Pensions Policy Institute

PPI

What is the impact on member outcomes of different non-capped charging structures?

The Pensions Policy Institute (PPI)

We have been at the forefront of shaping evidence-based pensions policy for 20 years.

The PPI, established in 2001, is a not-for-profit educational research organisation, with no shareholders to satisfy – so our efforts are focussed on quality output rather than profit margins. **We are devoted to improving retirement outcomes.** We do this by being part of the policy debate and driving industry conversations through facts and evidence.

The retirement, pensions and later life landscapes are undergoing fast-paced changes brought about by legislation, technology, and the economy. Robust, independent analysis has never been more important to shape future policy decisions. The PPI gives you the power to influence the cutting-edge of policy making. Each research report combines experience with independence to deliver a robust and informative output, ultimately improving the retirement outcome for millions of savers.

Our **independence** sets us apart – we do not lobby for any particular policy, cause or political party. We focus on the facts and evidence. Our work facilitates informed decision making by showing the likely outcomes of current policy and illuminating the trade-offs implicit in any new policy initiative.

Our Vision:

Better informed policies and decisions that improve later life outcomes

We believe that better information and understanding will help lead to a better policy framework and a better provision of retirement income for all.

Our Mission:

To promote informed, evidence-based policies and decisions for financial provision in later life through independent research and analysis

We aim to be the authoritative voice on policy on pensions and the financial and economic provision in later life.

By supporting the PPI, you are aligning yourself with our vision to **drive better-informed policies and decisions that improve later life outcomes** and strengthening your commitment to better outcomes for all.

As we look forward now to the next 20 years, we will continue to be the trusted source of information, analysis, and impartial feedback to those with an interest in later life issues. The scale and scope of policy change creates even more need for objective and evidence-based analysis. There is still much to do, and we look forward to meeting the challenge head on.

For further information on supporting the PPI, please visit our website: www.pensionspolicyinstitute.org.uk or contact Danielle Baker, Head of Membership & External Engagement, at danielle@pensionspolicyinstitute.org.uk

The future is ever changing, but the PPI remains a constant "Voice of Reason" in the ongoing debate on the future of retirement in the UK.

Pensions Policy Institute
PPI
EST. 2001

This report has been authored by:

Tim Pike – Head of Modelling

Tim is the Head of Modelling of the PPI, responsible for delivering the models and modelling to support the PPI's current research program. He joined the PPI in July 2015 and since then has analysed the projected implication of pension policies upon many significant groups. These have included the self-employed, women, younger generations, and the Exchequer.

Tim has worked alongside academics and other researchers on collaborative projects including WHeRL and CASPeR. These projects bring multidisciplinary research to widen the scope and give a more complete view of the implications of interacting areas of policy.

Prior to joining the PPI, Tim worked for Legal and General where he spent nearly ten years contributing to a wide variety of actuarial modelling projects, from financial reporting to annuity pricing.

Tim has an MA (Cantab.) having studied mathematics at Fitzwilliam College Cambridge.

This report has been kindly sponsored by The People's Pension (TPP). Sponsorship has been given to help fund the research, and does not necessarily imply agreement with, or support for, the analysis or findings from the project.

A Pensions Policy Institute report

PENSIONS POLICY INSTITUTE

PPI

Kindly sponsored by…

B&CE

A Research Report by Tim Pike

Published by the Pensions Policy Institute

ISBN 978-1-914468-04-9

www.pensionspolicyinstitute.org.uk

What is the impact on member outcomes of different non-capped charging structures?

Executive Summary

This research sets out to answer the following question:

What is the impact on pension schemes and member outcomes of different non-capped charging structures?

There are several criteria for a money purchase workplace pension scheme to qualify for automatic enrolment. This includes being subject to a charge cap. Outside of automatic enrolment there are no caps upon charges schemes can levy (with the exception of Stakeholder schemes).

This report sets out the proportion of pension scheme membership subject to capped charges; outlines the scale of uncapped charges in the market; identifies how non-capped arrangements differ from capped arrangements; analyses the at-retirement impact on members; and considers how the market may evolve as a result of charge cap development.

This report concludes that:

- Scheme selection and fund choice by employers choosing a scheme for their employees is not primarily driven by charges;
- Members are not generally engaged with charges and transfers are generally not motivated by charges;
- Outside of the scope of the charge cap the level of fees has been driven down in recent years, however a charging gap remains between non-capped and capped arrangements;
- Most default investment strategies charge below the cap, eroding a typical pot at retirement by 14% – a quarter less than the impact of charges at the cap;
- Members of non-default investment strategies and Self Invested Personal Pensions (SIPPs) may incur higher charges, and will need to realise additional benefits, such as a wider range of assets to invest in, to offset higher charges;
- Providers of schemes designed for pot consolidation are advantaged by not being subject to the cap, and can therefore charge more than automatic enrolment schemes. However, members of these schemes may be disadvantaged through incurring higher charges unless they see other benefits, such as higher returns;
- A combination of the Government measure that pots worth less than £100 cannot incur flat fees from April 2022 and an increase in consolidation schemes could disadvantage members who remain saving within automatic enrolment providers by reducing their value for money.

This summary draws out the key findings from the research and serves as the report's conclusions.

Scheme selection and fund choice by employers choosing a scheme for their employees is not primarily driven by charges

When employers select a scheme to act as a workplace pension scheme to fulfil their obligations under automatic enrolment, the charging structure, and therefore its suitability to members, is not one of the primary concerns.

Members are not generally engaged with charges and transfers are generally not motivated by charges

When pension savers switch between schemes, they are primarily concerned about potential investment performance rather than the scheme's charges.

Outside of the scope of the cap charge the level of fees has been driven down in recent years, however a charging gap remains between non-capped and capped arrangements.

The average charge in non-qualifying workplace schemes has decreased markedly in recent years, closing the charge gap between qualifying and non-qualifying schemes to 0.05% of assets under management (AUM). The closing of the charging gap is assumed to be, at least in part, the result of competitive pressure exerted from schemes subject to the charge cap.

Further pressure has been applied from a level of 1% of AUM a year being taken as a benchmark of value for money by Independence Governance Committees (IGCs) where the charge cap does not apply. 14% of assets in legacy schemes still attract charges above 0.75% of AUM.

Most default investment strategies charge below the cap, eroding a typical pot at retirement by 14%, a quarter less than the impact of charges at the cap

Typical charges in a qualifying scheme erode retirement savings by around 14%. Annual charges in these schemes are around two-thirds of the level of the cap. Charges at the level of the cap, which are more indicative of individual personal pensions, erode retirement savings by around 20%. Where personal pension charges are even higher this will erode retirement savings by a yet greater proportion.

Members of non-default investment strategies and SIPPs may incur higher charges and will need to realise additional benefits, such as a wider range of assets to invest in, to offset these higher charges

Charging structures of SIPPs are more complex, more varied and are typically higher than workplace pension schemes. This reflects their target markets and their sensitivity to costs and investment choice. Such schemes may have a wider range of investment options which may appeal to experienced investors who are interested in asset classes that may not be suitable for schemes and funds which are subject to the charge cap. However, consumers will attempt to keep decisions simple rather than engage in the trade-off between benefits and charges and if they do not realise these benefits they will only be worse off with higher charges.

Providers of schemes designed for pot consolidation are advantaged by not being subject to the cap, and can therefore charge more than automatic enrolment schemes. However, members of these schemes may be disadvantaged through incurring higher charges unless they see other benefits, such as higher returns

Providers of schemes designed to accept transfers in and consolidate schemes have a fundamental advantage over providers targeting the automatic enrolment market. While they are out of scope of the charge cap, they should be able to offer more competitive charges as they do not have to support the costs of small pots through cross-subsidisation. This situation is linked to the issue of small deferred pots which puts charging pressure on providers who target the automatic enrolment market. Such providers end up managing many uneconomic small inactive pots which will not receive contributions to grow to an economically viable size. This pressure has implications for the members who are paying charges which subsidise the uneconomic pots.

A combination of the Government measure that pots worth less than £100 cannot incur flat fees from April 2022 and an increase in consolidation schemes could disadvantage members who remain saving within automatic enrolment providers by reducing their value for money

Flat fees reduce the need for cross-subsidisation from members with larger pots to those with smaller pots. For schemes which have a larger proportion of small, deferred pots this will place additional pressure on the cross-subsidisation of these pots. This balance is exacerbated when pots which provide the cross-subsidisation are transferred out of the scheme. What does the cross subsidisation/higher charge income provide.

Introduction

There are several criteria for a money purchase workplace pension scheme to qualify for automatic enrolment. This includes being subject to a charge cap. Outside of automatic enrolment there are no caps upon charges schemes can levy (with the exception of Stakeholder schemes).

The topics of permitted charging structures and Defined Contribution (DC) pension scheme fund transfers are both currently under the spotlight of pension providers and regulators.

The Department for Work and Pensions (DWP) undertook a consultation in 2020 within their review of the charge cap, alongside a Pensions Charges Survey. The aim was to help protect members from unfair charges and enable access to a more diverse range of investments that offer the potential for higher returns.[1] The Government published its response in January 2021. The recommendations included modifications to the charge cap, such as a de minimis structure in relation to flat fees and confirmed their intention to implement this measure from April 2022.[2] The application of these recommendations will potentially reduce the level of charges on small pots. A further consultation on an aspect of the charge cap was announced in the Autumn Budget.[3]

The decision to transfer funds outside of a charge-capped arrangement necessitates an active decision from the member. The reasons for making such transfers may relate to factors such as investment choice and consolidation activity and may be influenced by the ease of transferring and targeted advertising. Currently, the vast majority of automatic enrolment savers' funds remain in default (charge-capped) investment strategies.

Research question

This research seeks to answer the question:

What is the impact on pension schemes and member outcomes of different non-capped charging structures?

This report:

- Sets out the proportion of pension scheme membership subject to capped charges and the scale of uncapped charges in the market;
- Identifies how non-capped arrangements differ from capped arrangements;
- Analyses the at-retirement impact on members; and
- considers how the market may evolve as a result of charge cap development.

1 DWP. (2021a).

2 DWP. (2021d).

3 Chancellor of the Exchequer. (2021).

Report structure

Chapter One examines the population of the current DC universe, analyses the membership of investment strategies and funds, and how members and employers are affected by the charge cap. The level of charges outside the charge cap is considered in relation to capped charges and the competitive market pressures exerted by qualifying schemes.

Chapter Two examines the number and nature of transfers from charge-capped funds, exploring the consequences to the member of undertaking such a transfer.

Chapter Three quantifies the outcomes associated with different funds and how this may align with members' traits and behaviours. It quantifies the impact of charges in capped and uncapped arrangements, and the potential impact of making an active decision to undertake a transfer.

Chapter Four examines the interaction of funds with future policy, including consolidation activity and further development of the charge cap. The pressures of the charge cap interacting with the landscape of pension membership may present challenges to supporting otherwise uneconomically viable pension pots.

Background

The charge cap was introduced after the introduction of automatic enrolment

Prior to, and beyond the first staging of, the introduction of automatic enrolment there were no charge caps directly associated with automatic enrolment pension schemes. There had been a cap on charges for Stakeholder pension schemes, which employers with five or more employees had to make available to staff.[4] This cap was set at 1.5% of funds under management for the first ten years, reducing to 1% of funds under management thereafter.[5]

From 2015, default investment strategy charges in automatic enrolment pension schemes had to be below the charge cap

The cap was introduced in the Occupational Pension Schemes (Charges and Governance) Regulations 2015 which took effect on 6th April 2015.[6] For a money purchase workplace pension scheme to qualify for automatic enrolment the default arrangement must meet several criteria, including being subject to the charge cap. Outside of automatic enrolment schemes there is no cap upon charges they levy (with the exception of Stakeholder schemes)[7].

The automatic enrolment charge cap is set at 0.75% of funds or an equivalent combination charge, where there is a flat fee or a charge on contributions set alongside a proportion of funds. For instance, where there is a flat fee of £20 per year the percentage of funds under management that may be charged is capped at 0.5% [Figure 0.1]. Other charging restrictions introduced include:

- prohibiting charges to recover commission paid to advisors;
- restrictions to early exit charges; including prohibiting them for new joiners from 1st October 2017.

4 Jarvis, T. (2001).

5 TPR. (2021a).

6 The Occupational Pension Schemes (Charges and Governance) Regulations 2015 (S.I. 2015/879) *Available at: https://www.legislation.gov.uk/uksi/2015/889/contents/made (Accessed: 26 August 2021).*

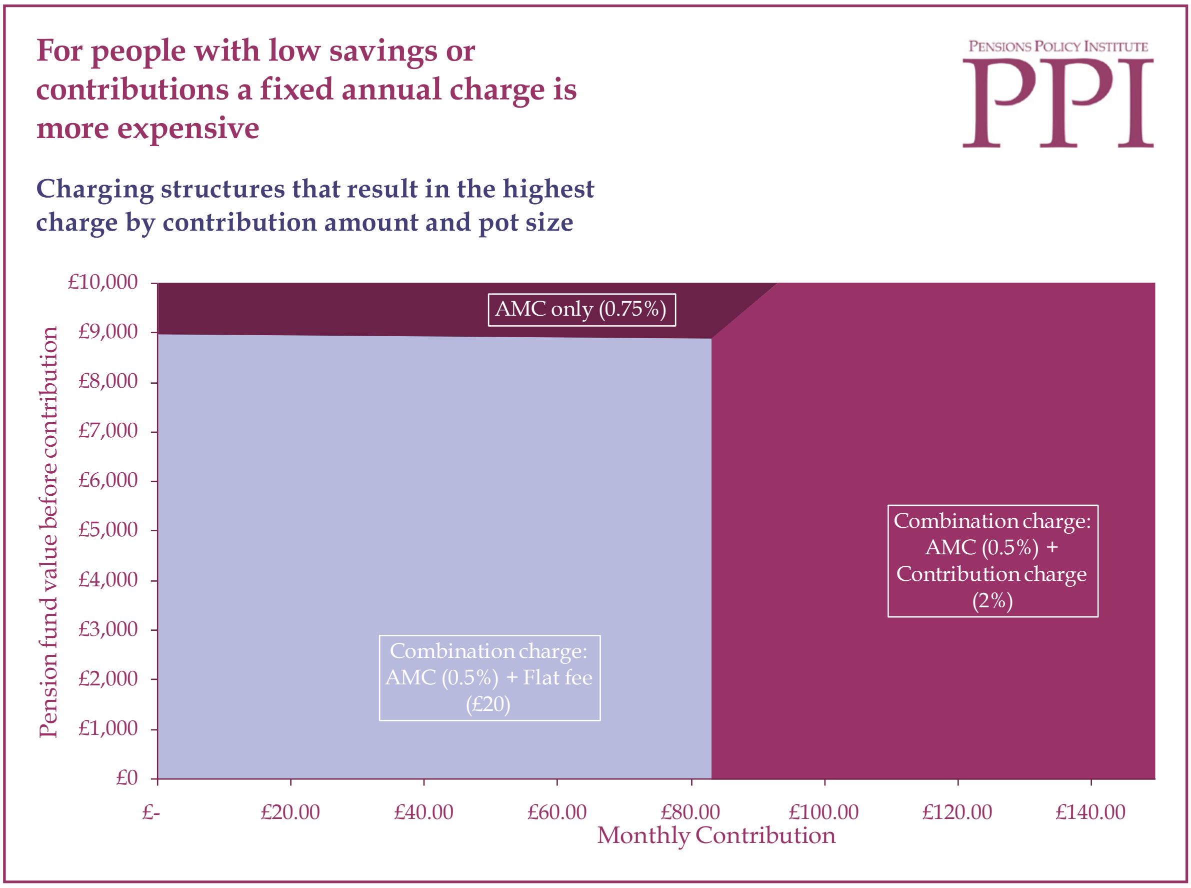
7 TPR. (2021).

Figure 0.1: Capped combination charges[8]

Maximum permissible percentage of funds under management only	Maximum permissible combination charge 1 Percentage of funds under management plus a contribution charge		Maximum permissible combination charge 2 Percentage of funds under management plus a flat fee	
Percentage of funds under management	*Percentage of funds under management*	*Contribution charge (percentage of contribution)*	*Percentage of funds under management*	*Flat fee (£ per year)*
0.75%	0.60%	Up to 1%	0.60%	Up to £10
	0.50%	1% to 2%	0.50%	£10 to £20
	0.40%	2% to 2.5%	0.40%	£20 to £25

The Government is putting in place regulations to implement a de minimis on the charging of flat fees as part of a combination charge from April 2022.[9] The combination charges benefit different savers depending upon their current saving situation. For members with the lowest accumulated savings (up to £9,000) who are not subject to the de minimis a flat fee levies the greatest charge in any month, but as their savings increase the option to charge a greater proportion of assets under management (AUM) becomes more expensive [Figure 0.2].

Figure 0.2: The balance between the capped combination charging structures[10]



8 DWP. (2021c).

9 DWP. (2021d).

10 DWP. (2021c).

The introduction of the charge cap stemmed from Office for Fair Trading (OFT) recommendations made in 2014.[11] It recommended that a charge cap was not the preferable approach for legacy schemes as a cap could lead to poorer member outcomes due to the diversity of the legacy DC landscape:

- A low cap could reduce the provision of certain, expensive, benefits such as guaranteed annuity options, or could create the incentive to introduce less visible charges outside of the cap.
- A high cap, (allowing for schemes with more expensive benefits or options) could be regarded as a target charge, resulting in charge inflation for schemes offering more limited benefits.

The OFT did note a number of issues within the market, including challenges relating to charges and scheme quality. These typically stemmed from two factors. Firstly, there was a weakness in the buyer side of the market, where employers may lack the capability to assess the long-term value for money of a scheme. Secondly, the complexity of the products and the fact that outcomes may not be apparent for many years makes decision making very difficult. The OFT found that this meant that competition alone could not be relied upon to drive value for money.[12]

In 2015, the introduction of the charge cap for qualifying schemes was facilitated by collaboration between the DWP and Financial Conduct Authority (FCA), being responsible for trust-based and contract-based pensions respectively. They had concluded the necessity for Government intervention to ensure members could attain value for money, and, in the absence of minimum standards, there was the risk of damage to the pensions industry should the Competition and Markets Authority (CMA) feel the need to launch a market investigation.[13]

While the charge cap is likely to remain at the current level, a de minimis pot size on which flat fees can be levied is to be introduced from April 2022

The Government responses following the DWP consultations *Review of the Default Fund Charge Cap and Standardised Cost disclosure* in January 2021 and came to several proposals about future policy on charges in qualifying schemes.[14]

The Government is introducing a de minimis pot size on which flat fees can be levied

The Government is introducing measures to set a minimum pot size of £100 on each member, below which flat fees cannot be charged. This would result in flat fees not being charged on the 25% of pots held by the five largest DC pension scheme providers which are below £100 in value.[15] PPI modelling suggests that for a low-paid full-time worker (at National Living Wage (NLW)) it would take two months of scheme membership making contributions at automatic enrolment minimum levels to reach this threshold. For a part-time worker, three days a week, also at NLW, it would take four months to reach this threshold.[16]

The scope and level of the charge cap are to otherwise remain unchanged

The level of the charge cap will not be reduced with most current charges already significantly below the cap. There is recognition that schemes should deliver good outcomes for members across all facets of value in the scheme, rather than merely compete based upon the minimisation of charges.

Transaction costs, which are currently out of the scope of the charge cap, will remain so. These are incurred when the fund manager buys or sells the underlying assets of an investment fund. The decision to continue to exclude such costs from the charge cap reflects concerns around complexities and restrictions to investment strategies and innovation, particularly in response to volatile market conditions.

11 OFT. (2014).

12 OFT. (2014).

13 DWP. (2014a).

14 DWP. (2021a)., DWP. (2021d).

15 DWP. (2020).

16 Baker M. et al. PPI (2020).

The Government will consult on the cap to accommodate performance fees

The Chancellor of the Exchequer announced in the Autumn Budget and Spending Review a consultation on further changes to the regulatory charge cap.[17] This would consider options around performance fees and access to institutional investment, and could lead to charging options which allow for greater investment flexibility for schemes.

The Government is considering the evidence around a single permissible charging structure before making any policy decisions

The Government has not taken any policy decisions regarding the proposal to introduce a single permissible charging structure.[18] This considers the trade-off of clarity of charging structures and comparability between providers alongside the market impact such a measure could precipitate.

17 Chancellor of the Exchequer. (2021).

18 DWP. (2021d).

Chapter One: What proportion of member savings is subject to the charge cap?

This chapter examines the population of the current Defined Contribution (DC) universe, analyses the membership of funds and how members and employers are affected by the charge cap. The level of charges outside the charge cap is considered in relation to capped charges and the pressures they have exerted.

Main chapter findings

Summary points:

- The value of assets under management (AUM) in master trusts is around £53bn, almost all of which is subject to the charge cap.
- Schemes and investment strategies outside of automatic enrolment tend to manage larger accumulated pots and are not subject to the charge cap.
- Those in non-default investment strategies may pay higher charges.
- Non-qualifying DC schemes tend to charge more than automatic enrolment schemes, but still charge below the cap on average.
- Charging structures of Self Invested Personal Pensions (SIPPs) are more complex and are typically higher than workplace pension schemes
- Pension savings in legacy schemes have variable charges, with 86% charging below the cap
- A charge of 1% of AUM has been taken as a benchmark of value for money by Independence Governance Committees (IGCs) where the charge cap does not apply

The value of AUM in master trusts is around £53bn, almost all of which is subject to the charge cap

Members of master trusts typically remain in the default investment strategy and are therefore subject to capped charges. 8,591,000 of 9,012,000 active master trust members (95%) are in the scheme's largest default fund.[19] Of the remaining 5%, a proportion are in smaller default arrangements in master trusts, bringing the proportion of members in arrangements subject to the charge cap higher still. These smaller default strategies stem from changes to schemes over time, with the introduction of alternative default investment strategies applicable to a subset of the membership. Members of master trusts are more likely than members of Stakeholder and Group Personal Pension (GPP) DC pension schemes to remain in the default investment strategy.[20]

Within master trusts, the pots belonging to individual members are typically small. Average pot sizes are estimated to be around £1,000 (25% of pots held by the five largest DC pension scheme providers are below £100 in value).[21] The value of assets across the 37 authorised master trusts is £52.8bn as at 31/12/2020[22] and is projected to increase primarily due to contributions from the 9 million active members.

19 Corporate Adviser Intelligence. (2021).

20 Wilkinson, L. et al. PPI (2021).

21 DWP. (2020).

22 TPR. (2021b).

Master trusts represent a fraction of the £500bn of workplace DC AUM. Approximately half of the £500bn is in trust-based schemes including master trusts and half in contract-based workplace schemes. There is a further estimated £600bn of assets in individual personal pensions and SIPPS, some of which will have been converted from GPPs as retained rights.[23]

Member charges in automatic enrolment schemes are a function of employer choice of pension scheme

Member charges for automatic enrolment schemes depend upon the commercial considerations of providers, with a number tailoring their charges as a response to employer needs.

1.9 million employers had completed their automatic enrolment duties by August 2021.[24] By far the largest share of these employers had selected Nest for their staff, with 881,000 employers using Nest as of 31st March 2021[25] - just under half of the employers who had undertaken automatic enrolment at that time. This includes an even higher proportion of the smallest employers.

As automatic enrolment was being staged, larger employers were more likely than smaller ones to have sought advice on their choice of provider. The most popular source of advice and information were Independent Financial Advisers (IFAs) whose advice has been suggested to be moderately influential to employers.[26]

Many smaller employers have received assistance to set up and maintain their ongoing automatic enrolment pension duties. Advisers[27] to newly established business typically provide a wide range of support around automatic enrolment (the majority assisted over 60% of their newly established clients with automatic enrolment). Where advisers are involved, a large number help to choose a suitable scheme (95% of IFAs, 45% of accountants, 95% of payroll administrators, and 58% of bookkeepers had helped newly established businesses with automatic enrolment).[28]

Many employers, (most notably small and micro-employers) engaged with advisers when implementing automatic enrolment and choosing a scheme. The factors that influenced their selection of a provider related to ease of set-up and use, simplicity, and the perceived reliability of the scheme.[29] These primary considerations (above the influence of member charges structured advantageously for their employees), resulted in the majority selecting Nest (most particularly citing the links it has to Government).

Schemes and investment strategies outside of automatic enrolment tend to manage larger pots and are not subject to the charge cap

Schemes and investment strategies that operate outside of the automatic enrolment market generally manage larger pots on average. In 2012, prior to the introduction of automatic enrolment, the average pot size in a DC trust scheme was £17,000.[30] In 2020, the median pot size across five of the largest DC providers was around £350, which can be considered representative of automatic enrolment providers.[31]

Those in non-default investment strategies may pay higher charges

Only default investment strategies are subject to the charge cap. These are designed to be appropriate for the majority of the membership. Non-default strategies tend to be based upon one of two principles, and may charge members more than default investment strategies:

23 Wilkinson, L. et al. PPI (2021).; The Investment Association. (2020).; Corporate Adviser Intelligence. (2021).
24 TPR. (2021c)
25 Nest. (2021).
26 DWP. (2014c).
27 IFAs, accountants, payroll administrators or bookkeepers
28 OMB Research. (2019).
29 DWP. (2017b).
30 TPR. (2021d).
31 DWP. (2020).

1. Different investment objectives

These funds are designed to either produce a higher return (at the trade-off of increased volatility) or to reduce uncertainty (at the trade-off of reduced long-term investment returns). These may suit members with atypical risk profiles or whose circumstances do not match the model for the default investment strategy and implicit risk profile it bases lifestyling upon, for instance where they may have other savings or pension assets.

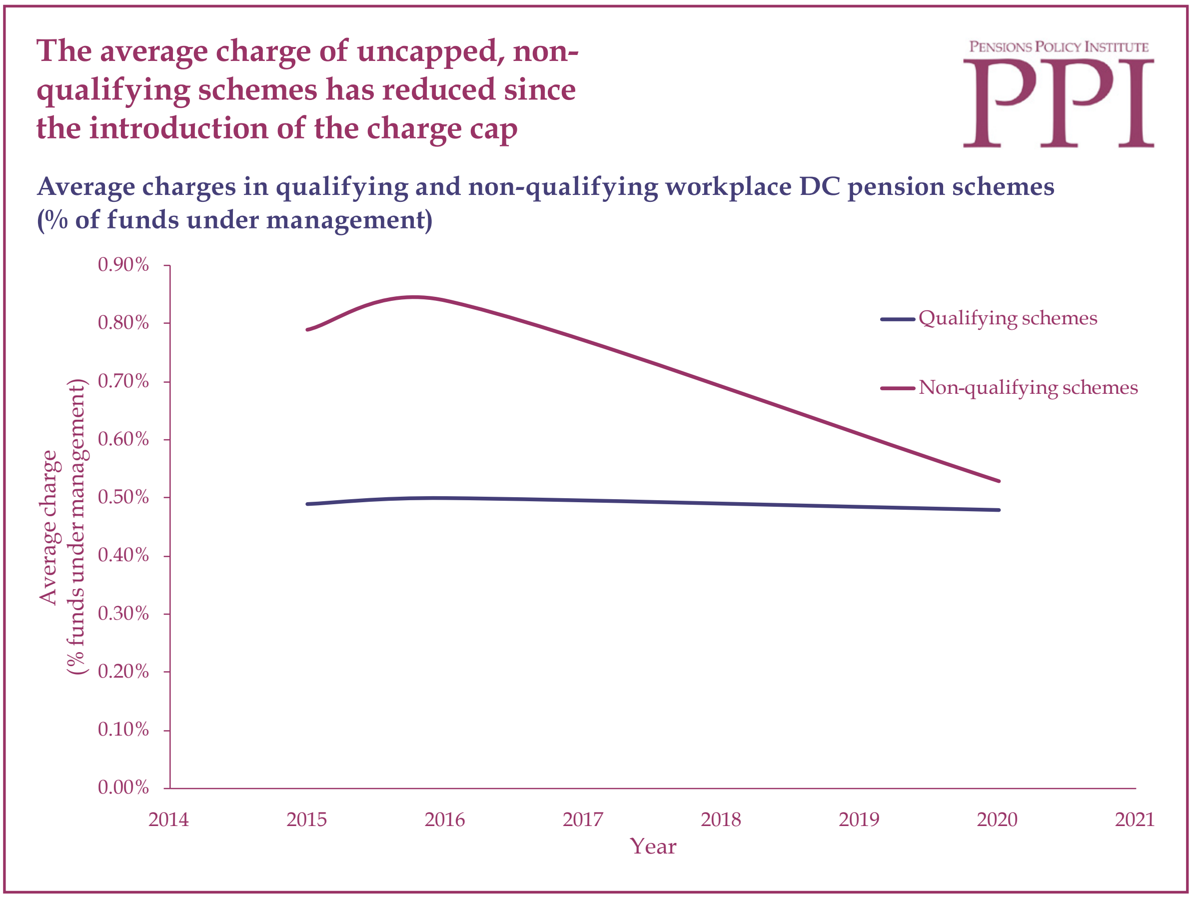
2. Socially responsible investing

These funds are based to appeal to the ethics and beliefs of the investor. They encompass green and environmental funds beyond reflecting the Environmental, Social and Governance (ESG) considerations of the Statement of Investment Principles (SIP), as well as funds invested in a compatible manner with religious teachings, such as Sharia funds.

Non-qualifying DC schemes tend to charge more than automatic enrolment schemes, but still charge below the cap on average

In DC workplace pension schemes that do not qualify for automatic enrolment, the current average member charge is 0.53% of funds under management and 88% of members are charged below the cap of 0.75%.[32] The average charge has decreased markedly in recent years, closing the charge gap between qualifying and non-qualifying schemes to 0.05% of AUM [Figure 1.1]. Non-qualifying schemes are not subject to the charge cap, but do face competitive market pressures from the schemes which are subject to the charge cap.

Figure 1.1: Average charges of qualifying and non-qualifying workplace DC pension schemes[33]



32 DWP. (2021b).

33 DWP. (2014b).; DWP. (2016).; DWP. (2017a).; DWP. (2021b).

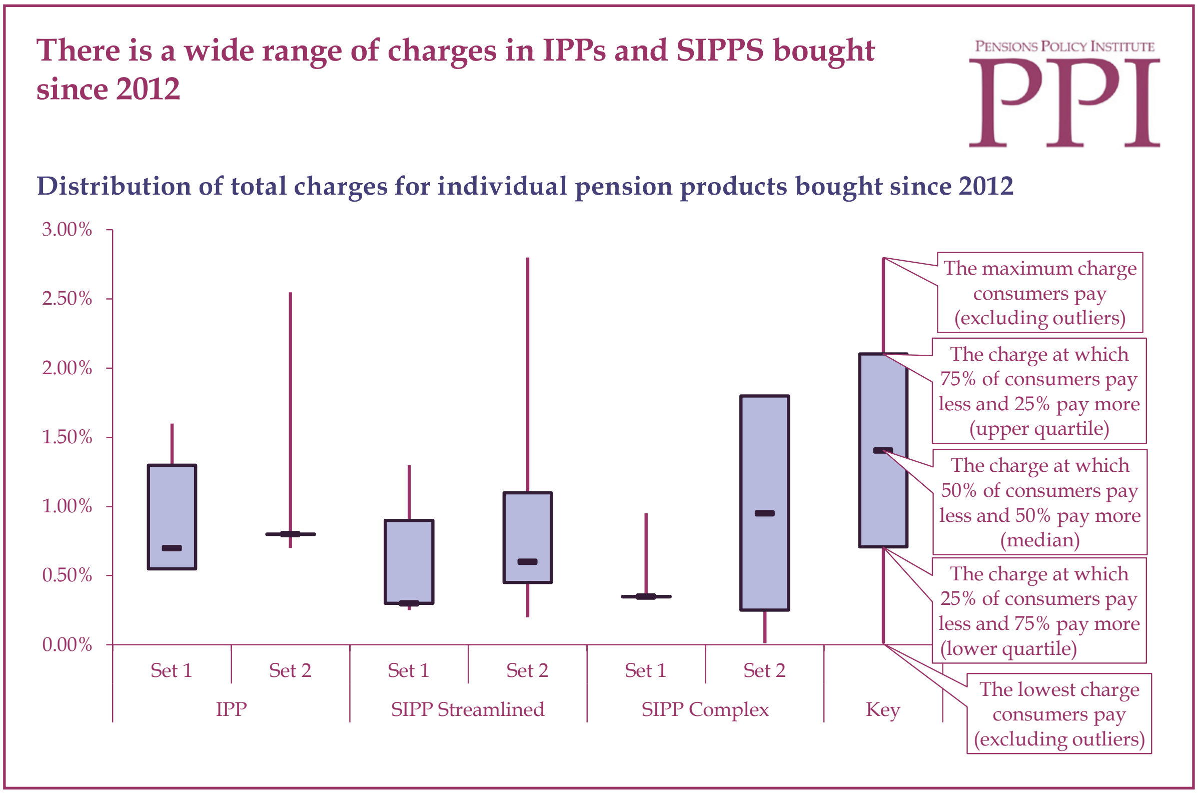
The closing of the charging gap is assumed to be, at least in part, the result of competitive pressure exerted from schemes subject to the charge cap. This has resulted in a reduction of non-qualifying scheme charges and a significant number of bulk transfers of members from non-qualifying to qualifying schemes.[34] Both of these factors have driven down the average charges associated with non-qualifying schemes.

SIPPs tend to charge just around or above the cap, but could charge substantially more

SIPPs are subject to more complex charging arrangements as payments are split between platforms, providers and investment managers. These charges are separated because the size of each depends upon the investment decisions made by the member. Where funds are supplied by a third party, and multiple providers offer access, a member could incur different charges for access to the same fund depending on the provider and their particular charging structure.

The cost of platform and administration fees can range between 0.15% to 0.45% on a £100,000 pot. Many providers include fixed fees, which results in the charges being equivalent to a higher proportion of funds under management when more typical DC pot sizes are considered.[35] Fund charges can typically be around 0.3% to 0.35% of AUM, resulting in a total charge around 0.75%. While this charge is representative, the actual charges incurred by a member are heavily dependent upon the provider's charging structure and the investment decisions taken by the member. There is considerable variation between providers reflecting their target markets and their sensitivity to costs and investment choice. Charges vary significantly depending on when a member joined, their pot size and the precise nature of the SIPP product [Figure 1.2].[36]

Figure 1.2: The spread of charges in individual pension products.[37]



34 DWP. (2021b).

35 Which?. (2021).

36 FCA. (2019b).

37 FCA. (2019b).

Set 1 providers included fund charges within their stated product AMC charges. This means that these providers' product charges are close to the whole cost incurred by consumers for their non-workplace pensions.

Set 2 providers report product charges and fund charges separately. Indicative fund costs are included based upon the providers' top five most popular funds. The whole cost incurred by members may be more or less than this value.

The charges associated with individual pension products are more varied than the relatively narrow charging bands of workplace pension providers.

SIPPs, and some non-default investment strategies, provide access to a wider range of assets, in return for higher charges

The range of investment assets available to those saving in SIPPs and some non-default strategies may appeal to experienced investors who are interested in asset classes that may not be suitable for schemes and funds which are subject to the charge cap. Alternative asset classes such as illiquids may present an opportunity for higher risk adjusted returns than traditional pension investments, however cost pressures and unpredictable charges[38] can present barriers for their use in some default investment strategies.[39]

Around a third of providers include illiquid investments in their default investment strategy,[40] however the amount involved is generally small (for example the average asset allocation across default strategies in infrastructure is 1%).[41]

Pension savings in legacy schemes have variable charges, with nearly nine in ten charging below the level of the cap

Charges in legacy contract-based schemes, which are not subject to the charge cap as they are not used for automatic enrolment, have reduced over recent years. Between 2017 and 2019, the proportion of pension savings in legacy schemes subject to charges of more than 0.75% per year reduced for providers of all sizes.[42] The Association of British Insurers (ABI) set up an Independent Project Board (IPB) to look at legacy schemes with higher charges to make recommendations to IGCs and trustees,[43] using a yardstick of 1% of AUM.[44] For schemes in scope of the IPB, 97% of AUM are subject to charges below this level. Further, 86% of such schemes have charges below 0.75% of AUM [Figure 1.3].

38 Due to performance related fees.

39 DWP. (2021b).

40 DWP. (2021b).

41 Wilkinson, L. et al. PPI (2021).

42 FCA. (2020).

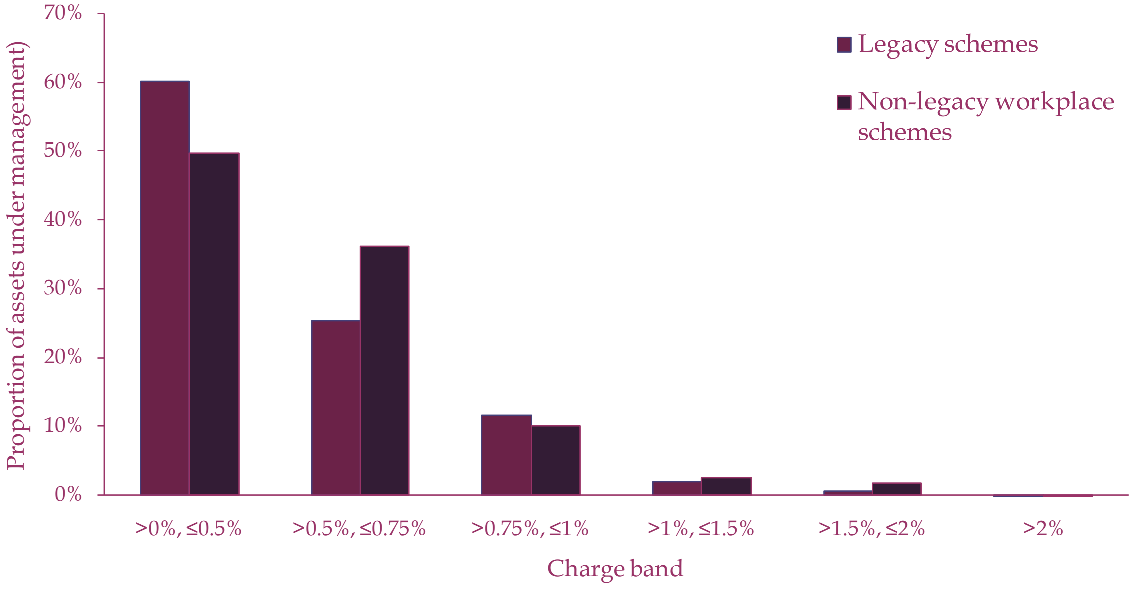
43 Independent Project Board. (2014).

44 Though IGCs can recognise schemes with higher charges as offering value for money.

Figure 1.3: Charges in legacy schemes.[45]

86% of assets in legacy schemes attract charges at a level lower than the automatic enrolment charge cap

Proportion of AUM in pre-2001 legacy schemes and non-legacy workplace schemes by charge level, 2019 (FCA analysis of firm information request).



The ability of an IGC to challenge a provider on their charges and the value for money they represent has been credited as promoting a general reduction of charging levels and the prevention of introducing higher charges. While an IGC does not enforce a charge cap, the 1% yardstick considered by the IPB has automatically been taken as a threshold for value for money.[46]

Conclusions

The vast majority of current pension savers are contributing to charge-capped arrangements

There is still a large amount of DC pension assets that are not subject to the charge cap. £600bn (over half) of DC pension assets are in individual arrangements which are not subject to automatic enrolment charge caps. However, most new contributions are made to automatic enrolment qualifying schemes with the vast majority of members remaining in the default, charge-capped, arrangement.

Outside of the cap charge levels have been driven down in recent years

The average charge for non-qualifying workplace schemes is now only 0.05% of AUM higher than for qualifying schemes, having reduced due to competitive pressures exerted from schemes subject to the charge cap.

In legacy schemes, charges have been reduced under the oversight of IGCs where the yardstick charge level of 1% of AUM has become a threshold for value for money. There remains 14% of assets in legacy schemes still attract charges above 0.75% of AUM.

45 FCA. (2020).

46 FCA. (2020).

Chapter Two: How are transfers affected by charges?

This chapter examines the number and nature of transfers from charge-capped funds, exploring the consequences of undertaking such a transfer.

Main chapter findings

Summary points:

- Charges are not a motivating factor in transferring funds, more generally members are concerned with choosing a preferred investment approach.
- Transferring to arrangements and schemes outside of the charge cap could have consequences for pot sizes
- The number of transfers is increasing, due mainly to increasing transfers out of Defined Benefit (DB) schemes, with many transferring to schemes subject to the charge cap

Transferring to arrangements and schemes outside of the charge cap could have consequences for pension savings at retirement

Within automatic enrolment qualifying schemes it is only the default investment strategies which are in scope of the charge cap. The provider may offer alternative investment strategies to members which are outside of the charge cap, but require an active decision from the member to invest in.

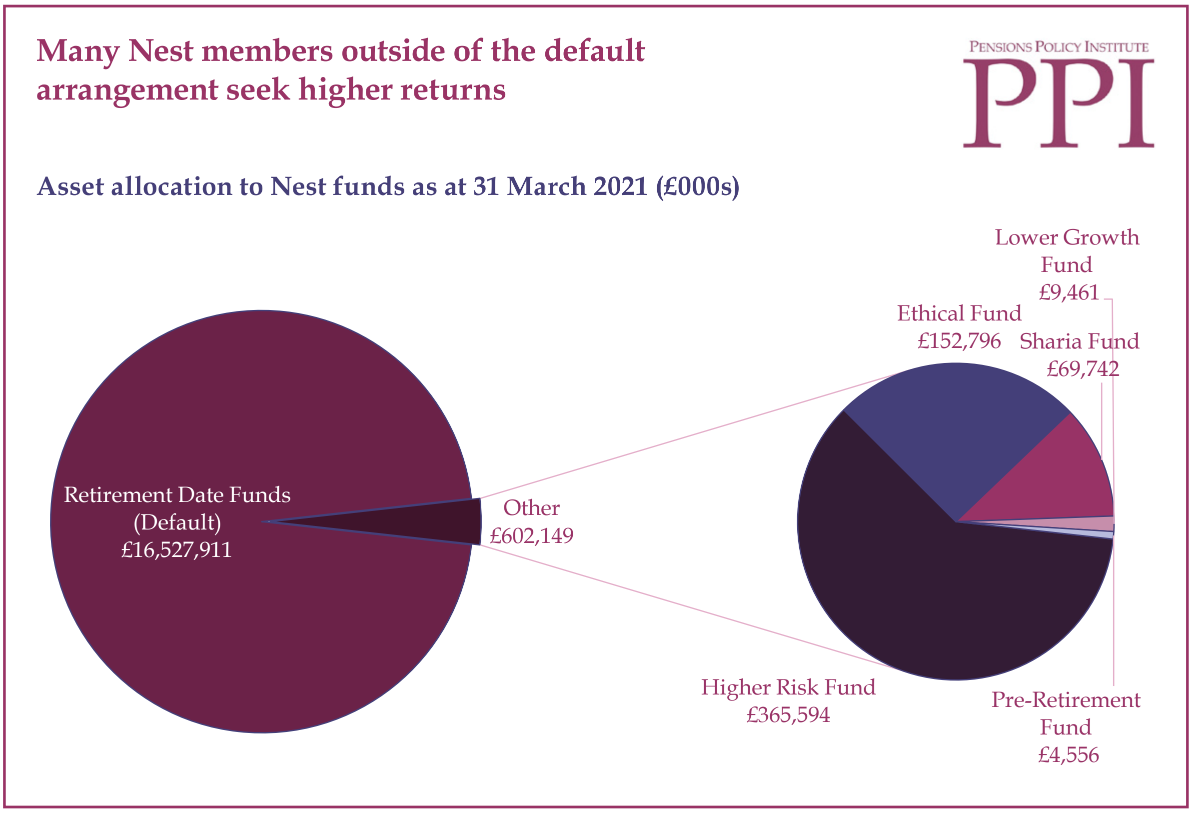
Switching to a non-default investment strategy could result in higher charges which would need to be considered to assess the value of the strategy

Where contributing members have elected to use a non-default investment strategy, their savings will be subject to charges based upon their fund selection. Some providers charge the same fees regardless of fund selection (e.g., Nest, in which 10% of members are in non-default funds), and maintain their charging structures (including combination charges). Considering investment performance net of charges allows for two strategies to be compared on a like-for-like basis.

Most of those switching to a non-default investment strategy in Nest, do so in search of higher returns

Taking the example of Nest, where charges cannot be a consideration for fund selection, it could be inferred that of the 10% of members who are not in the default investment strategy the most likely motivation is to target higher returns (at the cost of greater volatility). [Figure 2.1]

Figure 2.1: Asset allocation in Nest pension funds.[47]



The number of transfers is increasing, due mainly to increasing transfers out of DB schemes, with many transferring to schemes subject to the charge cap

In 2020 there were over £33bn of Defined Contribution (DC) assets transferred in around ¾ million transactions between providers on the Origo Transfer Service (which accounts for most DC transfers).[48] The average value of these transfers is around £44,500, which is significantly higher than the £350 median pot size across five of the largest DC pension providers[49] - indicating that those with larger pots are more likely to transfer. The total value of transfers in the UK increased significantly in 2017, which was predominantly due to transfers from DB schemes from which member savings would not have been subject to charge caps.[50]

Among trust-based DC schemes, £2.2bn of assets was transferred *from* and £3.7bn was transferred *into* DC occupational (trust-based) schemes in 2020.[51] The reason that transfers in are higher than transfers out is that additional amounts have been transferred into contract-based schemes from DB schemes. It could be expected that these transfers reflect the order of magnitude of members transferring who will have been impacted by the charge cap either before or after transferring.

47 Nest Pensions. (2021).

48 Origo. (2021). This does not just represent those moving from investment in arrangements subject to the charge cap to a scheme outside the charge cap.

49 DWP. (2020).

50 ONS. (2020).

51 TPR. (2021d).

There are several reasons why a member might transfer their pot from the scheme originally chosen by their employer

Motivations for a scheme member to transfer their pension may include:

- **Pot consolidation:** Members with multiple pension pots spread between many providers may wish to consolidate their pension savings with a single provider for convenience and to potentially reduce charges.
- **Controlling fees:** Members may wish to transfer their funds to a scheme with lower fees, potentially due to an alternative fee structure, such as tiered structures based upon fund size. Further, where they may pay a flat fee at multiple providers, consolidation will reduce the number of flat fees paid.
- **Improved access flexibility:** Transfers may be made to increase the options for accessing savings as their current provider may not facilitate the full range of options available under pension freedoms.
- **Investment opportunities:** Some providers offer a limited range of investment strategies, and an alternative provider may offer a preferable investment selection.

Charges are unlikely to be the main motivation for members to transfer

While there are several motivations for members to transfer between DC pension schemes, charges are just one of them and there is also a clear emphasis upon returns. These need to be considered together to ensure that returns net of charges is considered, as this ultimately will determine the fund growth of a deferred DC pension pot. However, members will attempt to keep decisions simple rather than engage in the trade-off between benefits and charges, potentially relying on advice from a regulated advisor.[52]

Most switches in non-workplace schemes are the result of regulated advice and are rarely prompted by the level of charges. The FCA is of the view that “low engagement, complex charges and a lack of awareness of charges prevent consumers from finding more competitive products” which in turn leads to a market place that is less competitive on charges.[53]

Pot transfers are more likely to be made from schemes which a member is no longer contributing to

Active members wishing to transfer to another scheme may lose the benefit of employer contributions, as employers typically only offer contributions into their chosen automatic enrolment scheme. As a result, transferring members will have generally ceased contributions to the pot in question because, for example, of having changed their job.

Conclusions

Members leave default investment strategies to seek improved investment returns

It appears the primary reason for leaving a charge-capped arrangement is to seek improved returns. Default investment strategies are designed for the many, so where an individual wishes greater control or has specific investment objectives, they may not find this available in a fund with a capped charging structure.

Members are not engaged with charges, and transfers are generally not motivated by charges

When members of a scheme switch from a charge-capped structure, they are primarily concerned about potential investment performance rather than the scheme’s charges.

52 FCA. (2019a).

53 FCA. (2019b).

Chapter Three: How do outcomes vary with different funds?

This chapter quantifies the outcomes associated with different funds and how this may align with members' characteristics and behaviours. It quantifies the impact of charges in capped and uncapped arrangements and the potential benefits of making an active decision to undertake a transfer.

Main chapter findings

Summary points:

- Most default investment strategies charge below the cap, eroding a typical pot at retirement by 14%; a quarter less than the impact of charges at the cap.
- The impact of the charging difference between average charges in qualifying and non-qualifying workplace schemes is around 1.5% of the projected pot size at retirement.
- The uncertainty in future investment returns can have a far greater impact on future pot size than charges
- Leaving a qualifying scheme can result in increased charges, which can increase pot erosion.
- To offset any potential increase in charges, a more beneficial investment strategy must be sought.

This report projects outcomes for three hypothetical individuals

To help illustrate the impact of the charging structures upon pension scheme members, the report includes projected outcomes for three representative member profiles or "vignettes". These vignettes allow us to consider the implications for individuals with varying features, such as:

- Contribution rates
- Income levels
- Time to retirement
- Career trajectories

Vignettes

The first individual is aged 22 in 2021 and reflects a new pension saver. They have low income (£12,000 a year) which is earned through part-time work, earning at the level of the National Living Wage, (around 3½ days a week). They are assumed to persist part time and maintain low income throughout their working life. Their pension saving is at minimum contribution levels under automatic enrolment legislation.

The second individual is aged 32 in 2021 and reflects a pension saver originally introduced to pension saving through automatic enrolment, who started saving in 2012. They have below average income (£25,000 a year) for a full-time working man at that age. Their income is assumed to follow a trajectory that includes promotional pay raises and follows a typical trajectory over working ages by sex and age. Their pension saving is at a currently typical contribution rate of 8% of gross income per year (split between employer and their own contributions).

The third individual is aged 42 in 2021 and reflects a pension saver who has not been consistently saving in a pension throughout their working life. They have an above average income level (£35,000 a year) for a full-time working woman at that age, however, to reflect broken career patterns, they are not assumed to be currently working - having temporarily withdrawn from the labour force. They are assumed to return to full-time employment at age 50. Their income is assumed to follow a trajectory that includes promotional pay raises and follows a typical trajectory over working life by sex and age. Their current pension saving is £15,000, which is representative of the median Defined Contribution (DC) pension wealth for a woman with DC savings at that age. Future pension saving is at a higher than average (but not untypical, particularly for employers providing provision prior to 2012) contribution rate of 12% of gross income per year (split between employer and their own contributions).

For further details and assumptions, please see Appendix One: Modelling technical appendix

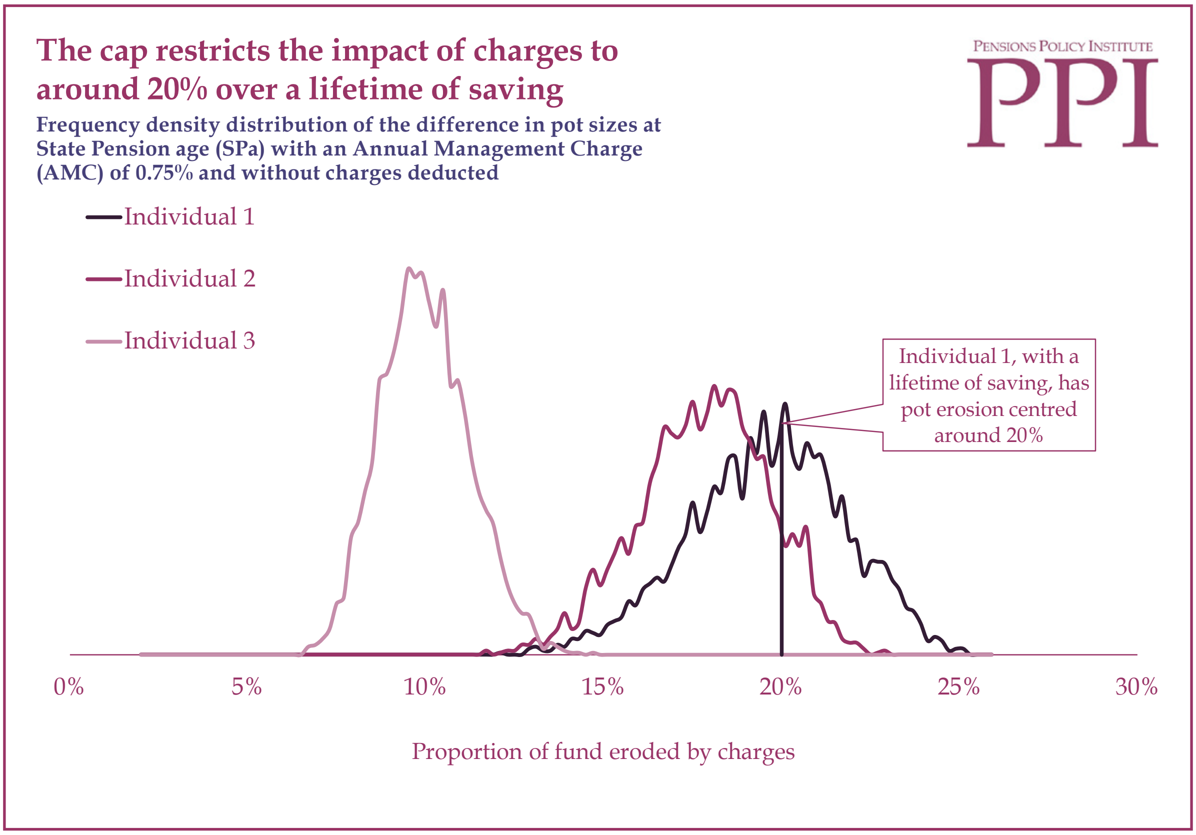
Charges at the cap over a lifetime could erode potential pension savings by around one fifth

To understand the implications of charging structures and the interaction with the cap, it is important to quantify how charges at the cap may reduce retirement savings. For Individual 1, who saves throughout a complete working life, their potential pension savings are reduced by around one fifth due to the charges that will be taken (when compared to outcomes without charges deducted) [Figure 3.1].

Frequency density plots

The frequency density plots used in this report illustrate the relative likelihood that the outcome is around the x-axis value. The greater the likelihood, the higher the y-value. In Figure 3.1, Individual 3 is most likely to have their pot reduced by around 10% due to charges at the peak of the series, whereas Individual 1 is most likely to have their pot reduced by around 20% due to charges at the peak of that series.

Figure 3.1: Frequency density chart: The pot erosion caused by a 0.75% charge when compared to outcomes without charges deducted[54]



The frequency density plots used in this report illustrate the relative likelihood that the outcome is around the x-axis value. The greater the likelihood the higher the y-value.

Typical charges over a lifetime could erode potential pension savings by around 14%

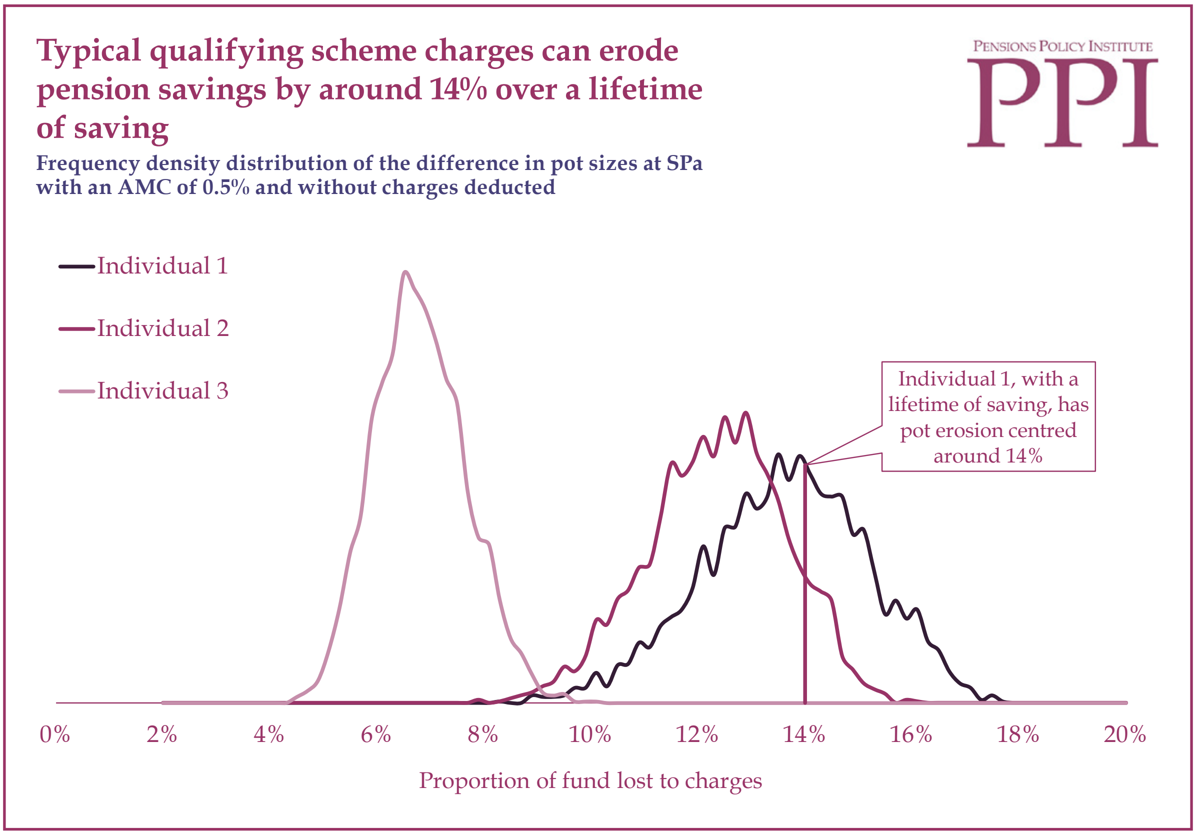
Actual charges in the marketplace are typically below the annual charge cap of 0.75% of funds, and the average charge of 0.48% in qualifying schemes across all members[55] is significantly below the cap. At a more typical charge of 0.5% of funds under management, charges erode Individual 1's pension pot by around 14% [Figure 3.2].[56]

54 PPI modelling.

55 DWP. (2021b).

56 PPI modelling.

Figure 3.2: Frequency density chart: The pot reduction caused by a 0.50% charge when compared to outcomes without charges deducted[57]



The frequency density plots used in this report illustrate the relative likelihood that the outcome is around the x-axis value. The greater the likelihood the higher the y-value.

Currently the automatic enrolment market includes a number of providers (four operating automatic enrolment qualifying schemes) who include a flat fee within their charging structure of up to £36 a year.[58] These are more expensive for those with small savings and low contributions, however, as the savings grow, they may result in better outcomes due to charging a lower proportion of funds under management.[59]

The uncertainty in future investment returns can have a far greater impact on future pot size than charges

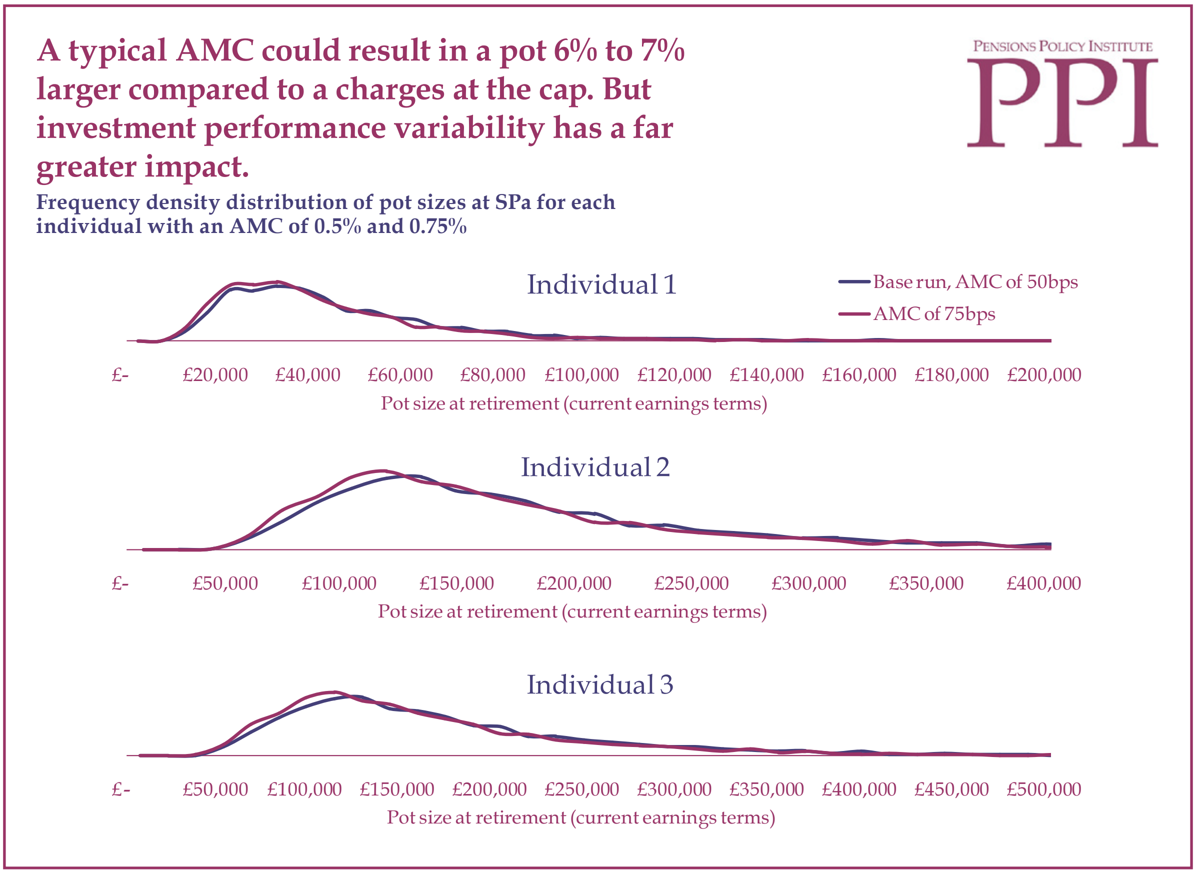
The potential benefit to the final pot as a result of charges being below the charge cap includes a great deal of uncertainty. The fluctuation in investment returns achieved can potentially have a far more significant impact upon the final outcome. Comparing outcomes for each individual under charges of 0.5% and 0.75% of funds under management illustrates the relatively small impact of charges when compared to the upside and downside of the investment risk borne by the member. The impact of the investment risk and future economic uncertainty produces the wide distribution and long tail in the distribution of outcomes [Figure 3.3].

57 PPI modelling.

58 DWP. (2021b).

59 Baker, M. PPI (2019).

Figure 3.3: Frequency density chart: Member outcomes under 0.5% and 0.75% charges of funds under management[60]



The frequency density plots used in this report illustrate the relative likelihood that the outcome is around the x-axis value. The greater the likelihood the higher the y-value.

The charge of 0.75% of funds under management could be considered representative of a Self Invested Personal Pension (SIPP) investment, however there is a very wide range of charging structures and as such any comparison is not representative of the whole SIPP market. For these individuals, fixed fees, where applicable, would result in relatively higher charges, as they have smaller pots than typical SIPP investors.

In workplace schemes that do not qualify for automatic enrolment and are outside of the charge cap, the impact from the different charges on projected fund size is 1.5%.[61] The small difference is due to the average charge being only 0.05% of funds under management higher for a non-qualifying workplace scheme (0.48% for a qualifying scheme, 0.53% for a non-qualifying scheme).[62]

Scheme and member investment objectives will affect charges and pot size outcomes

Investment objectives in the default investment strategy vary between providers. While these are all designed to be of benefit to their members over the long term, the implementation of the balance between risk and return varies between providers and default strategies. Further, the results achieved by investment managers vary leading to a wide spread of returns achieved [Figure 3.4]. While some funds may offer higher returns these are typically associated with greater uncertainty.

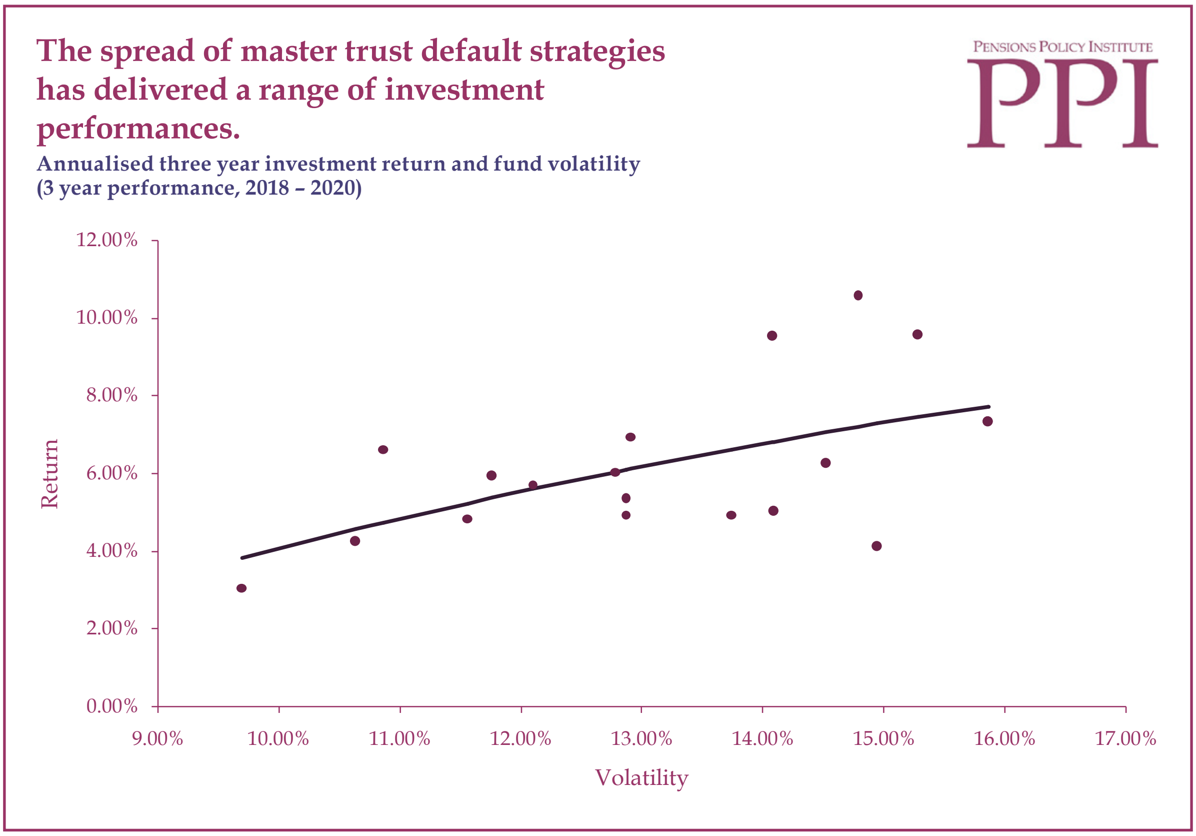
60 PPI modelling.

61 PPI modelling.

62 DWP. (2021b).

The performance of default funds has generally recovered since the investment shock stemming from the COVID-19 pandemic. This is a result of long-term investment horizons and diversified portfolios held by DC providers.[63] This has controlled the risk members are exposed to across the low-cost default funds of automatic enrolment providers.

Figure 3.4 Frequency density chart: Default fund performance, three years to 31/12/2020[64]



Members may benefit from a different balance between risk and returns than is provided in the default investment strategy. It is not possible to merely attain increased returns, aiming for these comes at a cost of increased volatility and/or increased investment charges. For an individual to be able to access increased returns they may need to opt out of their default investment strategy or even change providers. A change of investment strategy or provider may result in increased charges, which would need to be balanced with any fund objectives.

A member may not be best served by the default investment strategy as they are designed for the many and are, consequently, a compromise. Automatically enrolled members will have had their pension provider selected by their employer and will therefore not have chosen a provider with a default investment strategy most closely matching their needs. For a member with the longest time horizon (being young and with their retirement many years away) the benefit of increasing returns over a lifetime of saving is particularly effective. While there is considerable overlap in the distribution of outcomes, the average pot size projected at retirement could be around 75% larger if returns are 1% higher each year [Figure 3.5].

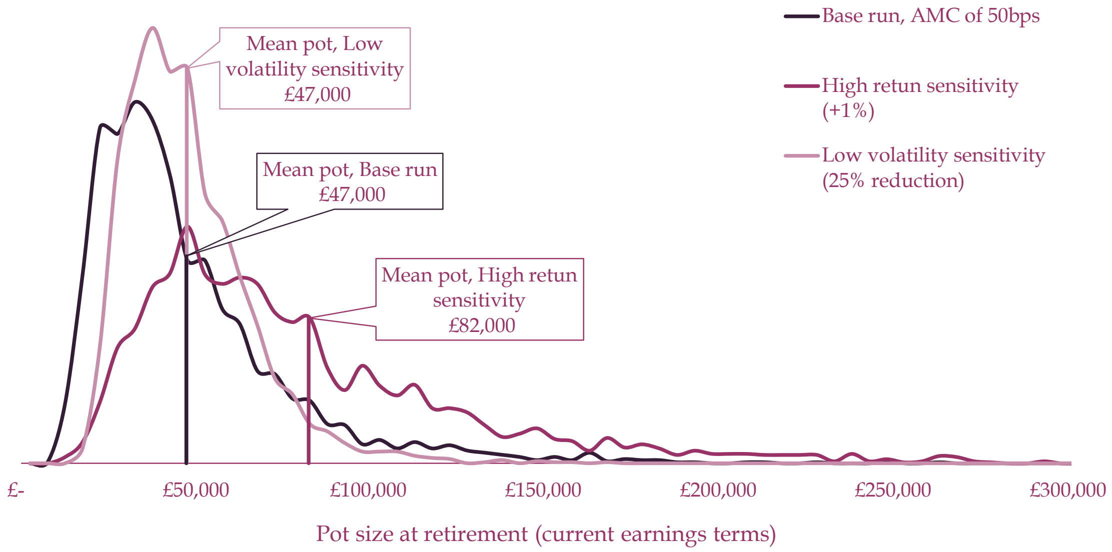
63 Wilkinson, L. et al. PPI (2021).

64 Hymans Robertson. (2012).

Figure 3.5 Frequency density chart: The sensitivity to investment return and volatility for individual 1[65]

A lifetime of investing with improved returns has a compound effect of nearly doubling the projected pot size

Frequency density distribution of pot sizes at SPa for a low earner (individual 1) with sensitivities of +1% investment return and a 25% reduction in volatility



The frequency density plots used in this report illustrate the relative likelihood that the outcome is around the x-axis value. The greater the likelihood the higher the y-value.

Returns and volatility must be balanced with member needs and the potential impact of charges

Moving away from a charge-capped strategy should allow further customisation of member investment objectives, by tailoring the amount of uncertainty and risk they are happy to be exposed to, measured by investment volatility. Alternative asset classes, such as illiquids, may present an opportunity for higher risk adjusted returns than those available from traditional pension investment assets, which may be limited in a default investment strategy.[66]

Controlling volatility is a key element of risk management, but may involve higher member charges if alternative assets are used

The control of volatility is most important to avoid downside risk. This is typically managed in default investment strategies through lifestyling, as funds are invested in lower-risk assets as members approach retirement (at the trade-off of greater returns). The approach of default investment strategies towards risk mitigation approaching retirement has meant that even during the economic shock of the pandemic, the extreme volatility of the markets was mitigated for DC savers in lifestyle funds.[67]

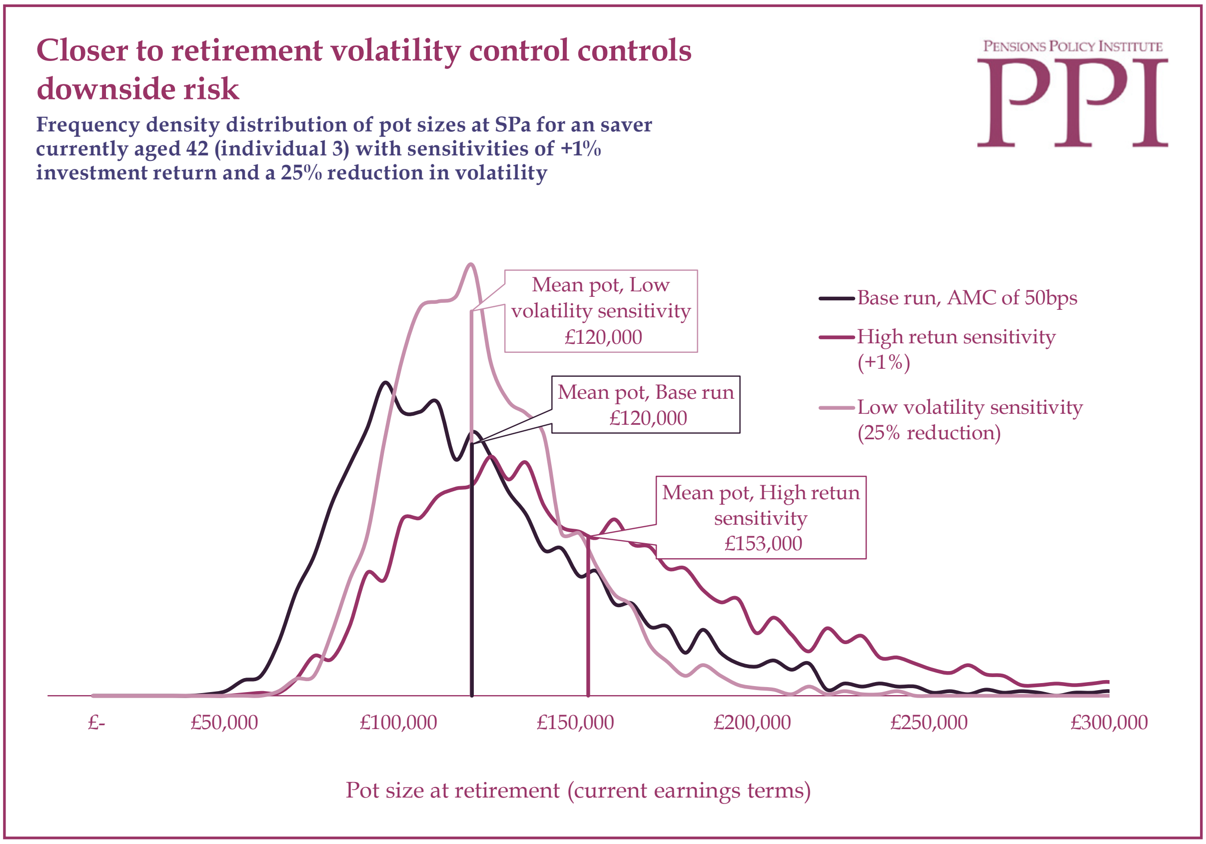
Where volatility can be reduced (all other things being equal), the chance of suffering downside risk is reduced, though so too is the chance of benefitting from upside risk. For individual 3, 25% of pot outcomes are below £91,800 in the base case; by reducing volatility by a quarter, only 10% of outcomes are below £91,800 [Figure 3.6]. However, just as improved returns come at a cost, so too does volatility management, reducing returns or typically attracting higher fees where alternative assets are used.

65 PPI modelling.

66 DWP. (2021b).

67 Wilkinson, L. et al. PPI (2021).

Figure 3.6 Frequency density chart: The sensitivity to investment return and volatility for individual 3[68]



The frequency density plots used in this report illustrate the relative likelihood that the outcome is around the x-axis value. The greater the likelihood the higher the y-value.

Managing the balance between risk and return can yield considerable benefit to savers, and, while default investment strategies tend to do this through the lifetime of a saver through initial phases (avoiding capital losses), through growth (focusing upon returns), and pre-retirement funds (concentrating on managing risk), the typical structure may not suit a particular member. However, there is no certainty of fund performance and, as many a disclaimer alludes to, the value of investments is not guaranteed. The potential benefit to a member of a more tailored strategy must be weighed against the potential impact of higher charges.

Impact of other benefits

While some benefits, such as greater access to a range of assets, may be available within a current scheme, some benefits may only be achieved by switching provider. These may stem from other features of the scheme such as access flexibility or consolidation benefits.

Some people may transfer their funds to be able to access them in a particular manner

Not all schemes offer the same access to the universe of fund options available. Where an individual's retirement planning is based upon particular retirement objectives, for example, if they plan to take Uncrystallised Funds Pension Lump Sum (UFPLS) withdrawals prior to retirement from a portion of the fund, they may need to transfer some funds to alternative providers. There is no general approach applicable to the quantification of the cost-benefit of these options, as it is dependent upon the individual circumstances of the member.

68 PPI modelling.

There are benefits to consolidating pension savings into one scheme, which can be realised in any scheme that accepts transfers in

The ability to have all pension pots in one place has multiple benefits. However, consolidation does not necessitate leaving the walled garden of capped charges. Qualifying schemes typically permit transfers in and there is no need to transfer to a scheme without a capped charging structure.

Consolidated pots are simpler to manage

Consolidating all of a member's DC pension savings into a single scheme can ensure that smaller pots are not lost. While there are mitigations in place, including the free to use pension tracing service[69], these generally require member engagement and knowledge of what they may be missing. 'Gone away' members (who the provider cannot locate) account for around 6% of uncrystallised pension pots and hold aggregate assets of nearly £10bn.[70] While a proportion of these pots will be found before retirement, the risk to an individual of losing a small, retained pot is reduced if they consolidate their pots.

Consolidating pots can result in lower charges

Where a member is subject to multiple flat fees across a number of pension pots, they may be able to reduce the charges they pay through consolidating their pots to pay a single flat fee charge. Further, an individual may be able to move to a less expensive charging structure, for example paying only a proportion of funds when their pot is small, or paying a combination charge including a flat fee (and a lower proportion of funds) when they have an adequately large pot. Savers can lose out if they are automatically enrolled into a scheme with unbeneficial charging structures.[71]

Conclusions

Most default investment strategies charge below the cap, eroding a typical pot at retirement by 14%; a quarter less than the erosion caused by charges at the cap.

Typical charges in a qualifying scheme erode retirement savings by around 14%. Annual charges in these schemes are around two-thirds of the level of the cap. Charges at the level of the cap, which are more indicative of individual personal pensions, erode retirement savings by around 20%.

Leaving a qualifying scheme can result in increased charges.

There is very limited charge impact when considering non-qualifying workplace schemes, which includes funds outside of the default investment strategy. When transferring to other pension providers, including SIPP providers, this may result in an indicative increase in charges from around 0.5% of funds under management to around 0.75%.

To offset any potential increase in charges a more beneficial investment strategy must be sought.

For an increase in charges of around 0.25% of funds under management a year, long-term returns would need to be improved to match, potentially offset by a preference for volatility management. The wide range of default investment strategies available across qualifying schemes means that much of this can be achieved in charge-capped funds. However, for an engaged investor wishing more control over their investments they will need to take an active management approach which is not available in capped arrangements, and not suitable for small funds.

69 Gov.uk. (2021).

70 Wilkinson, L. Pensions Policy Institute. (2018).

71 Baker, M. Pensions Policy Institute. (2019).

Chapter Four: How could the impact of capped and uncapped charges change as the landscape and policy evolve?

This chapter examines the interaction of funds with future policy, including consolidation activity and development of the charge cap. The pressures of the charge cap interacting with the membership of different scheme types may present challenges to supporting otherwise uneconomically viable pension pots.

Main chapter findings

Summary points:

- A combination of the Government measure that pots worth less than £100 cannot incur flat fees from April 2022 and an increase in consolidation schemes could disadvantage members who remain saving within automatic enrolment providers by reducing their value for money.
- Providers of schemes designed for pot consolidation retain fundamental advantages regarding permissible charges, but the way pot consolidation is structured has implications for member value for money.

Future policy change

The Government's current policy recommendations could result in economic difficulties for some providers and scheme members

The implementation of a de minimis on pot sizes beneath which a flat fee cannot be charged from April 2022 may result in these small pots being subsidised through increased charges on larger pots. It will also result in additional costs for providers including IT and other operation changes to implement.[72]

The proposed de minimis pot size upon which flat fees can be levied will increase the pressure to cross-subsidise small pots

In 2020, four qualifying schemes levied both a percentage charge and a flat fee on members.[73] These schemes include a number of the largest master trusts and cover an active default investment strategy membership of over 2.75 million members, and an additional 5 million non-active members, covering a total membership of around 8 million.[74] However, not all of the membership will be subject to these charges, as existing de minimis structures and other charging structures are in place within these schemes. The level of the proposed enforced de minimis will be kept under review with a view to increasing it over time, particularly in light of activity to address small pot proliferation, and may therefore affect more members over time.

72 DWP. (2021d).

73 DWP. (2021b).

74 PPI calculations based upon membership in default arrangements taken from Corporate Adviser Intelligence. (2021).

Flat fees ensure that providers can cover the costs of small pots

Flat fees enable providers to cover the expenses of pots which have not achieved sufficient size for a percentage charge to adequately cover the scheme's costs of administering the pots, and reduces the payback period of the expenses incurred in the set-up of new schemes. Flat fees also reduce the need for cross-subsidisation from members with larger pots to those with smaller pots.[75]

The removal of flat fees from very small pots will place additional pressure to cross-subsidise in schemes with a large proportion of small, deferred pots, and will result in higher charges for members with larger pots. For providers targeting the automatic enrolment market, most new members (who have not transferred existing funds in) will pass through the stage during which flat fees cannot be charged, increasing the strain on their existing book. The cross-subsidisation balance is further strained when pots which provide the cross-subsidisation are transferred out of the scheme to other providers. The Government feels it is for providers to manage their charges and the risks of any business impacts.[76] Where there is greater need for providers to support the costs of small pots this will divert the charges taken from members who remain saving with automatic enrolment providers. This will, effectively, reduce the value for money that they derive from their charges as a greater amount may be used to support other members.

The master trust industry is unlikely to achieve breakeven on costs until around 2025 without the application of a combination charge.[77] The cost to administer a deferred pot was £13.00 a year in 2019, and to administer an active pot was £19.60 in 2019.[78] To cover these costs, at an industry average charge of 0.48% of funds under management, these require pot sizes of £2,700 and £4,100 respectively.

The option to charge a flat fee at all may be removed by the Government in future

The Government has consulted upon the broader direction of the fund cap in future. They have made a proposal to move to a single, permitted charging structure in automatic enrolment schemes. This would be to simplify comparisons and make charges easier to understand.[79] Such an approach would simplify the market, but bring to an extreme the issues around implementing a mere de minimis under which flat fees cannot be charged. Enforcing such structures would place providers who cater for small pots at a competitive disadvantage and present barriers to entry to the market.[80]

The Government has not made any recommendations for policy in this area and continues to seek evidence that will enable better policy making in this area.[81] The Government will detail their next steps shortly.

Standardised cost disclosure templates

The Government is committed to improve cost and charge transparency for members in future. The Cost Transparency Initiative (CTI), launched in 2019, is a partnership initiative between the Pensions and Lifetime Savings Association (PLSA), The Investment Association and the Local Government Pension Scheme (LGPS) Advisory Board. CTI has developed templates to report charges and costs in a consistent and comparable manner between schemes to help investors assess the value for money of investments.[82] Uptake has been increasing and the Government will look to legislate if uptake is not sufficient.[83] This should enable members to be able to understand and compare the investment performance of funds, and assess whether it represents value for money - making transferring a more informed process.

75 Adams, J. PPI. (2020).
76 DWP. (2021d).
77 Adams, J. PPI. (2020).
78 Adams, J. PPI. (2020).
79 DWP. (2021c).
80 Adams, J. PPI. (2020).
81 DWP. (2021d).
82 CTI. (2021).
83 DWP. (2021a).

Future landscape change

Members transferring in the future will have a number of considerations to consider the pitfalls and pay-offs of switching

Considerations for a member

General considerations

Will you miss out on employer contributions?

- Will your employer pay contributions to another pensions scheme, that isn't their own one?

What options are available within your current scheme or investment strategy?

- Instead of switching to another provider, can your existing scheme achieve the same ambitions or outcome?

Is it a scam?

- Pension scams are increasingly focused on investment scams, Are the scheme's promises realistic?

Pot consolidation

Where is the best place to consolidate to?

- Do you need to use a specialist consolidator?

Controlling fees

Is the fee structure the most appropriate?

- Will the fee structure cost you more?

Will the fee structure remain appropriate in future?

- Will the fees remain competitive over time, as your pot grows?

Access flexibility

Is the access already available in the current scheme?

- Do you need to move to access your funds?

Investment opportunity

Does the switch improve investment performance by more than the impact of any increase to charges?

- Do any improvements in investment performance outweigh the impact of changes to charges?

Providers of consolidator vehicles are not subject to the charge cap and have fewer small pots to manage

Providers offering consolidator vehicles for pots built up through automatic enrolment schemes have two fundamental commercial advantages:

They are outside of the scope of the charge cap. Not being a qualifying scheme, as they do not need to operate as a workplace pension, they can implement a charging structure that is shaped by commercial pressures rather than regulatory ones. All transfers to the scheme are an active member decision. Although, if consolidator vehicles charge more than qualifying schemes, this can result in more pot erosion than members might have experienced if they had remained in their original scheme.

They do not have a large proportion of small pots. As pots are transferred in, the starting pot is not £0, but the transfer value which schemes may place a minimum value upon. This means that pots are more profitable at the point of entering the scheme than the average automatic enrolment pot which will start with a low balance.

The way that consolidation is managed will affect the financial health of master trusts and the charges incurred by remaining members

As the number of small pots has grown in recent years, the number of automatic enrolment providers using a combination charge including a flat fee has grown from one provider in 2016 to four in 2020.[84] The number of members affected has grown even more significantly as these have been used by some of the largest providers. Reducing the proportion of deferred pots will require an approach to consolidation that is defaulted rather than based upon an active member decision.[85] If plans for pot consolidation prove effective, this will alter the pressure upon automatic enrolment providers' charges.

If consolidation activity results in automatic enrolment providers having fewer, higher value members (by consolidating into automatic enrolment providers) then the pressure to cross subsidise will be reduced. If consolidation activity results in pots transferring to schemes designed as a consolidation vehicle, then automatic enrolment providers may be faced with a larger proportion of small pots which are not economically viable and members may find themselves facing higher uncapped charges.

84 DWP. (2021b).

85 Baker, M. et al. Pensions Policy Institute. (2020).

Conclusions

A combination of a de minimis pot size of £100 for flat fees and a larger proportion of pots leaving automatic enrolment providers for consolidator vehicles could disadvantage automatic enrolment schemes

Flat fees reduce the need for cross-subsidisation from members with larger pots to those with smaller pots. For schemes which have a larger proportion of small, deferred pots this will place additional pressure on the cross-subsidisation of these pots. This balance is exacerbated when pots which provide the cross-subsidisation are transferred out of the scheme.

Providers of schemes designed for pot consolidation retain fundamental advantages regarding permissible charges, but the way pot consolidation is structured has implications for residual member value for money

Providers of schemes designed to accept transfers in and consolidate schemes have a fundamental advantage. While they are out of scope of the charge cap, they should be able to offer more competitive charges as they do not have to support the costs of small pots through cross-subsidisation. This situation is linked to the issue of small pots which puts charging pressure on providers who target the automatic enrolment market and end up managing many uneconomic small pots. This pressure has implications for the members who are paying charges which subsidise the uneconomic pots.

Appendix One: Modelling technical appendix

Overview

The purpose of the modelling is to illustrate the key findings found in the report with quantitative impacts. Providing vignettes in the model allow each impact scenario to be applied to a range of representative individuals. This illustrates the relative impact of each scenario on the vignettes. Projections have been made using the PPI's Individual model.

Under each scenario an indicative income and pot size at retirement are projected to quantify the impact on their private pension saving in accumulation. Each individual has a unique lifecourse to illustrate the different scenarios on individuals representative of the automatic enrolment market. The pot size and pension income, split into its components (State, private pension, benefits, and income tax), for each investment strategy is compared to the base projection.

The base projection

The base projection for each vignette reflects pension scheme features investment strategies representative of large UK master trusts. Individuals modelled in this report reflect typical characteristics of members master trusts, typical of their age, their salary and their contribution patterns.

The economic assumptions and investment returns have been set in line with the Office for Budget Responsibility's (OBR) forecast from the Economic and Fiscal Outlook (EFO). A representative asset allocation for current industry investment strategies has been used in the model. This equates to a 69:19:2:10 equity:bond:cash:other investment ratio (other assets include property and commodities). A 10-year de-risking glide path was modelled to reach the average asset allocation for common retirement funds found in industry. This equates to a 24:59:11:6 equity:bond:cash:other investment ratio. The de-risking process began 10 years prior to retirement. The glidepath follows a linear progression between the default growth funds and retirement funds currently available in the pensions industry.

Results and metrics

Pot size at retirement

The value of the pot size at retirement, before the lump sum has been taken, was computed for each benchmark and scenario. This is reported in current (2021) earnings terms.

Income in retirement

Total income after income tax immediately after retirement has been projected for each individual. This is reported in current (2021) earnings terms. Income has been split into components (State pension income, Private pension income, Benefit income, Income tax). This is shown to give the relative differences in pension income received at retirement and the extend at which they exceed (or fall short of) income targets.

Individuals

The key features of the representative individuals are:

Individual 1: She is a low-earning woman who works part time throughout her working life, age 18 to State Pension age (SPa). She is aged 22 in 2022 and earns £12,000pa. This is based upon working part time (3.5 days per week) at the National Living Wage (NLW), she is assumed to maintain these working hours at NLW throughout working life. She contributes to a Defined Contribution (DC) pension, with her employer, at automatic enrolment minimum contributions (8% of band earnings) until SPa.

Individual 2: He is a low-earning man, (close to the 30th percentile for age and sex) who works full time throughout his working life, age 18 to SPa. He is aged 32 in 2022 and earns £25,000pa. He is assumed to follow an income trajectory consistent with 30th percentile earners). He contributes to a DC pension, with his employer, at 8% of whole earnings until SPa.

Individual 3: She is a typical earning woman (around median earnings for age and sex) who has previously worked full time, however, has currently withdrawn from the labour market to care for family. She is assumed to return to full-time work at age 50 and continue to work until retirement at SPa. She is aged 42 in 2022 and has indicative earnings of £35,000pa (were she currently working). She has retained DC pension savings associated with previous employment of £15,000 (typical for age and gender)[86] and on returning to employment contributes to a DC pension, with her employer, at 12% of whole earnings when in work.

These lifecourses are based on typologies identified within the WHERL project.[87]

Behaviour at retirement

At retirement, individuals withdraw 25% of their pension wealth as a tax-free lump sum, then draw an income from their remaining wealth, initially at a rate of 3.5% of their pension wealth and increasing the amount in line with the Consumer Price Index (CPI) until they have exhausted their pot.

This gives an indicative income to quantify the impact of their private pension saving in accumulation. Each individual has a unique lifecourse to show the impact of different investment strategies on representative members of a large UK master trust.

Assumptions

Key assumptions

Except where explicitly stated in the report, the key assumptions used in the report are detailed below.

Pension scheme assumptions

All individuals are assumed to be invested into a DC scheme from a large master trust. Individuals have no accrued Defined Benefit (DB) benefits.

Investment strategy

The median investment returns have been set in line with the OBR's forecast of asset yields from the EFO.[88] A distribution of future economic scenarios has been generated using the PPI's Economic Scenario Generator. The average asset allocation for current industry default investment strategies have been used in the model. This equates to a 69:19:2:10 equity:bond:cash:other investment ratio (other assets include property and commodities). Assets found in 'other' investments are assumed to follow similar returns to equity investments and have therefore been merged with equity in the model. A 10-year de-risking glide path was modelled to reach the average asset allocation for

86 ONS. (2019).

87 WHERL. (2017).

88 OBR. (2021).

common retirement funds found in industry.[89] This equates to a 24:59:11:6 equity:bond:cash:other investment ratio. The de-risking process began 10 years prior to retirement. This is based on a linear progression between the default growth funds and retirement funds currently available in the pensions industry.

Charges

The pension scheme is modelled with an annual charge of 0.5% of funds under management.

The pensions system

The pensions system modelled is as currently legislated. The triple lock is assumed to be maintained. Individuals are assumed to be members of a DC scheme.

Other economic assumptions

Other economic assumptions are taken from the OBR's EFO[90] (for short-term assumptions) and Fiscal Sustainability Report (FSR)[91] (for long-term assumptions).

The PPI Individual Model

The Individual Model is the PPI's tool for modelling an illustrative individual's income during retirement. It can model income for different individuals under current policy or look at how an individual's income would be affected by policy changes. This income includes benefits from the State Pension system and private pension arrangements, and can also include income from earnings and equity release. It is useful to see how changes in policy can affect individuals' incomes in the future.

The PPI's Individual Model calculates streams of retirement incomes for constructed individuals. The streams of income include State Pension, private pension and various state benefits in retirement. The individual model uses flexible policy parameters to define the pension landscape throughout the individual's working-life and retirement. The individual is constructed by setting out the work history in terms of working patterns and salary level throughout their working life, along with pension scheme membership details.

Application of output

The model is best used to compare outcomes between different individuals, policy options, or other scenarios. The results are best used in conjunction with an appropriate counterfactual to illustrate the variables under test.

Limitations of analysis

Care should be taken when interpreting the modelling results used in this report. In particular, individuals are not considered to change their behaviour in response to investment performance. For example, if investments are performing poorly, an individual may choose to decrease their withdrawal rate and vice versa.

Key data sources

The specification of a model run is based upon three areas:

The individual

The individual to be modelled is specified based upon an earnings and career profile. Saving behaviour for private pension accumulation is considered, as well as the behaviour at retirement.

These are generally parameterised according to the project in question, designed to create vignettes to highlight representative individuals of the groups under investigation.

89 Wilkinson, L. et al. PPI (2021).

90 OBR. (2021).

91 OBR. (2020).

The policy options

The policy option maps the pension framework in which the individual exists. It can accommodate the current system and alternatives derived through parameterisation. This allows flexing of the current system to consider potential policy options to assess their impact upon individuals under investigation.

This area has the scope to consider the build-up of pensions in their framework, such as the automatic enrolment regulations for private pensions and the qualification for entitlement to State benefits.

The framework in retirement allows for the tax treatment and decumulation options taken by the individual as well as other sources of State benefits which influence the post-retirement outcomes for individuals.

Economic assumptions

The central assumptions used in this analysis are taken from the OBR's EFO to ensure consistency. They cover both historical data and future projected values.

Glossary

Active members: Pension scheme members making current contributions.

Automatic enrolment: A policy requiring employers to enrol eligible employees into a workplace pension scheme. Employees have the right to opt out of the scheme. Employers (and usually employees) must pay at least a minimum level of contributions, on a band of earnings, into the scheme if the employee does not opt out.

Charge Cap: The Occupational Pension Schemes (Charges and Governance) Regulations 2015 introduced a cap on the charges of default strategies used for automatic enrolment of 0.75% of funds under management. The cap applies to all scheme and investment administration charges. Transaction costs (third-party costs generated when investments are sold and bought on the market) are excluded from the charge cap.

Contract-based scheme: A pension scheme accessed either through an employer or individually, offered and run by a third-party pension provider (for example, an insurance company). Funds are owned by the individual with a contract existing between the individual and the pension provider.

Contributions: Money, often a percentage of salary, that is put into a pension scheme by members and/or their employer.

De minimis: Literally meaning "pertaining to minimal things" a de minimis charging structure restricts the application of charges when the saving amount is below the threshold, or de minimis, level.

De-Risking: Reducing exposure to high-volatility assets in favour of assets with lower volatility but reduced opportunity for high returns.

Default Strategy: The investment strategy in which members will automatically have their contributions invested in if they do not make a choice.

Deferred member: Pension scheme members who have ceased making contributions, but are yet to access their funds.

Defined Benefit (DB) Pension Scheme: An employer-sponsored pension scheme in which benefits are calculated based on years of contributions and salary (generally average or final salary).

Defined Contribution (DC) Pension Scheme: A trust-based or contract-based pension scheme that provides pension scheme benefits based on the contributions invested, the returns received on that investment (minus any charges incurred) and the way the savings are accessed.

Department for Work and Pensions (DWP): The DWP is the Government department responsible for welfare and social security, including pensions, working age benefits, and disability services.

Financial Conduct Authority (FCA): The organisation which regulates firms and individuals (including financial advisers) that promote, arrange or provide contract-based pension schemes.

Freedom and Choice/pension freedoms: Prior to April 2015, those with DC savings of a certain level were required to purchase a secure retirement income product in order to access their DC savings. The new pension flexibilities "Freedom and Choice" loosened restrictions so that those aged 55 and over may withdraw DC savings in any amount they like, taxed at their marginal rate, with 25% tax free.

Independent Financial Advisor (IFA): IFAs provide tailored advice and recommendations that take into account individuals' circumstances.

Independent Governance Committee (IGC): Since April 2015, providers of contract-based pension schemes have been legally required to set up and maintain an IGC. IGCs are responsible for overseeing the governance of contract-based pension schemes and ensuring value for money.

Master trust: A DC pension scheme, governed by a board of trustees, offering the same terms to multiple employers and their employees.

Member: A general term for an individual who has built up entitlement in a pension scheme.

Money Purchase Pension Scheme: This is an alternative name for a Defined Contribution Pension Scheme.

Office for Budget Responsibility (OBR): The OBR was created in 2010 to provide independent and authoritative analysis of the UK's public finances. It is one of a growing number of official independent fiscal watchdogs around the world.

Office for National Statistics (ONS): The UK's largest independent producer of official statistics and the recognised statistical institute of the UK.

Pension freedoms: See Freedom and Choice.

Personal Pension: Individual contract-based pension arrangements organised directly between an individual and a pension provider.

Stakeholder pension: A money purchase personal pension. The scheme must meet Government standards covering features including flexibilities, charges and minimum contribution amounts.

The Pensions Regulator (TPR): The organisation which regulates trust-based pension schemes and the administration of work-based personal pension schemes.

Transaction Costs: Third-party costs generated when investments are sold and bought on the market.

Trust-based Pension Scheme: A DC or DB pension scheme taking the form of a trust arrangement, governed by a board of trustees who owe a fiduciary duty to members.

Uncrystallised fund: A pension pot which is still in its original scheme and has not been withdrawn to purchase another product, such as an annuity or drawdown.

Uncrystallised fund pension lump sum (UFPLS): Withdrawals taken from a pension pot which is still in its original scheme.

Volatility: Volatility describes the range of gains and losses that a particular fund has experienced or is likely to experience. A fund which has potential to experience high losses and gains has a high volatility and a fund with potential for low losses and gains has low volatility. In many cases volatility and returns are viewed as a trade-off, with funds incorporating higher levels of volatility in order to achieve higher returns. However, a high level of volatility exposes funds to the risk of high losses.

References

Adams, J. Pensions Policy Institute. (2020). *Financial sustainability of master trust pension schemes. Available at: https://www.pensionspolicyinstitute.org.uk/sponsor-research/research-reports/2020/2020-08-27-financial-sustainability-of-master-trust-pension-schemes/ (Accessed 20 September 2021).*

Baker, M. Pensions Policy Institute. (2019). *Pension charging structures and beyond; an outcomes-focused analysis. Available at: https://www.pensionspolicyinstitute.org.uk/sponsor-research/research-reports/2019/2019-09-11-pension-charging-structures-and-beyond-an-outcomes-focused-analysis/ (Accessed 20 September 2021).*

Baker, M. et al. Pensions Policy Institute. (2020). *Policy options for tackling the growing number of deferred members with small pots. Available at: https://www.pensionspolicyinstitute.org.uk/sponsor-research/research-reports/2020/2020-07-23-policy-options-for-tackling-the-growing-number-of-deferred-members-with-small-pots/ (Accessed 20 September 2021).*

Chancellor of the Exchequer. (2021). *Autumn budget and spending review 2021: A stronger economy for the British people. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1028813/Budget_AB2021_Print.pdf (Accessed 27 October 2021).*

Corporate Adviser Intelligence. (2021). *Master Trust and GPP Defaults Report. Available at: https://forms.zohopublic.eu/ricardomedina/form/MT2021Report/formperma/ZvUfdabqOpGJSJY9ii3F_t1uLHFP0j-uNFFI6Ls14LE (Accessed: 14 September 2021).*

Cost Transparency Initiative. (2021). *Perceptions of the CTI Framework. Available at:* https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2021/CTI-Perceptions-Report-May-2021.pdf *(Accessed: 28 October 2021).*

Department for Work and Pensions. (2014a). *Impact Assessment: Minimum Governance Standards for DC trust-based schemes. Available at https://www.legislation.gov.uk/ukia/2015/57/pdfs/ukia_20150057_en.pdf (Accessed: 31 August 2021).*

Department for Work and Pensions. (2014b). *Landscape and Charges Survey 2013: Charges and quality in Defined Contribution pension schemes. Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/281128/rr859-defined-contribution-pension-schemes.pdf (Accessed: 24 September 2021).*

Department for Work and Pensions. (2014c). *Employers' Pension Provision Survey 2013. Available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/330512/rr881-employers-pension-provision-survey-2013.pdf (Accessed: 20 October 2021).*

Department for Work and Pensions. (2016). *Pension Charges Survey 2015: Charges in defined contribution pension schemes. Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/483179/Pension_charges_survey_2015_charges_in_defined_contribution_pension_schemes.pdf (Accessed: 24 September 2021).*

Department for Work and Pensions. (2017a). *Pension Charges Survey 2016: Charges in defined contribution pension schemes. Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/652086/pension-charges-survey-2016-charges-in-defined-contribution-pension-schemes.pdf (Accessed: 24 September 2021).*

Department for Work and Pensions. (2017b). *Automatic enrolment: Qualitative research with small and micro employers. Available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/643581/automatic-enrolment-qualitative-research-with-small-and-micro-employers.pdf).*

Department for Work and Pensions. (2020). *Small pots working group report. Available at https://www.gov.uk/government/publications/small-pension-pots-working-group (Accessed: 8 October 2021).*

Department for Work and Pensions. (2021a). *Review of the default fund charge cap and standardised cost disclosure. Available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/951508/government-response-review-default-fund-charge-cap-standardised-cost-disclosure.pdf (Accessed: 8 October 2021).*

Department for Work and Pensions. (2021b). *Pension Charges Survey 2020: Charges in defined contribution pension schemes. Available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/951997/pension-charges-survey-2020.pdf (Accessed: 20 September 2021).*

Department for Work and Pensions. (2021c). *Permitted charges within Defined Contribution pension schemes. Available at https://www.gov.uk/government/consultations/permitted-charges-within-defined-contribution-pension-schemes (Accessed: 28 October 2021).*

Department for Work and Pensions. (2021d). *Permitted Charges within Defined Contribution Pension Schemes – Government response. Available at https://www.gov.uk/government/consultations/permitted-charges-within-defined-contribution-pension-schemes/outcome/permitted-charges-within-defined-contribution-pension-schemes-government-response (Accessed: 11 November 2021).*

Financial Conduct Authority. (2014). *Consultation paper: Charges in workplace personal pension schemes. Available at https://www.fca.org.uk/publication/consultation/cp14-24.pdf (Accessed: 24 September 2021).*

Financial Conduct Authority. (2019a). *Effective competition in non-workplace pensions: Feedback Statement – FS19/5. Available at https://www.fca.org.uk/publication/feedback/fs19-05.pdf (Accessed: 20 October 2021).*

Financial Conduct Authority. (2019b). *Effective competition in non-workplace pensions: Annexes for Feedback Statement – FS19/5. Available at https://www.fca.org.uk/publication/feedback/fs19-05-annexes.pdf (Accessed: 20 October 2021).*

Financial Conduct Authority. (2020). *Thematic review TR20/01: The effectiveness of Independent Governance Committees and Governance Advisory Arrangements. Available at https://www.fca.org.uk/publication/thematic-reviews/tr20-1.pdf (Accessed: 24 September 2021).*

Financial Conduct Authority. (2021). *Financial Lives 2020 survey: the impact of coronavirus. Available at https://www.fca.org.uk/publications/research/financial-lives-2020-survey-impact-coronavirus (Accessed: 24 September 2021).*

Gov.uk. (2021). *Find pension contact details. Available at https://www.gov.uk/find-pension-contact-details (Accessed: 11 October 2021).*

Hurman, N. et al. Pensions Policy Institute. (2021). *Translating Value for Money from International Pension Markets to the UK Experience. Available at: https://www.pensionspolicyinstitute.org.uk/sponsor-research/research-reports/2021/2021-11-18-whatcan-other-countries-teach-the-uk-about-measu ring-value-for-money-in-pension-schemes/ (Accessed 18 November 2021).*

Hymans Robertson. (2021). *Master Trust Default Fund Review. Available at https://www.hymans.co.uk/insights/research-and-publications/publication/master-trust-insights-report-june-2021/ (Accessed: 24 September 2021).*

Jarvis, T. (2001). *Stakeholder Pensions. House of Commons Library Research Paper 01/69. Available at https://commonslibrary.parliament.uk/research-briefings/rp01-69/ (Accessed: 4 October 2021).*

Nest Pensions. (2021). *Scheme reports and accounts 2020/21. Available at: https://www.nestpensions.org.uk/schemeweb/dam/nestlibrary/Nest-SARA-2020-21.pdf (Accessed 8 October 2021).*

Office for Budget Responsibility. (2020). *Fiscal sustainability report. Available at: https://obr.uk/fsr/fiscal-sustainability-report-july-2020/ (Accessed 24 September 2021).*

Office for Budget Responsibility. (2021). *Economic and fiscal outlook. Available at: https://obr.uk/efo/economic-and-fiscal-outlook-march-2021/ (Accessed 24 September 2021).*

Office of Fair Trading. (2014). *Defined contribution workplace pension market study. Available at: https://webarchive.nationalarchives.gov.uk/ukgwa/20140402194810/http:/www.oft.gov.uk/shared_oft/market-studies/oft1505/ (Accessed 24 September 2021).*

OMB Research. (2019). *Adviser Engagement with Automatic Enrolment Survey 2019. Available at: https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/adviser-engagement-automatic-enrolment-survey-2019.ashx (Accessed 8 October 2021).*

Origo. (2021). *Pensions transfers data. Available at: https://www.origo.com/news/PensionsTransfersData2020-21.aspx (Accessed 8 October 2021).*

The Investment Association. (2020). *Investment management in the UK 2019-2020: The Investment Association Annual Survey. Available at https://www.theia.org/sites/default/files/2020-09/20200924-imsfullreport.pdf (Accessed: 8 October 2021).*

The Occupational Pension Schemes (Charges and Governance) Regulations 2015 (S.I. 2015/879) *Available at: https://www.legislation.gov.uk/uksi/2015/889/contents/made (Accessed: 26 August 2021).*

Office for National Statistics. (2019). *Pension wealth: wealth in Great Britain, Table 6.8. Available at: https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/pensionwealthwealthingreatbritain (Accessed 4 October 2021).*

Office for National Statistics. (2020). *UK pension surveys: redevelopment and 2019 results. Available at: https://www.ons.gov.uk/economy/investmentspensionsandtrusts/articles/ukpensionsurveys/redevelopmentand2019results/ (Accessed 4 October 2021).*

The Pensions Regulator. (2021a). *Stakeholder pensions. Available at: https://www.thepensionsregulator.gov.uk/en/employers/managing-a-scheme/stakeholder-pensions/ (Accessed 4 October 2021).*

The Pensions Regulator. (2021b). *DC trust scheme return data 2020 - 2021. Available at: https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/dc-trust-scheme-return-data-2020-2021 (Accessed 4 October 2021).*

The Pensions Regulator. (2021c). *Automatic enrolment declaration of compliance report. Available at: https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/automatic-enrolment-declaration-of-compliance-report (Accessed 4 October 2021).*

The Pensions Regulator. (2021d). *DC trust scheme return data 2020-2021. Available at: https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/dc-trust-scheme-return-data-2020-2021 (Accessed 4 October 2021).*

WHERL. (2017). *The Wellbeing, Health, Retirement and the Lifecourse project: Final Project Report Available at: https://wherl.ac.uk/about/findings/ (Accessed 8 October 2021).*

Which?. (2021). *What is a Sipp? Available at: https://www.which.co.uk/money/pensions-and-retirement/personal-pensions/self-invested-personal-pensions-sipps/what-is-a-sipp-a4p4n0c1ts84 (Accessed 8 October 2021).*

Wilkinson, L. Pensions Policy Institute (2018). *PPI Briefing Note Number 110: Lost pensions: what's the scale and impact?. Available at: https://www.pensionspolicyinstitute.org.uk/media/2855/201810-bn110-lost-pensions-final.pdf (Accessed 8 October 2021).*

Wilkinson, L. et al. Pensions Policy Institute (2021). *The DC Future Book 2021. Available at: https://www.pensionspolicyinstitute.org.uk/sponsor-research/research-reports/2021/2021-09-23-the-dc-future-book-2021-edition/ (Accessed 8 October 2021).*

Acknowledgements and Contact Details

The Pensions Policy Institute is grateful for input from many people in support of this paper, including:

Danielle Baker
Philip Brown
Chris Curry
Jude Gardner
Tim Gosling
Eloise Henderson
Chetan Jethwa
Maritha Lightbourne
Sarah Luheshi
Darren Philp
Adam Sewell
Daniela Silcock
Anthony Tomei

Editing decisions remained with the author who takes responsibility for any remaining errors or omissions.

Contact: Chris Curry, Director
Telephone: 020 7848 3744
Email: info@pensionspolicyinstitute.org.uk

Pensions Policy Institute
King's College London
Virginia Woolf Building
1st Floor, 22 Kingsway

The PPI is grateful for the continuing support of its Supporting Members:

PLATINUM MEMBERS:

Aviva
Columbia Threadneedle Investments
Just
The Pensions Regulator

GOLD MEMBERS:

AXA Investment Manager
Capita
Legal and General Investment Managers
NEST
Railpen
Smart Pension
Wealth at work ltd
Cardano Group (including Cardano, NOW: Pensions and Lincoln Pensions)
Department for Work and Pensions
MFS Investment Management
Phoenix Group
Scottish Widows
The People's Pension

SILVER MEMBERS:

ABI
AON
BP Pensions Trustees Ltd
Exxon Mobil
PLSA
Royal London
Shell
Which?
Age UK
Barnett Waddingham
Chartered Insurance Institute
MNOPF
Quilter
Sackers
USS

Published by
PENSIONS POLICY INSTITUTE

PPI

www.pensionspolicyinstitute.org.uk
ISBN 978-1-914468-04-9