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

Andrew Wood, John Leston and Marisa Robertson
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We would particularly like to thank the pension providers and intermediaries, who have generously given their time to participate in this research. Whilst all of the participants in the study must remain anonymous, we hope they will recognise in the findings a reflection of the pensions market as they see it today, and of their expectations for the future.

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# Abbreviations

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<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ABI</td>
<td>Association of British Insurers</td>
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<tr>
<td>AMC</td>
<td>Annual management charge</td>
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<td>DB</td>
<td>Defined benefit</td>
</tr>
<tr>
<td>DC</td>
<td>Defined contribution</td>
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<tr>
<td>DWP</td>
<td>The Department for Work and Pensions</td>
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<td>EBC</td>
<td>Employee benefits consultant</td>
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<td>FSA</td>
<td>Financial Services Authority</td>
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<td>GPP</td>
<td>Group personal pension</td>
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<tr>
<td>IFA</td>
<td>Independent Financial Adviser</td>
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<tr>
<td>NDPB</td>
<td>Non-departmental public body</td>
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<tr>
<td>PADA</td>
<td>Personal Accounts Delivery Authority</td>
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<tr>
<td>SHP</td>
<td>Group stakeholder pension</td>
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<td>SIPP</td>
<td>Self-invested personal pension</td>
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<td>TPAS</td>
<td>The Pensions Advisory Service</td>
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<td>WPP</td>
<td>Workplace personal pension</td>
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<tr>
<td>Glossary of terms</td>
<td>Definition</td>
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<tr>
<td>Active member</td>
<td>A member who is currently accruing benefits in a pension scheme.</td>
</tr>
<tr>
<td>Annual management charge (AMC)</td>
<td>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.</td>
</tr>
<tr>
<td>Automatic enrolment</td>
<td>Pension scheme enrolment technique whereby an employer operates an ‘opt-out method’, where it automatically enrols eligible employees 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, whether to make alternative provision or otherwise.</td>
</tr>
<tr>
<td>Basic State Pension</td>
<td>A non-earnings related pension paid by the state, based on the National Insurance contributions a person has paid, or been credited with, over the course of their working life.</td>
</tr>
<tr>
<td>Closed scheme</td>
<td>A pension scheme which does not admit new active members, but contributions may still be made by existing members and/or the employer. Members continue to accrue new pension rights.</td>
</tr>
<tr>
<td>Glossary of terms</td>
<td>Description</td>
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<tr>
<td><strong>Commission-based</strong></td>
<td>In the context of this study, an intermediary that charges the <strong>provider</strong> commission, based on the pensions products that are sold. The basis for the commission is individually negotiated between the <strong>provider</strong> and the <strong>intermediary</strong>. The <strong>provider</strong> usually attempts to recover the cost of this commission by increasing the value of the <strong>annual management charge</strong> applied to the member's fund.</td>
</tr>
<tr>
<td><strong>Contract-based pension</strong></td>
<td>A <strong>defined contribution</strong> pension scheme purchased by an individual, either through their employer or individually, from a pension <strong>provider</strong> such as a bank, life assurance company or building society. It is owned entirely by the individual, allowing them to continue to contribute to it if they move jobs. It is also known as a <strong>personal pension</strong>.</td>
</tr>
<tr>
<td><strong>Default contribution</strong></td>
<td>The set amount of contributions paid into a <strong>member's workplace pension</strong> by the <strong>member</strong>, employer or both, if no decision is made by the individual regarding what to contribute.</td>
</tr>
<tr>
<td><strong>Defined benefit (DB) scheme</strong></td>
<td>An <strong>occupational pension scheme</strong> 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.</td>
</tr>
<tr>
<td><strong>Defined contribution (DC) scheme</strong></td>
<td>An <strong>occupational</strong> or <strong>personal pension scheme</strong> that provides benefits based on how much has been paid into the scheme, the investment returns earned and how much pension this money will buy at retirement.</td>
</tr>
<tr>
<td><strong>Distance Marketing Directive</strong></td>
<td>The <strong>Distance Marketing of Consumer Financial Services Directive</strong> is a European Directive that aims to provide customers with protection where financial services are sold to them at a distance. It came into force in the UK on 31 October 2004.</td>
</tr>
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</table>
Dual annual management charge

A charging model used by providers of some personal pensions. Rather than paying one single AMC over the lifetime of a pension, members pay a higher AMC for the first years in which they hold the pension, but after this, the long term AMC is lower.

Earnings

In the context of the workplace pension reforms this refers to all sums payable to an employee in connection with the person’s employment, including salary, commission, bonuses, overtime, sick pay, maternity pay and paternity pay.

Eligible employee

In the context of the workplace pension reforms this refers to those employees who will be automatically enrolled into a qualifying workplace pension scheme or personal accounts. This group includes employees aged between 22 and State Pension age, earning above approximately £5,000 a year.

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. EBCs are classified as independent financial advisers.

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.

Final salary scheme

A defined benefit scheme where the benefit is calculated by reference to the final earnings of the member. The benefit is also based on the length of time they have been in the pension scheme.

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.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tr>
<td>Group personal pension (GPP)</td>
<td>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. This is not a single scheme; merely a collecting agreement.</td>
</tr>
<tr>
<td>Group self-invested personal pension (group SIPP)</td>
<td>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.</td>
</tr>
<tr>
<td>Group stakeholder pension (SHP)</td>
<td>A personal pension that must meet certain legislative conditions including annual management charges of no more than 1.5 per cent. Employers with five or more employees and who do not already offer a pension scheme must currently nominate a group stakeholder pension scheme. These employers do not have to contribute to a group stakeholder pension but they must allow employees access to the scheme. SHPs will cease to be mandatory after the workplace pension reforms are introduced.</td>
</tr>
<tr>
<td>Independent Financial Adviser (IFA)</td>
<td>An adviser, or firm of advisers, that is in a position to review all the available products and companies in the market as the basis for recommendations to clients. All IFAs are regulated directly by the Financial Services Authority (FSA). In the context of this report, intermediary is synonymous with independent financial adviser.</td>
</tr>
<tr>
<td>Individual personal pension</td>
<td>A personal pension scheme purchased by an individual, not as part of an arrangement made for the employees of a particular employer: in this respect it contrasts with a workplace personal pension.</td>
</tr>
<tr>
<td>Intermediary</td>
<td>An adviser, or firm of advisers, that is in a position to review all the available products and companies in the market as the basis for recommendations to clients. In the context of this report, intermediary is synonymous with independent financial adviser.</td>
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</table>
Member

A person who has joined a pension scheme and who is entitled to benefits under it.

Minimum employer contribution

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.

Occupational pension scheme

A trust-based workplace pension arrangement that is set up by an employer to provide income in retirement for its employees. Although the employer is responsible for sponsoring the scheme, it is actually run by a board of trustees.

Open scheme

A pension scheme that admits new active members.

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 the Personal Accounts Delivery Authority to advise on the reform proposals.

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.

Pension fund

The assets that form a pension scheme.
**The personal accounts scheme**

As part of the workplace pension reforms the government plans to introduce a new low-cost, trust-based occupational pension scheme, the personal accounts scheme, aimed at employees who do not have access to a good quality workplace pension.

**Personal Accounts Delivery Authority**

The Personal Accounts Delivery Authority (PADA) is a non-departmental public body (NDPB) accountable to Parliament and reporting, through a Board, to the Secretary of State for the Department for Work and Pensions. Their role is to set up a national, trust-based pension scheme called ‘personal accounts’ that will help millions of people on low and moderate incomes, who do not have access to a good-quality workplace pension, save for their retirement.

**Personal pension**

A defined contribution pension scheme purchased by an individual, from a pension provider such as a bank, life assurance company or building society. It is owned entirely by the individual, allowing them to continue to contribute to it if they move jobs. It is also known as a contract-based pension. A personal pension purchased through the employer is known as a workplace personal pension; one purchased individually is known as an individual personal pension.

**Provider**

An organisation, usually a bank, life assurance company or building society, that sets up and administers a pension scheme on behalf of an individual or trust.

**Qualifying earnings**

In the context of the workplace pension reforms this refers to the part of an individuals’ earnings on which contributions into a qualifying workplace pension scheme will be made. Contributions will be made on a band of earnings between around £5,000 and £33,500 a year at 2005 earnings levels, and will be increased in line with earnings.
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<td><strong>Workplace pensions market</strong></td>
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<td><strong>Workplace personal pension (WPP)</strong></td>
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Summary

Research aims

This research project was designed to investigate and understand the pensions industry’s responses to the workplace pension reforms that were introduced as part of the Pensions Act 2008. It sought to understand what impact providers and intermediaries believe the reforms will have on their own businesses and the market as a whole; and what their strategic responses are likely to be.

Background

Millions of people in the UK are not saving enough for their retirement, with moderate to low earners less likely to be saving in a private pension than other income groups. The Pensions Act 2008 was introduced to Parliament on 5 December 2007 to take forward measures aimed at encouraging greater private pension saving. The Act received Royal Assent in November 2008.

From 2012, a system of automatic enrolment, together with minimum employer contributions, will provide access to a private pension to all employees between 22 and State Pension age earning above approximately £5,000 a year.

The Government plans to introduce a new low-cost saving vehicle, which is currently being called the personal accounts scheme, aimed at employees who do not have access to a good quality workplace pension scheme: in the main, medium to low earners. After the implementation of the reforms, employers will be required to automatically enrol eligible employees into a qualifying workplace pension scheme, of which the personal accounts scheme will be one option.

For the first time, employers will be required to contribute a minimum of three per cent of qualifying earnings towards the pension of employees that do not opt out. This will supplement a four per cent contribution from the employee and around one per cent from the Government in the form of tax relief.
Scope of the research

The project was qualitative in nature, and consisted of in-depth interviews with 16 providers and 28 intermediaries conducted in July and August 2008.

The interviews with providers included most of the top 20 UK personal pension providers. A range of sizes of intermediary was interviewed, from the largest employee benefits consultants (EBCs) to smaller independent financial advisers (IFAs). In all cases, interviews were conducted with the most senior decision-makers for workplace pension strategy within each organisation.

Key findings

The workplace pension market in 2008

At the time of the research in 2008 providers and intermediaries typically held the view that employers were driving a move away from occupational pension schemes to workplace personal pensions (WPPs). They believed that this was because employers saw occupational schemes as being too expensive to run, with most no longer wanting to take on the responsibility of being trustees.

Employers were instead said to favour WPPs: in particular group personal pensions (GPPs) and group stakeholder pensions (SHPs). According to providers and intermediaries, employers typically saw these as cheaper and less burdensome to run, offering more investment choice to members without the need for trustees to be involved in the process.

The principal reason for the low charge levels of GPPs was believed to be the introduction of SHPs in 2001, and more specifically the charging cap. Many providers and intermediaries pointed out that prior to the introduction of SHPs in 2001, GPPs could often be subject to a range of different charges, which according to many, made WPP provision potentially profitable.

Group stakeholder pensions were introduced in 2001 by the Government with a view to improving access to pension provision for those individuals who did not have access to a pension. One of its features, when introduced, was that it permitted an annual management charge (AMC) of no more than one per cent, including all fund management charges and any increase made to account for commission that the provider paid to the intermediary. As a result, providers typically believed that competition forced the GPPs that already existed in the market to adopt the same single AMC of one per cent or below, to be able to compete with SHPs.

Many providers and intermediaries felt that these lower charging levels had made WPP provision less profitable for them. Because providers were only able to recoup scheme setup costs over a number of years via the AMC, GPP and SHP schemes often ran at a loss to the provider in the first years of operation: some providers said it could take up to 15 years for a provider to recover the costs of setting up
a scheme. Some providers pointed out that others had already departed the WPP market as a result, or were considering doing so, because they were unable to make money through WPP provision.

In addition, providers and intermediaries believed that some commission-based intermediaries, particularly the smallest, were also departing the WPP market. As the amount of commission that a commission-based intermediary could charge was dependent on the AMC, which was now lower than in the past, many providers and intermediaries felt that there was less scope for providers to pay the level of commission they had paid previously.

At the time of the research, those providers that did remain often tried to focus on more profitable, high-end business. This included employers with high salary and contribution levels, high participation levels, low staff turnover, and a high-degree of commitment to employee pension provision, including a willingness to pay for intermediary advice via a fee.

**Awareness of the workplace pension reforms**

There was general agreement among the providers and intermediaries interviewed that providers’ awareness of the workplace pension reforms was very high at board level. The most senior staff felt that they knew the published details of the reforms, as reported in the press or detailed by the Government, and kept up to date with developments in the finer details of the reforms. They had given some thought at board level to the expected impact that each aspect of the reforms might have on their business and to possible future strategic implications. Although the research was not designed specifically to test their knowledge, the participants, who were the most senior decision-makers for workplace pension strategy within their organisations, were able to discuss and answer detailed questions about the implications of the reforms.

Providers still had questions that they wanted to be answered before deciding exactly how they would react to the reforms and what their strategy might be. As a consequence of this, the high degree of awareness shown by senior staff was not typically thought, by providers themselves, to extend down to those that dealt with the management of schemes and customers on a day-to-day basis.

Large intermediaries also felt that they generally had a good degree of knowledge of the reforms at the time of the research, with this knowledge again concentrated around senior staff. They were able to discuss the reforms and their possible future implications in depth, and some stated that the reforms had been discussed at a senior level within their organisations. EBCs, the largest intermediaries interviewed, were often mentioned by providers and other intermediaries as being particularly knowledgeable. Generally, the larger the intermediary, the better the knowledge and awareness was seen to be by providers and intermediaries.

Small intermediaries’ level of knowledge about the reforms was variable, but usually restricted to the main points of the reforms: it was not typically as in-depth
as that of providers and large intermediaries. Even many of those who felt that they were already familiar with most of the confirmed details of the reforms, in fact knew only the key details, such as what was published in the press.

**Areas where providers and intermediaries needed clarification**

Across the providers and intermediaries interviewed, there was general agreement that comprehensive and definitive information from the Government on the detail of the workplace pension reforms would be required before they could make strategic decisions about their response. A specific concern mentioned by many providers and intermediaries, was the possibility that the reforms might not happen at all or might change considerably if there were to be a change in Government before 2012.¹

The most crucial question for many providers and intermediaries was regarding the charging structure and the level of AMC that was expected to be charged by the personal accounts scheme. Providers in particular saw this as crucial to determining their future business strategy in the WPP market. Many believed that if the personal accounts scheme were to adopt an AMC as low as 0.3 per cent to 0.5 per cent, a considerably lower level than the current AMC for SHPs and GPPs, employers that would otherwise have adopted a WPP might adopt the personal accounts scheme for their employees instead.

Some providers also wanted clarification and confirmation as to what the transfer limits into the personal accounts scheme would be, expressing the concern that an absence of transfer limits could allow existing WPP business to switch to the personal accounts scheme. Others asked what the contribution limits for the personal accounts scheme would be, concerned that very high contribution limits could attract high earners: not the Government’s stated target.

Finally, some providers had a number of procedural issues on which they requested clarification from the Government. Questions included how, and over what period of time, automatic enrolment into WPPs would be phased in; whether there might be a period of time after joining a company before an employee would become eligible for automatic enrolment; and how ‘qualifying earnings’ would be defined.

**The potential impact of the workplace pension reforms, and reactions to them**

Interviews with providers and intermediaries focused on all aspects of the workplace pension reforms: the introduction of automatic enrolment into WPPs, the minimum employer contribution, and the introduction of the personal accounts

¹ The pension reforms, as outlined in the Pensions Act 2008, had in fact received backing from all of the major parties, including Labour and the Conservatives, at the time of interview, and subsequently received Royal Assent in November 2008.
scheme. When providers and intermediaries were questioned on the impact of the reforms, however, their spontaneous responses focused primarily on the personal accounts scheme.

There was a recognition that the personal accounts scheme is designed to complement existing personal and occupational pension provision: not to replace it, and not to compete with that market by targeting groups already covered by pension provision. But concern about possible competition that existing WPPs would face from the personal accounts scheme was nevertheless evident.

Providers’ and intermediaries’ concerns about competition from the personal accounts scheme were generally based upon the assumption that charges for the personal accounts scheme would be very low. Although they recognised that the charging structure and levels for the personal accounts scheme had not yet been finalised at the time of this study, some mentioned that discussions at board level had assumed that the personal accounts scheme would charge an AMC of 0.3 per cent to 0.5 per cent. Even where providers and intermediaries did not mention specific charging levels, the typical expectation was of a very low-charge product, with an AMC set at a considerably lower level than those of current WPPs. Consequently, there were perceptions among many providers and intermediaries that employers, either with or without existing provision, that may otherwise have adopted a GPP or SHP, could choose to adopt the personal accounts scheme instead. Many pointed out that these opinions were based on their experiences of the similar impact of the group stakeholder charging cap.

Possible provider responses to the workplace pension reforms

The providers interviewed were at a very early stage in reviewing any potential strategic reaction in response to these expected low levels of charge. Nevertheless, many providers and intermediaries, at the time of the research, believed that the introduction of the personal accounts scheme would act as a further catalyst to providers departing the market, or at least consolidating.

Some providers expected to choose to remain in the WPP market and focus on differentiating their products from the personal accounts scheme. Potential strategies at this time included:

- more innovative WPPs that were bespoke and tailored to the needs of the employer: some mentioned improving communication between the employer, member and the provider; improving the ease and speed with which members could select or switch investments; and offering pensions in conjunction with flexible employment benefits packages;
- focusing on ‘higher-end’ employers whose employees were relatively better-paid, whose contribution levels were higher and staff turnover was lower, and who were seen to be less likely to consider adopting the personal accounts scheme;
• not competing on price with the personal accounts scheme, but nevertheless, lowering charges: if they did not, they might be at risk of even ‘higher-end’ employers choosing the personal accounts scheme rather than a WPP.

Possible intermediary responses to the workplace pension reforms

When the research took place, the personal accounts scheme was not seen to offer any opportunities for commission-based intermediaries to receive revenue. In addition, providers believed that the low charges they would need to apply to their mass market WPPs would not allow commission to be paid to commission-based intermediaries in the future. As a result of this cut in commission, commission-based intermediaries were expected to continue to withdraw from the workplace-based pensions market.

Fee-based intermediaries were expected to remain and indeed benefit from additional consulting opportunities in the run-up to the implementation of the reforms, as employers interested in staff benefits would be increasingly looking for advice prior to their introduction. Fee-based intermediaries also believed that they would amend the services they offered in light of the reforms. They expected to focus on communicating to employers the advantages that they believed their qualifying workplace pensions had over the personal accounts scheme, and on developing longer-term relationships with higher-end employers.

The potential impact of automatic enrolment with a minimum employer contribution

Providers and intermediaries were generally in agreement that automatic enrolment with a minimum employer contribution would increase the proportion of the population saving for retirement. This was largely as a result of the fact that those who previously did not join schemes as a result of inertia would now be automatically enrolled.

They did, however, share a number of concerns. Providers and intermediaries typically agreed that automatic enrolment with a minimum employer contribution could have a negative financial impact for employers. Some raised questions as to whether all employers would be able to afford the additional costs associated with automatically enrolling all eligible employees into a pension scheme.

One knock-on effect of this for employees was said to be the possibility that automatic enrolment might lead to employers ‘levelling down’ contributions for staff that previously had more generous pension provision. Other concerns relating to employees included the possibility that the Government-proposed levels of contributions might be assumed to be adequate by many, preventing them from saving more; and the possibility that there may be individuals for whom automatic enrolment only proves to offset means-tested benefits that they would otherwise have been set to receive at retirement.
Many providers believed that automatic enrolment with a minimum employer contribution could potentially impact upon their own businesses, although to a lesser extent than the aspects of the reforms already discussed.

Many providers suggested that automatic enrolment could lead to an increase in the revenue that they receive from existing workplace pensions, as more members would inevitably join. Other providers were keen to stress, however, that newly eligible employees who will be automatically enrolled were likely to be those who currently have no pension provision, and may also have relatively low salary levels. Consequently, automatically enrolling these individuals could lead to very small contributions being paid into their pension fund. It could take considerable time for providers to recover the administrative costs of enrolling these new members: in other words, they felt the potential revenue benefits to providers of enrolling more members might be somewhat offset by the administrative costs.

Where employers have a particularly transient, low-paid workforce, some providers were concerned that automatic enrolment could even cost the provider money, as the administrative effort of continually enrolling and un-enrolling employees might never be offset by the revenue generated. Some providers believed that this problem could be reduced if a specific period of time was required after an employee joined the organisation, before they became eligible for automatic enrolment.
1 Introduction

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

This chapter details the policy background to the study, and outlines the reforms as detailed in the Pensions Act 2008. It also describes the workplace pensions market, as it was in 2008 at the time this study was conducted. This chapter also contains the research objectives and methodology and gives an overview of the structure of this report.

1.1 Policy background: the Pensions Act 2008

Millions of people in the UK are not saving enough for their retirement. There are a number of barriers that prevent people from making a decision to start saving, and these affect moderate to low earners in particular:\(^2\)

- many have a poor understanding of pensions and the need to save;
- inertia can prevent people from saving even when they are aware of the need to do so;
- personal pension providers do not actively target this group because they struggle to recoup high upfront selling costs.

The Pensions Act 2008 was introduced to Parliament on 5 December 2007 to take forward measures aimed at encouraging greater private saving by overcoming the inertia that affects decision-making, making it easier and more attractive for individuals to save for their retirement.\(^3\)


\(^3\) These measures were initially outlined in Personal accounts: a new way to save, Department for Work and Pensions (2006).
The Act received Royal Assent in November 2008. The details of the reforms, as published in July/August 2008 when the fieldwork for this study was conducted, are described below.

1.1.1 Automatic enrolment

From 2012, the Government plans that all eligible employees, who are not already in a qualifying workplace pension, will be automatically enrolled into a qualifying workplace pension scheme, without the employees having to make a separate application for membership. Employees will be able to opt out of the scheme if they prefer, whether they decide to make alternative provision or otherwise.

Eligible employees are those aged between 22 and State Pension age, earning above £5,000 a year at 2005 earning levels.

1.1.2 Minimum employer contribution

For the first time, all employers with any eligible employees will be required to contribute a minimum of three per cent of earnings towards the pension of employees that do not opt out. This will supplement a four per cent contribution from the employee and around one per cent from the Government in the form of tax relief.

Contributions will be made on a band of earnings between around £5,000 and £33,500 a year at 2005 earning levels. This band will be increased in line with earnings. ‘Earnings’ is defined as all sums payable to an employee in connection with the person’s employment, including salary, commission, bonuses, overtime, sick pay, maternity pay and paternity pay.

1.1.3 The personal accounts scheme

From 2012 the Government plans to introduce a new low-cost saving vehicle, which is currently being called the personal accounts scheme, aimed at employees who do not have access to a good quality workplace pension scheme: in the main, medium to low earners.

Key features of the scheme are:

- it will be a DC pension scheme, run at arm’s length from Government by a sole corporate trustee;
- annual management charges will be low;
- the scheme will be simple for the individual to use and understand.

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4 This three per cent minimum contribution applies to defined contribution (DC) schemes. Employers offering defined benefit (DB) schemes must similarly offer benefits that meet a minimum standard.
There will be a contribution limit of £3,600 per year based on 2005 earning levels, and a general ban on transfers in and out of the scheme, to attempt to focus the scheme on the target market.

1.1.4 Qualifying workplace pension schemes

After the implementation of the reforms, all employers with at least one eligible employee will be required to automatically enrol employees into a qualifying workplace pension scheme.

Workplace pension schemes must fulfil specific quality requirements in order to be used as qualifying schemes, including the core requirement of automatic enrolment. As long as these are fulfilled, a qualifying scheme can be an occupational pension; the personal accounts scheme; or a workplace personal pension (WPP) such as group personal pension (GPP), group stakeholder pension (SHP) or group self-invested personal pension (group SIPP).

1.2 Research objectives

This research project was designed to investigate and understand the potential impacts of the reforms on the pensions industry, and the industry's responses to the reforms.

The questions the research sought to answer were the following:

- How do providers and intermediaries currently position themselves in the pensions market, and how have the market and their business strategies evolved over recent years?
- How do providers, intermediaries and employers interact with one another, and how might these relationships change in response to the reforms?
- How are providers and intermediaries planning to alter their business strategies in response to the reforms?
- What impact will the reforms have on providers' and intermediaries’ own businesses, and on the market as a whole in the run up to, and beyond, 2012?

---

5 The DWP received written confirmation from the European Commission on 8 May 2008 that automatic enrolment into WPPs under the employer duty will be compatible with the consumer protection legislation known as the Distance Marketing Directive and the Unfair Commercial Practice Directive. Outside the employer duty, implementation planned in 2012, automatic enrolment in WPPs is not permitted.
1.3 Market background: workplace pensions

In June 2007 the Government stated in its response to the consultation on the Personal Accounts White Paper\(^6\) that the aim of the pension reforms is to ensure that the estimated seven million people who are currently not saving enough to meet their retirement aspirations get the opportunity to save more. Personal accounts are designed to complement existing personal and occupational pension provision: not to replace it, and not to compete with that market. In this section we summarise the workplace pensions market, as it was in 2008 at the time this study was conducted.

In this report, where we discuss the ‘workplace pensions market’, we refer generally to the market for the full range of workplace pensions available in the UK. The ‘workplace pensions industry’ refers more specifically to the UK workplace pension providers and the intermediaries that advise employers and employees on these pension products. Both are described below.

1.3.1 The workplace pensions market

As shown in Figure 1.1, there are two fundamental types of workplace pension: occupational pension schemes and WPPs. Occupational pension schemes can be either DB or DC schemes. There are three common types of WPP: GPPs, SHPs and Group SIPPs. Each is described in Figure 1.1.

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**Figure 1.1 The types of pension commonly available in the workplace pensions market in 2008**

<table>
<thead>
<tr>
<th>Occupational pension schemes</th>
<th>DB scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Set up by employers to provide income in retirement for their employees. The employer is responsible for sponsoring the scheme.</td>
<td>how much a person is paid at retirement and the length of time they have been in the pension scheme.</td>
</tr>
<tr>
<td>The scheme is trust-based: run by a board of trustees nominated by the employer and/or members.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>WPPs</th>
<th>DC scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined contribution pension schemes purchased by an individual, through their employer, from a pension provider. WPPs are contract-based: owned entirely by the individual, allowing them to continue to contribute if they move jobs.</td>
<td>much has been paid into the scheme, and the performance of the underlying investments.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SHP</th>
<th>GPP</th>
</tr>
</thead>
<tbody>
<tr>
<td>A WPP that must meet certain legislative conditions, including AMCs of no more than 1.5 per cent. Employers with five or more employees that do not already offer a pension scheme must currently nominate a SHP scheme. These employers do not have to contribute to an SHP but they must allow employees access to the scheme. Workplace pension reforms are introduced.</td>
<td>A WPP arrangement made for the employees of a particular employer.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Group SIPP</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A WPP under which the member has additional freedom to control investments. Such pension arrangements are usually subject to charges over and above those that are applied to GPPs and SHPs.</td>
<td></td>
</tr>
</tbody>
</table>
1.3.2 The workplace pensions industry

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

The provider charges for its services via an annual management charge (AMC). This charge is levied annually on a member’s pension fund, usually as a percentage of the total fund value. In the case of SHPs, this charge may be no more than 1.5 per cent for the first ten years, rising to one per cent thereafter, having increased from one per cent in 2004; other pension types do not have a restriction on the AMC that may be levied. In the case of group SIPPs, other charges may also be levied. Sections 2.2 and 2.3 discuss WPP charges in more detail.

In most cases, an employer will use an intermediary to advise it on the most appropriate choice of pension provider and pension scheme, and often to provide its employees with advice regarding their own options. In the context of this report, intermediary is synonymous with independent financial adviser (IFA). All IFAs are regulated directly by the Financial Services Authority (FSA). Some intermediaries may also advise employers on a wide range of employment benefits packages as well as pensions, and in this case they are known as employee benefits consultants (EBCs).

Intermediaries may charge for their services in two ways. They may be fee-based: in this case they charge the employer a fee for their services. The terms, basis, duration and frequency of the fee are individually negotiated. Alternatively intermediaries may be commission-based: in which case the provider pays the intermediary 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 AMC they charge to members’ funds.

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

The project was qualitative in nature, and consisted of in-depth interviews with 16 providers and 28 intermediaries conducted in July and August 2008. The study focused on the opinions and experiences of a specific group of providers and intermediaries in depth. As this was the first time that research on the workplace pension reforms had focused on providers and intermediaries, the research was exploratory in nature: no pre-established framework was used to collect data, because the themes that would emerge from the research were unknown.

A qualitative research approach was selected because the in-depth, flexible nature of the interviewing process allowed us to define and describe the complete range of issues encountered, in detail. A qualitative approach also enabled us to fully understand the opinions and reasoning behind the comments made, achieving a greater understanding of what providers and intermediaries thought, and why, with regard to the reforms.

The purpose of this research is not to report on the number of individuals or organisations holding a particular view or having a particular set of experiences, nor to provide statistical data relating to the frequency of views across the entire industry: it explores the full range of opinions in depth.

1.4.1 Participants’ perceptions

The opinions and predictions given by participants represent a snapshot in time: they were the views held by participants in July and August 2008. These opinions may have changed since the fieldwork took place, and may change again in the future.

The aims of this research were to understand the views of the pensions industry on the expected impact of the reforms on their organisation and on the industry as a whole. The interviews were conducted with the most senior decision-makers for workplace pension strategy within a range of provider and intermediary organisations. The research has, therefore, produced a range of opinions made by leading industry representatives.

Nevertheless, the research was not designed to evaluate whether the opinions were based on all of the information that was available at the time; or whether the predictions made for the future were likely to be proven correct. The details of the reforms described in the study findings were those that had been published by the Government in July and August 2008. All participants were given the key details of the reforms in the interviews themselves.\(^7\)

\(^7\) This information is included as Appendix B.
The research was conducted in four stages, which are summarised in turn in Sections 1.4.2 to 1.4.5:

- identifying providers and intermediaries;
- telephone screening and identifying the appropriate respondent;
- in-depth interviewing;
- analysis and reporting.

### 1.4.2 Identifying providers and intermediaries

In the case of providers, the research aimed to interview most of the top 20 UK personal pension providers by share of market, according to statistics from the Association of British Insurers (ABI), in order to achieve a comprehensive market coverage. In total, 16 provider organisations were interviewed, including most of the top 20 UK personal pension providers. This also included eight of the top ten UK pension providers according to ABI statistics.\(^8\)

The market of intermediaries is far larger and more fragmented, with a range of sizes of intermediary organisation potentially available to interview. In order to ensure a balance of views between those intermediaries that deal mainly with the very largest employers, and those whose client base consists of a range of sizes of employer, the sample frame included a spread of sizes of intermediary, from the largest EBCs, who tend to deal with employers who have many employees, to smaller IFAs, who tend to deal with employers with fewer employees.

No single, definitive source of sample for intermediaries was available, and so a database was constructed based on sample from a variety of sources.\(^9\) Intermediaries were selected at random within a spread of size categories, except in the case of the very largest UK intermediary organisations, which were prioritised for inclusion.

Prior to conducting interviews with intermediaries, we asked participants to confirm the size of their organisation, in terms of number of advisers, and to confirm their involvement in the workplace pensions market. In total, eight large intermediaries (with over 20 advisers) were interviewed, and 20 small intermediaries (with 20 advisers or fewer) were interviewed. Table 1.1 summarises the profile of organisations interviewed.

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\(^9\) Sources included Presswatch, Unbiased.co.uk and listings of leading IFAs from published research reports.
### Table 1.1 Profile of organisations interviewed

<table>
<thead>
<tr>
<th>organisations interviewed</th>
<th>Interviews conducted</th>
<th>Organisations interviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Providers</td>
<td>16</td>
<td>Most of the top 20 UK pension providers by share of market, and other major WPP providers</td>
</tr>
<tr>
<td>Large intermediaries</td>
<td>8</td>
<td>Spread of sizes of organisation, from largest EBCs with over 300 pension advisers to large intermediaries with closer to 20 pension advisers</td>
</tr>
<tr>
<td>Small intermediaries</td>
<td>20</td>
<td>Selected at random, but pre-screened to ensure involvement in WPP market, and a range of sizes of organisation</td>
</tr>
<tr>
<td>Total</td>
<td>44</td>
<td></td>
</tr>
</tbody>
</table>

#### 1.4.3 Telephone screening and identifying the appropriate respondent

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

- Head of DC Pensions;
- Director of Pensions Development;
- Head of Pensions Policy;
- Deputy Chief Executive;
- Senior Pensions Policy Manager;
- Group Product Development Director.

All providers were sent an introductory letter and fact sheet on the research by the recruitment team, prior to arranging a face-to-face interview.

In the case of intermediaries, organisations were screened to ensure some involvement in the workplace pensions market, and to ensure a spread of sizes of intermediary. Job titles included:

- Head of DC services;
- Head of Employee Benefit;
- Regional Corporate Manager;
- Business Development Manager;
- Practice Manager.
As with the providers, a recruitment script was used to identify the most senior decision-makers for workplace pension strategy within the organisation, and all intermediaries were sent an introductory letter and fact sheet on the research by the recruitment team, prior to arranging an interview.

1.4.4 In-depth interviewing

In-depth interviews were conducted throughout July and August 2008 with providers, large intermediaries and small intermediaries. All provider and large intermediary interviews were conducted face to face, lasting around an hour, and were qualitative in nature. In many cases, the principal respondent brought additional senior colleagues to the interview. Interviews with small intermediaries were either conducted face to face or by telephone, and lasted up to an hour.10

The first five interviews conducted (three with providers, one with a large intermediary, and one with a small intermediary) were conducted by senior RS Consulting staff, allowing the topic guide and interviewing procedures to be fine-tuned. The remaining depth interviews were carried out by RS Consulting’s executive interviewing team.

The topics covered in the interviews included current business strategies; levels of awareness of the pension reforms; strategies between 2008 and implementation of the pension reforms; which employers were more likely to adopt personal accounts; the impact of automatic enrolment; and the future for the pensions market after 2012.

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

1.4.5 Analysis and reporting

The depth interviews were tape recorded by each interviewer. From transcriptions, interview write-ups were produced by the core research team, who were able to clarify any apparent inconsistencies in the transcription, or ask the interviewer to call back the participant for further information, or to explain and explore issues further as new themes emerged from the research programme.

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10 A DWP study into current practices in the WPP market, also conducted by RS Consulting, covered the same target audience. Consequently, interviews for this study into the pension reforms took place immediately before interviews for the study into current practices. In total therefore, interviews lasted up to two hours in total.

The senior RS Consulting project team, which included the authors of this report, read and analysed the write-ups for all 44 of the organisations interviewed. The team produced an initial document identifying key emerging themes, which formed the basis of an initial report of findings delivered internally to DWP and the Personal Accounts Delivery Authority (PADA) in September 2008; and subsequently this written report of findings.
2 The workplace pension market in 2008

This chapter examines the nature of the workplace pensions market in 2008 as described by the providers and intermediaries interviewed.

2.1 Pension products available: the shift from occupational schemes to workplace personal pensions

At the time of the research in 2008 there were two fundamental types of workplace pension available in the UK market: occupational pension schemes, set up by the employer and run by a board of trustees, and workplace personal pensions (WPPs), owned entirely by the individual but facilitated by the employer, allowing them to continue to contribute to it if they move jobs. Occupational schemes can be either defined benefit (DB) or defined contribution (DC) schemes. There are three common types of WPP: group personal pensions (GPPs), group stakeholder pensions (SHPs) and group self-invested personal pensions (group SIPPs).

This section discusses how common each of these types of pension were within the market, the groups of individuals that they were targeted at and purchased by, and recent trends in the market, based on the interviews conducted with providers and intermediaries.

Providers and intermediaries typically distinguished between ‘mass market’ private sector pension provision – pensions that were aimed at the majority of employees – and director and senior manager pension provision. Both are discussed in this section.

2.1.1 Mass market pension provision

Providers and intermediaries typically held the view in 2008 that employers were driving a move away from occupational pension schemes to WPPs.
They generally agreed that occupational DB schemes were once offered by the employers that were most interested in looking after their employees in retirement. Now, however, providers reported virtually no new business from DB schemes, even from those employers that wanted to provide for their employees in retirement. Some providers pointed out that many existing DB schemes were no longer open to new members.

Most agreed too, that occupational DC schemes were in decline: in terms of new business, few employers offering new pension provision for their employees now selected occupational DC schemes. Providers and intermediaries gave two broad reasons for this:

• employers were said to find occupational schemes more expensive to run than personal pensions;

• employers no longer wanted to take on the responsibility of being (or assigning) trustees for their employees’ pensions.

Both providers and intermediaries therefore agreed that WPPs accounted for the greatest proportion of new workplace pensions sold, by far: irrespective of whether this was sold to employers with no pension provision previously, or to employers adding to or replacing existing provision. In terms of the mass market, the majority was accounted for by GPPs and SHPs. Again, providers and intermediaries gave two broad reasons for why they believed GPPs and SHPs were favoured by employers over occupational pensions:

• they were seen as cheaper and less burdensome for employers to run;

• they offered more investment choice directly to members, without the need for trustees to be involved in the process.

Occasionally providers and intermediaries pointed out that, for the same reasons, some employers that had closed DB schemes were now switching directly to a WPP for new employees, rather than offering a DC occupational scheme.

‘Historically they might have offered occupational DC and then contract-based – but there’s evidence that they’re now making the leap direct to a contract-based scheme.’

(Provider)

Although there was some variation between providers’ opinions, they typically reported that GPPs accounted for a much higher proportion of new pensions business than SHPs in 2008.

2.1.2 Director and senior manager pension provision

Many providers pointed out that director and senior manager pension provision could be somewhat different to mass market provision. Providers did report providing new occupational pensions and GPPs to highly-paid individuals, although many providers also believed that the group SIPP was beginning to emerge as
The workplace pension market in 2008

a considerable growth area among this audience, albeit a relatively rare one currently.

The fact that group SIPPs gave such individuals more control over the underlying investments in their pension fund, allowing direct investment in property or shareholdings for example, was seen as attractive to directors and senior managers. It was believed to offer the member far greater opportunity to achieve growth in the value of the pension fund. As such, these pension arrangements were usually subject to higher charges than GPPs and SHPs. No provider or intermediary mentioned the use of group SIPPs in conjunction with automatic enrolment.

2.2 The charging structure of group personal pensions and group stakeholder pensions

To be able to understand the nature of the workplace pensions market, many providers pointed out that it is important to understand how charges were structured for the most common products in the market, the GPP and the SHP. Providers reported that the charging structures and levels for GPPs and SHPs were essentially the same: the reasons for this are discussed in Section 2.3.

In both cases, the provider charges for all of its services via a single annual management charge (AMC). This charge is levied annually on a member’s pension fund, usually as a percentage of the total fund value. This fee covers all of the provider’s design, setup and administration costs, and usually covers all fund management costs.

As discussed in Section 1.3, an intermediary may charge for its services on a fee basis or a commission basis. Where the intermediary charges the employer a fee for its services, no further intermediary charges are passed on to the member. Where the intermediary charges the provider commission based on the pensions products that are sold, the provider usually attempts to recover the cost of this commission by increasing the value of the AMC they charge to members’ funds.

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11 A DWP study into current practices in the WPP market, also conducted by RS Consulting, examines scheme charges in more depth.


12 In a minority of cases, if a member selects to invest in certain pension funds, usually those operated by an external fund manager, these funds may be subject to an additional charge, passed on directly to the member.
2.3 The impact of the group stakeholder charging cap upon GPP and SHP charges

The current single AMC charging model for GPPs was not common before 2001, according to many providers and intermediaries. They pointed out that prior to the introduction of SHPs in 2001, GPPs could often be subject to a range of different charges, which according to many, made WPP provision potentially profitable.

‘If you look at the historic background, before stakeholder, there were a raft of charges – some too high, some much too high, some OK.’

(Small intermediary)

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

One of its features, when introduced, was that it permitted an AMC of no more than one per cent, including all fund management charges and any increase made to account for commission that the provider paid to the intermediary. The providers and intermediaries interviewed were typically in agreement as to the impact of this. Although they were not specifically asked whether they felt the AMC influenced employer choice, their opinion was that the SHP’s low AMC meant that it was not just attractive to employers with no existing pension provision, but to employers with existing pension provision as well. In effect, the GPPs that providers already offered were no longer attractive to employers because of their high levels of charges that their employees would face.

The impact of this, according to providers, was twofold:

• GPPs were forced to adopt the same single AMC pricing structure as SHPs to be able to compete in the market.

  ‘All products now have stakeholder-style charging structures. It’s the same across the industry.’

  (Provider)

• The maximum level of AMC that could be charged was one per cent, and providers wishing to be more competitive than this often charged less than one per cent.

  ‘Stakeholder created the one per cent standard, and so at the moment we’re in a marketplace where 0.5 per cent to 0.7 per cent AMC are probably the norm.’

  (Provider)
Although the SHP charging cap was increased in 2004 to 1.5 per cent for the first ten years, moving to one per cent thereafter, competition was said to have kept the level at one per cent or below.

Providers in particular pointed out that the lower charges brought about by the group stakeholder charging cap had had a considerable impact upon the profitability of pension provision, and on the nature of the WPP market.

Some providers pointed out that they incurred significant costs in setting up pension schemes, but because they were only able to recoup these costs over a number of years via the AMC, GPP and SHP schemes often ran at a loss to the provider in the first years of operation. This, combined with the fact that individuals’ fund values tended to be very low in the early years of pension saving, meant that it could take a number of years for a provider to recover the costs of setting up a scheme: up to 15 years according to some providers.

Some providers pointed out that others had already departed the WPP market as a result, or were considering doing so, because they were unable to make money through WPP pension provision.

‘It decreased the margin on existing business significantly across the whole of the group pensions marketplace, which means that it’s a lot less attractive in terms of revenue than it was five years ago.’

(Provider)

Many providers and intermediaries reported that some commission-based intermediaries also faced reduced revenue as a result of the charging cap. As the amount of commission that a commission-based intermediary could charge was dependent on the AMC, which was now lower than in the past, many providers and intermediaries felt that there was less scope for providers to pay the level of commission they had paid previously. Consequently, some commission-based intermediaries, particularly the smallest, were said also to be departing the WPP market.

‘It has made the market smaller because there are fewer and fewer affordable areas of the market at that level of charge. Certain [contribution levels] are no longer economical for an adviser to advise on or for a provider to operate on.’

(Provider)

Many providers also believed that, having driven down charges on all GPP products, SHPs by 2008 had no remaining advantages over GPPs. As a consequence, many providers reported that they no longer actively marketed SHPs. The most common pensions product therefore available on the market was now the GPP.

‘Stakeholder is pretty much dead on the branch line. It served one purpose in that it drove the charges on GPP products down. GPP is now much more flexible and probably cheaper, and there are fewer restrictions.’

(Large intermediary)
2.3.1 How providers identify profitable business

Many providers pointed out that in order for them to stay profitable in the present market conditions, it was important for them to be able to identify business from employers where profit was still to be made. Throughout the interviews conducted, providers talked of the need for them to focus on ‘high-end’ or ‘profitable’ employers to make money. The providers in the study were asked how they defined ‘high-end’ or ‘profitable’ employers.

Providers reported that they had become increasingly sophisticated in recent years in identifying which employers were likely to provide the most valuable business. Traditionally the number of employees in an organisation had often been used by providers to predict profitability: economies of scale, it was believed, meant that the more members that were in a scheme, the more likely it was that setup costs would be recovered. Under the single AMC model however, this relationship was not necessarily so straightforward. A large employer with a transient workforce, for example, could create high administrative costs for the provider, but still yield relatively low revenue via the AMC.

Consequently, providers reported that they used a variety of indicators to identify potentially more profitable business. The most commonly mentioned included the following:

- high staff salary levels;
- high employer and employee contributions as a percentage of salary;
- high participation rates;
- low staff turnover;
- more profitable industry sectors, e.g. finance and IT;
- high degree of employer commitment to employees’ pension provision, including a willingness to pay for an intermediary via a fee.

Where, in this report, providers and intermediaries refer to ‘high-end’ or ‘profitable’ employers, they are typically referring to employers that, to some degree, exhibit the characteristics described above. When asked to quote for new business by an intermediary, providers often reported that they attempted to target profitable employers by altering the AMC, offering the potentially most profitable employers the lowest AMC.

2.3.2 Intermediaries’ sources of revenue in the WPP market

Intermediaries have two principal sources of revenue in the WPP market: fees paid by employers for their services, or commission paid by the provider based on the pensions products that are sold.

Smaller intermediaries, it was reported, most often tended to work on a commission-basis. The reduction in the AMC of GPPs had led to a reduction in commission
paid to intermediaries. Consequently, many providers and intermediaries, both large and small, believed that there were few opportunities left for commission-based intermediaries in the WPP market, unless they were able to target the high end of the market, such as higher net worth individuals purchasing group self-invested personal pensions (group SIPPs), where commission was still believed to be common. Many intermediaries were said to have already departed the WPP market altogether.

‘The one per cent annual charge: whoever decided on that had no regard for the role of the adviser. Now [employees] have to go and find their own way, and their own understanding.’

(Small intermediary)

The large intermediaries in the UK market, including the very largest EBCs who offered employers a wide range of consulting services, were in most cases exclusively fee-based. As a result, fee-based intermediaries were commonly said to be a group unaffected by the reduction in charges brought about by the group stakeholder charging cap. They were expected to continue to offer the range of independent financial adviser (IFA) and consulting services, including pensions advice, employee benefits and investment advice, that ‘higher-end’ employers, as defined in Section 2.3.1, were willing to pay for.
Chapter 3: Awareness of the workplace pension reforms and areas where providers and intermediaries needed clarification

This chapter examines the degree to which providers and intermediaries were aware of the workplace pension reforms at the time of interview, and also briefly discusses how aware of the reforms they believed employers were. It also discusses a number of questions that participants raised and felt needed to be answered before they could decide upon how to respond strategically.


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15 Details of the Pensions Act 2008 and its progress through Parliament can be found at http://services.parliament.uk/bills/2007-08/pensions.html
3.1 Awareness of the reforms

Information in this section is based on asking participants in the study how knowledgeable they, and other individuals within their organisation, were about the pension reforms,\textsuperscript{16} as well as on specific aspects of the reforms that the participants mentioned during the interviews.

3.1.1 Awareness among providers

There was general agreement among the providers and intermediaries interviewed that providers’ awareness of the workplace pension reforms was very high at board level. The most senior staff stated that they knew the published details of the reforms, as reported in the press or detailed by the Government, and kept up-to-date with developments in the finer details of the reforms. They had given some thought at board level to the expected impact that each aspect of the reforms may have on their business and to possible future strategic implications.

‘It’s one of the business opportunities and threats facing us, so it’s dominating our strategy.’

(Provider)

As well as monitoring press and Government sources for information on the reforms, some providers mentioned having attended conferences or seminars where the reforms were part of the agenda; others had held open debates on the topic; and some were active in lobbying Government, with the hope of influencing Government policy.

Although the research was not designed specifically to test their knowledge, the participants, who were the most senior decision-makers for workplace pension strategy within their organisations, were able to discuss and answer detailed questions about the implications of the reforms. When asked about possible future effects of the reforms, even though many felt that several aspects had yet to be finalised, participants were able to hypothesise regarding what they thought may happen with respect to their business and the market in general.

At the time of the research, providers still had questions that they wanted to be answered before deciding exactly how they would react and what their strategy might be. As a consequence of this, the high degree of awareness shown by senior staff was not typically thought, by providers themselves, to extend down to those that dealt with the management of schemes and customers on a day-to-day basis. They were typically thought to be aware of the existence of the reforms, but not of the finer detail.

\textsuperscript{16} This issue was discussed before giving participants the details of the reforms, which are reproduced in Appendix B of this report.
Within every major provider there is a small number of people that understand them, and a larger number of people who know that there is something going on, but they wouldn’t actually understand what the implications are.’

(Provider)

Some providers pointed out that they were reluctant to spend time and money ‘educating’ large numbers of staff on the details of the reforms and on their own possible strategies when neither of these had yet been confirmed.

3.1.2 Awareness among large intermediaries

Large intermediaries also felt that they generally had a good degree of knowledge of the reforms, with this knowledge again concentrated around senior staff. Employee Benefit Consultants (EBCs), the largest intermediaries interviewed, were often mentioned by providers and other intermediaries as being particularly knowledgeable. Generally, the larger the intermediary, the better the knowledge and awareness was seen to be by providers and intermediaries.

As was the case with the providers interviewed, the large intermediaries, including the EBCs, were able to discuss the reforms and their possible future implications in depth, and some stated that the reforms had been discussed at a senior level within their organisations.

Large intermediaries often pointed out that, unlike providers, they had another reason for needing to be knowledgeable about the reforms: the need to inform their clients, i.e. UK employers, about the detail of the approaching reforms. Large intermediaries in particular often reported that existing clients had been asking about the reforms, and some even believed that their ability to clarify details of the reforms could be used as an approach to attract new clients.

‘If we’re out there saying, “Look, it’s out there, be aware,” it gives us an introduction to potential new clients.’

(Large intermediary)

However, not all intermediaries agreed with this viewpoint, as many intermediaries believed that interest in the reforms among most employers was very low.

3.1.3 Awareness among small intermediaries

Small intermediaries’ level of knowledge about the reforms was variable, but usually restricted to the main points of the reforms: it was not typically as in-depth as that of providers and large intermediaries. Even many of those who felt that they were already familiar with most of the confirmed details of the reforms, in fact knew only the key details, such as what was published in the press. There was a widespread belief that the reforms were so far away in the future that they did not want to burden themselves with making concrete plans for something that seemed so distant.
'With Government things they always change so much, so it’s not worth spending a lot of time on it.’

(Small intermediary)

Providers and large intermediaries typically agreed that small intermediaries were less knowledgeable when it came to the reforms. Some felt that small intermediaries simply had little desire to find out more information about the reforms, because they did not see them as relevant to them. They pointed out that small intermediaries were most often commission-based, and as such the reforms were said to have presented no new opportunities for them, especially with regard to the personal accounts scheme, which was not perceived to offer intermediaries opportunities to receive commission, due to the anticipated low charge levels. This meant that, at the time the research was conducted, they often did not wish to be proactive in advising their clients to start thinking about the reforms, particularly if they believed they were likely to adopt the personal accounts scheme.

3.1.4 Views of employers’ awareness of the reforms

The providers and intermediaries interviewed typically believed that employers’ awareness of the workplace pension reforms was very low, and that employers were in fact usually unaware of them altogether.

‘There’s a considerable lack of awareness amongst employers about the reforms.’

(Provider)

In cases where employers were said to be aware of the reforms, large intermediaries and providers believed that they generally saw the reforms as being a long way off, and viewed them as quite uncertain. Consequently, they were seen as having more pressing issues to worry about, such as a possible economic downturn, and so they did not wish to do anything proactive with regard to the reforms.

‘Given the uncertainty about the future government, etc., etc., a lot of clients are saying it’s too early to worry about [the reforms]. They say, “Why would I spend money in a recession on discretionary spend, when I can think about it a bit later?”, and they are just putting off the decisions.’

(Large intermediary)

A minority of employers, according to large intermediaries and providers, were in fact aware of the reforms, and were asking questions about how the reforms might affect their own business. For example, an intermediary reported that one employer
enquired as to whether the fact they had a highly transient workforce would mean that it would not be necessary for them to implement automatic enrolment.17

3.2 Areas where providers and intermediaries needed clarification

Many providers and intermediaries pointed out that there were a number of issues that needed clarification, before they would be able to predict the impact of the reforms, and how they would respond strategically to them. The issues mentioned are outlined in this section.

3.2.1 Whether the reforms will go ahead as proposed

The fundamental question asked by many providers and intermediaries was whether the details of the reforms, as already published by the DWP, would change between 2008 and 2012. Many felt that there was a likelihood that they would change.

‘I can’t take seriously something the Government say they will do in three or four years’ time. I think there will be changes.’

(Small intermediary)

Across the providers and intermediaries interviewed, there was general agreement that any strategic reaction in response to the reforms would potentially need a significant financial investment. Some providers pointed out that even very small changes to the detail of the reforms could mean that they incurred additional costs. Consequently, many were reluctant to plan a clear strategic response at this stage.

‘Is there enough certainty to plan with certainty? There’s nothing worse than investing with confidence, and then the rules change.’

(Provider)

For many intermediaries the perceived lack of finality also meant that it was difficult for them to advise their employer clients with confidence as to what they should do in the run-up to 2012.

17 Two DWP studies explore employers’ awareness of the workplace pension reforms:


A specific concern mentioned by many providers and intermediaries, was the possibility that the reforms might not happen at all or might change considerably if there was a change in Government before 2012. As a result of this, some expected that they would not commit to a strategy now, but would wait until after the next general election had taken place.18

‘I think we’ll become more exercised when the next election happens, because of the uncertainty over who the next Government will be.’

(Large intermediary)

3.2.2 Whether the reforms will impact upon the profitability of pension provision for providers and intermediaries

Many providers and intermediaries had specific questions about the detail of the reforms that focused on the nature of the personal accounts scheme. These were questions that they saw as crucial to determining any future business strategy within the workplace personal pension (WPP) market. The answers to these specific questions would be used by many providers and intermediaries to answer one underlying question: would the reforms impact upon the profitability of pension provision for providers and intermediaries?

In June 2007 the Government stated in its response to the consultation on the Personal Accounts White Paper19 that the aim of the pension reforms is to ensure that the estimated seven million people who are currently not saving enough to meet their retirement aspirations get the opportunity to save more. Personal accounts are designed to complement existing personal and occupational pension provision: not to replace it, and not to compete with that market by targeting groups already covered by pension provision.

But many providers and intermediaries nevertheless wished to know whether certain characteristics of the personal accounts scheme could encourage employers that would otherwise have adopted a group personal pension (GPP) or group stakeholder pension (SHP) to choose to adopt personal accounts instead: whether as a replacement for an existing occupational pension or WPP, or as a brand new scheme for employees not currently covered by pension provision.

‘Is the target of [the personal accounts scheme] only the area where pensions needs are not currently met, or will there be incentives that encourage employers towards personal accounts in favour of existing schemes?’

(Provider)

18 The pension reforms, as outlined in the Pensions Act 2008, had in fact received backing from all of the major parties, including Labour and the Conservatives, at the time of interview, and subsequently received Royal Assent in November 2008.

3.2.3 What the level of annual management charge will be

A very commonly-asked question, considered by many providers and intermediaries to be one of the most important and fundamental to their strategies, was the level of annual management charge (AMC) that would be charged by the personal accounts scheme. Although they recognised that there are other potential charging structures in the market, the single AMC was seen as the main charging model and the one that providers and intermediaries expected also to be applied to personal accounts.

AMCs for most GPPs and SHPs in 2008 were set by the provider, and tended to range from 0.4 per cent to 1.0 per cent. Most were said to be at the higher end of this scale, particularly where the intermediary charged commission for their services.

Charging levels for the personal accounts scheme had not yet been finalised at the time of this study. The Government’s consultation on the Personal Accounts White Paper stated that the aim of personal accounts is to provide people with a simple low-cost way of saving for a pension, and that ‘the Government believes that an annual management charge of 0.3 per cent or equivalent under alternative charge structures, as suggested by the Pensions Commission, is achievable in the long term.’

Some providers and intermediaries were concerned that if the AMC for personal accounts was to be set at a considerably lower level than the AMC for SHPs and GPPs, employers that would otherwise have adopted a WPP might adopt or switch to the personal accounts scheme for their employees instead.

Providers and intermediaries were not usually specific as to the exact levels of AMC that might cause them to lose potential business, although some mentioned that if the AMC were to be set as low as 0.3 per cent to 0.5 per cent, as the Government had initially proposed, it would make it very difficult for WPPs to compete with personal accounts, and so would increase the possibility of providers choosing to withdraw from the WPP market.

Conversely, if the level of AMC for the personal accounts scheme was to be set at a comparable level to most existing GPPs and SHPs, many providers believed that they would be able to exist alongside the personal accounts scheme on a level playing field; and so they would be likely to remain in the WPP market in the longer term.

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20 A DWP study into current practices in the WPP market, also conducted by RS Consulting, examines scheme charges in more depth.

3.2.4 What the transfer limits will be

The Pensions Act 2008 specified measures to ensure that there was a low risk of providers losing existing business to the personal accounts scheme. Specifically this included ‘a general ban on transfers in and out of the scheme, to focus the scheme on the target market’.21 Although this aspect of the pension reforms had been published in 2007, well before the interviews for this study took place, some providers nevertheless wanted confirmation as to whether this would indeed be the case and, if not, what the transfer limits would be.

The providers that expressed this view favoured a low transfer limit, or a complete transfer ban, to ensure that employees would be unable to transfer their existing pension provision to personal accounts. It was thought that allowing transfers into personal accounts would be a considerable threat to existing business.

‘We think that a significant proportion of customers will [stop making contributions to us] and, if transfers in are allowed, we could see a movement of existing funds in there as well. It’s fair to say we see it as pretty severe.’

(Provider)

3.2.5 What the contribution limits will be

Alongside the proposed ban on transfers outlined in the Pensions Act 2008, a contribution limit of £3,600 per year (based on 2005 earning levels) was proposed, ‘to find the right balance between giving the consumer sufficient flexibility to save while protecting existing occupational schemes’.22

As with the question of transfer limits, although this aspect of the pension reforms had been published in 2007, well before the interviews for this study took place, some providers nevertheless wanted confirmation as to what the contribution limits would be. These providers said that if the contribution limit was set high (although without mentioning specific levels), there might be a risk of high earners switching from their existing WPP provider to the personal accounts scheme. This was a worry for some providers because if the highest earners did switch away from WPPs it could risk undermining their profitability.

3.2.6 How automatic enrolment into WPPs will be phased in

The Pensions Act 2008 states that all eligible workers, who are not already in a good-quality workplace pension scheme, should be automatically enrolled into a qualifying pension scheme. The DWP received written confirmation from the European Commission on 8 May 2008 that automatic enrolment into WPPs under the employer duty will be compatible with the consumer protection legislation known as the Distance Marketing Directive and the Unfair Commercial Practice


22 ibid.
Directive. Outside the employer duty, implementation planned in 2012, automatic enrolment in WPPs is not permitted.

At the time this research was conducted, the Government had not yet published details of how this transition process would be managed. As a result, providers and intermediaries had a number of concerns:

- Many providers and intermediaries were concerned that there could be confusion in the run up to 2012 among those employers who had heard about automatic enrolment in the press and assumed that they needed to implement it before 2012. Many felt that clarification was needed as soon as possible on the precise dates for implementation for any specific employer, as clarification on this would aid employers in starting to plan for automatic enrolment in 2012.23

‘The difficulty with this is that the rules say we won’t be able to auto-enrol anybody until 2012, but from 2012 we suddenly have to auto-enrol everybody for their schemes to be qualifying. So you have a knife edge. As soon as automatic enrolment comes into the public gaze before 2012, everyone will say, “Can we auto-enrol into GPPs?” and the answer will be, “No, you can’t”.’

(Provider)

- Some of the providers that were in favour of automatic enrolment felt that if they were allowed to automatically enrol members into their qualifying schemes before 2012 it would be a benefit to employees, to the employers able to demonstrate to their employees that they supported pension provision, and to them as providers. Similarly, some intermediaries said they would like to be able to advise employers that they could start to implement automatic enrolment early.

- Less frequently, however, some providers in particular felt that the ‘phasing in’ process suggested above could in fact cause confusion among employers, and that a single date for all employers would be simpler for all.

3.2.7 Whether there will be a period of time after joining a company before an employee becomes eligible for automatic enrolment

Many providers and intermediaries felt that a high proportion of workers in certain industries made frequent job changes and that if such employees were to be automatically enrolled into a pension scheme from the first day of their joining an organisation it could create a considerable administrative burden. This was seen to be a costly and time-consuming exercise for both the employer and the provider, due to the need to continually enrol and un-enrol employees.

23 It should be noted, however, that providers and intermediaries typically agreed that most employers currently had little interest in the reforms, believing 2012 to be very distant in comparison to more urgent short-term issues they faced, such as a possible economic downturn.
Although the Government’s consultation on the Personal Accounts White Paper recognised that there could be an ‘additional administrative burden associated with the frequent job changes made by young people, particularly students,’ a specific period of time between an employee joining a company and automatic enrolment was not discussed in the Pensions Act or the White Paper.

Some providers and intermediaries asked whether there might be a period of time before employees were automatically enrolled. Specific time periods were rarely mentioned, but three months was occasionally given as an example of an appropriate period.

‘We represent a lot of retailers who have periods of temp workers on bulk. If they only work for three months, it’s nonsense that they will be enrolled in personal accounts from day one.’

(Large intermediary)

3.2.8 How ‘qualifying earnings’ will be defined

The Pensions Act 2008 states that qualifying employers will be required to contribute a minimum of three per cent of eligible employees’ qualifying earnings into their pension scheme; the employee four per cent; with around one per cent from the Government in the form of tax relief. In this context, ‘qualifying earnings’ refers to the part of an individual’s earnings on which contributions into a qualifying workplace pension scheme, such as personal accounts, will be made. At the time of interview the Pensions Act stated that contributions would be made on a band of earnings between around £5,000 and £33,500 a year at 2005 earnings levels. However, the Act had not yet finalised what constituted ‘earnings’.24

In rare cases, providers in this study mentioned the fact that ‘qualifying earnings’ had not yet been fully defined by the Government. Currently, pension contributions for most existing WPPs are based on basic salary. However, many employees’ total earnings are made up not just from their basic salary, but also from a bonus or overtime payments, or other amounts. The possibility was raised that the government could decide that qualifying earnings from 2012 be based on total earnings, rather than basic salary, as is normal now.

These providers requested clarification on this issue quite quickly: those that raised the issue were not in favour of switching to total earnings, as they were concerned that it would be difficult and costly to begin calculating fluctuating pension payments on a monthly basis.

‘The definition of qualifying earnings still hasn’t been clarified…To actually move the systems from one where the contribution was entirely level every month to one where it is based on [total earnings] entails a change in IT and systems costs. The simplest IT changes will cost us thousands.’

(Provider)

24 The Pensions Act 2008 now states that ‘earnings’ refers to all sums payable to an employee in connection with the person’s employment, including salary, commission, bonuses, overtime, sick pay, maternity pay and paternity pay.
4 The potential impact of the workplace pension reforms, and reactions to them

This chapter examines the impact that providers and intermediaries felt the workplace pension reforms would have on the pensions industry itself. It discusses the types of pension scheme on which they believed the reforms would have the greatest impact, and the type of employer they believed would adopt the personal accounts scheme, as opposed to another qualifying workplace pension scheme.

Although, as discussed in Chapter 3, providers and intermediaries had a number of questions about the workplace pension reforms that they felt needed to be answered before they could discuss any potential strategic reaction, providers and large intermediaries were already beginning to discuss how they might react at board level when this research was conducted. This chapter also explores some of the possible reactions of providers and larger intermediaries to the reforms. Smaller intermediaries had given the reforms less consideration.

4.1 The potential impact of the reforms on the pensions market

Interviews with providers and intermediaries focused on all aspects of the workplace pension reforms: the introduction of automatic enrolment into workplace personal pensions (WPPs), the minimum employer contribution, and the introduction of the personal accounts scheme. When providers and intermediaries were questioned on the impact of the reforms, however, their spontaneous responses focused primarily on the personal accounts scheme.
There was a recognition that the personal accounts scheme is designed to complement existing personal and occupational pension provision: not to replace it, and not to compete with that market by targeting groups already covered by pension provision. But concern about possible competition that existing WPPs would face from the personal accounts scheme was nevertheless evident.

It is also notable that their answers focused solely on WPPs: no provider or intermediary stated that they felt that the reforms would impact upon trust-based occupational schemes, whether defined benefit (DB) or defined contribution (DC), to any significant degree. Nor did they mention that they felt the reforms would affect their desire to maintain this stream of business. These occupational schemes were expected to remain valued workplace pension business for both providers and intermediaries. This was due to the fact that the associated larger contribution levels and fund sizes meant that these schemes continued to remain profitable for providers to operate, and for intermediaries to advise upon. As discussed in Section 2.1, providers and intermediaries did typically expect the market for occupational pensions to continue to decline, but they did not feel that this would be a result of the workplace pension reforms: it was thought simply to be a reflection of the continued falling demand for occupational pensions among employers.

Providers’ and intermediaries’ concerns about competition from the personal accounts scheme were generally based upon the assumption that charges for the personal accounts scheme would be very low. The charging structure and levels that will be applied to the personal accounts scheme had not in fact been finalised by the Personal Accounts Delivery Authority (PADA) at the time of this study, and it had not been decided whether charges would be levied via an annual management charge (AMC) or some other means. However, the Government’s consultation on the Personal Accounts White Paper stated that the aim of personal accounts is to provide people with a simple low-cost way of saving for a pension, and that ‘the Government believes that an annual management charge of 0.3 per cent or equivalent under alternative charge structures, as suggested by the Pensions Commission, is achievable in the long term.’

Although providers and intermediaries generally recognised that the charging levels were not finalised, some mentioned that discussions at board level had assumed that the personal accounts scheme would charge an AMC of 0.3 per cent to 0.5 per cent. Even where providers and intermediaries did not mention specific charging levels, the typical expectation was of a very low-charge product, with an AMC set at a considerably lower level than those of current group personal pensions (GPPs) or group stakeholder pensions (SHPs), which could be as high as 1.0 per cent.

There were concerns among many providers and intermediaries that the expected low levels of AMC could encourage employers, either with or without existing provision, that might otherwise adopt a GPP or SHP, to choose to adopt the personal accounts scheme instead.
Many pointed out that these opinions were based on experience of the group stakeholder charging cap (see Section 2.3), where a low AMC of one per cent meant that SHPs were not only attractive to the employers with no existing pension provision, but to employers with existing GPP provision as well. They believed that the reforms could potentially exacerbate this behaviour. Their opinions were typically based on historical precedent rather than on any direct evidence from employers that they might consider switching their pension provision to the personal accounts scheme.25

4.1.1 **The type of employer expected to adopt the personal accounts scheme**

The pension providers and intermediaries interviewed were broadly in agreement at the time of this research as to the types of employer they thought would be most likely to adopt the personal accounts scheme in 2012, as opposed to choosing another qualifying workplace pension. Underpinning their answers was the notion that the personal accounts scheme should be seen as the ‘basic minimum’ pensions product, adopted by those employers less interested in providing pensions as a staff benefit. Therefore, in general terms, the likelihood of an employer adopting the personal accounts scheme, as opposed to another qualifying workplace pension, was seen to be driven by one or more of the following:

- Company size: organisations with very small numbers of employees were considered more likely to adopt the personal accounts scheme.
- Salary levels: organisations with relatively low-paid workforces were thought more likely to adopt the personal accounts scheme.
- Level of staff turnover: organisations with a transient workforce were considered more likely to adopt the personal accounts scheme.
- Existing pension provision: organisations contributing nothing or very little towards employees’ pensions before 2012, and those with very low take-up before 2012, were thought more likely to adopt the personal accounts scheme.

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25 Two DWP studies explore employers’ awareness of the workplace pension reforms:


Organisations with very small numbers of employees

Providers and intermediaries interviewed believed that companies with few employees would be more likely to adopt the personal accounts scheme. This was thought most likely to be very small employers, most commonly thought to be those employing fewer than ten people. Schemes among such small employers were said to be less profitable for providers due to the necessary higher management charges.

‘Companies with a small number of employees, where it would not be profitable for us or economic for them to run [a qualifying workplace pension other than personal accounts]. Charges would be well over one per cent.’

(Provider)

Organisations with low-paid staff

In addition to smaller organisations, many providers and intermediaries expected companies with low-paid staff to take up personal accounts. They felt that employers with low-paid staff would be generally less interested in providing employee benefits and so would be more likely to ‘take the easy option’ of adopting the personal accounts scheme for their employees.

‘Anyone who is employing lower to moderate earners will need to consider personal accounts. Industries such as the hospitality and retail [sectors] – they are industries where I suspect an enormous number of people would fall within the scope of personal accounts. They don’t currently have access to a scheme.’

(Provider)

Some providers and intermediaries also felt that the lack of interest in employees’ pension provision shown by the employers might be shared by the employees themselves: that due to their relatively low level of pay, they would be unlikely to value or prioritise the benefits of paying into an employer-sponsored WPP, or any other pension scheme.

Organisations with a transient workforce

Many providers and intermediaries expected employers with a high staff turnover to be more likely to adopt the personal accounts scheme. Because most staff in these companies did not stay with the organisation for a long period of time, the interest among both the employer and employees in providing an employer-sponsored WPP or occupational scheme was expected to be low. Some providers pointed out that such organisations were not likely to have a scheme in place prior to 2012, and that the staff within such organisations would be unlikely to be a member of an existing scheme due to the regularity with which they change jobs. Personal accounts were perceived to be the easiest and cheapest option to set up and administer.
Industries such as hotel and retail where there is a high staff turnover will more likely go down the route of personal accounts.

(Provider)

Organisations with low levels of take-up or contribution, or with no pension provision

Companies with no existing workplace personal pension provision with an employer contribution before 2012 were considered likely to use personal accounts. As discussed above, this includes a higher proportion of smaller organisations, who are less likely to offer pensions provision currently. In addition, some providers and intermediaries believed that personal accounts might be adopted by organisations that had existing schemes that had either a low take-up or where employee and/or employer contributions were low.

‘The ones who don’t have a pension scheme and ones that have a low take-up of their pension [scheme] currently, where there are maybe only 20 to 30 per cent of their employees in there, they are likely to take up personal accounts.’

(Provider)

4.1.2 The type of employer expected to adopt other qualifying workplace pensions

The adopters of qualifying workplace schemes other than personal accounts were, in very broad terms, expected to be the reverse of those considered likely to adopt the personal accounts scheme, in other words:

- company size: medium sized and larger organisations;
- salary levels: organisations with better-paid workforces;
- level of staff turnover: organisations with a less transient workforce;
- existing pension provision: organisations already contributing towards employees’ pensions before 2012, and those with higher take-up.

No provider or intermediary attempted to put a specific value behind these broad characteristics (for example by giving specific company sizes or staff turnover levels, at which point companies would choose personal accounts compared to other qualifying workplace pensions). They stressed that this could depend very much on the details of the reforms discussed in Chapter 3, and in particular the charging structure, or rather the level of AMC, that they were expecting. At the time of the research, they believed that the lower the AMC, the wider the range of organisations would be likely to switch to the personal accounts scheme.

Many providers and intermediaries did, however, choose to further describe the ‘type’ of employer that they believed would adopt a qualifying workplace pension other than personal accounts: they generally agreed that they were employers for whom the well-being of their staff, in general, was of greater importance. They
were organisations placing great importance on staff retention, particularly within industries with a high degree of competition for the best staff. In these cases, the pension would often form part of an attractive employee benefits package.

‘I think it will be those employers who currently have significant investment into employee benefits now ... those where talent is a key issue for them. So I think it very unlikely that bank and law firms, especially in the City will see personal accounts as a solution to creating an attractive employee benefits package.’

(Large intermediary)

Some providers and intermediaries mentioned that such employers, with an existing workplace pension in place that attracted higher levels of contribution than the minimum three per cent of qualifying earnings required under the reforms, would have little incentive to switch to the personal accounts scheme.

‘The ones who are paying reasonable levels of contribution at the moment [will not switch to personal accounts].’

(Provider)

4.2 The potential impact on providers and their possible reaction to the reforms

The providers interviewed were at a very early stage in reviewing how they would potentially react strategically in response to the workplace pension reforms. Providers typically felt that any change in strategy as a result of the reforms would need to be based on comprehensive and definitive information from the Government. This section discusses a range of ideas that had been raised by providers at board level based on the information that they had at the time of interview, in July and August 2008.

4.2.1 The possibility of some providers withdrawing from the WPP market

As discussed in Section 2.3, many providers and intermediaries felt that the low charging levels in the WPP market since the introduction of SHPs in 2001 had had a considerable impact upon the profitability of pension provision for both providers and commission-based intermediaries. The market in 2008 was said to be less attractive to some providers than in the past, and some providers had left the WPP market already or were considering doing so.

‘We’re already seeing people dropping out – not because of [the workplace pension reforms] but because of the way the market’s going – so the top six providers are really pulling away from everybody else at the moment.’

(Provider)
Section 4.1 described how many providers and intermediaries believed that the most fundamental impact of the pension reforms for providers and intermediaries could be that it could encourage employers, either with or without existing provision, that may otherwise adopt a GPP or SHP, to choose to adopt the personal accounts scheme instead. This could further reduce the profitability of pension provision, if charges are as low as suggested by the Government in its Personal Accounts White Paper. As a result, many providers and intermediaries believed that the introduction of the personal accounts scheme would act as a further catalyst to providers departing the market, or at least consolidating. Whereas this view was quite common, rarely did they mention actual numbers of providers that they felt might remain in the market, although on very rare occasions some did make a prediction.

‘I think there’ll be a scramble for market share and we’ll see maybe four or five providers.’

(Large intermediary)

At this early stage in the review process the level of detail that providers could give as to exactly which providers might withdraw, or over what timescale, was limited and such information was in any case speculative. Aside from pointing to the generally increasing competitive nature of the market and pointing out that this would be a continuation of a trend already in place, no trigger at any specific point in time was mentioned by any provider or intermediary.

Many providers felt that those most likely to withdraw from the market were those for whom WPP business was not a large proportion of their business currently, or those that were not expected to be able to remain profitable with the expected low levels of charge, although, again, they could not typically describe the characteristics of such organisations. It was rare for providers to admit that their organisation was one of those considering withdrawing.

‘Some will say “life is just getting too tough and we’re off“.’

(Provider)

4.2.2 Possible WPP products to be adopted by those providers remaining in the WPP market

Even the providers that expected to remain in the WPP market were at a very early stage in reviewing any potential strategic reaction in response to the reforms.

‘The decision will have to be made as to whether to remain in the group market or not and, if we remain, how to differentiate ourselves from other products and solutions to ensure we hit the market as we want to.’

(Provider)

Some mentioned that the market after 2012 could be polarised: with the personal accounts scheme providing pensions to employees whose employers do not want to spend above the minimum on employee pension provision, and a smaller number
of providers than in 2008 offering higher-end DC schemes to the employers willing to invest more in employees’ pension provision.

‘You’ll have this big dirty thing that could have five to ten million people in it called personal accounts, and you will have niche players looking to provide quality DC to the rest of the market. That will be the polarisation between the two.’

(Large intermediary)

Some providers were able to provide ideas as to the kind of product that they felt would be required to remain in the WPP market alongside the personal accounts scheme. Only personal pension products were mentioned: no provider said that they planned to introduce new occupational pensions products.

**Product development ideas**

Generally, providers believed that, if they were to stay in the WPP market, they would need a strategy for producing more innovative products that were more bespoke and tailored to the needs of the employer, to differentiate themselves and their product portfolio from the personal accounts scheme.

The providers interviewed indicated that, at this early stage in the review process, any specific product development ideas had not yet been planned in any detail. However, some providers cited examples of ways in which it was thought they might be able to differentiate their products.

Some providers pointed out that communication between themselves and employers had in the past not been a core focus of their own service offerings because it was typically the role of the intermediary to manage communications. But as the number of commission-based intermediaries in the market was expected to continue to decline (see Section 4.3.1), providers expected that communications from providers would become a much more important service. Some mentioned that this could include the online servicing of accounts, and dedicated websites for employers to access the details of their scheme and communicate with the provider, although further detail on these ideas was extremely limited.

‘You will see more interactive websites where we can get information from employers if necessary and we can give it to employers, without going through the intermediary.’

(Provider)

Some providers pointed out that such increased communication would also allow them to sell the benefits that they believed their products had over the personal accounts scheme.

‘We have to persuade employers that our schemes are better than personal accounts, and that they are going to be better for the employers, and they are going to be better for the staff.’

(Provider)
Product development ideas occasionally mentioned included improving the ease and speed with which members could select or switch investments, and also offering pensions in conjunction with flexible employment benefits packages. These would allow members to ‘trade-off’ employer pension contributions with other benefits, such as salary, annual leave, health or dental insurance.

‘If someone got quite clever around a combined employment benefit package, combining pensions with other benefits, I could see some movement around that.’

(Provider)

Target market

Providers interviewed generally believed that they would, therefore, be reviewing their schemes and who they offered new business to in light of the reforms. Providers generally indicated that they did not want to compete directly with personal accounts, assuming the personal accounts charges were to be set as low as 0.3 per cent to 0.5 per cent per annum. Employers at the low end of the market were thought more likely to adopt the personal accounts scheme. Providers typically believed that such schemes would become even less economical for them to run in the future, given the lower levels of AMC that they expected to need to apply after the introduction of personal accounts.

Providers, therefore, expected to see a continuation of the trend discussed in Section 2.3.1, that they would increasingly target future business at the ‘high end’ of the market.

‘You will see much more choosiness in terms of the customers you deal with. How are clients with those characteristics likely to be impacted by [personal accounts]? If we think that it is likely to be significant we will decline, or factor that into our price.’

(Provider)

‘The industry might leave all the schemes it didn’t want in the first place to personal accounts, and everybody will start moving up into quality business.’

(Provider)

Pricing

Providers did not typically say that they would attempt to compete directly with the personal accounts scheme for the same target audience, as most had little desire to lower the AMC on their WPP products further, when their schemes were already struggling to be profitable since the introduction of SHPs.

Nevertheless, providers were concerned that the proposed level of AMC for personal accounts could be so low that they would have no choice but to lower their own charges: if they did not, even the ‘higher-end’ employers might be at risk of choosing the personal accounts scheme rather than a WPP.

Providers did not mention that this would affect occupational schemes.
4.3 The potential impact on intermediaries and their possible reaction to the reforms

Providers and intermediaries typically agreed that the impact of the reforms upon intermediaries depended on whether they were larger and fee-based, or smaller and commission-based. In general terms, the largest intermediaries and employee benefits consultants (EBCs) are often fee-based and deal with larger employers; smaller intermediaries are often commission-based and deal with a wider range of sizes of employer.

4.3.1 The potential impact on small, commission-based intermediaries

At the time of the research, small intermediaries were widely expected to be adversely affected by the reforms. The personal accounts scheme was not perceived to offer intermediaries opportunities to receive commission, due to the anticipated low charge levels. In addition, providers believed that the low charges they would need to apply to their WPPs, except those at the high end of the market, would mean that these WPPs would also not allow commission to be paid to commission-based intermediaries in the future.

Providers and intermediaries, both large and small, expected that this would lead to the continued withdrawal of commission-based intermediaries from the workplace pensions market. This was the group that had already found itself under pressure since the introduction of SHPs. No intermediary or provider could make a guess as to what proportion of this market might be affected, but some commented that the amount of professional pensions advice generally available to employers and employees in the WPP mass market could contract.

‘I suspect a number of IFAs [independent financial advisers] will drop out of the market as it consolidates and commissions are lower.’

(Large intermediary)

‘The intermediary market is going to the ‘at retirement space’ [in other words, the annuities market]. That is where intermediaries and product advisers will gravitate to. The pensions savings space will become a bit of a desert for advice.’

(Provider)

Some felt that some small intermediaries would continue to maintain legacy business only, continuing to work with the employers already on their books, but not taking on further WPP business. Others felt that they may be able to remain in the market if they were able to attract very high-end business where commission payments might still be acceptable. Group self-invested personal pensions (group SIPPs), an increasing market among highly-paid individuals in 2008, were said to be an example of this.
4.3.2 The potential impact on large, fee-based intermediaries

Providers and intermediaries typically agreed that larger, typically fee-based intermediaries would be affected the least by the reforms.

‘My experience tells me that the top four or five EBCs will control a huge amount of the UK market.’

(Provider)

Their customers were seen to be at the top end of the market in terms of salary and contribution levels, and therefore, more willing to pay for intermediary services via a fee to ensure that they, and their employees, had access to the best advice. The reduction and cessation of commission payments was not expected to have a major effect upon them.

‘The impact will be relatively minimal. Our target market is the top quartile of the top 4,500 businesses, who in turn employ 55 per cent of the working population, so we’ve got all the people and the money. The clients we deal with are prepared to spend money on pensions as a genuine benefit.’

(Large intermediary)

Many providers and intermediaries also noted that the reforms could lead to additional opportunities for the large intermediaries. It was felt that they would benefit from additional consulting opportunities in the run-up to the implementation of the reforms, as employers interested in staff benefits would be increasingly looking for advice prior to the introduction of the reforms.

‘Fee-based advisers will make hay while the sun shines over this period of complexity: reviewing existing arrangements, whether they should move to personal accounts or not once the press and publicity starts….’

(Provider)

For many large intermediaries, part of the forward planning process was expected to be raising employers’ awareness of the reforms, and helping them to start to plan for 2012, once the Government finalised the details of the reforms.

‘We’ve started – we’re focusing on communications strategy in terms of informing, raising awareness amongst our clients: highlighting some of the issues that will need to be considered over the next four years. As we get more information from the delivery authority, we’ll start building a bigger picture towards what clients might need to do by 2012.’

(Provider)

4.3.3 Possible reaction to the reforms by intermediaries remaining in the workplace pension market

As with providers, the intermediaries that expected to stay in the workplace pensions market beyond 2012 believed that they would need to amend the services they offer in light of the reforms. Many providers and intermediaries typically held
the view, when this research was conducted, that a crucial role of intermediaries in the future would be to communicate to employers the advantages that they believed their qualifying workplace pensions had over the personal accounts scheme. They believed that employers would question what their GPPs or SHPs gave them compared to the personal accounts scheme with its lower charging levels. It was felt that intermediaries should therefore demonstrate the value of their services to the employer and why they were good value for money.

‘We will have to be more specific in explaining how our services differ from the Government offering.26 We will encourage GPPs, or something that we can add remuneration onto to cover our support, running the scheme and the extra benefits within the scheme which should attract employers.’

(Small intermediary)

Forging longer-term relationships with employers, that went beyond simply setting up the scheme, were also seen as a key area for intermediaries. They also mentioned a focus on scheme governance, more personal interaction, and support for employers in sorting out day-to-day issues that might arise through the lifetime of the scheme.

‘That personal approach is probably the main distinction intermediaries will emphasise.’

(Large intermediary)

Typically, intermediaries interviewed said that they were likely to continue to focus their activities on the higher end of the market, where business was seen to be more lucrative, and where opportunities would still exist after the reforms.

‘We will be targeting employers with employees who are earning a lot more than the personal accounts level.’

(Large intermediary)

Occasionally, intermediaries stated that they might remain at the lower-end of the market after 2012. Some pointed out that, because employers would now be forced to contribute, this would be an ideal opportunity to persuade them to think about alternative options that would be appreciated by their employees.

‘Do you want your employees to feel like you actually care about them? If you do, you’re going to need to have something better [than personal accounts].’

(Large intermediary)

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26 PADA is a non-departmental public body created by the Pensions Act 2007. Although it is currently accountable to Parliament, it operates at arm’s length from the Government.
5 The potential impact of automatic enrolment with a minimum employer contribution

This chapter explores providers’ and intermediaries’ expectations regarding the impact of automatic enrolment with a minimum employer contribution. It covers three areas:

- the expected impact on providers;
- the expected impact on employers;
- the expected impact on employees.

Providers and intermediaries did not typically mention specific advantages or disadvantages of automatic enrolment with a minimum employer contribution for intermediaries, except where, as discussed in Section 4.3.2, it was believed that some large intermediaries could benefit from additional consulting opportunities in the run up to the implementation of the reforms: employers interested in staff benefits were expected to be increasingly looking for advice on the reforms, and this would include advice on automatic enrolment and a minimum employer contribution.

It should be noted that the ideas expressed here are providers’ and intermediaries’ informed expectations of what could happen, based on their experiences of the behaviour of employers and employees. They are not necessarily based on firm evidence from specific employers.
5.1 The expected impact on providers

Many providers believed that automatic enrolment with a minimum employer contribution could potentially impact upon their own businesses, although to a lesser extent than the aspects of the reforms discussed in earlier sections of this report, for example the potential low annual management charges (AMCs) of the personal accounts scheme. The issues raised are discussed in this section.

5.1.1 Advantages for providers

Many providers suggested that automatic enrolment could lead to an increase in the revenue that they receive from existing workplace pensions. Providers believed that many employees who were eligible to join their employer’s existing workplace personal pension (WPP) did not do so simply due to inertia, i.e. a lack of active decision-making as a result of a lack of engagement with pensions, as opposed to making a conscious decision to opt out. Assuming that these eligible employees continue to make no active decision after 2012, they would be automatically enrolled, at which point eight per cent of their qualifying earnings would be paid into their pension fund.

‘It would give us more members and that would plainly be beneficial.’

(Provider)

5.1.2 Disadvantages and risks for providers

Although some providers and intermediaries felt that they might see an increase in members, many providers were unsure as to whether this would translate into significantly higher levels of contributions into their funds overall. Partly this was because automatic enrolment, although successful at getting employees to join and contribute the minimum, was often seen as doing nothing to encourage individuals to save more than the minimum.

‘It will lead to greater participation, no doubt about that. ...But it remains to be seen what the impact will be on our own business, if any. ...Higher participation rates don’t necessarily mean higher contributions.’

(Provider)

The revenue benefits of providers having more members on their books under automatic enrolment may be further offset, according to some, by the administrative costs of enrolling these new members, who provide little additional revenue. Some providers pointed out that new, eligible employees who will be automatically enrolled are likely to be those who currently have no pension provision, and probably also relatively low salary levels. Consequently, automatically enrolling these individuals could lead to very small contributions being paid into their pension fund, which could mean that it takes a considerable number of years for providers to recoup their administrative costs through the AMC. Indeed, it was felt by some providers that this might never happen if the employee was to leave their organisation and cease to pay contributions. Consequently, some providers
believed that automatic enrolment would not necessarily lead to increased revenue for providers, even within existing schemes.

‘It could give us a lot of potentially unprofitable members, who would quite rightly never ordinarily have joined a pension scheme, auto-enrolling, either knowingly or unknowingly – and on which we will never make any money.’

(Provider)

Where employers have a particularly transient, low-paid workforce, some providers feared that automatic enrolment could even cost the provider money, as the administrative effort of continually enrolling and un-enrolling employees would never be offset by the revenue generated. Some providers believed that this problem could be reduced if a waiting period between commencing employment for a company and automatic enrolment was introduced, so that they would not become eligible for automatic enrolment on day one.

The Government’s consultation on the Personal Accounts White Paper acknowledged the issue of a need for deferring automatic enrolment, recognising that there could be an ‘additional administrative burden associated with the frequent job changes made by young people, particularly students’. A minimum age limit of 22 was set for automatic enrolment, in part to offset this issue; but beyond this, a specific period of time was not discussed in the Pensions Act or the White Paper. In addition, specific time periods were not commonly mentioned by providers or intermediaries in this study, although three months was occasionally given as an example of an appropriate period.

‘Certainly we would benefit from [a waiting period before automatic enrolment is implemented] because it would help employers to understand and look at reducing their operating costs: if they knew that they didn’t have to enrol people and then treat them as leavers a couple of months later.’

(Provider)

5.2 The expected impact on employers

According to providers and intermediaries at the time of the research, automatic enrolment with a minimum employer contribution was expected to have a negative financial impact upon employers.

They typically agreed that automatic enrolment with a minimum employer contribution would be likely to have an adverse financial impact upon employers. Some raised questions as to whether all employers would be able to afford the additional costs associated with automatically enrolling all eligible employees into a pension scheme. To take the most extreme (hypothetical) case given by one provider: where an employer had offered no pension provision before 2012, but then adopted a qualifying workplace pension, such as personal accounts, with
no eligible employees opting out of the scheme, the employer would face an immediate three per cent increase on their salary bill.\textsuperscript{27}

Although this research did not explore providers’ and intermediaries’ opinions as to how employers might meet these costs,\textsuperscript{28} many did point out that, one way or another, employers would need to fund the additional pension contributions that automatic enrolment would entail: either by absorbing the additional costs in the form of reduced profits; passing on the costs to customers; or by somehow reducing their own costs to offset the increase.

Some providers and intermediaries pointed out that one potential option for employers that previously gave contributions above three per cent to one section of the workforce, and that now had to automatically enrol all of the workforce at three per cent, would be to ‘level down’ to three per cent the employer contribution paid to the group that previously received more. The following provider gives an example of this.

‘If you are an employer and you are currently paying six per cent of earnings for one half of your workforce, and come 2012 you have got to start contributing three per cent for the other half of the workforce, for whom you have been contributing nothing, the easiest way of balancing the books is to level everyone down to three per cent.’

(Provider)

As was the case with providers, having no period of time between commencing employment for an organisation and automatic enrolment, according to some providers, would have a detrimental effect on employers with transient staff. Providers believed that employers would find it a costly and time-consuming exercise to continually enrol new employees the first day of their employment, and then un-enrol employees when they leave. This issue was considered to be just as relevant for the personal accounts scheme as it was for other qualifying workplace pensions.

\textsuperscript{27} In reality, even in this extreme example, the employer would face less than a three per cent increase in costs, since minimum contribution levels will only be based on a band of earnings between around £5,000 and £33,500 a year at 2005 earnings levels.

\textsuperscript{28} Two DWP studies explore employers’ awareness of the workplace pension reforms:


5.3 The expected impact on employees

Although providers and intermediaries were broadly in agreement that automatic enrolment held potential advantages for employees, they also noted several possible disadvantages and risks.

5.3.1 Advantages for employees

Providers and intermediaries were generally in agreement that automatic enrolment would increase the proportion of the population saving for retirement in the UK, largely as a result of the simple fact that those who did not join schemes as a result of inertia would now be automatically enrolled. In principle this was seen to be positive, although typically both providers and intermediaries pointed out that there were cases where they believed automatic enrolment might not be appropriate for all individuals.

Some providers and intermediaries also suggested that implementing automatic enrolment as part of the pension reforms could lead to a greater level of awareness of pensions saving across the UK. The consequences of inertia where automatic enrolment does not operate are that an individual saves nothing for retirement. But under automatic enrolment, inertia has the opposite effect, leading to contributions automatically being taken from an individual's salary. Some providers and intermediaries believed that this alone could encourage many to start thinking about how much they really need to contribute.

‘From a general perspective, it will increase awareness around pensions, or the bigger issue of saving for retirement.’

(Large intermediary)

5.3.2 Disadvantages and risks for employees

Many providers and intermediaries, including those that accepted that pension scheme membership would increase, pointed out that automatic enrolment might not in fact increase people’s perceptions of the value of long-term saving, because individuals are not obliged to take any active role in the process.

‘Auto-enrolment, by its nature, is playing on inactivity and initialising inertia to actually gain a particular course of action. Automatic enrolment could be quite successful in getting an increased number of people into schemes, but it’s not a successful mechanism to actually making people understand the value of what they’re getting.’

(Provider)

A concern shared by many providers and intermediaries was that after the implementation of the reforms, the default minimum contribution level of eight per cent of qualifying earnings in total (four per cent from the individual, three per cent from the employer, plus one per cent tax relief) might be seen to be the level endorsed by the Government, and therefore seen as a sufficient sum to save right the way through to retirement.
'It is going to affect market perception of the public – will they think that they are saving adequate amounts for their retirement? Will this figure become the norm? The Pensions Commission made it clear that eight per cent wasn’t enough.’

(Provider)

Many intermediaries and some providers discussed the concern that with an eight per cent contribution level, the amount that certain people on lower incomes would save would merely offset larger means-tested benefits that they would otherwise have been eligible for, had they not saved for a pension. This could leave employees in a worse-off position both in the short term, and in the long term.

‘That is a major concern of ours with the lower to moderate earners. People are going to be auto-enrolled into something that could mean that they are worse off at retirement as a result. Somebody could end up at retirement with a small pot of money, even though they weren’t intending to, that would disqualify them from means-tested benefits, and the value of their pension pot would be significantly less than the value of the means-tested benefits that they have disqualified themselves from.’

(Provider)

The providers and intermediaries that were concerned about the possibility of employers levelling down contributions for employees (described in Section 5.2) pointed out that this would cause the employees concerned to be worse off. Occasionally providers illustrated a possible ‘worst case scenario’: that employers could level down contributions for employees that previously enjoyed higher contributions, and then most of the newly eligible employees opt out of the scheme anyway. This would lead to an overall reduction in pension provision in that organisation.

It should be reiterated that the ideas expressed here are providers’ and intermediaries’ informed expectations of what could happen, based on their experiences of the behaviour of employers and employees. They are not necessarily based on firm evidence from specific employers.
Appendix A
Introductory letters
Appendices – Introductory letters

A.1 Introductory letter for providers

Pensions Client Directorate
Department for Work and Pensions
The Adelphi
4th Floor
1-11 John Adam Street
London
WC2N 6HT

[DATE]

Dear [NAME]

The Department for Work and Pensions (DWP) is conducting an important research study of pension providers and intermediaries throughout Great Britain. We have commissioned RS Consulting, an independent research agency, to carry out this work on our behalf.

What is the research about?

As you may be aware, the current Pensions Bill (2007) sets out the Government’s proposals for private pension reform, including the introduction of a duty on employers to automatically enrol all eligible workers into qualifying workplace pension provision with a minimum employer contribution.

The purpose of this research is to develop a comprehensive understanding of the pensions market and how it may develop in the run up to the implementation of the private pension reforms in 2012. This will be used by the Department to inform ongoing policy and implementation decisions.

As a part of this study we are also aiming to gather systematic information about the range of products and product features currently on offer in the Group Personal Pensions market (including Group Stakeholder Pension schemes). In the wake of confirmation that automatic enrolment into Group Personal Pensions will be possible from 2012, DWP is particularly keen to gain an understanding of this section of the pensions market.

Why are we writing to you?

Your organisation has been selected from a list of the twenty largest pension providers in the UK, using the ABI’s 2006 statistics.

What happens to the information collected?

All information given in the study will be treated in the strictest confidence by RS Consulting. No information identifying you or your company will be passed to the Department for Work and Pensions or to any other organisation.
As part of the research process, we are keen to share preliminary findings with key stakeholders such as the ABI and NAPF. We also anticipate sharing findings with the Personal Accounts Delivery Authority, an executive non-departmental public body set up by the Pensions Act 2007 to support delivery of the Government’s private pension reforms, and with The Pensions Regulator, which will be taking on responsibility for maximising employers’ compliance with the new duties set out by the private pension reforms.

DWP has a commitment to publish the research it undertakes, and so findings from this research will be published in due course. No information identifying you or your company will be published or shared with stakeholders, and if you choose to take part you will have an opportunity to assure the anonymity and confidentiality of your responses within the research report, prior to publication.

What happens next?

An interviewer from RS Consulting will call you within the next week to ask you to take part in either two separate interviews, or one longer interview, depending on your preference. The interviews will be conducted face to face or over the telephone. Enclosed is an introductory letter from RS Consulting, explaining the topics to be covered in the research.

It is estimated that the interviews will take around 1 hour 45 minutes in total. We have made every effort to keep the interview as concise as possible. But I do appreciate that this is a significant amount of time to ask you to commit, so thank you in advance for your help in this important research. You will, of course, be able to schedule an appointment(s) with the interviewer for a time that is convenient for you.

If you have any queries about the survey, or would like to arrange an appointment for the interview, please contact Andrew Wood at RS Consulting on 020 7627 7733 (between 9am and 5pm Monday to Friday) or by email at awood@rsconsulting.com.

Alternatively, if you would like to discuss anything further in relation to the research, please do not hesitate to get in touch with me.

We very much hope you agree to take part and once again thank you in advance for your help.

Yours sincerely

Sophie Shore

Sophie Shore
Principal Research Officer
Pensions Client Directorate
Department for Work and Pensions
[DATE]

Dear [NAME],

As you are aware, DWP has commissioned RS Consulting to carry out research designed to understand the pensions market in the run up to the private pension reforms in 2012.

We would like to interview [COMPANY] to gather information in the following areas:

1) Understanding how the pensions market may develop in the run up to the implementation of the reforms in 2012
   Your own company’s market positioning and business profile
   Your opinions on the reforms and their likely consequences
   The likely impact of the reforms on the strategies of key players in the market, including yourselves
   The impact of the reforms on intermediaries as you see it

2) Understanding the range of products and product features currently on offer in the group personal pensions and group stakeholder pensions market
   Which types of pension schemes you offer, and how many different funds do the schemes typically offer?
   What is the nature of default investment funds, if any, provided with the GPP/SHP schemes?
   What level and range of setup, administration and investment fund charges are applied to GPP/SHP schemes?

We anticipate that the more ‘strategic’ topics listed under Section 1 will take roughly an hour to discuss with you. The topics under Section 2 should take around 45 minutes. We appreciate that the same individual in your organisation may not be best placed to answer both Section 1 and Section 2.

We will be in touch within the next week to discuss whether you might be able to participate, and if so, when and with whom we might be able to talk. We are happy for you to take part in either two separate interviews, or one longer interview. The interviews can be conducted face to face or over the telephone, depending on your preference.
Our responsibility is to produce an overall report for DWP which will draw together all the information we gather. Nevertheless, I can assure you that anything you tell me will remain confidential to the RS Consulting project team; it will not be attributed to you, or your organization, either in our presentations or in the final project report which will be published by DWP.

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

Yours sincerely,

Andrew Wood

ASSOCIATE DIRECTOR
A.2 Introductory letter for intermediaries

Pensions Client Directorate
Department for Work and Pensions
The Adelphi
4th Floor
1-11 John Adam Street
London
WC2N 6HT

[DATE]

Dear [NAME]

The Department for Work and Pensions (DWP) is conducting an important research study of pension providers and of intermediaries providing pensions advice to employers throughout Great Britain. We have commissioned RS Consulting, an independent research agency, to carry out this work on our behalf.

What is the research about?

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The purpose of this research is to develop a comprehensive understanding of the pensions market and how it may develop in the run up to the implementation of the private pension reforms in 2012. This will be used by the Department to inform ongoing policy and implementation decisions.

As a part of this study we are also aiming to gather systematic information about the range of products and product features currently on offer in the Group Personal Pensions market (including Group Stakeholder Pension schemes). In the wake of confirmation that automatic enrolment into Group Personal Pensions will be possible from 2012, DWP is particularly keen to gain an understanding of this section of the pensions market.

Why are we writing to you?

Your organisation has been selected [medium/small: at random from a list of independent financial advisers and employee benefit consultants.] [large: from a list of the largest independent financial advisers and employee benefit consultants in the UK.]

What happens to the information collected?

All information given in the study will be treated in the strictest confidence by RS Consulting. No information identifying you or your company will be passed to the Department for Work and Pensions or to any other organisation.
As part of the research process, we are keen to share preliminary findings with key stakeholders such as the ABI and NAPF. We also anticipate sharing findings with the Personal Accounts Delivery Authority, an executive non-departmental public body set up by the Pensions Act 2007 to support delivery of the Government’s private pension reforms, and with The Pensions Regulator, which will be taking on responsibility for maximising employers’ compliance with the new duties set out by the private pension reforms.

DWP has a commitment to publish the research it undertakes, and so findings from this research will be published in due course. No information identifying you or your company will be published or shared with stakeholders, and if you choose to take part you will have an opportunity to assure the anonymity and confidentiality of your responses within the research report, prior to publication.

What happens next?

An interviewer from RS Consulting will call you within the next week to ask you to take part in either two separate interviews, or one longer interview, depending on your preference. The interviews will be conducted face to face or over the telephone. Enclosed is an introductory letter from RS Consulting, explaining the topics to be covered in the research.

It is estimated that the interviews will take around 1 hour 45 minutes in total. We have made every effort to keep the interview as concise as possible. But I do appreciate that this is a significant amount of time to ask you to commit, so thank you in advance for your help in this important research. You will, of course, be able to schedule an appointment(s) with the interviewer for a time that is convenient for you.

If you have any queries about the survey, or would like to arrange an appointment for the interview, please contact Andrew Wood at RS Consulting on 020 7627 7733 (between 9am and 5pm Monday to Friday) or by email at awood@rsconsulting.com.

Alternatively, if you would like to discuss anything further in relation to the research, please do not hesitate to get in touch with me.

We very much hope you agree to take part and once again thank you in advance for your help.

Yours sincerely

Sophie Shore

Sophie Shore
Principal Research Officer
Pensions Client Directorate
Department for Work and Pensions
[DATE]

Dear [NAME],

As you are aware, DWP has commissioned RS Consulting to carry out research designed to understand the pensions market in the run up to the private pension reforms in 2012.

We would like to interview [COMPANY] to gather information in the following areas:

1) Understanding how the pensions market may develop in the run up to the implementation of the reforms in 2012

Your own company’s market positioning and business profile

Your opinions on the reforms and their likely consequences

The likely impact of the reforms on the strategies of intermediaries/ IFAs in the market, including yourselves

The impact of the reforms on providers as you see it

2) Understanding the range of products and product features currently on offer in the group personal pensions and group stakeholder pensions market

Which types of pension schemes you offer, and from which providers?

What is the nature of default investment funds, if any, provided with the GPP/SHP schemes?

What level and range of setup, administration and investment fund charges are applied to GPP/SHP schemes?

We anticipate that the more ‘strategic’ topics listed under Section 1 will take roughly an hour to discuss with you. The topics under Section 2 should take around 45 minutes. We appreciate that the same individual in your organisation may not be best placed to answer both Section 1 and Section 2.

We will be in touch within the next week to discuss whether you might be able to participate, and if so, when and with whom we might be able to talk. We are happy for you to take part in either two separate interviews, or one longer interview. The interviews can be conducted face to face or over the telephone, depending on your preference.
Our responsibility is to produce an overall report for DWP which will draw together all the information we gather. Nevertheless, I can assure you that anything you tell me will remain confidential to the RS Consulting project team; it will not be attributed to you, or your organization, either in our presentations or in the final project report which will be published by DWP.

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

Yours sincerely,

Andrew Wood

ASSOCIATE DIRECTOR
Appendix B
Factsheet sent to all participants with introductory letter

Background information on the Government’s proposals for pension reform

The 2007 Pensions Bill sets out a series of measures aimed at encouraging wider participation in private pension saving. The aim of these proposals is to overcome the decision-making inertia that currently characterises individuals’ attitudes to pension saving and to make it easier for individuals to save for their retirement. They are particularly targeted at low to median earners, amongst whom undersaving for retirement is currently widespread. The measures set out in the Bill include a duty on employers to automatically enrol their employees into qualifying workplace pension provision and to provide a minimum contribution towards the pension saving for those employees who participate. This duty will come into force from 2012.

From 2012 employers will be able to use occupational pension schemes, group personal pension schemes, group stakeholder schemes or personal accounts to meet their duty to automatically enrol workers into qualifying workplace pension provision.

Employees will be automatically enrolled if they are aged between 22 and State Pension age, have gross annual earnings of around £5,000 or more, and are not already members of a qualifying workplace pension scheme. Employees will be able to opt out of the scheme if they wish, and those who choose to opt

\[^{29}\] The earnings limit is £5,035 in 2005/06 earnings terms and will be uprated in line with earnings using the Average Earnings Index.
out may be re-enrolled after a set period of time (expected to be three to five years). Employees who are not automatically enrolled may choose to opt-in to a qualifying workplace pension scheme.

Employees who choose to remain members of a qualifying workplace pension scheme will contribute a minimum of four per cent of their qualifying earnings (between a band of £5,035 and £33,450 in 2005/06 earnings terms). Their employer will make a further minimum contribution of three per cent, and approximately one per cent will come from the Government in the form of normal tax relief. Employees and employers may contribute more than the minimum if they wish.\(^{30}\)

The Pensions Bill also allows for the establishment of the personal accounts scheme. This will be a trust-based, defined contribution occupational pension scheme that employers must enrol their employees into if they do not have, or do not wish to use their own qualifying workplace pension scheme. The personal accounts scheme will be run at arm’s length from Government by a sole corporate trustee. The legislation also establishes a body corporate, in the form of a Non-Departmental Public Body, which comprises the trustee and the employees of the NDPB (which will be charged with running the operational functions of the scheme).

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\(^{30}\) Contributions into the personal accounts national pension saving scheme will be capped at £3,600 (2005/06 earnings terms). The contribution limit will be uprated in line with earnings.
Appendix C
Discussion guide for providers
INTRODUCTION

My name is ………………….. and I am speaking to you today on behalf of RS Consulting. As you know, we are conducting some important research on behalf of DWP to build up an understanding of the industry’s views on the impact the private pension reforms may have on the UK pensions market.

Thank you very much for agreeing to assist us with this research. We are talking to most of the market leaders among providers and intermediaries as well as a sample drawn from smaller IFAs.

Our responsibility is to produce an overall report for DWP which will draw together all the information and opinions we gather. Nevertheless, I can assure you that anything you tell me will remain confidential to 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.

I can also reassure you that if our report does cite specifically any information or opinions which you provide we will show that to you in a pre-publication draft of the report – this would give you the opportunity to check that that the way we have included it will not reveal your organisation as the source.

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 summarize your role within your organization?

SECTION 1: MARKET POSITION & PRODUCT RANGE

May I first of all ask for a short-hand description of how you would describe your position in the pensions market?

1.1 So, how would you sum up [PROVIDER] in the pensions market place?

AFTER OPEN-ENDED STATEMENTS ALSO PROMPT FOR:

◆ Type of organisation/ category
◆ Key competitors (in terms of pensions products)?

Now I would like to review your pensions product range and briefly discuss your distribution strategies.

As the pensions reforms concern workplace provision obviously I am particularly interested in that side of your business, but I would first like to get an overview of your total pensions business – that is, workplace and individual pensions.

1.2 Approximately what proportion of your current business do pensions account for in terms of revenue?

1.3 And, of that pensions business, approximately what proportion relates to workplace based group schemes rather than sales to individuals? By workplace based schemes we are thinking of occupational schemes, EPPs, GPPs, employer sponsored SHPs, SSASs and Group SIPPs.

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<td>Proportion of that pensions business accounted for by workplace pensions</td>
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SHOW SHOWCARD 1

1.4 We have broken down the total pensions market into the broad product types shown on the card. Do you see any problems with that as a breakdown? IF SO, what?

1.5 So, can you give me a very rough estimate of how your current pensions business divides between the different product types?
- Please provide an estimate of how your **workplace pension business** breaks down for the latest complete 12-month period for which you are able to provide information?
- Then provide an estimate of how your **individual pension business** breaks down for the same period?

If necessary: by current business we mean the total value of contributions paid, or any similar measure that you may use e.g. APE (annual premium equivalent, which is based on the value of new regular contributions plus one tenth of the value of single contributions).

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**Focus subsequent questions on workplace scheme types with a share of >10%, but ask respondent to highlight variations among other types of scheme where these exist.**

1.6 Have there been any significant changes in this business profile over the past 5 years? IF SO, Please can you describe those briefly and explain the key drivers behind them?

IF NOT MENTIONED: Have there been changes in the share of occupational schemes relative to workplace DC schemes such as GPPs? Why/ why not?

Next I would like to ask a little about the make-up of your business in terms of the size of employers in your customer base.

1.7 For each of the main **workplace** pension scheme types you offer to employers, could you estimate what proportion of your schemes do you estimate are among employers with
- Fewer than 20 employees
- 20 to 100 employees
- More than 100 employees

Allow estimate where respondent does not have figures to hand.

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1.8 And does your organisation target specific types or sizes of business when selling particular workplace pensions? Why/ why not?  
1.9 Thinking specifically about the workplace pensions market have the customers you have focused on changed in the past 5 years? IF SO, how and why?  
1.10 Approximately how much of each type of your business comes via intermediaries? Why is that?  
Which types of intermediaries do you use? Why is that?  
Thinking about the interaction between yourself, intermediaries and employers:  
1.11 Firstly, during the marketing and sales process: Do you deal directly with the employer, the intermediary or both? How does this interaction work? How does it vary, if at all, by product or customer type?  
1.12 Secondly, in scheme delivery: Do you deal directly with the employer, the intermediary or both? How does this interaction work? How does it vary, if at all, by product or customer type?  
1.13 Do you choose your intermediaries or do they choose you? How does that process work?  
1.14 Specifically, have any changes occurred in the role of intermediaries in your workplace pensions business in the past five years? IF SO, what were they, and why?  
1.15 What impact, if any, did your experience of the introduction of stakeholder pensions have on your strategy?
SECTIO 2: AWARENESS OF THE REFORMS

2.1 How much would you say the industry (providers and IFAs) knows about the workplace pension reforms as set out in the current pensions bill? IF LIMITED: Where is knowledge more limited? Why is this? Do you think the level of knowledge across the industry is sufficient?

2.2 And how much would you say you and other individuals in your own organization know about the reforms?

SECTION 3: VIEWS ON THE PENSIONS REFORMS

Now I would like to move on to discussing your opinions on the pensions reforms.

SHOW SHOWCARD 2

This card describes the pensions reforms in detail.

ALLOW RESPONDENT TO DIGEST INFORMATION IF NECESSARY, BUT REMIND THAT YOU WILL NEED TO TAKE CARD BACK AT END OF INTERVIEW.

I would like to understand how you feel the reforms will impact upon your own business, before going on to discuss its wider impact on providers and intermediaries.

3.1 What are the key impacts you expect the reforms to have on your own organisation? PROBE FULLY AND IN DETAIL, if necessary on

- Changes to business structure
- Changes to product offering/ features
- Changes to intermediary commission vs. fees

3.2 Is there anything further you need to understand about the reforms before you can assess this? PROBE ALL INFORMATION GAPS FULLY AND IN DETAIL

3.3 Have you begun to plan changes to your own strategy in response to the reforms? IF NOT: Why? When do you anticipate you will begin to plan changes?

ASK ALL: what changes to your strategy are you planning (/ do you think you might plan?). What will trigger further planning?

3.4 Which functions and individuals in the organisation are, or will be, involved in reviewing and determining your strategy?

3.5 What do you expect to be the main factors to be considered when you are deciding about business models and competitive strategies to respond to the reforms?

3.6 Will your business profile in terms of the relative importance of the different types of scheme you are selling or the type of employer you are focusing on change as a result of the impending reforms? Why is that/ Why not? What or who is driving that change?

IF NOT MENTIONED SPONTANEOUSLY: Do you think you will focus more on selling stakeholder pensions? Which types of employer will you focus these on?

3.7 And do you expect the reforms to change the role of intermediaries in your business? Why is that/ Why not? What or who is driving that change?
3.8 Are your clients already asking you about the reforms? IF YES: What are they asking you about? How will you respond?

3.9 Overall, do you think your approach to the reforms will be similar to that of your competitors, or do you anticipate having a distinctive response?

3.10 So how, if at all, and when, do you expect your main competitors to change their business models or strategies in the run-up to 2012 in response to the reforms?
   I’d like to think now about the market a little more generally.

3.11 What are the key impacts you expect the reforms to have on the workplace pension market overall? PROBE FULLY

3.12 Do you think some firms (providers or intermediaries) will be affected differently from others? IF SO, How and why?

3.13 Specifically, do you expect the workplace pensions market to expand as a result of the reforms? How? Why? If not, why not?

3.14 And do you expect new competitors to be drawn in, or some players to drop out? IF SO, Who or what type of organisation and why?

3.15 Across the market as a whole, do you expect the reforms to result in changes to products offered and individual product features? Why is that? What changes do you expect?

3.16 What type of employer do you expect to adopt Personal Accounts? Which do you expect to use alternative qualifying schemes? Why this?

3.17 Specifically, how might the prospect of introduction of auto-enrolment with a minimum employer contribution affect your own business strategy in the run up to 2012, before the reforms are in place, and why?
   And how might it affect the strategy of your main competitors?
   IF AUTO-ENROLMENT INTO GPPs SPECIFICALLY NOT MENTIONED, ASK: And what about the impact of auto-enrolment into GPPs specifically?

3.18 And how might the introduction of auto-enrolment with a minimum employer contribution affect your business strategy after 2012, and why?
   And how might it affect the strategy of your main competitors?
   (PROBE ON GPPs SPECIFICALLY IF NECESSARY)

3.19 Looking at auto enrolment specifically:
   ◆ What effect you expect it will have on the pensions market generally after 2012? Why is that?
   ◆ Do you think auto enrolment will lead to higher participation levels?

3.20 And now looking at the introduction of the minimum employer contribution of 3% of qualifying earnings:
   ◆ What effect you expect this will have on the pensions market generally after 2012? Why is that?
   ◆ Do you think this will lead to higher contribution levels?

3.21 Overall, if you were to try to summarize where you feel the industry will go after 2012, once the reforms are operational, what would you envisage might happen?

3.22 And how do you think your own organization will fit into that overall picture, after 2012?
SECTION 4: INTERMEDIARIES & THE REFORMS

4.1 Do you expect any changes in the prevalence, structure or level of commission or fees paid to intermediaries? IF SO, what changes do you expect and why? IF NOT, why not?

4.2 How, if at all, do you think the interaction or relationships between providers, intermediaries and employers in the market as a whole may change in response to the reforms? Why is that? Will the pattern or changes be any different for your business specifically? How and why?

4.3 Specifically, how do you see the role of intermediaries changing in the market as a result of the reforms? Will this vary by type of intermediary – if so, how?

4.4 Specifically, what changes do you anticipate being made by intermediaries in:

- Their business models/ strategies – type of business and customers targeted, including occupational vs. contract-based workplace schemes
- Their overall response to the reforms
- Their cost and price models (including fees vs. commission)
- The partnerships they are looking for

PROBE FOR WHAT INTERMEDIARIES HAVE TOLD PROVIDERS AS WELL AS PROVIDER’S SPECULATION/ EXPECTATIONS

4.5 Thank you very much for your help.

Just finally, are there any other points you would like to make which we have not covered but you feel are important for DWP to bear in mind regarding the likely consequences of the reforms?

Occasionally, it is very helpful for us to be able to re-contact people we have spoken to, either to clarify certain issues, or to get a bit more detail where the information we are given is particularly interesting. Would you be happy for us to call you back briefly if necessary?

THANK AGAIN AND CLOSE
Appendix D
Discussion guide for intermediaries
INTRODUCTION

My name is ..................... and I am speaking to you today on behalf of RS Consulting. As you know, we are conducting some important research on behalf of DWP to build up an understanding of the industry’s views on the impact the private pension reforms may have on the UK pensions market.

Thank you very much for agreeing to assist us with this research. We are talking to most of the market leaders among providers and intermediaries as well as a sample drawn from smaller IFAs.

Our responsibility is to produce an overall report for DWP which will draw together all the information and opinions we gather. Nevertheless, I can assure you that anything you tell me will remain confidential to 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.

I can also reassure you that if our report does cite specifically any information or opinions which you provide we will show that to you in a pre-publication draft of the report – this would give you the opportunity to check that the way we have included it will not reveal your organisation as the source.

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 summarize your role within your organization?

SECTION 1: MARKET POSITION & PRODUCT RANGE

May I first of all ask for a short-hand description of how you would describe your position in the pensions market?

1.1 So, how would you sum up [INTERMEDIARY] in the pensions market place?

AFTER OPEN-ENDED STATEMENTS ALSO PROMPT FOR:

- Type of organisation/ category
- Key competitors (in terms of pensions products)?

Now I would like to review your pensions product range and briefly discuss the providers you work with.

As the pensions reforms concern workplace provision obviously I am particularly interested in that side of your business, but I would first like to get an overview of your total pensions business – that is, workplace and individual pensions.

1.2 First of all, how important is pensions business overall to you?

- Is it a significant part of your revenue?
- Is it important in driving other parts of your business – e.g. bundled or add-on sales of other products?

1.3 Are you tied; multi-tied or whole of market?

- Which pension provider(s) do you work with?
- Approximately what % of your business do the top providers each obtain?

1.4 And, of your pensions business, approximately what proportion relates to workplace based group schemes rather than sales to individuals? By workplace based schemes we are thinking of occupational schemes, EPPs, GPPs, employer sponsored SHPs, SSASs and Group SIPPs.
SHOW SHOWCARD 1

1.5 We have broadly broken down the total pensions market into the broad product types shown on the card. Do you see any problems with that as a breakdown? IF SO, what?

1.6 So, can you give me a very rough estimate of how your current pensions business divides between the different product types?
- Please provide an estimate of how your **workplace pension business** breaks down for the latest complete 12-month period for which you are able to provide information?
- Then provide an estimate of how your **individual pension business** breaks down for the same period?

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Focus subsequent questions on workplace scheme types with a share of >10%, but ask respondent to highlight variations among other types of scheme where these exist.

1.7 Have there been any significant changes in this business profile over the past 5 years? IF SO, Please can you describe those briefly and explain the key drivers behind them?

IF NOT MENTIONED: Have there been changes in the share of occupational schemes relative to workplace DC schemes such as GPPs? Why/why not?

1.8 And does your organisation target specific types or sizes of business when selling particular workplace pensions, or choose your providers on the basis of the type and size of employers they serve?

PROBE FOR:
- Does this vary by product type? If so, how?
1.9 Still thinking specifically about the workplace pensions market have the customers you have focused on changed in the past 5 years? IF SO, how and why?
   Broadly how many different providers’ workplace pension schemes do you introduce to employers?
   Are there any providers you work with more than others? Which ones?
   OBTAIN APPROXIMATE %AGE SHARE OF BUSINESS IF POSSIBLE.

1.10 How much of your pensions business is: fees only; commission only; a mixture? How does this vary by pension type, provider, customer type?
   Thinking about the interaction between yourself, providers and employers:
   Can you describe your current relationship with providers: how does the interaction work between yourself and providers and employers?
   How does it vary by product or type of customer?

1.11 Do you choose your providers or do they choose you? How does that process work?

1.12 Specifically, have any changes occurred in the providers you use in your workplace pensions business, or your relationship with them in the last five years?
   IF SO, how and why?

1.13 What impact, if any, did your experience of the introduction of stakeholder pensions have on your strategy?

SECTION 2: AWARENESS OF THE REFORMS

2.1 How much would you say the industry (providers and IFAs) knows about the workplace pension reforms as set out in the current pensions bill? IF LIMITED:
   Where is knowledge more limited? Why is this? Do you think the level of knowledge across the industry is sufficient?

2.2 And how much would you say you and other individuals in your own organization know about the reforms?

SECTION 3: VIEWS ON THE PENSIONS REFORMS

Now I would like to move on to discussing your opinions on the pensions reforms.

SHOW SHOWCARD 2
   This card describes the pensions reforms in detail.

ALLOW RESPONDENT TO DIGEST INFORMATION IF NECESSARY, BUT REMIND THAT YOU WILL NEED TO TAKE CARD BACK AT END OF INTERVIEW.

I would like to understand how you feel the reforms will impact upon your own business, before going on to discuss its wider impact on providers and intermediaries.

3.1 What are the key impacts you expect the reforms to have on your own organisation? PROBE FULLY AND IN DETAIL, if necessary on
   • Changes to business structure
   • Changes to product offering/ features

3.2 Is there anything further you need to understand about the reforms before you can assess this? PROBE ALL INFORMATION GAPS FULLY AND IN DETAIL
3.3 And do you expect any changes in the prevalence, structure or level of commission or fees you are paid? IF SO, what changes do you expect and why? IF NOT, why not?

3.4 Have you begun to plan changes to your own strategy in response to the reforms?
IF NOT: Why? When do you anticipate you will begin to plan changes?
ASK ALL: what changes to your strategy are you planning (do you think you might plan?). What will trigger further planning?

3.5 Which functions and individuals in the organisation are, or will be, involved in reviewing and determining your strategy?

3.6 What do you expect to be the main factors to be considered when you are deciding about business models and competitive strategies to respond to the reforms?

3.7 Will your business profile in terms of the relative importance of the different types of scheme you are selling or the type of employer you are focusing on change as a result of the impending reforms? Why is that? Why not? What or who is driving that change?
IF NOT MENTIONED SPONTANEOUSLY: Do you think you will focus more on selling stakeholder pensions? Which types of employer will you focus these on?

3.8 Are your clients already asking you about the reforms? IF YES: What are they asking you about? How will you respond?

3.9 Are you taking account of the reforms in the advice you give to your clients?
IF SO, in what way?
IF NOT, When do you expect to do so?
ASK ALL: How do you think your advice might change in the future? For which types of company?

3.10 Overall, do you think your approach to the reforms will be similar to that of your competitors, or do you anticipate having a distinctive response?

3.11 So how, if at all, and when, do you expect your main competitors to change their business models or strategies in the run-up to 2012 in response to the reforms?
I’d like to think now about the market a little more generally.

3.12 What are the key impacts you expect the reforms to have on the workplace pension market overall (providers and intermediaries)? PROBE FULLY

3.13 Do you think some firms (providers or intermediaries) will be affected differently from others? IF SO, How and why?

3.14 Specifically, do you expect the workplace pensions market to expand as a result of the reforms? How? Why? If not, why not?

3.15 And do you expect new organisations to be drawn in, or some players to drop out? IF SO, Who or what type of organisation and why?

3.16 Across the market as a whole, do you expect the reforms to result in changes to products offered and individual product features?
Why is that? What changes do you expect?

3.17 What type of employer do you expect to adopt Personal Accounts?
Which do you expect to use alternative qualifying schemes?
Why is this?
3.18 Specifically, how might the prospect of introduction of auto-enrolment with a minimum employer contribution affect your own business strategy in the run up to 2012, before the reforms are in place, and why? And how might it affect the strategy of your main competitors? IF AUTO-ENROLMENT INTO GPPs SPECIFICALLY NOT MENTIONED, ASK: And what about the impact of auto-enrolment into GPPs specifically?

3.19 And how might the introduction of auto-enrolment with a minimum employer contribution affect your business strategy after 2012, and why? And how might it affect the strategy of your main competitors? (PROBE ON GPPs SPECIFICALLY IF NECESSARY)

3.20 Looking at auto enrolment specifically:
- What effect you expect it will have on the pensions market generally after 2012? Why is that?
- Do you think auto enrolment will lead to higher participation levels?

3.21 And now looking at the introduction of the minimum employer contribution of 3% of qualifying earnings:
- What effect you expect this will have on the pensions market generally after 2012? Why is that?
- Do you think this will lead to higher contribution levels?

3.22 Overall, if you were to try to summarize where you feel the industry will go after 2012, once the reforms are operational, what would you envisage might happen?

3.23 And how do you think your own organization will fit into that overall picture, after 2012?

SECTION 4: INTERMEDIARIES & THE REFORMS

4.1 How, if at all, do you think the interaction or relationships between providers, intermediaries and employers in the market as a whole may change in response to the reforms? Why is that?

4.2 Will the pattern or changes be any different for your business specifically? How and why?

4.3 Thank you very much for your help. Just finally, are there any other points you would like to make which we have not covered but you feel are important for DWP to bear in mind regarding the likely consequences of the reforms?

Occasionally, it is very helpful for us to be able to re-contact people we have spoken to, either to clarify certain issues, or to get a bit more detail where the information we are given is particularly interesting. Would you be happy for us to call you back briefly if necessary?

THANK AGAIN AND CLOSE
Appendix E
Information about the workplace pension reforms given to participants during the interview

Proposals for pensions reform

From 2012 the Government plans to introduce new obligations on employers to automatically enrol eligible workers into qualifying workplace pension provision and to provide a minimum contribution.

This is intended to encourage wider participation in private pension saving, by:

• overcoming inertia that affects decision-making;

• making it both easier and more attractive for individuals to save for their retirement.

From 2012 the Government also plans to introduce a new national occupational pension scheme, ‘Personal Accounts’, that employers can use as a qualifying scheme. This will be a trust-based, DC occupational pension scheme, run at arm’s length from Government by a sole corporate trustee.

‘Qualifying’ workplace schemes can include occupational pension schemes, group personal pension schemes, group stakeholder schemes and the new ‘personal accounts’ scheme.

Workers who are not automatically enrolled may choose to opt into a qualifying workplace pension scheme.
Workers who are enrolled automatically will be able to opt out of the scheme if they wish.

Workers who choose to remain members of a qualifying money purchase workplace pension scheme will contribute a minimum of five per cent of their qualifying earnings, including tax relief.

Their employer will make a minimum contribution of three per cent of qualifying earnings.