Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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This is the Financial Services Consumer Panel's response to the Financial Conduct Authority's (FCA's) consultation on 'Charges in workplace personal pension schemes'.

The Panel broadly welcomes these proposals as they attempt to address some of the deficiencies exposed by the Office of Fair Trading's market review[1], and more recently the Consumer Panel's own research[2] which revealed the need for structural reform including improved governance and transparency in the pension market.

As a matter of principle the Panel believes that, where appropriate, the regulatory obligations which apply to trust based schemes should be aligned with those that apply to contract based schemes. While we accept that dual regulation will continue into the foreseeable future, consistency and standardisation will go some way in improving clarity to providers and consumers, and more importantly should help to limit regulatory arbitrage.

Scope

The Panel notes that the charge cap will not apply to certain defined ambition schemes where a third party promise applies. It will also not, at this stage, apply to non-workplace pensions. There are likely to be non-qualifying schemes where there may be excessive charges and therefore consumer detriment. At the very least we would like to see an action plan which outlines how consumers in these schemes would be protected.

Charge Cap

The Panel understands the rationale behind imposing a charge cap for default funds in all personal pension schemes and stakeholder schemes that employers

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[1] Defined Contribution Workplace Pension Scheme Market Study, Sept 2013. http://webarchive.nationalarchives.gov.uk/20131101164215/http:/www.oft.gov.uk/shared_oft/market-studies/oft1505

[2] Investment Cost – More than meets the eye, Nov 2013. http://www.fs-cp.org.uk/publications/pdf/investment_discussion_paper_investment_cost_and_charges.pdf

use as ‘qualifying schemes’. The panel believes that it is important that those who choose schemes, and those who are the beneficiaries, are not exposed to excessive and unfair charges. A charge cap is the method by which the Government has chosen to give some protection to members. However, if the charge cap excludes significant costs which are ultimately borne by the member it will fail to meet the objectives being set. Research by the DWP has shown that employers are often oblivious to the way costs and charges are allocated and the demand side of this market is thus extremely weak.

The Panel has consistently argued that, without a clear idea of all the costs and charges associated with investing capping costs will be ineffectual; you can only cap what you know. Providers may well get around the impact of the cap by raising other non-capped charges: the “waterbed effect”. As importantly, consumers and their representatives’ e.g the new Independent Governance Committees (IGCs) cannot make informed judgements about value for money without full knowledge of all costs. While there may be some merit in capping costs, we urge the FCA to channel increased effort to ensuring full transparency where costs are concerned. It would be an error if the full impact of all costs and charges is not reflected by policy decisions.

We are concerned with the FCA’s assertion that it will be ‘straightforward’ for firms to measure their charges against a cap of 0.75% p.a. We envisage some difficulties given that disclosed charges are far from comprehensive, and that certain undisclosed costs are not known by fund managers, as our research revealed. We would therefore like to see IGCs empowered with prescriptive powers to request information relating to all costs, and for the Chair to report on this in the IGCs annual report. This requirement replicates those made for trustees in the Department for Work and Pensions report.

The Panel does not agree with the long list of list of exclusions from the charge cap. This will only serve to divert costs to the excluded areas – the waterbed effect, and make the full charges even more difficult to assess.

Active member discounts

The Panel agrees that higher charges for individuals who are not actively contributing to a scheme e.g should be prohibited. The Panel also agrees that employers should not be prevented from paying charges on behalf of their employees.

Yours sincerely

Sue Lewis
Chair
Financial Services Consumer Panel