ASSOCIATION OF ACA CONSULTING ACTUARIES

St Clement's House, 27-28 Clement's Lane, London EC4N 7AE
Tel: +44 (0)20 3207 9380 Fax: +44 (0)20 3207 9134 EMail: acahelp@aca.org.uk
Web: www.aca.org.uk

4 July 2012

Catherine Cunningham
The National Association of Pension Funds
Cheapside House
138 Cheapside
London EC2V 6AE

Email: Catherine.Cunningham@napf.co.uk

Dear Catherine

Consultation: Telling Employers about DC Pension Charges

We are writing with our response to your consultation document on the above.

Members of the Association of Consulting Actuaries provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and all actuarial advice given is subject to the Actuaries' Code. Advice given to clients is independent and impartial. ACA members advise schemes covering the majority of members of private sector defined benefit and defined contribution schemes.

The ACA is the representative body for UK consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body.

The ACA very much welcomes any push to make charges applicable to pension arrangements more transparent.

We set out in the attached our responses to your questions however, we would like to highlight a number of key areas:

- We believe that the key focus of any consideration of charges should be in line with the Pensions Regulator's guidance in relation to Ensuring Better Member Outcomes. This means that any comparison of charges to judge the appropriateness of a scheme must focus on the impact those charges have on members' funds i.e. only those charges that are deducted from a member's funds should be part of the comparison. Any costs in relation to a suitable arrangement which are to be met directly by the employer should be kept entirely separate as they are a direct commercial decision on the employer's part.

- The requirement to include all adviser and other professional charges met directly by the employer together with scheme charges met by deductions from members' pension funds in the comparison, is confusing two entirely separate decisions – i.e. the selection of a fee-based adviser and the <u>subsequent</u> selection of a provider.

- We are concerned that for the Code to be fully effective that it needs to be adopted by all relevant bodies overseeing those involved in the provision of pensions. Without this it could be the case that many employers for whom this Code is designed to protect/assist may not receive the information that it promotes.

- The expectation that the code should also apply to occupational schemes tied to a single employer and not competing in the market place, makes little sense to us since any comparison is hardly comparing like with like. Trustees already have a requirement to govern the arrangement which should include considerations of costs and value for money.

- A focus on charges gives a one-dimensional view of a pension arrangement and insufficient prominence is given to wider aspects such as value for money and the actual services to be provided.

We comment on specific questions in the attached appendix.

We hope you find this response helpful. If you wish to follow up any points, please contact me on paul.macro@mercer.com

Yours sincerely

Paul Macro
On behalf of
ACA Defined Contribution Pension Schemes Committee
+ 44 (0) 113 394 7783 | Mobile +44 (0) 755 7 031 336

Appendix: Specific consultation questions

Q1 - coverage should be extended to, but also limited to, only those involved in a pension arrangement that derive their revenue from deductions from members' funds.

Q2 – use of the default fund for comparison purposes in itself makes sense – but in many cases (particularly, but not limited to, trust based arrangements) the default fund may not be known at the time of selecting a provider, because this may result from subsequent investment advice.

Q4 – yes

Q6 – we can see that for employers with little experience in relation to pensions that a benchmark comparator of charges would be useful; however we feel that NEST is not appropriate since it itself competes in this market. We would therefore suggest that use of a hypothetical scheme with an ongoing member charge of, say, 0.5% pa is the least worst option, though we believe that the implications of this require further consideration.

Q7 – the use of a single sample member is a great simplification, though extending this to various relevant sample members will complicate the production and understanding of the statement. So unless ways can be found to provide various illustrations based on a scheme's specific position – ie representative salary levels and contribution rates – then the proposal is again likely to be the least worst option. That said, the use of 8% of qualifying earnings is likely to be unrepresentative of the contribution structure in the arrangements of the majority of employers using our member firms. Clarity regarding how the sample employee characteristics are reviewed and changed over time would also be appreciated (presumably as part of the review of the overall Code).

Q8 – yes

Q9 – yes, we agree that the position both at the point of cessation of contributions and at retirement should be shown. This will assist not only in relation to formal active member discounts but also those arrangements that make a deduction from each and every contribution made. The additional sentence does provide more clarity around the use (and impact) of active member discounts and we are supportive of this additional visibility.

Q12 – use of SMPI technical assumptions would on the face of it provide consistency; however recent changes to the SMPI requirements under TM1 v2 mean that this consistency may be illusory. For example, different providers assuming different investment returns for similar asset classes or adopting different modelling approaches for similar "lifestyle" strategies (which may well be the most likely default fund strategy). Actuaries involved in setting accumulation rates for SMPI illustrations may also be required to ensure compliance with the Technical Actuarial Standards, which may in turn provide additional complexity and costs in some circumstances, which we believe would not be the intention of the Code of Conduct. We also refer you to our answer to Q2 which points out that the default fund may not have been finalised at the point of selecting the provider, thus making it difficult to set an appropriate investment return assumption(s).

Given the focus of the projections is on transparency of charges rather than, say, choice of the specific default fund, and given simplifications must be made in any such projections, which will always result in limitations as to the appropriateness of such illustrations, we would suggest a simplified approach of an assumed single investment return. This would also ensure that the Charges Guide can be restricted to two pages, by ensuring that the economic and growth assumptions are prescribed rather than requiring an additional disclosure piece.

Q13 – we support option 1.

Q15 – the use of a “suitably qualified senior named person” for sign-off of the projection methodology needs further consideration regarding the impact on professional requirements. For example, as mentioned in Q12, actuaries may be required to provide more information in order to comply with Technical Actuarial Standards, depending on the extent of prescription in the calculation methodology.

Q16 – as already noted – any and all charges which are deducted from members’ funds should be included in the comparison, but those met directly by the employer should be kept entirely separate.

Q19 – we are concerned that any attempt to summarise the extent of services included in the charges will inevitably be unrepresentative and open to interpretation. We therefore prefer an alternative approach that uses the a format similar to option B but with greater opportunity for notes/free text in description of the services.

Q20 and Q21– few providers in the wider market operate standard pricing and so any requirement to display a Charges Guide on their website will be difficult and ultimately unhelpful.

Q22 – As above – applying the code to occupational schemes, tied to a single employer and not competing in the market place, makes little sense to us since any comparison is hardly comparing like with like.

Response by:

The Association of Consulting Actuaries
St Clement’s House
27-28 Clement’s Lane
London EC4N 7AE
020 3207 9380

Contact: Paul Macro
paul.macro@mercer.com
+ 44 (0) 113 394 7783 | Mobile +44 (0) 755 7 031 336

4 July 2012