



ASSOCIATION OF CONSULTING ACTUARIES

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Dear David

**Consultation: Disclosure of costs, charges and investments in DC occupational pensions**

I am writing on behalf of the Association of Consulting Actuaries in response to the consultation on the disclosure of costs and charges, and investments.

**Part 1: Disclosure of costs and charges**

**QO1. The proposed Regulations on costs and charges apply to the same schemes to which the existing requirements to assess charges and transaction costs and to prepare an annual governance statement applies currently. Do you agree with this proposal?**

Yes, except that AVC arrangements which are currently accepting contributions should be subject to some form of disclosure even if not the full requirements proposed.

**QO2. We propose that:**

**The Chair's Statement should be extended to include the actual charges and transaction costs for each default arrangement and any alternative fund choices.**

**Do you agree with this proposal?**

Yes, we think this is a reasonable step.

**QO3. We propose that cost and charge information should be:**

**(a) Published annually;**

**(b) The responsibility of the scheme trustees or managers to publish;**

**(c) At the discretion of trustees and managers of where to publish, as long as it is publically available and can be indexed by major search engines.**

**Do you agree with these proposals?**

Yes, except we think it should be made available to all scheme members rather than publically available. This is because we agree that transparency for scheme members is desirable, however making the information publically available invites comparisons across schemes by those who may not necessarily realise that they may not be comparing like with like.

**Q04. We recognise that how the information is contextualised and presented to members is important.**

**We therefore propose:**

**(a) that the ‘default investment strategy’ and ‘Costs and charges and value for members’ sections be published to provide appropriate contextualisation to the cost and charges information;**

**(b) that schemes are required to show the cumulative effect of costs and charges over time, as set out in the draft Statutory Guidance.**

**Do you agree with these proposals?**

We agree that it is important to provide context for the information being disclosed, and that illustrations will aid understanding of the information.

We support the flexibility of the approach being set out in the guidance as this will allow schemes to allow for their own idiosyncrasies and encourage development of more innovative ways of presenting this information.

In terms of allowing for transaction costs, we understand the desire to ensure that **all** costs and charges are disclosed. However, transaction costs and the future rate of investment return are inextricably linked. The proposed illustration will make transaction costs appear somehow independent of the rate of return. This is misleading. Given the investment return is a very imprecise estimate at best, providing this type of illustration using an investment return **net** of transaction costs is the clearest approach.

Transaction costs should then be illustrated separately from this illustrative example, and given context by some kind of comparative rating (low, medium, high). This will allow members to see that a particular fund has, for example, high transaction costs, but perhaps a higher expected return as well.

**Q05. We propose that a web link to the location where cost and charge information for their pension scheme can be found is given to members as a matter of course when they receive an annual benefit statement. Do you agree with this proposal?**

Yes.

**Q06. Is any further guidance or support required to achieve to meet the proposed regulatory obligations in the proposed Statutory Guidance?**

We have no comments to add at this stage, however we believe this should be kept under review as the practicalities of implementing the new obligations bed in.

**QO7. Do you agree with the proposed penalty regime?**

Yes we agree it is reasonable to make the penalties consistent with the current system for the Chair's Statement.

**QO8. Do you agree with the proposal that trustees should only be required to provide a hard printed copy if it would be unreasonable for the individual to access the available information published online? Do you have any other evidence or thoughts about how these proposals will affect members of protected groups and what mitigations, if any, may be required?**

Yes we believe more and more members will expect to see this information online as standard. DC scheme members are almost exclusively of working age and likely to have the means to access the internet. The ability to request hard copies should be sufficient.

**QO9. Thinking about the current administrative processes undertaken by the scheme, can you give an indication of the additional time/costs of incorporating our proposals into existing process?**

The largest amount of time needed will be for the drafting and agreeing of the communications – in particular in light of the care required around setting context and the provision of examples.

This is likely to require a significant investment of time and consulting fees for Trustees to draw up good quality cost illustrations.

However, we would expect this to be a one-off exercise which will then require much less involvement to keep updated. More comprehensive revisions are only likely to be needed following significant changes to the overall investment strategy, provided that the frequency of future regulatory changes is kept to a reasonable minimum.

**QO10. Do the draft Regulations deliver our policy intent, or are there aspects which you believe will not deliver our objectives? Do you foresee any unintended consequences?**

We do not have any specific comments on the drafting of the proposed Regulations, which is not our area of expertise.

One unintended consequence of making the information fully public could be to provide information to scammers. It would be very easy to call members and be very knowledgeable about their current scheme whilst offering a "better" deal to transfer into.

**QO11. Are there any other proposals in this consultation on which you would like to offer comments?**

The illustrations of charges should give consideration to the fact that members at different stages of lifestyling will be subject to different charges. This could be achieved by providing different examples at different stages of the member journey, however this will need to be balanced against the risk of providing too much detailed information.

The current proposals will also lead to inconsistencies between the treatment of target date funds and lifestyle strategies. Under the proposals the trading costs incurred while de-risking under a lifestyle strategy will be excluded from disclosure. However, as these costs are incurred within the fund in a target date approach they will be included in the disclosures. This will make target date funds appear more expensive even though the underlying strategy may be the same.

We believe that a more important issue in ensuring good outcomes for members is the level of saving rather than a narrow focus on charges. We would strongly endorse an additional requirement to illustrate the projected impact of the member making a regular extra contribution. This would be a more positive illustration that could encourage further saving and achieve a better outcome for members.

## **Part 2: Disclosure of investments**

**QO12. Do you believe that members, and recognised trade unions should have the right to request this information and that the requirement to disclose this on request is proportionate?**

We agree that this seems a reasonable requirement.

**QO13. Do you agree with the proposed timing and penalties for pooled fund disclosure on request? Do you agree with the policy that trustees should disclose the pooled funds invested in over the previous scheme year? If not, what alternatives would you propose?**

We agree that schemes should be allowed to disclose funds invested in over the previous year for compliance.

However, where schemes are already providing up to date information freely available to members (for example via online access) this should be sufficient to meet the new requirements. It would be very unhelpful for schemes that are already providing fully transparent information to have to undertake further work to bring them in line with schemes that are “behind the curve”.

**QO14. Do you agree that restricting disclosure on request to only the pooled funds in which members were directly invested is more helpful to members and less burdensome to trustees?**

Yes.

**QO15. Do you agree with our proposed policy on disclosure of top-level pooled funds only, combined with ‘look through’ of unit-linked contracts and mandates to the ‘first tier’ of underlying pooled funds?**

Yes.

**QO16. Are there any circumstances where trustees and scheme managers would not be aware and would be unable to obtain information about the pooled funds in which their members are directly invested?**

We believe this information should be freely available.

**If there are circumstances in which they are unaware, please clarify how trustees remain compliant with their fiduciary duties in these scenarios.**

**QO17. Do you agree with our proposal that schemes should give standard information about the availability of further information about pension scheme investments in the annual benefit statement?**

Yes.

**Are there any reasons why this requirement would be burdensome or undesirable?**

No.

**QO18. Thinking about the current administrative processes undertaken by the scheme, can you give an indication of the additional time/costs of incorporating our proposals into existing processes?**

We believe other respondents will be better placed to answer this question comprehensively.

**QO19. Are there any areas where the regulations do not meet the policy intent?**

We are not aware of any specific issues.

**QO20. Are there any other proposals in this consultation on which you would like to offer comments?**

Many schemes “white-label” their funds which allows them to keep the strategy / manager selection updated to reflect the trustees’ current best views. This is a very positive feature which allows schemes to make changes without undertaking a full member communication exercise each time.

If schemes are made to disclose the underlying constituents as proposed, then it should be made clear that this does not mean that changes would then have to be communicated to members or consent sought.

Yours sincerely

*Hugh Nolan*

**Hugh Nolan**

Chairman, DC Committee

On behalf of the Association of Consulting Actuaries Limited

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

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