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Dear Mike,

DWP Consultation on capping early exit charges for members of occupational pension schemes

This is the response of the Financial Services Consumer Panel (the Panel) to the DWP's consultation on capping early exit charges for members of occupational pension schemes.

We support the DWP's decision to operate a cap for early exit from occupational pension schemes, as this will give consistency with the FCA cap for personal pension schemes. We would also encourage the government to extend the cap to under-55s to encourage switching to more efficiently charged schemes.

The consultation document explains the government took into account research showing that 70% of consumers favoured a legislative cap. It is not clear why the government, and the FCA, did not also consider and assess the possibility of a flat rate cap, perhaps graduated by fund value, alongside the proposed cap based on a percentage of the fund value.

The government has recognised a wide range of fees can make up an early exit charge and the contractual terms don't always make clear which components are included. We encourage the government to do further work to understand more about these contractual terms. We also encourage the government to monitor occupational pension schemes following the introduction of the cap, to ensure they don't introduce general price rises to compensate for the introduction of a cap.

We are encouraged that the DWP has decided to include terminal bonuses in the definition of an early exit charge and recognise that members may be entitled to these bonuses as a result of an express entitlement or as a reasonable expectation arising under the scheme. However, we still believe Market Value Adjustments (MVAs) should be brought under the definition of an early exit charge. As we have said previously¹, *"the opacity of MVAs and their application have long been a bone of contention for consumers. From the consumer perspective, the only number that matters in the pounds and pence they pay to exit a scheme"* – MVAs will still act as a deterrent to consumers accessing the pension freedoms.

¹ FSCP Response to HM Treasury's Consultation on Pension Transfers and Early Exit Charges, October 2015: https://www.fs-cp.org.uk/sites/default/files/fscp_consultation_response_-_pension_transfers_and_early_exit_charges.pdf

Yours sincerely

Sue Lewis
Chair
Financial Services Consumer Panel