Please reply to:

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14 November 2014

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Private Pensions Policy and Analysis
Department for Work and Pensions
1st Floor, Caxton House
6-12 Tothill Street
London
SW1H 9NA

Dear Sir,

Consultation: Better workplace pensions: Putting savers' interests first

I am writing on behalf of the Pensions Committee of the 100 Group of Finance Directors with regard to the above-named consultation.

The 100 Group represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent almost 90% of the market capitalisation of the FTSE 100, collectively employing over 7% of the UK workforce and in 2011 paid, or generated, taxes equivalent to 13% of total UK Government receipts. Our overall aim is to promote the competitiveness of the UK for UK businesses, particularly in the areas of tax, reporting, pensions, regulation, capital markets and corporate governance.

General comments

As we have set out in our previous responses to consultation issued by both the Department for Work and Pensions and the Pensions Regulator on the regulation of DC schemes, we agree with the overall intention of improving DC governance standards. We expect that the schemes sponsored by 100 Group companies would largely comply with the proposed quality requirements already and believe that it is primarily small DC schemes which have significant problems with effective governance and therefore at which new governance and transparency standards should be targeted.

There is, however, a risk that the proposals contained in this consultation paper could end up becoming a largely redundant compliance exercise for large schemes, whilst not necessarily improving standards in smaller schemes. It is therefore very important that the new requirements, in particular the reporting requirements, are introduced proportionately and avoid an undue burden on schemes which are already achieving a high standard of governance. If the reporting requirements prove to be bureaucratic and of little value, there is a risk that employers will move towards 'minimum compliance' schemes to reduce the compliance overhead.

The proposals also risk creating a disparity of treatment between contract-based and trust-based schemes (especially given that the IGCs proposed for contract-based schemes will not have the same relationships with sponsoring employers or the same legal responsibilities as the trustees of trust-based pension schemes).

Annual governance statement

We continue to have considerable concern about the proposals for the chair of the trustees to sign an annual governance statement. We are sceptical as to whether this requirement would lead to a significant benefit for the members of the scheme and fear that it could lead to non-trivial costs being introduced on well-governed schemes simply in order to demonstrate that they are well-governed. It is not clear that an annual governance statement would add any value where trustees already have a high quality governance structure, with clear delegation (including sub-committees) and reporting lines and a regularly updated risk register.

In particular, we are concerned about the requirement for the statement to ‘explain the trustees’ or managers’ assessment … of the extent to which the charges and transaction costs represent good value for members’. We do not believe that it is the responsibility of the trustees to make such an assessment on behalf of members. The role of the trustees should rather be to ensure that the scheme has high quality governance in respect of the selection and communication to members of the risk/reward profile for their investment strategy, and clarity over the associated charges.

Unlike the other items to be disclosed within this report, this is a subjective assessment on which individual trustee boards (and indeed individual trustees on the same trustee board) might make different judgements. This means that trustees (and especially the chair of trustees with the responsibility for signing the statement) are likely to feel the need to take legal (and possibly other) advice before they are prepared to agree to the statement.

The existence of a statement that the charges represent ‘good value’ for members may also leave trustees (and especially the chair) exposed to complaints from members in future, who find themselves disappointed with the size of their fund at retirement and complain that they had been reassured by the trustees that their pension pot was ‘good value’. Whilst such complaints may not succeed in court, no trustee would want to expose themselves to disgruntled members in such a way.

We would therefore urge you to restrict the contents of the annual governance statement to measures that can be disclosed objectively and which will therefore be less open to challenge.

I trust that these comments are useful. Please let me know if you would like to discuss them in more detail.

Yours faithfully,

José Leo
Chairman
The 100 Group – Pensions Committee