

Please reply to:

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9 September 2013

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Ms Polly Fortune  
Department for Work and Pensions  
1<sup>st</sup> Floor, Caxton House  
6-12 Tothill Street  
London  
SW1H 9NA

Dear Ms Fortune,

**Call for evidence: Quality standards in workplace defined contribution pension schemes**

I am writing on behalf of the Pensions Committee of the Hundred Group of Finance Directors with regard to the above-named call for evidence.

The Hundred 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. While this letter expresses the views of The Hundred Group of Finance Directors as a whole, they are not necessarily those of our individual members or their respective employers.

We understand the DWP's desire to ensure that individuals are automatically enrolled and (under current proposals) will be automatically transferred to defined contribution (DC) schemes that meet certain minimum quality standards. However, we have considerable concerns that the DWP's proposals could place disproportionate burdens on employers providing DC schemes. Under the proposals set out in the call for evidence, employers could end up facing new burdens for their DC schemes akin to some of those that they already face in respect of their defined benefit (DB) schemes.

**Regulation of providers not schemes**

The DWP's approach to ensuring that schemes meet appropriate standards appears to be to impose specific quality requirements on individual schemes, effectively micro-managing governance and administration on a scheme-by-scheme basis. An alternative approach would be to place more emphasis on the appropriate governance and regulation of providers rather than having an additional layer of regulation at a scheme level.

For example, in a contract-based context, if an insurance company product were to meet certain requisite tests, then the DWP (and employers) could have more confidence in the product and its appropriateness for automatic enrolment and automatic transfers without the need to introduce a wide range of additional quality requirements at an individual scheme level.

Similarly, if a trust-based scheme uses a default fund provided by an insurance company, if the fund satisfies a certain defined quality level, the trustees should be able to rely on that fact. Again, trustee boards should be able to rely on the external financial audit and controls of their administration provider, without being required to replicate the testing on an individual scheme basis.

### **Requirement for a governance body**

In particular, we are not persuaded by the proposed requirement for all schemes (including contract-based schemes) to be overseen by a governance body with a duty to act in members' interests. Whilst this is a model that may work well for some contract-based schemes (and the employers providing them), in other cases the employer may wish to take a back-seat role in managing their scheme, leaving the day-to-day management of quality standards to the provider they have selected. So long as the product itself meets certain quality requirements and the employer (or an adviser appointed by them) reviews their provider on a regular basis (say every three years), there seems no need for employers to be required to have an ongoing governance committee as well.

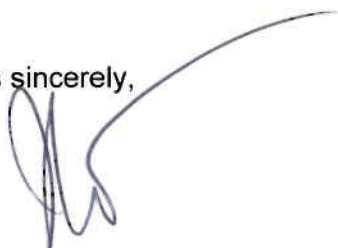
We also note that it is proposed that the governing body for multi-employer schemes should be required to have a majority of independent representatives. In particular, there is a comment that 'member nominated representatives are not generally considered appropriate for multi-employer schemes'. We assume this is intended only to apply to industry-wide schemes where the employers are unconnected. There does not appear to be any rationale for considering member representation inappropriate where connected employers participate in the same scheme or for requiring a majority of independent representatives in such cases.

### **Conclusion**

Over-regulation has been one of the reasons driving many employers to abandon DB provision. By contrast, the new employer duties regime will mean that employers cannot avoid DC provision altogether, even if the DWP proceeds with imposing additional regulatory burdens on employers with DC pension schemes. We fear, however, that over-regulation in the DC sphere could mean that employers face considerable additional governance and administration costs, for little or no benefit to members and could even lead employers to restrict their DC provision to options that only just meet the minimum standards (in terms of both quality and contribution level) and no more.

I trust that these comments are useful.

Yours sincerely,



**Jose Leo**  
*Chairman*  
*The Hundred Group – Pensions Committee*