Current practices in the workplace personal pension market: Qualitative research with pension providers and intermediaries

Andrew Wood, John Leston and Marisa Robertson

A report of research carried out by RS Consulting on behalf of the Department for Work and Pensions
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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.

We thank Sara Spinks and Kate Downer at RS Consulting for valuable assistance in planning and managing the project, and in producing this written report.

Finally, much of the recruitment for this study, and many others for RS Consulting over many years, was led by Peter Birch. It was with great sadness that we learnt that Peter died on 20 March 2009. Peter was a lovely, energetic man and a great character, and he will be fondly remembered by all those who were lucky enough to work with him.
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## Abbreviations

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<tr>
<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>
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<td>DC</td>
<td>Defined contribution</td>
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<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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<td>IFA</td>
<td>Independent Financial Adviser</td>
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<td>NDPB</td>
<td>Non-departmental public body</td>
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<td>PADA</td>
<td>Personal Accounts Delivery Authority</td>
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<tr>
<td>TPAS</td>
<td>The Pensions Advisory Service</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>WPP</td>
<td>Workplace personal pension</td>
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<td>Glossary</td>
<td>Description</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>Active member discount</td>
<td>A charging model that some providers may apply to members of a particular pension scheme. Under this model, active members of that scheme pay a lower annual management charge than deferred members.</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 enrolls 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>
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<td>Term</td>
<td>Definition</td>
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<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>Cross-subsidy</td>
<td>The use of profits from one activity to cover losses from another.</td>
</tr>
<tr>
<td>Commission-based</td>
<td>In the context of this study, an intermediary that charges the provider commission, based on the pensions products that are sold. The basis for the commission is individually negotiated between the provider and the intermediary. The provider usually attempts to recover the cost of this commission by increasing the value of the annual management charge applied to the member's fund.</td>
</tr>
<tr>
<td>Contract-based pension</td>
<td>A defined contribution pension scheme purchased by an individual, either through their employer or individually, 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 personal pension.</td>
</tr>
<tr>
<td>Death in service</td>
<td>A life insurance policy attached to a workplace pension. Should the death of the employee occur while the employee is in the employment of the company, the dependants would receive an insured sum free of tax.</td>
</tr>
<tr>
<td>Default contribution</td>
<td>The set amount of contributions paid into a member's workplace pension by the member, employer or both, if no decision is made by the individual regarding what to contribute.</td>
</tr>
<tr>
<td>Default fund</td>
<td>The pre-assigned fund or funds into which a member's contributions are invested, if no decision is made by the individual regarding which funds they wish their contributions to be invested in.</td>
</tr>
<tr>
<td>Defined benefit (DB) scheme</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>
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<tr>
<td>Deferred member</td>
<td>A <strong>member</strong> who no longer contributes to or accrues benefits from a pension scheme but has not yet begun to receive retirement benefits from that scheme.</td>
</tr>
<tr>
<td>Defined contribution (DC) scheme</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>Distance Marketing Directive</td>
<td>The Distance Marketing of Consumer Financial Services Directive 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>
<tr>
<td>Dual annual management charge</td>
<td>A charging model used by <strong>providers</strong> of some <strong>personal pensions</strong>. Rather than paying one single <strong>AMC</strong> over the lifetime of a pension, <strong>members</strong> pay a higher <strong>AMC</strong> for the first years in which they hold the pension, but after this, the long-term <strong>AMC</strong> is lower.</td>
</tr>
<tr>
<td>Earnings</td>
<td>In the context of the <strong>workplace pension reforms</strong> 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.</td>
</tr>
<tr>
<td>Eligible employee</td>
<td>In the context of the <strong>workplace pension reforms</strong> this refers to those employees who will be <strong>automatically enrolled</strong> into a <strong>qualifying workplace pension scheme</strong> or <strong>personal accounts</strong>. This group includes employees aged between 22 and <strong>State Pension age</strong>, earning above approximately £5,000 a year.</td>
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<tr>
<td>Employee assistance programme</td>
<td>A programme put in place to help employees overcome issues that might cause stress or impact well-being, by offering counselling and psychology services.</td>
</tr>
<tr>
<td>Employee benefits consultant (EBC)</td>
<td>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.</td>
</tr>
<tr>
<td>Fee-based</td>
<td>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.</td>
</tr>
<tr>
<td>Final salary scheme</td>
<td>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.</td>
</tr>
<tr>
<td>Fund manager</td>
<td>A person or organisation appointed to make and implement day-to-day investment decisions for some or all of a pension scheme's assets.</td>
</tr>
<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>
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<td>Term</td>
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<tr>
<td>Group stakeholder pension (SHP)</td>
<td>A personal pension that must meet certain legislative conditions including <strong>annual management charges</strong> 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>
</tr>
<tr>
<td>Key man cover</td>
<td>Insurance protection taken out by a company to protect a business against the loss of a key worker due to ill health or death.</td>
</tr>
<tr>
<td>Lifestyle fund</td>
<td>A pension fund that automatically switches investments from more risky assets into less risky assets as the member approaches retirement.</td>
</tr>
<tr>
<td>Member</td>
<td>A person who has joined a pension scheme and who is entitled to benefits under it.</td>
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<tr>
<td>Term</td>
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<tr>
<td>Minimum employer contribution</td>
<td>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.</td>
</tr>
<tr>
<td>Occupational pension scheme</td>
<td>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.</td>
</tr>
<tr>
<td>Open scheme</td>
<td>A pension scheme that admits new active members.</td>
</tr>
<tr>
<td>Pensions Act 2007</td>
<td>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.</td>
</tr>
<tr>
<td>Pensions Act 2008</td>
<td>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.</td>
</tr>
<tr>
<td>Pension fund</td>
<td>The assets that form a pension scheme.</td>
</tr>
<tr>
<td>Persistency</td>
<td>The length of time over which a member continues to pay or receive contributions into their pension fund.</td>
</tr>
</tbody>
</table>
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.
<table>
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<th>Term</th>
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<tr>
<td>Qualifying employer</td>
<td>In the context of the workplace pension reforms, this refers to UK employers that employ any eligible employees.</td>
</tr>
<tr>
<td>Qualifying workplace pension</td>
<td>In the context of the workplace pension reforms, all qualifying employers must offer their eligible employees a qualifying workplace pension. This must fulfil the core requirements of automatic enrolment and a minimum employer contribution. If these are fulfilled, qualifying schemes can include an occupational pension such as the personal accounts scheme, or a workplace personal pension.</td>
</tr>
<tr>
<td>Self-invested personal pension (SIPP)</td>
<td>A personal pension scheme under which the member has some freedom to control investments. The requirements governing Self Invested Personal Pensions are set out in the Personal Pension Schemes (Restriction on Discretion to Approve) (Permitted Investments) Regulations 2001.</td>
</tr>
<tr>
<td>State Pension age</td>
<td>The state retirement pension is currently paid to people who reach the State Pension age of 65 for men and 60 for women and who fulfil the conditions of the National Insurance contributions. Under section 126 of the Pensions Act 1995, State Pension age will increase to 65 for women from 2010 to 2020. It will then increase from 65 to 68 for men and women by 2046.</td>
</tr>
<tr>
<td>State Second Pension</td>
<td>The State Second Pension is paid by the State to some individuals in addition to the Basic State Pension.</td>
</tr>
<tr>
<td>Streamlined joining</td>
<td>Pensions scheme enrolment technique whereby the employee has to elect to join the scheme, but the complexity of the joining process is substantially reduced for the employee. For example, the application form may be very short, or the employee may have to do no more than provide a signature on a pre-populated form.</td>
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</tr>
<tr>
<td>Trust-based pension</td>
<td>A pension arrangement run by a board of trustees.</td>
</tr>
<tr>
<td>Trustee</td>
<td>An individual or company appointed to hold assets for the beneficiaries of a trust-based pension scheme, in accordance with the provisions of the trust instrument, the legal document that sets up, governs or amends the scheme, and general provisions of trust law.</td>
</tr>
<tr>
<td>Workplace pension</td>
<td>Any pension scheme provided as part of an arrangement made for the employees of a particular employer. All occupational pension schemes are workplace pensions, whereas personal pensions can be either workplace pensions or individual pensions.</td>
</tr>
<tr>
<td>Workplace pension reforms</td>
<td>The reforms introduced as part of the Pensions Act 2008: from 2012, it is proposed 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 Pensions Act 2007 created the Personal Accounts Delivery Authority to advise on the reform proposals.</td>
</tr>
<tr>
<td>Workplace pensions industry</td>
<td>In the context of this report, this refers collectively to UK workplace pension providers and the intermediaries that advise employers and employees on these pension products.</td>
</tr>
<tr>
<td>Workplace pensions market</td>
<td>In the context of this report, this refers to the range of workplace pensions available in the UK, including occupational pension schemes and workplace personal pensions. The workplace pensions market is described in further detail in Figure 1.1 of this report.</td>
</tr>
</tbody>
</table>
Workplace personal pension (WPP)

A personal pension scheme that is purchased as part of an arrangement made for the employees of a particular employer. In this respect it contrasts with an individual personal pension. Workplace personal pensions include group personal pensions, group stakeholder pensions and group self-invested personal pensions.
Summary

Research aims

This research project was designed to investigate and understand the nature of workplace personal pensions (WPPs) currently offered by pension providers, focusing on the structure and range of charges applied, the fund choices available, and the nature of default funds offered.

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 who 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 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. This 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.

One relatively new area for growth amongst higher paid individuals at the time of interview was said to be the market for group self-invested personal pensions (group SIPPs). Group SIPPs gave individuals more control over the underlying investments in their pension fund, allowing direct investment in property or shareholdings for example. As a result of this far greater range of choice, the charging structure for group SIPPs differed from that of GPPs and SHPs, in that the different services provided were not bundled into a single AMC, but instead specific fees were charged for each of the different services offered.
Charges applied to GPPs and SHPs

The AMC was set by the provider and calculated as a proportion of the individual member’s pension fund. It was shown on the member’s statement as a deduction of units from the member’s total fund value. The AMC covered the provider’s setup and administration costs, as well as most fund management costs, and an increase to the AMC was applied if it was necessary for the provider to recover the cost of any intermediary commission.

The intermediary’s role typically involved identifying a shortlist of providers, advising the employer on the final choice of provider, facilitating communication between the provider and employer, and providing employee advice, both initially and on an ongoing basis. Some intermediaries, usually the largest, charged the employer directly for these services; others covered their fee by charging the provider commission on the pension products sold.

Whether or not the intermediary charged commission was said to be the greatest single determinant of the level of AMC. Regardless of how the provider paid commission to the intermediary, the provider could only attempt to recover this cost by increasing the AMC applied to member’s funds. The amount of commission providers paid in the early years of operating a scheme was often far more than the amount they received in revenue through the AMC over the same period. They therefore had to increase the AMC by an amount that would, according to their own calculations, eventually cover the cost of the commission paid. The AMC typically ranged from 0.4 per cent to 0.6 per cent where the intermediary charged no commission; and from 0.8 per cent to 1.0 per cent where commission was charged.

How providers identified profitable business

Many providers pointed out that in order for them to stay profitable, it was important for them to be able to identify business from employers where they could optimise profit. When asked to quote for new business, typically by an intermediary, providers attempted to target profitable employers by altering the AMC, offering the lowest AMC to the employers that they believed could be potentially most profitable.

Providers typically varied the AMC according to a range of demographic and financial characteristics of both the employer and its employees. These could include, in order of those most commonly mentioned:

- expected contributions per member;
- proportion of the eligible workforce expected to become members;
- staff turnover;
- level of effort required from the provider in setting up and maintaining the scheme;
- size of the employer;
• age profile of the employees;
• industrial sector and geography of the employer;
• value of business provided by the intermediary;
• whether or not funds were to be transferred in from other schemes.

In most cases, providers offered the same flat-rate AMC to all employees belonging to a particular employer’s GPP or SHP throughout the lifetime of the scheme. Some providers did, however, adopt an alternative approach in certain circumstances. These included:

• applying a lower AMC to active scheme members;
• applying a lower AMC to members with large funds;
• varying the AMC applied to all of an employer’s members over time;
• charging individual members a higher AMC for the first years in which they held the pension, but after this, charging a lower long-term AMC.

**Fund selection and fund management charges for GPPs and SHPs**

On joining their pension scheme, members of GPPs and SHPs were required to select a fund or funds in which to invest their pension. Providers of GPPs typically offered anything from 40 to 500 funds to members, with 150 being typical across all providers. SHPs typically offered fewer: from ten to 150 funds, with 35 typical across all providers. In both cases, employers, with advice from their intermediaries, typically chose only around ten funds to offer their employees, to simplify their decisions, although members could access the full range of funds if they wished.

Intermediaries and employers together typically decided upon a default fund for their employees on setting up a scheme. This applied to all SHPs, which were required to offer a default fund by law. Although this law did not apply to GPPs, providers typically reported that 80 to 90 per cent of employers did select a default fund for their employees.

Providers and intermediaries reported that 60 to 100 per cent of members tended to invest only in the default fund, depending on the employer. The default funds typically offered to members were lifestyle funds. These were considered by providers and intermediaries to be the most appropriate default investment choice for individuals, as they automatically switched investments from more risky assets into less risky assets as the member approached retirement.

Fund management charges for the majority of providers’ in-house funds, including all funds that were used as default funds, were typically ‘bundled in’ as part of the AMC. Providers typically subjected externally-managed funds to an additional charge of between 0.3 per cent and 1.5 per cent of the value of that fund, which was passed on directly to the member. Providers and intermediaries typically claimed that beyond these, there were no further charges applied to members of GPPs or SHPs.
**Group SIPP charges**

The market for group SIPPs was relatively new at the time this study was carried out. Most of the providers in the study did little or no group SIPP business; most did not offer one, although some providers were planning to launch one.

The few providers that did offer group SIPPs applied a far wider range of charges than providers of GPPs and SHPs applied to their products. This was largely because group SIPPs gave individuals more control over the investments in their pension fund, which was believed to offer the member far greater opportunity to achieve growth in the value of the pension fund. They were typically considered appropriate for highly-paid individuals, and those experienced in investing in financial products.

Most group SIPP charges were paid by the member, although certain costs could be paid for by the employer instead if they agreed to this. Examples of charges that could be applied to group SIPPs, but not SHPs or GPPs, included:

- charges for investment in property;
- transaction charges for investment in other providers’ funds;
- execution-only transaction charges for direct investment in equities;
- property administration costs;
- charges for pension fund withdrawal.

**Cross-selling**

Cross-selling other products to the employer alongside the personal pension was common for intermediaries. The products most commonly cross-sold were: financial planning/IFA services; medical/health cover; and group life assurance.

In comparison with intermediaries, providers very rarely reported cross-selling products to employers, although some did offer group life cover or group private medical insurance to employers.
1 Introduction

This report provides the findings from a study conducted by the Department for Work and Pensions (DWP) to investigate and understand the nature of workplace personal pensions (WPPs) currently offered by pension providers. Included within the definition of WPPs were group personal pensions (GPPs), group stakeholder pensions (SHPs), and group self-invested personal pensions (group SIPPs).

This chapter details the policy background to the study, and 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:1

• 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.2

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2 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.³ 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 (AMCs) will be low;
- the scheme will be simple for the individual to use and understand.

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.

³ 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.
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 WPP such as a GPP, SHP or group SIPP. This research was commissioned in order to understand more about the nature of existing WPPs.

1.2 Research objectives

This research project was designed to investigate and understand the nature of the WPPs currently in the market. When the workplace pension reforms are introduced in 2012, these GPPs, SHPs or group SIPPs will be permitted to be qualifying workplace pension schemes, if they fulfil the core requirements of automatic enrolment and the minimum employer contribution of three per cent.

The specific questions the research sought to answer were the following:

- What is the structure and range of charges applied, and how are these determined?
- What is the range of fund choices available?
- What is the nature of default funds offered?
- Are additional products or services cross-sold with WPPs?

1.3 Market background: workplace pensions

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.

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4 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.
1.3.1 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.

**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.</td>
<td>much has been paid into the scheme, and the performance of the underlying investments.</td>
</tr>
<tr>
<td>WPPs are contract-based: owned entirely by the individual, allowing them to continue to contribute if they move jobs.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>GPP</th>
<th>SHP</th>
</tr>
</thead>
<tbody>
<tr>
<td>A WPP arrangement made for the employees of a particular employer.</td>
<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>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Group SIPP</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>
</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 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.

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 work on a commission basis 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 apply 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 was wholly qualitative in nature, and focused on the opinions and experiences of a specific group of providers and intermediaries in depth. As this was the first time that research had focused on these precise topic areas, 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, allowing providers and intermediaries to describe the nature of their WPPs in detail.

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.

In this report, we do provide some information that is necessarily in numerical format: this includes, for example, the range of charges applied to particular pension schemes; and the number of funds typically offered to members of those schemes. However, the study is not a comprehensive audit of all of the schemes available in the market, and is not designed to be statistically robust.

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.

Interviews with providers only discussed their own schemes. We did not ask providers to give us specific information about the schemes of their competitors. Similarly, interviews with intermediaries focused only on schemes offered by the providers with whom they worked at the time of interview.

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. The information gathered can be considered representative of the range of the main WPPs offered by the participant organisations, but it did not attempt to cover all of the WPPs in the market.

5 Chapter 2 of this report does, however, report on general discussions with providers and intermediaries about the background to the workplace pension market in 2008.
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.\(^6\)

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.\(^7\) 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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\(^7\) 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>Interviews conducted</th>
<th>Organisations interviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Providers</td>
<td>16</td>
</tr>
<tr>
<td>Large intermediaries (20+ advisers)</td>
<td>8</td>
</tr>
<tr>
<td>Small intermediaries (fewer than 20 advisers)</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>44</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 Benefits;
- 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 up to 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 half an hour.8

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.

Topics covered in the interviews included:

• the structure of scheme charges in GPPs and SHPs;
• the range of annual management charges applied to GPPs and SHPs;
• factors influencing the level of AMC of GPPs and SHPs, and alternative charging structures;
• how intermediary commission impacted upon the AMC;
• what funds were offered to and selected by members of GPPs and SHPs;
• the use of default funds by members of GPPs and SHPs, and the makeup of the default funds;
• the structure and range of charges of group SIPP products, where offered;
• additional products or services cross-sold with WPPs.

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

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8 A DWP study into the pensions industry responses to the workplace pension reforms, also conducted by RS Consulting, covered the same target audience. Consequently interviews for this study took place immediately after interviews for the study into the industry responses. Therefore in total interviews lasted up to two hours.

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.

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, and introduces the charging models that are applied to workplace personal pensions (WPPs).

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

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 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 was 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 to new members were now switching directly to a WPP for these members, 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 a considerable growth area among this audience, albeit a relatively rare one currently: few of the providers interviewed for this study actually offered the product.

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.

2.2 Comparison of WPP charging structures

The remainder of this report focuses on WPP schemes, and in particular on how each of the individual services provided by the participating providers and intermediaries were charged. Before examining this in detail, it is helpful to describe the overall charging structure used by the different products in the market.

Providers reported that the charging structures for GPPs and SHPs were essentially the same. 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.

An intermediary may charge for its advice to employers and employees on a fee basis, a commission basis, or a combination of both. Where the intermediary charges the employer a fee covering all of the advice provided, no further intermediary charges are passed on to the member. Where the intermediary charges any commission to the provider 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.

The structure of scheme charges for group SIPPs was different. The range of services provided was not bundled into a single AMC, but instead specific fees were charged for each of the different services offered. This was largely because group SIPPs allowed a wider range of investment options, and consequently there was a far wider range of charges that could be applicable to the group SIPPs included in this study than to GPPs and SHPs.

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. 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.

‘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 who did not already offer a pension scheme were required to set up an SHP scheme 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 the 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 to 1.5 per cent in 2004 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.
3 Charges applied to group personal pensions and group stakeholder pensions

This chapter explores the range of annual management charges (AMCs) that were applied to the schemes offered by the providers in this study, and how they could vary.

3.1 The range of annual management charges applied to schemes

Across the providers interviewed as part of this study, the same basic procedure was commonly used to set the level of AMC. The AMC was set by the provider and calculated as a proportion of the individual member's pension fund. It was shown on the member's statement as a deduction of units from the member's total fund value. The same AMC was typically set for all members, and once set, the AMC typically stayed the same throughout the lifetime of the pension, although Section 3.4 sets out some exceptions to this. The AMC covered the following costs associated with providing that pension scheme:

- **The provider’s setup costs for the scheme.** This typically involved investigating the employer, attending a face-to-face ‘beauty parade’ to pitch for the employer’s business, producing a tender document and enrolling members.

- **The provider’s ongoing scheme administration costs.** This typically involved processing leavers and joiners and changes to contributions and fund choices.
• The cost to the provider of any intermediary commission. The intermediary's role typically involved identifying a shortlist of providers, advising the employer on the final choice of provider, facilitating communication between the provider and employer, and providing employee advice, both initially and on an ongoing basis. Some intermediaries covered their fee for providing these services by charging the provider commission. The basis for the commission was individually negotiated between the provider and the intermediary, but by whatever means it was paid to the intermediary, the provider attempted to recover this cost by increasing the AMC applied to members' funds.

• Fund management costs for the majority of funds invested in by members. There was usually some variation in the amount it cost the provider's in-house fund managers to manage the different funds. However, in most cases this difference was small enough for the provider to absorb. Effectively they 'bundled' most fund management charges together as part of the AMC, no matter which in-house funds were selected by the member. External funds were more likely to be charged separately.

Although the AMC covered these four different areas of cost to the provider, no instances were found where providers in this study itemised these areas of cost on the member's statement. Where the provider pays the intermediary commission, the Financial Services Authority (FSA) requires the intermediary to disclose to the employer and to members how much they will be paid for the advice they provide. However, there is no requirement for providers to disclose what impact the commission has on the level of AMC paid by members. Some providers mentioned that they believed members had little interest in such a high level of disclosure.

‘If you were to try to specifically disclose the administration charge for example, you could then argue the need to start explaining what the different components were for, and the average member doesn’t even read their contribution statements, never mind that level of detail.’

(Provider)

Table 3.1 illustrates the range of AMCs that were levied for group personal pensions (GPPs) and group stakeholder pensions (SHPs). The greatest determinant of the level of AMC was whether or not the intermediary charged commission or a fee. Table 3.1 is consequently broken down into two categories: schemes where the provider paid the intermediary for all of its services via commission and schemes where the employer paid the intermediary for all of its services via a fee. The AMCs for GPPs and SHPs typically ranged from 0.4 per cent to 0.6 per cent where the intermediary charged no commission; and from 0.8 per cent to 1.0 per cent where commission was charged. Intermediaries could also charge for its services on a part-commission, part-fee basis, in which case the level of AMC would typically be between these ranges.

9 See Section 3.3.
10 See Section 4.4.
Table 3.1 Typical AMCs that the providers in this study levied on members of GPPs and SHPs

<table>
<thead>
<tr>
<th>Range of AMCs levied across all providers in study</th>
<th>Typical minimum AMC</th>
<th>Typical mid-range AMC</th>
<th>Typical maximum AMC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Where the provider paid the intermediary for all of its services via commission</td>
<td>0.8%</td>
<td>0.9%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Where the employer paid the intermediary for all of its services via a fee</td>
<td>0.4%</td>
<td>0.5%</td>
<td>0.6%</td>
</tr>
</tbody>
</table>

NB: table shows typical charges only. It does not measure prevalence of charges.

It is notable that, although the one per cent SHP charging cap was increased to 1.5 per cent in 2004, providers reported that competition had effectively kept the maximum level of AMC at just one per cent at the time the study was conducted. However, some providers did mention that if a member selected relatively unusual fund options that attracted an additional charge over and above the basic AMC, that member's total AMC could, in fact, increase to a level above 1.0 per cent.

3.2 Factors providers considered when setting the annual management charge

Many providers pointed out that in order for them to stay profitable, it was important for them to be able to identify business from employers where they could optimise profit. When asked to quote for new business, typically by an intermediary, providers attempted to target profitable employers by altering the AMC, offering the lowest AMC to members belonging to the employers that they believed could be potentially most profitable. This is because the level of AMC charged to members was believed to play a significant part in determining employers’ choice of provider.

Providers reported that in recent years they had become increasingly sophisticated in identifying which employers were likely to provide the most valuable business: prior to the introduction of SHPs, the number of employees in an organisation had often been used to predict profitability: economies of scale, it was believed, meant that the more members were in a scheme, the more likely it was that setup costs would be recovered and the scheme would run at a profit. 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, due to the members’ small funds. Some providers pointed out that GPP and SHP schemes often ran at a loss to the provider in the first years of operation and it could take some years to recover the costs of setting up a scheme.
Nowadays, therefore, providers said they targeted employers who they believed had a high proportion of employees likely to join the scheme, contribute, and continue doing so long enough to build up a high fund value. Providers typically reported using an increasingly wide range of demographic and financial characteristics to identify such employers. These are explored below, with the most commonly mentioned characteristics first.

3.2.1 **Expected contributions (employer or employee) per member**

The single factor most commonly mentioned as impacting upon the level of AMC that providers were willing to offer employers was the level of contributions expected to be paid for each individual member, whether these were to be made by the employer, employee or both. The lowest AMCs were usually applied to schemes where per-member contributions were expected to be highest. The AMC was calculated as a percentage of the total value of the member’s fund, and so funds receiving higher contributions were expected to grow at a faster rate, and so ultimately provide higher revenue for the provider.

To attempt to identify potential high contribution levels, providers used information from employers on average salary levels for the eligible employees, as well as the percentage contributions to be offered by the employer and required from the employees.

3.2.2 **Proportion of the eligible workforce expected to become members**

Providers typically agreed that the costs incurred in setting up an employer scheme were likely to be recouped more quickly from an employer whose participation rates – the proportion of eligible employees joining the scheme – were high. If a higher proportion of eligible employees joined, and so built up funds, the revenue the provider received through the AMCs would increase at a greater rate, and so offset the fixed costs they incurred in setting up the scheme more quickly.

Some providers also believed that employers that achieved high levels of participation from their employees would also achieve a high degree of employee engagement, and so these employees would then be likely to contribute for a longer period of time.

3.2.3 **Staff turnover**

Providers typically reported that high levels of staff turnover led to higher scheme administration costs for the providers, because of the work that was involved in processing high numbers of leavers and joiners. In theory an individual could continue to pay into an SHP and certain GPPs if they were to move from one employer to the next. Some providers, however, felt that most employees did not do this in practice.
A high level of employee turnover was therefore seen as a predictor of contributions being paid over a shorter term, and consequently smaller individual pension funds, again making it more difficult for the provider to recoup the setup and administration costs. Higher levels of AMC were often, therefore, applied to firms with high levels of staff turnover.

‘For a small average contribution with a high [staff] turnover – you’re going to get charged an awful lot for that.’

(Provider)

3.2.4 Level of effort required from the provider in setting up and maintaining a scheme

Some providers mentioned the fact that the process of setting up a scheme could be complex, involving investigating the employer, attending a beauty parade, producing a tender document and enrolling members. Where the provider expected this to involve a particularly high degree of effort, then this additional cost could be factored into the level of AMC. In particular this included cases where the provider expected the employer or intermediary to require them to conduct presentations to employers or employees at multiple locations, either as part of the setup process or throughout the lifetime of the scheme.

3.2.5 Size of the employer

Some providers applied a more favourable member AMC to employers with more employees, simply because they had the potential to provide them with more members and therefore, an increased revenue.

However, this was not universally the case, as there was disagreement as to whether the number of employees was in fact a good predictor of profitability. Some providers believed that the costs of servicing larger schemes often increased at the same rate as the potential increase in revenue from new members, particularly if the workforce was a particularly transient one. Such providers did not vary the AMC according to employer size per se, but looked at the wider range of factors discussed in this section.

3.2.6 Age profile of the employees

Some providers mentioned that they obtained information on the age demographics of employees at prospective employers. They believed that employees whose workforce was younger on average would be likely to contribute over a longer term, and so ultimately prove more profitable to the provider. These providers often gave employers with a younger employee age profile more favourable levels of AMC, although in these cases staff turnover also had to be taken into consideration: where younger employees were transient, casual staff, they were still unlikely to be offered a low AMC.
3.2.7 Industrial sector and geography of the employer

More rarely, some providers mentioned that they used the industry sector and the geographic location of the employer to attempt to predict the profitability of a potential customer, although they typically admitted that any such predictions could only be broad approximations, and details on the precise impact of the AMC could not be given.

Some did give the example of employers in the IT or financial sector, and employers based in areas of the country with higher earnings levels, who might be offered a more favourable AMC than those in the manufacturing sector, because they were perceived to be a more profitable target based on salary levels.

3.2.8 Value of business provided by the intermediary

Occasionally providers expressed the desire to be able to vary the rates given to a particular employer based upon who the intermediary was. In principle, if an intermediary usually gave the provider business that was relatively unprofitable, providers could choose to increase the AMC for future business supplied by that intermediary. These providers admitted, however, that in practice this rarely happened, largely because they were not able to predict this with confidence.

‘In the future we might be able to vary the level of charges applied to an intermediary, if any adviser becomes inherently more difficult or costly to deal with; or if they write less profitable or less persistent business.’

(Provider)

3.2.9 Transfers in from other schemes

Some providers mentioned that if a particular employer were to transfer existing high value funds to their scheme, this could immediately create a greater source of income for the provider than if funds needed to be built up from scratch. Consequently, lower AMCs may have been offered in these cases.

‘Where we’ve had bulk transfers into the scheme, we’ll provide a lower charging structure for those assets in certain circumstances.’

(Provider)

3.3 How intermediary commission impacted upon the AMC

The intermediary’s role typically involved identifying a shortlist of providers, advising the employer on the final choice of provider, facilitating communication between the provider and employer, and providing employee advice, both initially and on an ongoing basis. An intermediary could, if they wished, decide on a client-by-client basis whether they wished to charge a fee or commission for these services, or indeed a combination of both. In general terms, however, the largest intermediaries in this study tended to be fee-based for most of their services and dealt with larger employers; smaller intermediaries were often commission-based and dealt with a wider range of sizes of employer.
Where intermediaries did charge providers commission, their aim was typically for the commission to cover the fee that they would have charged the employer. Essentially there were four different ways in which intermediaries typically charged commission, categorised as follows:

- **Initial year-one commission.** In this case, the intermediary charged the provider higher levels of commission in the first year of operation of the scheme than in later years. The amount taken typically equated to between ten per cent and 30 per cent of all members’ regular contributions paid in that first year. This covered the intermediary’s initial setup costs. Far lower levels of renewal commission were then taken in subsequent years to cover ongoing advice.

- **Level commission.** Here, the intermediary charged the provider the same level of commission each year, typically equivalent to between two per cent and five per cent of all members’ regular contributions paid over the lifetime of the pension plan. Consequently on this commission basis the intermediary covered their own costs over a longer period of time.

- **Fund-based commission.** In this case, the level of commission was directly related to the size of members’ funds, rather than to their contributions. The commission was typically calculated as around 0.4 per cent of total fund value, not of the contributions made, although this percentage could vary depending on fund size.

- **Commission on single/transfer payments.** Where an intermediary was responsible for a large transfer or other one-off payment into a fund, they sometimes charged commission as a percentage of that one-off payment. In this case, the commission tended to range between one per cent and six per cent of the value of the single payment.

Regardless of how the provider paid commission to the intermediary, the provider could only attempt to recover this cost by increasing the AMC applied to member’s funds. Initial year-one and level commission were the most commonly used bases, and these were particularly problematic for providers. The amount of commission providers paid in the early years of operating a scheme was based on a percentage of total contributions, which could be far more than the amount they received in revenue through the AMC, which was based on fund size. They, therefore, had to increase the AMC by an amount that would, according to their calculations, eventually cover the cost of the commission paid.

Whether or not the intermediary charged commission was, therefore, said to be the greatest single determinant of the level of AMC. Table 3.1 showed that charges applied to schemes where the intermediary only charged the provider commission for their services were, in many cases, around 0.4 per cent higher than those where the intermediary only charged the employer a fee for their services.
Providers believed that the level of AMC charged to members played a significant part in determining employers’ choice of provider. The providers interviewed typically, therefore, favoured those intermediaries that charged employers a fee for their services rather than commission, as it allowed them to price the AMC at the lower level. Some providers were, at the time of interview, only accepting fee-based business.

‘Since the start of this year we are focusing purely on nil-commission IFAs, so that will largely be [employee benefits consultants] for new schemes. It’s worth pointing out that if IFAs do change their business model and begin to accept fees we are happy to target them.’

(Provider)

3.4 Variations to the single, flat-rate annual management charge

In most cases, providers offered the same flat-rate AMC to all employees belonging to a particular employer’s GPP or SHP throughout the lifetime of the scheme. Some providers did however adopt an alternative approach in certain circumstances. Five such examples are described in this section. The ordering of this section does not imply relative prevalence. Only one of the approaches – active member discounts – was specifically asked about during the interviewing for this study.

3.4.1 Active member discounts

Some providers offered an alternative charging model to certain employers, known as the active member discount. In this case, members who were actively contributing to their pension paid a lower AMC than those who were not. A provider gave an example of a typical situation, where active members paid an AMC of 0.35 per cent, whereas deferred members paid 0.6 per cent. In such a case, if the employer had not chosen the active member discount option, all members might have paid a single AMC of 0.5 per cent.

Some providers allowed the active member discount applied to a particular member’s fund to be maintained, even if the employee left the employer, as long as a minimum level of contribution continued to be paid into the fund. In other cases, the active member discount only continued as long as the employee remained at that employer.

Unlike the other approaches to charging discussed in this section, all providers interviewed as part of this study were asked whether they operated the active member discounts model, and their attitudes towards the model were also examined. Three broad perspectives emerged across the providers in the study:

• proponents of active member discounts;
• reluctant adopters of active member discounts;
• those with no plans to adopt active member discounts.
**Proponents of active member discounts**

The providers that we have classified as ‘proponents’ of active member discounts were typically among the first industry adopters of the model and often favoured this as a way to improve employee persistency: believing that the lower charges would act as an incentive to maintain contributions into the scheme.

Such providers offered active members discounts only as an option. The decision of whether to adopt it or not was taken by the employer, with advice from the intermediary. Some providers said that many employers they dealt with liked the fact that the active member discount only continued as long as the employee remained at that employer, believing that this could have a positive effect upon staff retention.

'It is interesting that the market has changed on this. If you want to go back five to ten years ago, the desire amongst employers was to say, “We want you to have a good low scheme charge, and if you leave us, you can maintain that.” But increasingly the employers have turned that 180 degrees and they want to be able to say, “You have a really good deal on your pension plan here, but if you leave, the charges will be higher.” It is acting as a retention rather than a recruitment tool.’

(Provider)

**Reluctant adopters of active member discounts**

Some providers did allow employers to choose the option of active member discounts to new employees, but pointed out that they adopted the model only as a result of competitive pressure. The providers that offered active member discounts were seen by the reluctant adopters as offering members an even lower, more competitive AMC, meaning that they had to follow suit to remain competitive.

'We were pressurised into this, because it was the only way that we could compete in the market. That’s the way the market has gone.’

(Provider)

Reluctant adopters did not necessarily agree that active member discounts would encourage employees to remain at their current employer, as they believed that a slight increase in the AMC of an employee’s pension scheme would be a very minor consideration in relation to the decision to leave an employer.

Some intermediaries were also ambivalent as to the effect of the active member discount.

'We don’t necessarily agree with it. This is supposed to be a portable pension scheme, so I don’t like the idea that the AMC changes once you leave the provider.’

(Large intermediary)
3.4.2 Giving members with larger funds a lower AMC

Some providers gave individual members who had a fund value over a certain amount, a lower level of AMC. In most cases, the provider set two different AMCs for members of the scheme: a standard rate for members with funds below a threshold value (typically £50,000), and a special rate, typically 0.1 per cent lower, for members with larger funds. Occasionally a sliding scale was applied, with lower AMCs given as the fund value increased.

3.4.3 Variation of AMC over time

In some cases, providers pointed out that the AMC applied to an employer’s members did not necessarily have to remain static over the lifetime of the scheme. Providers sometimes reviewed and reduced the AMC applied to more profitable schemes. Usually this was done to prevent the employer from moving to another provider in order to obtain a better AMC for their employees.

‘The provider will review the AMC once it has built up funds and starts looking more attractive to other providers, and may offer a better AMC to prevent the employer leaving them.’

(Large intermediary)

Very rarely, providers mentioned that the reverse situation could also apply: a provider could decide to increase the AMC if costs were to increase beyond expectation. However, few reported actually doing this in practice, and even these pointed out that this was rarely done, and they could not give specific examples of circumstances that might lead to such an increase in the AMC.

‘If the scheme experience is higher than expected – higher employee turnover or our costs have gone up – then there may be a case where we increase the charge. But largely we don’t do that.’

(Provider)
3.4.4 Fees charged to employers

In rare cases, providers mentioned that they sometimes charged a fee direct to employers for services provided, as opposed to recouping such costs back through the AMC over the lifetime of the plan. This typically applied where employers requested significant amounts of additional marketing or communications services from the provider directly, as opposed to the intermediary supplying this service, which was more usual. In some cases, the provider offered the employer the option of either paying the charges directly or adding the charge to the AMC; in others the provider was only willing to offer the services on a fee basis.

‘The only time we will charge anything extra is if the client wants some very bespoke communications work done. But we have a very high quality communications offering bundled into the product … so they would have to go pretty off-piste before we have to charge anything extra.’

(Provider)

3.4.5 The dual AMC

Very rarely, providers offered the option of a dual AMC to employers. Under this option, instead of members paying one single AMC over the lifetime of their pension, they paid a higher AMC for the first years in which they held the pension, but after this the long-term AMC was lower. The higher AMC was usually paid during the first three to five years in which the member held the plan, and was typically markedly higher than normal AMC levels: 7.5 per cent was one example given. This was largely to offset the fact that the fund size in these years was very small, and so the revenue taken through the standard AMC would, therefore, be very small. After the initial period was up, the long-term AMC was significantly lower, with 0.35 per cent given as a typical example.

The providers that offered the dual AMC model believed that it was beneficial for persistency, as it encouraged the individual to save over a longer term with a view to achieving the lower AMC. It also benefitted the provider, as it made it easier for the high initial costs incurred by providers to be recouped. These providers were, however, unsure as to whether this could become a widespread charging model, as the high initial charges were atypical of the market in 2008, with the industry as a whole used to a ‘simpler’ single AMC model.

‘We have yet to see whether the market will go in this direction. The trouble is, it’s hard for the market to take right now.’

(Provider)
4 Fund selection and fund management charges for group personal pensions and group stakeholder pensions

This chapter explores the range of funds that were available to, and selected by, members of group personal pensions (GPPs) and group stakeholder pensions (SHPs). It examines:

• how many funds were typically offered by providers and employers to members;
• the use of the default fund, which was the fund most commonly invested in by members;
• the typical makeup of the default fund;
• fund management and other related charges.

4.1 Funds typically offered to members

On joining their pension scheme, members of GPPs and SHPs were required to select a fund or funds in which to invest their pension. The GPPs and SHPs offered by providers typically had a maximum number of funds of different types such as cash, bonds, property and equities, available for members invest in, depending on the risk members were willing to take to achieve growth in their pension fund. From these, employers, in conjunction with advice from their intermediary, chose a limited number to offer to their employees.
GPPs typically provided members with access to a wider range of funds than SHPs. Table 4.1 shows the number of funds that were commonly offered by providers of GPPs and SHPs. GPPs typically offered anything from 40 to 500 funds to members, with 150 being typical across all providers. SHPs, on the other hand, typically offered from ten to 150 funds, with 35 typical across all providers.

The funds offered could either be managed by a provider’s in-house fund management company, or they could be offered by one or more external fund management companies. Table 4.1 also shows the number of external fund management companies, and external funds, used. Again, GPPs typically offered a wider range of external funds to employers than SHPs.

Table 4.1 Number of funds commonly offered by providers of GPPs and SHPs

<table>
<thead>
<tr>
<th></th>
<th>GPP range</th>
<th>GPP typical</th>
<th>SHP range</th>
<th>SHP typical</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of funds offered by provider</td>
<td>40-500</td>
<td>150</td>
<td>10-150</td>
<td>35</td>
</tr>
<tr>
<td>Number of external fund management companies offered by provider</td>
<td>6-30</td>
<td>15</td>
<td>0-20</td>
<td>5</td>
</tr>
<tr>
<td>Number of external funds offered by provider</td>
<td>30-1,000</td>
<td>140</td>
<td>0-70</td>
<td>15</td>
</tr>
<tr>
<td>Number of funds actually selected by employers to offer their employees</td>
<td>2-80</td>
<td>10</td>
<td>1-30</td>
<td>10</td>
</tr>
</tbody>
</table>

NB: table shows typical ranges only. It does not measure prevalence.

Despite the fact that GPPs often offered more funds in total, Table 4.1 also shows that employers in conjunction with their intermediaries typically chose only around ten funds to offer their members for both GPPs and SHPs. Typically, this was because it was often felt that a wider range of funds could add to employees’ confusion and possibly even make them less likely to apply to join the scheme.

‘We would limit the choice of funds available if it was in the members’ interests: the more funds there are, the more confusion there can be, and take-up overall can be reduced.’

(Intermediary)

Some providers pointed out that although members were guided towards a simplified choice of funds, they did have access to the full range should they have required it.

4.2 The use of default funds by members

Intermediaries and employers together typically decided upon a default fund for their employees on setting up a scheme. This was the fund or funds into which contributions would be invested if an individual employee did not decide themselves upon a particular fund.
All employers offering SHPs typically selected a default fund in conjunction with their intermediaries, as SHPs were required to offer one by law. Although this law did not apply to GPPs, providers typically reported that 80 to 90 per cent of employers did select a default fund for their employees. In the rare cases where this did not happen, and so no default fund existed, individual members were required to make a fund choice in order to invest in the scheme.

‘[If the member makes no choice] the form would go back to them, and they would have to choose where they want to invest.’

(Provider)

According to providers and intermediaries, the majority of members, typically 60 to 100 per cent, did invest in the default fund. The proportion of members that invested in the default fund was believed to depend upon the extent to which members received one-to-one communication and advice, which itself depended on how engaged the employer was in providing employees access to such advice.

‘Where the employer is disengaged, it’s 90 per cent plus; where we give advice, or operate a clinic, then 60 per cent to 70 per cent [choose the default fund].’

(Intermediary)

4.3 Make-up of the default fund

Default funds are themselves made up of other funds (cash, bonds, property and equities) that are offered by the provider. The make-up of the default funds typically offered to members varied somewhat depending on the providers, intermediaries and employers. Typically, however, they were lifestyle funds. These are pension funds that automatically switch investments from more risky assets into less risky assets as the member approaches retirement. Lifestyle funds were considered by providers and intermediaries to be the most appropriate default investment choice for many individuals.

The asset classes that were selected for members before they approached retirement did vary somewhat between providers. The following three examples were commonly used by providers and intermediaries, although the precise percentages did vary to some degree between providers. The names are those commonly given to such funds by providers:

- **balanced managed**: 50 per cent UK equities; 20 per cent overseas equities; 15 per cent property; ten per cent bonds; five per cent cash;
- **passive tracker**: 50 per cent UK equities; 50 per cent overseas equities;
- **passive UK tracker**: 100 per cent UK equities.

Most providers transitioned these funds into safer investments in the years before retirement. Typically this was done gradually, either between ten and five
years prior to retirement, or in some cases, between 15 and five years prior to retirement. In rare cases, some providers’ funds did not transition the funds into safer investments until later: between five years and one year prior to retirement.

The make-up of these final ‘safer’ funds, again, varied somewhat, but most providers and intermediaries offered one of the following three examples, or a close variant thereof:

- 100 per cent cash;
- 50 per cent cash; 50 per cent fixed interest bonds;
- 75 per cent fixed interest bonds; 25 per cent equities.

4.4 Fund management charges

Members could choose to invest their pension in a variety of funds, either managed by the provider’s in-house fund managers, or by external fund managers. Providers usually bundled in-house fund management charges together as part of the annual management charge (AMC). External funds were more likely to be charged separately.

Where fund management charges were applied, they were calculated as a percentage of that particular fund’s value, and then added to the AMC. The fund management charge included all costs, expenses and fees incurred by the fund management company in buying and selling the underlying investments.

4.4.1 Funds managed by an in-house fund manager

There was usually some variation in the amount it cost the providers’ in-house fund managers to manage the different funds, reflecting the varying costs of investing in different asset classes, markets and sectors. However, in most cases this difference was small enough for the provider to absorb any difference in cost, and so include most in-house fund management charges within the basic AMC, no matter which funds were selected by the member.

‘There is a slight variation in the cost to us, depending on the funds that members choose, but it all comes out in the wash.’

(Provider)

There were very rare exceptions to this. Some providers and intermediaries mentioned that certain equity funds, usually overseas, were subject to an additional charge over and above the AMC. In these cases providers passed on the additional fund management charge, for example 0.75 per cent per annum, to the customer as an explicit additional charge on that fund.

‘Within an AMC of 0.5 per cent, say, you get all of the core funds, but you may pay 1.5 per cent to two per cent if you want to enter the [overseas equity fund], for instance.’

(Large intermediary)
4.4.2 Funds managed by an external fund manager

Unlike most of the funds that were managed by the providers’ in-house fund managers, providers typically applied an additional charge, passed on directly to the member, to funds managed by an external fund manager. These external fund management charges typically ranged between 0.3 per cent and 1.5 per cent of the value of the fund annually, although there were some exceptional cases outside this range: the lowest external fund management charge across all providers in this study was 0.05 per cent; the greatest was 2.82 per cent. Some providers mentioned that they often attempted to negotiate discounts on these rates with the external fund managers, if possible.

‘As time goes by, the more assets we have with one external manager, the more we are able to negotiate discounts, and we pass these discounts onto the customer.’

(Provider)

Not all providers subjected external funds to an additional charge. In rare cases providers operated a policy of bundling all funds, even external funds, into the AMC. The justification given for this was the ease of administration, in particular because only a small proportion of members usually opted for external funds.

4.5 Charges for switching investments between funds

Members are allowed to switch their pension fund assets between the different funds offered by their provider if they wish. It was extremely rare for any charge to be made to members for this service. Very rarely, however, intermediaries mentioned that a provider could sometimes charge the member if a maximum number of fund switches per year was exceeded.

‘The only other type of situation that may occur is that a certain number of fund switches may be allowed annually ‘for free’. If this is exceeded, there may be a charge.’

(Large intermediary)

4.6 Charges for transfers in or out of schemes

Providers and intermediaries typically said that there were no charges to members or employers for transferring funds into or out of schemes. For transfers into GPPs and SHPs, no provider mentioned having levied a charge, although the intermediary usually took commission on transfer payments to the new scheme (see Section 3.3).
For transfers out of GPPs and SHPs, no provider or intermediary mentioned having levied a charge in the past, but occasionally providers did stress that they reserved the right to do so in the future.

‘No, but the company does reserve the right to charge. We don’t at the moment, but legally the possibility is there in case.’

(Provider)
5 Group self-invested personal pension charges

One relatively new area for growth amongst higher paid individuals at the time of interview was said to be the market for group self-invested personal pensions (group SIPPs). Group SIPPs gave individuals more control over the underlying investments in their pension fund, allowing direct investment in property or shareholdings for example. As a result of this far greater range of choice, the charging structure for group SIPPs differed from that of group personal pensions (GPPs) and group stakeholder pensions (SHPs), in that the different services provided were not bundled into a single annual management charge (AMC), but instead specific fees were charged for each of the different services offered.

5.1 The market for group SIPPs

The market for group SIPPs was new at the time this study was carried out. Few providers interviewed for this study actually offered the product. Therefore, most of the providers in this study did little or no group SIPP business; most did not offer one, although some providers were planning to launch one in response to perceived market demand. Where providers did offer group SIPPs, around five per cent or less of their workplace personal pension (WPP) business was typically accounted for by group SIPPs.

Only three providers interviewed for this study were in a position to discuss their group SIPPs, because they accounted for a far higher proportion of their business than that of other providers: between ten per cent and 45 per cent of their total WPP business. In addition, only four large intermediaries were in a position to discuss the group SIPPs they sold, which accounted for between three per cent and 11 per cent of their WPP portfolio.

Section 5.2 briefly summarises the broad structure of the group SIPPs offered by the organisations in this study that offered them. The information should be treated as exemplifying the structure and range of charges of group SIPP products: because the number of observations is so low, we cannot be sure that this fully represents the range of group SIPPs on the market.
5.2 Examples of the structure and range of charges in group SIPP products

The few providers that did offer group SIPPs applied a far wider range of charges than providers of GPPs and SHPs applied to their products. This was largely because group SIPPs gave individuals more control over the investments in their pension fund, which was believed to offer the member far greater opportunity to achieve growth in the value of the pension fund.

Because group SIPPs allowed a wider range of investment options, they were typically considered appropriate for highly-paid individuals, and those experienced in investing in financial products. As well as being charged separately, the charges tended to be higher than charges for GPPs and SHPs. The providers that offered group SIPPs claimed that this was because the different investments entailed specific work on the part of the provider:

‘Some of the transactions require us to contact other parties, stockbrokers, solicitors, so we would pass those charges on.’

(Provider)

Most group SIPP charges were paid by the individual member, by means of a deduction of units from the fund. Alternatively, certain costs could be paid for by the employer instead where they agreed to this. Within the group SIPPs in this study, most charges other than fund management charges were applied to the fund as a flat fee, e.g. £250 per month, rather than as a percentage of the fund value. Again, this was in contrast to most GPPs and SHPs where the AMC was charged as a proportion of the total funds invested.

Examples of group SIPP charges that were applied to schemes offered by the three providers and four large intermediaries that provided information are set out in Table 5.1, and summarised below:

- Charges for scheme setup. These charges are those applied by the provider when they set up the scheme. Not all of the providers charged a setup fee, but some charged up to £600.

- Charges for scheme administration. These charges were applied by the provider monthly. Not all of the providers charged a scheme administration fee, but some charged up to £300 per month. No providers were interviewed that charged neither a setup nor an administration fee.

- Intermediary advice. A fee was typically charged to the employer, with terms individually negotiated between the intermediary and the employer.

- Standard fund management charges. Unlike with GPPs and SHPs, these were not included as part of an overall AMC, but charged separately, typically between 0.15 per cent and 2.50 per cent of the value of the fund per annum.
• Other charges: The seven other categories of charge given in Table 5.1 are examples of other charges that may have been applied to the fund, depending on the individual investment choices of the member. If a member wished to switch investments, they needed to approach the provider to discuss their particular request. In some cases, for example, investing in a provider’s in-house funds, this entailed no additional costs. Other more complex investments, such as investment in a particular property, had to be priced individually.

**Table 5.1 Examples of group SIPP charges, based on information from three providers and four large intermediaries**

<table>
<thead>
<tr>
<th>Charge</th>
<th>Typical amount or range</th>
<th>What charge covers</th>
<th>Who pays</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheme setup</td>
<td>£0-£600 one-off fee (rarely: may be as high as £3,000)</td>
<td>Provider scheme setup costs</td>
<td>Employer or individual</td>
</tr>
<tr>
<td>Provider scheme administration</td>
<td>£0-£300 per month</td>
<td>Ongoing provider costs in administering scheme</td>
<td>Employer or individual</td>
</tr>
<tr>
<td>Intermediary advice</td>
<td>Dependent on level of advice</td>
<td>All intermediary advice (either to employer or individual)</td>
<td>Employer or individual</td>
</tr>
<tr>
<td>Standard fund management</td>
<td>0.15%-2.50% of the value of the fund per annum</td>
<td>Fund management: level depends on size of the fund, and the type of funds under management</td>
<td>Individual</td>
</tr>
<tr>
<td>Initial charge for investment in property</td>
<td>£1,000 to £2,500</td>
<td>Includes variety of initial costs, e.g. conveyancing and legal costs</td>
<td>Individual</td>
</tr>
<tr>
<td>Transaction charges for investments in provider’s in-house funds</td>
<td>No charge</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transaction charge for investment in other providers’ funds</td>
<td>£10-£300 per transaction</td>
<td>Transaction charges passed onto provider by external fund manager</td>
<td>Individual</td>
</tr>
<tr>
<td>Execution-only transaction charges for direct investment in equities</td>
<td>Up to 0.5% of value of shares being purchased</td>
<td>Cost of carrying out transactions</td>
<td>Individual</td>
</tr>
<tr>
<td>Property administration</td>
<td>£500-£1,000 per annum</td>
<td>Complexity of work involved. May include admin; maintenance; property management and other work</td>
<td>Individual</td>
</tr>
<tr>
<td>Transfers in or out</td>
<td>No charge typically</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charges for pension fund withdrawal</td>
<td>£100-£200</td>
<td>Fee set by provider</td>
<td>Individual</td>
</tr>
</tbody>
</table>

NB: table shows typical charges only. It does not measure prevalence of charges.
6 Cross-selling

At the end of the interviews, providers and intermediaries were asked to give examples of products or services that they aimed to offer (or cross-sell) alongside workplace pension schemes. As this topic was not core to this research, it was covered only briefly.

This chapter lists the products or services that were cross-sold alongside workplace personal pensions (WPPs) by intermediaries and providers.

6.1 Intermediary cross-selling

As intermediaries commonly offered a wide range of services other than workplace pensions, and gave access to a wider range of products, it was usual for them to offer other products to the employer, alongside the personal pension. No intermediary mentioned attempting to sell products or services to employees directly, but rather they were provided through the employer.

The range of services offered did not typically vary according to the type or size of intermediary: some pointed out that in principle, independent financial advisers (IFAs) had access to the full range of products and services available. These products and services are listed below, starting with most commonly mentioned:11

- **Financial planning/IFA services** to the employer.
- **Medical/health cover** for employees.
- **Group life assurance** for employees.
- **Death in service** insurance, covering employees while they are in the employment of their company.
- **Critical illness cover**, covering employees while they are in the employment of their company.

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11 Answers to this question were unprompted: participants were not given a list of possible products or services.
• **Key man cover**, taken out by a company to protect a business against the loss of a key worker due to ill-health or death.

• **Savings/investments** advice to employers.

• **Wealth management services** to employers.

• **Disability insurance** for employees.

• **Employee assistance programmes**, put in place to help employees overcome issues that might cause stress or impact well-being, by offering counselling and psychology services.

• **Actuarial services**, where defined benefit (DB) pension schemes were also offered by the employer.

Although all of the intermediaries were asked, none claimed to use a cross-subsidy, whereby profits from one service or product were used to cover losses from another.

### 6.2 Provider cross-selling

Although all providers were asked, in comparison to intermediaries they very rarely reported cross-selling products to employers, and never reported cross-selling products to employees. Some said that this was due to the fact that they had less face-to-face contact with employers, and individually they did not offer the same range of products as intermediaries.

‘**Having access to large numbers of employers, one would think that there would be a fantastic cross-marketing opportunity. However, there isn’t. A large number of employers actually only want to set up a pension scheme and don’t want their employees to be subjected to cross-selling of other product ranges.’**

(Provider)

Very rarely, providers reported offering group life cover or group private medical insurance to employers. No other services were mentioned.

### 6.3 Concluding summary

The pensions explored in this study – group personal pensions (GPPs) and group stakeholder pensions (SHPs) – accounted for the majority of new pensions sold by providers in 2008. Most of the providers in the study did little or no group self-invested personal pension (group SIPP) business.

Most GPPs and SHPs used a charging structure consisting of an annual management charge (AMC), which incorporated all provider and fund management charges, as well as any increase made to account for commission that the provider paid to the intermediary. When asked to quote for new business, providers attempted
to target profitable employers by altering the AMC, offering the lowest AMC to the employers that they believed could be potentially most profitable. The AMC typically ranged from 0.4 per cent to 0.6 per cent where the intermediary charged no commission; and from 0.8 per cent to 1.0 per cent where commission was charged.

On joining their pension scheme, members of GPPs and SHPs were required to select a fund or funds in which to invest their pension. Providers and intermediaries typically reported that 60 to 100 per cent of members tended to invest only in the default fund offered to members by the intermediary and employer.

Finally, whereas cross-selling other products to the employer alongside the personal pension was common for intermediaries, this was very rare for providers.
Appendix A
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
Principal Research Officer
Pensions Client Directorate
Department for Work and Pensions
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?

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 [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.

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Yours sincerely

Sophie Shore
Principal Research Officer
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Dear [NAME],

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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
Fact sheet 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\(^\text{12}\), and are not already members of a qualifying workplace pension scheme. Employees will

\(^{12}\) The earnings limit is £5,035 in 2005/06 earnings terms and will be uprated in line with earnings using the Average Earnings Index.
be able to opt out of the scheme if they wish, and those who choose to opt 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\textsuperscript{13}.

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).

\textsuperscript{13} 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 on behalf of RS Consulting. As you know we are conducting some important research on behalf of DWP to build up an understanding of current practices in the pensions market. 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.

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 organization, 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 organization 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: RANGE OF WORKPLACE PENSION SCHEMES OFFERED

This interview will cover only contract-based workplace pension schemes: in other words, we are excluding all individual pensions, and occupational DB and DC schemes.

First of all I would like to confirm which types of contract-based workplace pension schemes you offer.

1.1 Which of the following do you provide?

1.2 FOR EACH OFFERED. Approximately what proportion of your contract-based workplace pensions business does this type of scheme account for?

1.3 For each of the types of scheme you offer, can you estimate in what proportion of cases they will be the only workplace scheme provided by the employer?

1.4 What trends are you seeing in these products? Which ones are increasing market share and which are declining? Why is that? IF NECESSARY PROBE SPECIFICALLY REGARDING GPPs & REASONS FOR ANY GROWTH
FOR REMAINDER OF QUESTIONNAIRE:

Ask about SHPs and GPPs if share is >10% @ Q1.2

Ask about Group SIPPs if they are offered at all @ Q1.1

1.5 Can you provide an idea of the range of fund choice you can offer with each type of scheme? First of all, do you provide access to:
- Your own funds
- Funds from other fund managers
- Member’s own choice of funds
- Member’s own choice of direct shareholdings
- Member’s own choice of other qualifying assets (e.g. commercial property)

1.6 For each scheme type, approximately what is the greatest number of different funds you offer?

1.7 Do you provide access to external fund managers – if so, for each scheme type approximately how many external fund management companies do you offer?

How many external funds do you offer in total?

1.8 Does the number of funds offered for any type of scheme vary according to the type or size of employer or the type of members (e.g. average contribution level) – if so, in what ways?

1.9 Can you estimate the average number of funds actually used by your currently active workplace schemes?

What is the minimum number typically used by a single employer scheme?

What is the maximum number typically used?

1.10 In approximately what proportion of schemes, if any, is there a designated default fund?

1.11 Where there is not a designated default fund how are the contributions invested from members who have not expressed a fund choice?

1.12 On average what proportion of members are invested only in a designated default fund?

1.13 FOR THOSE OFFERING DEFAULT FUND/S, OR WHERE DEFAULT FUND IS DECIDED UPON BETWEEN INTERMEDIARY AND EMPLOYER: What is the typical make-up of the default fund or funds? Is it/ are they lifestyled?
1.14 If more than one default fund – what and who determines which type of default fund is used.

The next section covers how you structure scheme charges and the reasons for your approach. First of all, I’d like to understand what charging models you adopt for each type of scheme you offer.

1.15 Could you tell me which of your schemes use:

<table>
<thead>
<tr>
<th>Description</th>
<th>GPP</th>
<th>SHP</th>
<th>SIPP</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) A single-price model: where members pay a single annual management charge, covering scheme administration, commission and most fund management charges</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) An adapted version of the single-price model for example where the member pays a premium annual management charge in the first years of the plan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) A model where the individual charges incurred are levied separately (this may include setup fees, ongoing scheme administration, fund management, other expenses)</td>
<td></td>
<td></td>
<td>Ask Section 2b</td>
</tr>
</tbody>
</table>

MULTIPLE OPTIONS POSSIBLE PER SCHEME.
CHOOSE BEST-FIT WHERE DESCRIPTIONS DO NOT MATCH EXACTLY.

If provider offers any GPP schemes with charges levied separately (shaded area), ask Section 2b (in separate document), then continue to Section 3.

If provider only offers single-price or adapted single-price GPP or SHP, continue from Section 2 onwards.

SECTION 2: GPP/SHP CHARGES WHERE SINGLE-PRICE MODEL APPLIES

Throughout section: where provider offers both GPP and SHP schemes, ask provider to focus on GPP schemes, but outline where and how SHP schemes differ from this.

I’d like to focus on the [GPP/SHP] schemes on which you apply a single annual management charge to the members’ scheme, or any variations to that model that you operate.

2.1 First of all, could you tell me what is incorporated into the annual management charge?

ONLY IF NOT MENTIONED PROBE FOR WHETHER THE FOLLOWING ARE INCLUDED OR EXCLUDED:

- Initial costs incurred in setting up the scheme by the provider
- Provider scheme administration costs
Appendices – Discussion guide for providers

• Any commission paid to the intermediary
• Fund management charges
• Any other exceptional costs incurred

2.2 How does the member see the charge (e.g. as a separate charge on the member’s statement; incorporated into fund value)?

What is the range of annual management charges you levy? What is the typical or average charge?

2.3 What determines the level of scheme administration charge? How do you calculate it? PROBE WHERE NOT MENTIONED:

• Number of members
• Total value of contributions
• Role of, and remuneration of, intermediary
• Proportion of members that make or receive regular contributions to their fund (persistency)
• Level of provision in setting up scheme (e.g. presentations to the employer)

2.4 Do you offer active member discounts? (if unclear: a lower annual management charge to members who continue to make regular contributions to their fund) Why? How does this work? IF NOT: Why not? Might you do so in the future?

2.5 Ignoring fund management charges for now, are there any other circumstances where you vary the level of annual management charge applied to certain members? What are they? How does this work?

2.6 Does the level of annual management charge applied to a member ever vary over time? In which circumstances? How does this work?

2.7 Are there any other variations on this pricing model that you ever adopt? In which circumstances? How does this work?

2.8 Leaving aside investment fund charges, are any specific charges made if members want to transfer funds out of the scheme? IF SO – Who levies these charges and who pays these charges?

2.9 Are specific charges made if members want to make exceptional transfers of funds into the scheme? (e.g. pension settlements on divorce)
SECTION 2B: GPP CHARGES WHERE SPLIT CHARGE MODEL APPLIES ONLY

I’d like to focus only on the GPP schemes where the individual charges incurred are levied separately, rather than bundled together as a separate annual management charge.

First I have some questions about set-up charges, and then I have some questions about scheme administration charges – in other words, we are excluding fund management charges for now.

2.1 For these GPP schemes do you always, sometimes or never levy a scheme set-up charge? If ‘sometimes’ what factors determine whether or not the charge will be levied? PROBE FOR TRADE-OFF WITH SCHEME ADMINISTRATION OR OTHER CHARGES

2.2 If a set-up charge is levied, does it originate from you or the intermediary? And who levies it?

2.3 If a set-up charge is levied, is it paid by the employer or levied on the scheme members? IF ON MEMBERS: How does the member see the charge (e.g. as a separate charge on the member’s statement; incorporated into fund value)?

2.4 What is the range of set-up charges you levy? What is the typical or average set-up charge where one is levied? PROBE FOR ANY TRADE OFFS AGAINST OTHER CHARGES

2.5 What determines the level of set-up charge?

I’d now like to discuss scheme administration charges. First of all:

2.6 For these GPP schemes do you always, sometimes or never levy a scheme administration charge? IF SO is this levied on a monthly or other basis – if other, what? IF LEVIED SOMETIMES what factors determine whether or not the charge will be levied? PROBE FOR TRADE-OFF WITH SET-UP OR OTHER CHARGES

2.7 If a scheme administration charge is levied is it paid by the employer or levied on the scheme members? IF ON MEMBERS: How does the member see the charge (e.g. as a separate charge on the member’s statement; incorporated into fund value)?

2.8 What is the range of scheme administration charges you levy? What is the typical or average scheme administration charge where one is levied?
2.9 What determines the level of scheme administration charge? PROBE WHERE NOT MENTIONED:

- Number of members
- Total value of contributions
- Role of, and remuneration of, intermediary
- Proportion of members that make or receive regular contributions to their fund (persistency)
- Level of provision in setting up scheme (e.g. presentations to the employer)

2.10 Does the level of scheme administration charge applied to a member ever vary over time? In which circumstances? How does this work?

2.11 What impact, if any, does members’ ceasing contributions have on the level of charges?

2.12 Leaving investment fund charges, are any specific charges made if members want to transfer funds out of the scheme? IF SO – Who levies these charges and who pays these charges?

2.13 Are specific charges made if members want to make exceptional transfers of funds into the scheme? (e.g. pension settlements on divorce)

2.14 Do you offer active member discounts? (if unclear: a lower annual management charge to members who continue to make regular contributions to their fund) Why? How does this work? IF NOT: Why not? Might you do so in the future?

SECTION 3: FUND MANAGEMENT CHARGES (ALL RESPONDENTS)

Ask about SHPs and GPPs if share is >10% @ Q1.2

Ask about Group SIPPs if they are offered at all @ Q1.1

Now I would like to move on to discussing fund management charges.

First of all I’d like to look at how often fund management charges are bundled together as part of an overall annual management charge.

3.1 Focusing your own in house funds, in what proportion of cases are the fund management charges bundled together as part of an overall annual management charge?

3.2 And of the externally managed funds you offer, in what proportion of cases are the fund management charges bundled together as part of an overall annual management charge?
3.3 What determines whether fund management charges are bundled or levied separately? What types of fund are bundled?

3.4 What is the range of fund management charges levied? Are the charges for each specific fund always the same or can they be subject to negotiation or discount?

3.5 If subject to negotiation or discount, what is the range of reductions that are possible? What factors will drive a reduction in the fund management charge? (e.g. contribution levels; overall fund size)

Ask questions 3.6 - 3.8 for GPPs and SHPs only:

3.6 Are there any other investment related charges you levy on your [GPP/SHPs] that we have not covered? IF NECESSARY, PROMPT: These might include transaction fees or buy/sell spreads for example.

3.7 IF SO, What are these and what is the range of amounts levied – what explains the range in amounts?

3.8 How does the member see the charge (e.g. as a separate charge on the member’s statement; incorporated into fund value)?

SECTION 4: GROUP SIPP SPECIFIC CHARGES

Ask Section 4 only if Group SIPPs are offered at all @ Q1.1. Otherwise skip to Section 5.

SHOW SHOWCARD 3.

4.1 Which of the following types of charge do you make in respect of Group SIPP schemes? FOR EACH CHARGE MADE:

How is this charged? (as a percentage, as a fixed charge, by the hour)

What is the range in charges?
<table>
<thead>
<tr>
<th>Charge type</th>
<th>Charged? (y/n)</th>
<th>How charged</th>
<th>Range of charges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheme setup charges</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scheme administration charges</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Standard fund management charges</td>
<td></td>
<td></td>
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<tr>
<td>Initial charge for investment other than in provider’s own funds including direct commercial property</td>
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<tr>
<td>Transaction charges for single or irregular investments in provider’s own funds</td>
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<tr>
<td>Transaction charge for investment in other providers’ funds</td>
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<td></td>
</tr>
<tr>
<td>Execution-only transaction charges for direct investment in equities</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Transfers in or out</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charges for pension fund withdrawal</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Conversion to ASP charge</td>
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</tr>
<tr>
<td>Property administration charges</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time based costs (e.g. legal)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.2 Are there any other charges that you may make or levy for SIPPs? If so, what are these and what is the range in charges?

4.3 FOR EACH CHARGE MADE: What are the factors that influence the level at which they are charged?

4.4 How does the member see the charge (e.g. as a separate charge on the member’s statement; incorporated into fund value)?

**SECTION 5: COMMISSION PAYMENTS (ALL RESPONDENTS)**

I now have a few questions to ask about commission payments that are made to intermediaries.

5.1 On what proportion of schemes sold through intermediaries do you pay commission currently?

5.2 Are these commission payments included within the costs we have been discussing?

IF NOT, How are they funded?
5.3 Which of these commission bases do you use?

<table>
<thead>
<tr>
<th></th>
<th>GPP y/n</th>
<th>SHP y/n</th>
<th>SIPP y/n</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level commission on regular contributions</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Initial commission on 1st year’s regular payments</td>
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<tr>
<td>Single and transfer payments initial commission</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other arrangements (describe)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5.4 FOR EACH OF THE COMMISSION BASES USED What is the range in the level at which commission is paid? What drives this range?

SECTION 6: OTHER ISSUES

6.1 Have you changed your level of charges recently? IF SO, does this relate to particular charges?
   How have they been changed? What influenced this?

6.2 Specifically, what impact have the stakeholder charging caps had on any changes to charging?

6.3 To what extent do you currently aim to offer other products alongside workplace pension schemes? How frequently is this approach taken – and how does that vary by type of scheme? What type of products are sold?

6.4 IF OTHER PRODUCTS SOLD: How do you sell these products? Is any cross-subsidy involved? IF SO, where and how?
   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 AND CLOSE
Appendix D
Discussion guide for intermediaries
INTRODUCTION

My name is ……………….. and I am speaking to you on behalf of RS Consulting. As you know we are conducting some important research on behalf of DWP to build up an understanding of current practices in the pensions market. 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.

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 organization, 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 organization 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: RANGE OF WORKPLACE PENSION SCHEMES OFFERED

This interview will cover only contract-based workplace pension schemes: in other words, we are excluding all individual pensions, and occupational DB and DC schemes.

First of all I would like to confirm which types of contract-based workplace pension schemes you offer.

1.1 Which of the following do you provide?
1.2 FOR EACH OFFERED. Approximately what proportion of your contract-based workplace pensions business does this type of scheme account for?

<table>
<thead>
<tr>
<th>Scheme type</th>
<th>Offered Yes/ No</th>
<th>Proportion of contract-based WPP business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer sponsored Group Personal Pension (GPP)</td>
<td>YES/ NO</td>
<td></td>
</tr>
<tr>
<td>Employer sponsored stakeholder scheme (SHP)</td>
<td>YES/ NO</td>
<td></td>
</tr>
<tr>
<td>Group Self-invested Pension Plan (SIPP)</td>
<td>YES/ NO</td>
<td></td>
</tr>
</tbody>
</table>

(Important: this includes only Group SIPPs, not individual SIPPs)

Other (describe) YES/ NO

Should total 100%

1.3 For each of the types of scheme you introduce to employers, can you estimate in what proportion of cases they will be the only workplace scheme provided by the employer?

1.4 What trends are you seeing in these products? Which ones are increasing market share and which are declining? Why is that? IF NECESSARY PROBE SPECIFICALLY REGARDING GPPs & REASONS FOR ANY GROWTH

FOR REMAINDER OF QUESTIONNAIRE:

Ask about SHPs and GPPs if share is >10% @ Q1.2

Ask about Group SIPPs if they are offered at all @ Q1.1

1.5 Can you provide an idea of the range of fund choice you can offer with each type of scheme? First of all, do you provide access to:

- Your own funds
- Funds from other fund managers
- Member’s own choice of funds
- Member’s own choice of direct shareholdings
- Member’s own choice of other qualifying assets (e.g. commercial property)

1.6 For each scheme type, approximately what is the greatest number of different funds typically offered by any one provider? IF NECESSARY: it does not matter which fund management company these funds originate from

1.7 Do providers typically provide access to external fund managers – if so, how many external fund management companies do they typically give access to?

Does this vary significantly by provider?
1.8 Does the number of funds offered for any type of scheme vary according to the type or size of employer or the type of members (e.g. average contribution level) – if so, in what ways?

1.9 Can you estimate the average number of funds actually used by your currently active workplace schemes?

What is the minimum number typically used by a single employer scheme?

What is the maximum number typically used?

1.10 In approximately what proportion of schemes you introduce is there a designated default fund? Does this vary by provider?

1.11 Where there is not a designated default fund how are the contributions invested from members who have not expressed a fund choice?

1.12 On average what proportion of members are invested only in a designated default fund?

1.13 WHERE THERE IS A DESIGNATED DEFAULT FUND: What is the typical make-up of the default fund or funds? Is it/ are they lifestyled?

1.14 If more than one default fund – what and who determines which type of default fund is used?

The next section covers how you scheme charges are structured. First of all, I’d like to understand what charging models you adopt for each type of scheme you offer.

1.15 Could you tell me which of your schemes use:

<table>
<thead>
<tr>
<th></th>
<th>GPP</th>
<th>SHP</th>
<th>SIPP</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) A single-price model: where members pay a single annual management charge, covering scheme administration, commission and most fund management charges</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) An adapted version of the single-price model for example where the member pays a premium annual management charge in the first years of the plan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) A model where the individual charges incurred are levied separately (this may include setup fees, ongoing scheme administration, fund management, other expenses)</td>
<td></td>
<td>Ask Section 2b</td>
<td></td>
</tr>
</tbody>
</table>

MULTIPLE OPTIONS POSSIBLE PER SCHEME.

CHOOSE BEST-FIT WHERE DESCRIPTIONS DO NOT MATCH EXACTLY.

If intermediary offers any GPP schemes with charges levied separately (shaded area), ask Section 2b (in separate document), then continue to Section 3.

If intermediary only offers single-price or adapted single-price GPP or SHP, continue from Section 2 onwards.
SECTION 2: GPP/SHP CHARGES WHERE SINGLE-PRICE MODEL APPLIES

Throughout section: where intermediary offers both GPP and SHP schemes, ask respondent to focus on GPP schemes, but outline where and how SHP schemes differ from this.

I’d like to focus on the [GPP/SHP] schemes on which a single annual management charge is applied to the members’ scheme, or any variations to that model that you may offer.

STRESS TO RESPONDENT: We would like to understand the most typical approaches taken by the providers whose schemes you offer, but if there are any significant variations or exceptions by provider, please do explain these.

2.1 First of all, could you tell me what is incorporated into the annual management charge?

ONLY IF NOT MENTIONED PROBE FOR WHETHER THE FOLLOWING ARE INCLUDED OR EXCLUDED:

- Initial costs incurred in setting up the scheme by the provider
- Provider scheme administration costs
- Any commission paid to the intermediary
- Fund management charges
- Any other exceptional costs incurred

2.2 How does the member see the charge (e.g. as a separate charge on the member’s statement; incorporated into fund value)?

2.3 What is the range of annual management charges typically levied? What is the typical or average charge?

2.4 What determines the level of annual management charge? How is it calculated? PROBE WHERE NOT MENTIONED:

- Number of members
- Total value of contributions
- Role of, and remuneration of, intermediary
- Proportion of members that make or receive regular contributions to their fund (persistency)
- Level of provision in setting up scheme (e.g. presentations to the employer)
2.5 Do the providers whose schemes you introduce offer active member discounts? (if unclear: a lower annual management charge to members who continue to make regular contributions to their fund)

IF SO: Which providers? When? How does this work?

IF NOT: Why not? Might this change in the future?

2.6 Ignoring fund management charges for now, are there any other circumstances where you the level of annual management charge applied to certain members might vary? What are they? How does this work?

2.7 Does the level of annual management charge applied to a member ever vary over time? In which circumstances? How does this work?

2.8 Are there any other variations on this pricing model that you ever use? In which circumstances? How does this work?

2.9 Leaving aside investment fund charges, are any specific charges made if members want to transfer funds out of the scheme? IF SO – Who levies these charges and who pays these charges?

2.10 Are specific charges made if members want to make exceptional transfers of funds into the scheme? (e.g. pension settlements on divorce)

SECTION 2B: GPP CHARGES WHERE SPLIT CHARGE MODEL APPLIES ONLY

I’d like to focus only on the GPP schemes where the individual charges incurred are levied separately, rather than bundled together as a separate annual management charge.

First I have some questions about set-up charges, and then I have some questions about scheme administration charges – in other words, we are excluding fund management charges for now.

2.1 For these GPP schemes is there always, sometimes or never a scheme set-up charge? If ‘sometimes’ what factors determine whether or not the charge will be levied? PROBE FOR TRADE-OFF WITH SCHEME ADMINISTRATION OR OTHER CHARGES

2.2 IF A SET-UP CHARGE IS LEVIED, Does it originate from you or the provider? And who levies it?

2.3 If a set-up charge is levied, is it paid by the employer or levied on the scheme members? IF ON MEMBERS: How does the member see the charge (e.g. as a separate charge on the member’s statement; incorporated into fund value)?
2.4 What is the typical range of set-up charges levied? What is the typical or average set-up charge where one is levied? PROBE FOR ANY TRADE OFFS AGAINST OTHER CHARGES

2.5 What determines the level of set-up charge?

I’d now like to discuss scheme administration charges. First of all:

2.6 For these GPP schemes is a scheme administration charge always, sometimes or never levied? IF SO Is this levied on a monthly or other basis – if other, what? IF LEVIED SOMETIMES what factors determine whether or not the charge will be levied? PROBE FOR TRADE-OFF WITH SET-UP OR OTHER CHARGES

2.7 If a scheme administration charge is levied is it paid by the employer or levied on the scheme members? IF ON MEMBERS: How does the member see the charge (e.g. as a separate charge on the member’s statement; incorporated into fund value)?

2.8 What is the range of scheme administration charges levied? What is the typical or average scheme administration charge where one is levied?

2.9 What determines the level of scheme administration charge? PROBE WHERE NOT MENTIONED:

• Number of members
• Total value of contributions
• Role of, and remuneration of, intermediary
• Proportion of members that make or receive regular contributions to their fund (persistency)
• Level of provision in setting up scheme (e.g. presentations to the employer)

2.10 Does the level of scheme administration charge applied to a member ever vary over time? In which circumstances? How does this work?

2.11 Do the providers whose schemes you introduce offer active member discounts? (if unclear: a lower annual management charge to members who continue to make regular contributions to their fund)

IF SO: Which providers? When? How does this work?

IF NOT: Why not? Might this change in the future?

2.12 Leaving aside investment fund charges, are any specific charges made if members want to transfer funds out of the scheme? IF SO – Who levies these charges and who pays these charges?

2.13 Are specific charges made if members want to make exceptional transfers of funds into the scheme? (e.g. pension settlements on divorce)
SECTION 3: FUND MANAGEMENT CHARGES (ALL RESPONDENTS)

Ask about SHPs and GPPs if share is >10% @ Q1.2

Ask about Group SIPPs if they are offered at all @ Q1.1

Now I would like to move on to discussing fund management charges.

First of all I’d like to look at how often fund management charges are bundled together as part of an overall annual management charge.

3.1 Focusing on the in house funds offered by providers, in what proportion of cases are the fund management charges bundled together as part of an overall annual management charge?

3.2 And of the externally managed funds providers offer, in what proportion of cases are the fund management charges bundled together as part of an overall annual management charge?

3.3 What determines whether fund management charges are bundled or levied separately? What types of fund are bundled?

3.4 What is the range of fund management charges levied? Are the charges for each specific fund always the same or can they be subject to negotiation or discount?

3.5 If subject to negotiation or discount, what is the range of reductions that are possible? What factors will drive a reduction in the fund management charge? (e.g. contribution levels; overall fund size)

Ask questions 3.6 - 3.8 for GPPs and SHPs only:

3.6 Are there any other investment related charges levied on [GPP / SHPs] that we have not covered? IF NECESSARY, PROMPT: These might include transaction fees or buy/sell spreads for example.

3.7 IF SO, What are these and what is the range of amounts levied – what explains the range in amounts?

3.8 How does the member see the charge (e.g. as a separate charge on the member’s statement; incorporated into fund value)?

SECTION 4: GROUP SIPP SPECIFIC CHARGES

Ask Section 4 only if Group SIPPs are offered at all @ Q1.1. Otherwise skip to Section 5.

SHOW SHOWCARD 3.
4.1 Which of the following types of charge are made in respect of Group SIPP schemes?

FOR EACH CHARGE MADE:

How is this charged? (as a percentage, as a fixed charge, by the hour)

What is the range in charges?

<table>
<thead>
<tr>
<th>Charge type</th>
<th>Charged? y/n</th>
<th>How charged</th>
<th>Range of charges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheme setup charges</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Scheme administration charges</td>
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<td>Time based costs (e.g. legal)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.2 Are there any other charges that may be made or levied for SIPPs? If so, what are these and what is the range in charges?

4.3 FOR EACH CHARGE MADE: What are the factors that influence the level at which they are charged?

4.4 How does the member see the charge (e.g. as a separate charge on the member’s statement; incorporated into fund value)?

SECTION 5: COMMISSION PAYMENTS (ALL RESPONDENTS)

I now have a few questions to ask about commission payments that are made to intermediaries.

5.1 On what proportion of schemes do you receive commission currently?

5.2 Are these commission payments included within the costs we have been discussing?

IF NOT, How are they funded?
5.3 Which of these commission bases do you use? How does this vary by provider?

<table>
<thead>
<tr>
<th>Commission Base</th>
<th>GPP y/n</th>
<th>SHP y/n</th>
<th>SIPP y/n</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level commission on regular contributions</td>
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<tr>
<td>Other arrangements (describe)</td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

5.4 FOR EACH OF THE COMMISSION BASES USED What is the range in the level at which commission is paid? What drives this range?

SECTION 6: OTHER ISSUES

6.1 Have you changed your level of charges recently? IF SO, does this relate to particular charges?

   How have they been changed? What influenced this?

6.2 Specifically, what impact have the stakeholder charging caps had on any changes to charging?

6.3 Do you feel providers vary the charges they levy according to the type and size of the intermediary – or by the total amount of business introduced by the intermediary?

   IF SO: how does this work?

6.4 To what extent do you currently aim to offer other products alongside workplace pension schemes? How frequently is this approach taken – and how does that vary by type of scheme? What type of products are sold?

6.5 IF OTHER PRODUCTS SOLD: How do you sell these products? Is any cross-subsidy involved? IF SO, where and how?

   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 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.