	GO TO G3
99	Refused	

ASK ALL

G3 What is the average gross pay of your active scheme members?

PROMPT FOR BEST ESTIMATE

1	FIGURE:______________	
98	Don't know	
99	Refused	

G4 Could you tell me what percentage of the active scheme members are women?

1	% Women:______________	MUST ADD UP TO 100%
2	% Men:______________	
98	Don't know	
99	Refused	

G5 What percentage of active scheme members belongs to the following age groups?

READ OUT

1	% under 22: _________	MUST ADD UP TO 100%
2	% between 22 and 50: _______	
3	% over 50: ________	
98	Don't know	
99	Refused	

Section H: Demographics

ASK ALL

H1 RECORD RESPONDENTS' NAME

Write in: ____________________

H2 Would you like to be e-mailed a summary of key findings when it is available?

PRE-POPULATE EMAIL BY DEFAULT

1	Yes, write in email address:_____________	
2	No	

H3 Would you be happy for Critical Research to hold your details and re-contact you in the next few months if we need to get clarification about any of your answers?

1	Yes	
2	No	

H4 Finally, The Pensions Regulator, a UK body that works with the DWP, may wish to conduct some further research on pension scheme charges at some point in the future. This would be to further explore the detail of charges and how they are communicated to members. This would mean someone contacting you again in the future to ask if you might participate in further research. If you are re-contacted, you will still be able to decline to participate if you wish.
Would you be happy for The Pensions Regulator to keep your contact details and for someone to re-contact you if more research takes place in the future?
IF ASKED:
The Pensions Regulator is a UK body that was set up to support DWP in working with trustees, employers and pension specialists to encourage high standards in running pension schemes.

1	Yes	
2	No	

Thank and close.

Interviewer notes and feedback on respondent: ________________________

Appendix B Materials used in conducting the research – providers

B.1 Introductory letter to the provider

[PROVIDER NAME]
[DATE]

Dear [NAME]

Pension landscape and charges research

I am writing to you to ask for your help with a research study that has been commissioned by the Department for Work and Pensions, to evaluate the forthcoming workplace pension reforms. The aim of this research is to explore the charging structures, types and levels, as well as scheme turnover, in trust-based pension schemes and work-based personal pension schemes, before the implementation of the reforms in 2012. This research is essential to enable the Government to understand the impact the reforms have on the pension landscape, which is vital in ensuring the policy works, for the industry, employers and members alike. More information about the evaluation of the reforms can be found in the Workplace Pension Reform Evaluation Strategy, available here:

http://research.dwp.gov.uk/asd/asd5/rports2011-2012/rrep764.pdf

This research will consist of interviews with key pension providers and approximately 1,250 employers with pension provision, and we would welcome your input, to ensure our evidence reflects your views and experiences. There has been much reporting on charge levels in the media, and it is crucial for the Government to have an accurate measure. Your organisation has been selected from a list of UK pension providers and we are contacting you for research purposes only.

We have consulted with the Association of British Insurers (ABI), and they fully support this research, and are encouraging members 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 be in touch with you to ask if you are willing to participate. If you choose to take part, a self-completion questionnaire will be sent to you; this will be followed up by a face-to-face interview which should take approximately one hour, and will take place at a location convenient for you.

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. DWP will not know the identity of any of the providers who take part in this study.

If you do not want to take part please let RS Consulting know by [DATE]. You can contact [details withheld].

If you have any questions about the research at all, please do not hesitate to get in touch with RS Consulting on the number above or the DWP Project Manager [details withheld].

Your contribution will provide us with valuable information that will help to inform policy and improve the services we provide. We hope that you decide to take part.

Yours sincerely,

B.2 Provider data collection template

PROVIDER NAME

Thank you for agreeing to complete this questionnaire. This research is being carried out by RS Consulting on behalf of the Department for Work and Pensions. You should have received a [letter/email] about this project, which will form part of the DWP's ongoing research into pension provision: in light of the workplace pension reforms, the Government has made a public commitment to support existing pension provision, and the information collected will enable the DWP to measure the potential impact of the reforms.

Your participation in this research is entirely voluntary and will not affect your future dealings with the Department. You can withdraw from the research at any time by contacting:

[RS team member]

[details withheld]

Any information you provide will be held in the strictest confidence and will be handled securely throughout the study in line with the requirements of the Data Protection Act (2008). The information you provide will be used only for research purposes, and for the purpose of analysis and reporting will merge together information collected from all providers in aggregate form. No information identifying you, your company or any individual schemes will be reported or passed to the DWP or any other organisation.

We have attempted to keep the type of information we require as simple as possible, and we hope the information required in the questions below is self-explanatory; however, if you require further clarification, please contact **[RS team member]**. After you have completed this questionnaire we hope to discuss the information in detail in a face-to-face interview with you.

Please return completed documents by email to **[RS team member]** by **[deadline]**. Please call us in advance to discuss your preferred method for emailing an encrypted/secure version of this document to us once it has been completed.

Schemes sold

This section looks at how many DC workplace schemes you have sold: Please base all your answers on the last 12 months.

Question 1: Schemes sold

Please fill in the table below to indicate the types of defined contribution workplace pension schemes you sold in the last **12 months**.

	% of DC schemes sold	Total number of schemes sold
A trust-based defined contribution scheme		
A Master Trust*		
A Group Personal Pension (GPP) without a self-investment option		
A Group Stakeholder Pension (SHP)		
A GPP with a self-investment option		
A Group Self-invested Personal Pension (SIPP)		
Any other contract-based schemes (please describe):______________		
	Should add to 100%	

**Please indicate the number of employers the trust was sold to*

If you have sold any GPPs or SHPs in the previous 12 months, please answer questions 2-7.
If you have only sold Group SIPPs or GPPs with a self-investment option, please skip to question 8.

GPP and SHP Charges

Question 2: Group Personal and Group Stakeholder Pensions

Thinking about pension charges for GPPs and Group SHPs, please indicate the **total number of new schemes sold in each category** in the last 12 months. Please break down your answer by:

- The level of basic Annual Management Charge (AMC), as charged per member **with nil commission; where commission was paid; and where a consultancy charge was paid** as applicable. If you do not accept commission-based business, or consultancy charging, then please enter 0.
- The average number of active scheme members (member groupings are 1–5; 6–11; 12–99; 100-249; 250-499; 500+ members).

Instructions for completion

- *The table shows the AMC as a percentage of the total fund (Up to 0.39%; 0.4% – 0.59%; 0.6% – 0.79%; 0.8% – 0.99%; 1% – 1.49%; 1.5% +)*
- *If you charge on a different basis, please attempt to convert this to an AMC-equivalent charge*
- *Please include only basic charges applied to active members that do not make investment choices*
- *Charges may be based on actual sales data or on prospective charges quoted to employers*

Table to be found overleaf.

Answer sheet for question 2 – page 1. *Please input the information as <u>absolute numbers</u> rather than percentages.*

Standard basic AMC	No. of GPP/SHP sold where active scheme membership was **1–5**			No. of GPP/SHP sold where active scheme membership was **6–11**			No. of GPP/SHP sold where active scheme membership was **12–99**		
	Charged to scheme members **with nil commission**	Charged to scheme members **with commission**	Charged to scheme members **with consultancy charge**	Charged to scheme members **with nil commission**	Charged to scheme members **with commission**	Charged to scheme members **with consultancy charge**	Charged to scheme members **with nil commission**	Charged to scheme members **with commission**	Charged to scheme members **with consultancy charge**
Up to 0.39%									
0.4% – 0.59%									
0.6% – 0.79%									
0.8% – 0.99%									
1% – 1.49%									
1.5% +									
Total									

Table continues overleaf

Answer sheet for question 2 – page 2. *Please input the information as <u>absolute numbers</u> rather than percentages.*

Standard basic AMC	No. of GPP/SHP sold where active scheme membership was **100–249**			No. of GPP/SHP sold where active scheme membership was **250–499**			No. of GPP/SHP sold where active scheme membership was **500+**		
	Charged to scheme members **with nil commission**	Charged to scheme members **with commission**	Charged to scheme members **with consultancy charge**	Charged to scheme members **with nil commission**	Charged to scheme members **with commission**	Charged to scheme members **with consultancy charge**	Charged to scheme members **with nil commission**	Charged to scheme members **with commission**	Charged to scheme members **with consultancy charge**
Up to 0.39%									
0.4% – 0.59%									
0.6% – 0.79%									
0.8% – 0.99%									
1% – 1.49%									
1.5% +									
Total									

Charge variations – SHP and GPP

We would now like to ask you about some types of charge variation and ad hoc charges for any SHPs and GPPs you sold in the last 12 months.

Questions 3a-b: Active member discounts

Question 3a: How many SHP and GPP schemes have you sold in the last 12 months where an active member discount (i.e. reduced AMC levels for members who are actively contributing) has been applied?

Question 3a	Number of schemes sold with active member discount	

Question 3b: Where you have given a discount to active members, we would like to understand the level of discount typically offered. If possible please quote the typical minimum; the average; and the typical maximum discount offered.

		Typical minimum discount applied to AMC (e.g. 0.1%)	Average discount applied to AMC (e.g. 0.2%)	Typical maximum discount applied to AMC (e.g. 0.3%)
Question 3b	Please give the typical level of discount offered (**not** the AMC itself)			

Questions 4a-b: Discounts for members with larger funds

Question 4a: How many SHP and GPP schemes have you sold in the last 12 months where a charge discount has been applied for members with large(r) funds under management?

Question 4a	Number of schemes sold with a discount for members with larger funds	

Question 4b: Please provide the typical fund size range accompanied by the typical rebate for this fund size.
We have included an example answer in the table below.

	Fund size	Typical rebate
Example	*0-£100,000*	*0%*
	£100,000+	*0.15%*
Question 4b		

Questions 5a-d: Front-loaded charges

How many SHP and GPP schemes have you sold in the last 12 months where <u>front-loaded charges</u> have been applied (e.g. higher charges in the first year of membership or longer, reducing thereafter)?
*Please **exclude** any consultancy charges that are applicable, and only include cases where you as a provider levy a higher AMC in the first years of a member joining the scheme.*

Question 5a	Number of schemes sold with front-loaded charges	
Question 5b	Typical period of time over which front-loaded charges apply (e.g. first 5 years)	
Question 5c	Basis on which front-loaded charge is levied (e.g. as percentage of member contributions; or of the total value of the fund)	
Question 5d	Typical additional front-loaded charge applied to new members, over and above that paid by other members (e.g. 5%)	

Questions 6a-b: Charges for specific fund choices

Questions 6a-b: We would like to understand what percentage of all SHP/GPP members are **invested in funds that are subject to additional fund management charges, over and above the basic AMC**.

If it is easier, you could provide this information as a percentage of the total funds invested on behalf of all members of SHPs and GPPs. Please indicate below if you intend to answer as a percentage of all SHP/GPP members or as a percentage of the total funds invested.

	Tick one box only
Please tick if you intend to answer Question 6a as a percentage of all SHP/GPP members	
Please tick if you intend to answer Question 6a as a percentage of the total funds invested	

Question 6a	Percentage subject to additional fund management charges:	________ %

Question 6b: Please provide the range of additional fund management charges a member can pay, and the percentage of members/total funds that are actually invested in such funds. *We have included an example answer in the table below.*

	Level of additional fund management charge	Percentage invested in such funds
Example	*0-0.5%*	*2.1%*
	0.5%-1%	*1.3%*
Question 6b		
	Level of additional fund management charge	Percentage invested in such funds

Question 6b continued (if necessary)		
	Level of additional fund management charge	Percentage invested in such funds

Question 7: Total Expense Ratios

Have you calculated the Total Expense Ratio on an annual basis for the funds invested in by the majority of members that do not make investment choices? If so, please give the typical minimum; the average; and the typical maximum TER.

		Typical minimum TER	Average TER	Typical maximum TER
Question 7	TER (percentage of fund)			

GROUP SIPP CHARGES (AND GPPs WITH SELF-INVESTMENT OPTION)

In question 8 we would like you to focus only on the Group SIPPs that you have sold in the last 12 months, as well as any GPPs that have a self-investment option. If you have not sold any, please skip to the end of this questionnaire.

Please focus only on charges for members that choose the self-investment option.

Question 8: Group SIPP and GPPs with self-investment option

Please indicate which of the following charges have applied to the schemes sold in the last 12 months.

Please exclude any charges for direct investment in property.

Group SIPP charges/GPPs with self-investment option	Does this charge apply? (yes/no)	How was charge levied: e.g. flat fee/contribution charge/percentage of funds	What was the typical minimum rate/amount charged?	What was the average rate/ amount charged?	What was the typical maximum rate/amount charged?
Initial charges for scheme set-up or conversion to self-investment	☐ Yes ☐ No				
Provider scheme administration charges	☐ Yes ☐ No				
Standard fund management charges	☐ Yes ☐ No				
Intermediary consultancy charges	☐ Yes ☐ No				
Additional charges for specific fund choices made by the members: in-house funds	☐ Yes ☐ No				

Table continues overleaf

Question 8 (continued)

Group SIPP charges/GPPs with self-investment option	Does this charge apply? (yes/no)	How was charge levied: e.g. flat fee/contribution charge/percentage of funds	What was the typical minimum rate/amount charged?	What was the average rate/ amount charged?	What was the typical maximum rate/amount charged?
Additional charges for specific fund choices made by the members: externally-managed funds	☐ Yes ☐ No				
Charges for switching to another in-house fund	☐ Yes ☐ No				
Charges for switching to an externally-managed fund	☐ Yes ☐ No				
Charges for changes to contributions	☐ Yes ☐ No				
Charges for transfers out (i.e. transferring funds out of the scheme, e.g. to another pension scheme)	☐ Yes ☐ No				
Charges for transfers in	☐ Yes ☐ No				
Charge for transferring to an alternatively secured pension or for transferring prior to buying an annuity	☐ Yes ☐ No				
Drawdown charge	☐ Yes ☐ No				

Table continues overleaf

Question 8 (continued)

Group SIPP charges/GPPs with self-investment option	Does this charge apply? (yes/no)	How was charge levied: e.g. flat fee/contribution charge/percentage of funds	What was the typical minimum rate/amount charged?	What was the average rate/ amount charged?	What was the typical maximum rate/amount charged?
Annuity purchase charge	☐ Yes ☐ No				
Refund charge (i.e. for refunds pension contributions e.g. if a member leaves after only a short time in the scheme)	☐ Yes ☐ No				
Charges for pensions on divorce and implementation of court orders	☐ Yes ☐ No				
Others (please describe): ______	☐ Yes ☐ No				
Others (please describe): ______	☐ Yes ☐ No				
Others (please describe): ______	☐ Yes ☐ No				
Others (please describe): ______	☐ Yes ☐ No				

This is the end of the questionnaire. Thank you very much for your assistance.

We will confirm a face-to-face appointment to discuss this document shortly.

B.3 Provider discussion guide

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, to understand the different charging structures in contract-based pension schemes, with a few additional questions on master trusts.

As you know, DWP is committed to supporting existing pension provision as the reforms are introduced. Part of the aim of this research then is to understand whether these charges change each year, and how.

DWP would also like to understand the costs that you are facing as a provider over the same period: in particular we'd like to look at whether there are any external factors that you feel are impacting your own costs as a provider.

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. Your participation in the research is entirely voluntary and will not affect your future dealings with the Department. You can withdraw from the research at any time.

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.

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 organisation?

Section 1: Background and charges in general

Thank you very much for completing this document. I would now like to go through your answers.

1.0 Thinking about question 1, in the last 12 months you have sold:

- What trends are you seeing in the sale of these products? Which ones are increasing in market share and which are declining? Why is that?

1.1 What are the characteristics of employers you sell new contract-based schemes to? How do you assess employers' likely profitability? Are there any particular types of employers you consider more profitable/seek business with? Probe on:

- Employer size
- Industry sector
- Types of employees (age, profession, earnings)
- Staff turnover
- Any other characteristics?

1.2 Are there any areas of the market that you do not take on in terms of new business? What are they? What type of employees would you be less likely to serve (age, profession, earnings)?

1.3 Typically, what kind of charging structure do you apply to contract-based pension schemes? Do usually use an Annual Management Charge (AMC) or do you have other structures? What are they? Why do you charge members in this way?

- What is the role of the intermediary in this? Why?

1.4 What do the AMC costs charged to the member cover? Probe on:

Intermediary commission and the level of this commission

- Provider set-up and admin costs
- Fund management costs

1.5 What kinds of factors would cause a charge to vary for members? Why? If so, how, and by how much

- Probe if necessary on: employer size; member fund size; level of contributions; staff turnover; level of provision in setting up and maintaining scheme; any other factors?

Sections 2–7: GPP and SHP

2.0 Looking at question 2 and thinking about Group Personal Pensions and Group Stakeholder Pension schemes only, do you have any comments on this breakdown?

- If no AMC used: Please tell me a bit more about your typical charging structures. Why do you use these charging structures, rather than a single AMC? How did you convert your charges to an AMC in the questionnaire?

2.1 Could you tell me a bit more on how you manage intermediary commission? What would be an average difference between what the scheme is charged with, and without, commission?

- Do you use consultancy charging? In what circumstances is it used? Do you expect to start offering it more?

2.2 Could you summarise the impact of employer size on the AMC? How do you calculate the different levels of charging in relation to employer size?

- If no AMC used: How does the employer size impact your charging structures? How do you calculate the different levels of charging in relation to employer size?

2.3 Are there any differences between how charges are structured in your SHP and GPP schemes? What are these? What are the reasons for this?

Now thinking about charge variations and looking at questions 3 to 7.

ASK IF APPLICABLE

3.0 You indicated that your organisation applies an active member discount (question 3). Are there different levels of discount applied? What would this depend on? What factors would influence an increase or a decrease in charge levels?

4.0 You indicated that your organisation applies a discount for larger funds under management (question 4). Are there different levels of discount applied? What would this depend on?

5.0 You indicated that your organisation applies front-loaded charges (question 5). Can these charges vary? Why? What factors would influence an increase or a decrease in charge levels?

6.0 You indicated that your organisation applies additional charges for specific fund choices (question 6). What kinds of funds trigger additional charges? How are the decisions made regarding what charge is made for these funds? What factors would influence an increase in charge levels?

7.0 Could you take me through your Total Expense Ratio levels (question 7)? What do these depend on? Do you share these with your clients?

ASK ALL

Are there any other ways that the charges that different members pay can vary? What are these? Prompt: Can charges vary depending on the level of contribution paid? Under what circumstances do you do this?

Section 8: Group SIPP charges (and GPPs with self-investment option)

ASK IF APPLICABLE

Now thinking about Group SIPPs and GPPs with a self-investment option, and looking at question 8.

8.0 Do these charges represent Group SIPPs, GPPs with a self-investment option, or both? If both: How do the two differ? How do you describe and market each product?

8.1 Thinking about the last 12 months, what was the typical size of Group SIPP/GPP your company has sold in that period?

8.2 Now thinking about charges associated with Group SIPPs/GPPs, how do you structure these charges overall?

8.3 What do the charges in a Group SIPP/GPP depend on overall? Do they vary by scheme size? How? What else do the charges depend on?

8.4 If we take two scenarios: one member who is an active investor in a range of different assets and makes several switches per year; versus a member who doesn't use the flexibility typically associated with a SIPP and thus, effectively uses the Group SIPP as a standard GPP?

- How would the two members' charges vary? How much would each pay, on average?
- Is the member who does not use the flexibility of a Group SIPP paying more or less than if they were invested in a GPP? What is the difference?

8.5 Now thinking about the specific charges your organisation applies (question 8). Ask for each:

- What were the typical minimum and maximum rates in the last 12 months?
- What factors affect how this charge can vary? What would trigger an increase in charges?
- What proportion of the members invested in a Group SIPP/GPP actually pay this charge? Understand whether charge is paid by all/most/some/very few members, and why.

8.6 Are Group SIPPs/GPPs typically sold through an intermediary? On what basis does the intermediary typically charge? Understand split between fee/commission/consultancy charging.

Section 9: Costs

As you know, DWP has committed to supporting existing pension provision as the reforms are introduced. Part of the aim of this research is to understand the costs that you are facing as providers of contract-based pensions over the same period: in particular we'd like to look at whether there are any external factors that you feel are impacting your own costs as a provider.

Would you be able to break your costs down in this format?

Show Showcard 1. Allow estimates/ranges/alternative size breakdowns as necessary. After completing, discuss reasons for variations by size within each cost category, and obtain full details of any exceptions or clarifications given.

Showcard 1

Costs for contract-based schemes	1–5 members	6–11 members	12–99 members	100-249 members	250-499 members	500+ members
Set-up costs						
Set-up cost per scheme (£)						
Cost of initial advice (Year 1 Commission – percentage of first year contributions)						
Set-up cost per member (£)						
Ongoing costs						
Cost of commission paid to advisers (Trail Commission – percentage of ongoing contributions)						
Ongoing cost per active member (£)						
Ongoing cost per deferred member (£)						
Fund management cost (percentage of assets under management)						

Ask 9.0-9.5 as necessary:

9.0 Thinking about your own set-up costs, what are your typical:

- Set-up costs per scheme? How do they vary and why? How are the set-up costs derived?
- Set-up costs per member? How do they vary and why? How are the set-up costs derived?

9.1 And now thinking about the ongoing costs of running pension schemes, what are your typical:

- Ongoing costs per scheme?
- Ongoing costs of handling of contributing individuals?
- Ongoing cost of handling of non-contributing (paid up) individuals? What is the difference between cost of handling active and non-active members?

9.2 We have already discussed the different charges associated with fund management. Do you manage funds in-house? If so: What are your own typical costs associated with managing funds in-house? How does this compare to the cost to you of providing externally-managed funds?

- How does the cost of managing funds that are typically used as default funds compare to these?

9.3 Thinking about advice, what is your typical cost of commission paid to advisers?

- Leaving aside commission, are schemes sold through an adviser typically cheaper or more expensive for you to run than schemes sold directly?

9.4 Thinking about transfers in or out of your scheme, what are your typical transfer costs per member?

- Does the cost of transfer influence charges in any way? How?

9.5 DWP would like to understand the costs associated with de-enrolling members that choose to opt out of a scheme under automatic enrolment. Are you able to estimate what you feel these costs are likely to be for schemes under automatic enrolment? Show Showcard 2.

Showcard 2

	1–5 members	6–11 members	12–99 members	100-249 members	250-499 members	500+ members
De-enrolment cost per individual **during the opt-out period**						
De-enrolment cost per individual after the opt-out period						

Allow estimates/ranges/alternative size breakdowns as necessary. After completing, discuss.

De-enrolment cost per individual after the opt-out period.

Allow estimates/ranges/alternative size breakdowns as necessary. After completing, discuss reasons for variations by size, and obtain full details of any exceptions or clarifications given.

Section 10: Trends and future

Finally, I would like to ask you about any changes to charges or costs that have already happened or you feel might happen in the future.

10.1 How do you split your business between Stakeholder and Group Personal Pensions? Do you sell both types? If so: What is the difference? Do you plan to continue offering both types? Ask all: How do you envisage both will evolve in the future, especially in terms of charging?

10.2 Do you offer multi-employer master trusts? If so: Do the charging structures in master trusts differ from your charges for contract-based schemes? How? Probe in depth

10.3 In the last 12 months, have any factors led to a change in the administration costs of pension schemes? What were these? Explore in depth.

- Have these impacted upon the level of charges? How?
- Probe on pension reforms and NEST if not mentioned.

10.4 Have there been any other changes to your charging structures over that period? If yes:

- What were the specific changes? Why did they occur?
- Have there been any changes in who pays for these?
- What factors have influenced these changes?
- Probe on pension reforms and NEST if not mentioned

10.5 Are there any other factors that you believe will impact your administration costs over the coming years? What are these? Explore in depth.

- Are these likely to impact upon the level of charges? How?
- Probe on pension reforms and NEST if not mentioned.
- If not mentioned: Are the reforms likely to impact your cost of administering small pension pots? How? What is your view on this?
- If not mentioned: Are the reforms likely to impact your transfer costs? How? What is your view on this?

10.6 Do you have plans to amend your charging structures in the coming years? If so, what are the changes? Why is this?

- Are there any other factors that would make you likely to introduce changes in charge levels and structures in the future? What are they?

10.7 Will the pension reforms have any impact on your costs? If yes, what kind of impact? If perceived as negative: What solutions could you envisage to this?

10.8 Finally, do you have any other comments on any of the subjects we discussed today?

10.9 The Department for Work and Pensions (DWP) may wish to commission RS Consulting to conduct further research on pension scheme transfers in the future. This would be to further build on the evidence gathered in this research.

The research will be taking place within the next few months.

This would mean someone contacting you again in the future to ask if you might participate in further research. If you are re-contacted, you will still be able to decline to participate if you wish.

Would you be happy for RS Consulting to keep your contact details and for someone to re-contact you if more research takes place in the future?

Yes

No

Thank and close.

Appendix C Interview outcomes and response rates

Table C.1 gives the recruitment breakdown for all contact recruitment calls made, broken down by both of the sample sources used (The Pensions Regulator (TPR) and Dun & Bradstreet).

Table C.1 Interview outcomes and response rates

	TPR sample	Dun & Bradstreet sample	Total
Full interview conducted and included in results	763	470	1,233
Full interview conducted but excluded during quality control checks	5	25	30
Qualified but out of quota	460	1,545	2,005
Failed screening (have no qualifying pension scheme)	49	593	642
Failed screening (pay no employer contribution)	1	0	1
Failed screening (have too few members)	37	52	89
Excluded at source – SSAS in scheme name	56	0	56
Multiple referrals – unable to locate respondent able to answer survey	217	0	217
Refusal – by email	118	44	162
Refusal – by phone	479	303	782
Refusals – company policy	320	447	767
Ineffective sample (e.g. number unobtainable, no contact details and no lookup possible)	128	373	501
No respondent available during fieldwork period	385	557	942
No outcome at end of fieldwork period	201	8,009	8,210
Total	3,219	12,418	15,637
Qualification rate	50%	18%	29%
Refusal rate	37%	23%	29%
Response rate	63%	77%	71%

References

Croll, A., Vargeson, E. and Lewis, A. (2009). *Charging levels and structures in money-purchase pension schemes: Quantitative survey*. Department for Work and Pensions Research Report No. 630, http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep630.pdf

Forth, J., Fitzpatrick, A., Grant, C. and Stokes, L. (2012). *Employers' Pension Provision Survey 2011*. Department for Work and Pensions Research Report No. 802.

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Wood, A, Young, P., Crowther, N. and Toberman, A. (2012). *Processes and costs of transferring a pension scheme: Qualitative research with pension providers and third-party administrators*. Department for Work and Pensions, Working Paper 107, http://research.dwp.gov.uk/asd/asd5/WP107.pdf

This report presents findings from research with pension schemes and pension providers on the charging levels and structures in trust and contract based workplace pension schemes, and the costs incurred by pension providers in setting up and running a pension scheme.

The research consisted of a quantitative survey of around 700 trust based schemes, and 500 contract based schemes, along with qualitative research with leading pension providers. Interviews took place between September and November 2011. The research was carried out on behalf of the Department for Work and Pensions by RS Consulting.

If you would like to know more about DWP research, please contact:
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http://research.dwp.gov.uk/asd/asd5/rrs-index.asp

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