



Please reply to:

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Private Pensions Policy and Analysis  
Department for Work and Pensions  
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6-12 Tothill Street  
London  
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Dear Sir,

**Consultation: Better Workplace Pensions: Further Measures for Savers**

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

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.

**Headline comments**

In general, we agree with the overall intention of the proposals, which is to improve governance standards in DC schemes. We expect that the schemes sponsored by 100 Group companies would largely comply with these quality requirements already and note that it is primarily small DC schemes which have significant problems with effective governance and therefore at which the new quality standards should be targeted.

We think that there is a risk that the quality requirements could end up becoming a largely redundant (but not cost-free) compliance exercise for large schemes, whilst not necessarily improving standards in smaller schemes. It will therefore be very important that the new requirements, in particular the reporting and disclosure requirements, are introduced proportionately and avoid an undue burden on schemes which are already achieving a high standard of governance.

## **General comments**

We have a couple of general comments about the consultation:

- (a) There appears to be some confusion as to which requirements apply to trust-based schemes and which to contract-based schemes. For example paragraph 5 on page 11 refers to a requirement for the majority of individuals on the governing body and the chair to be 'independent' of the pension provider. We believe that this requirement is aimed at IGCs and that there is no intention to change the existing requirements for member-nominated and employer-nominated trustees (which could lead to a radical reshaping of trustee boards).
- (b) We would also note that the proposed requirements for governance and disclosure are likely to need to be amended to take account of the revised IORP directive when implemented.

Our response is focused on Questions 6-11 (mastertrusts are not a particular issue for most 100 Group companies). We have not responded to all the individual questions, but have structured our response in a similar order to the consultation paper.

## **Trust-based governance (Questions 6-9)**

We believe that schemes sponsored by 100 Group companies would generally already meet most or all of the requirements specified in the document. In some cases, the requirement to assess the level of charges and investment costs may require further investigation to that which is currently done, which would be likely to lead to additional time and cost burdens.

### Designing default strategies in members' interests

Whilst we do not challenge the principle that default strategies must be designed in the interests of members and should state how these are appropriate for the membership, we question how easy that will be to achieve given the wider range of possibilities that have now been opened up following the Budget announcement re DC flexibility. The DWP's guidance in this area will clearly need to be reviewed.

### Assessing charges

It is clearly important for DC scheme trustees to keep a close eye on the level of charges and investment costs, although the level of transaction costs will depend on the nature of the investment fund. On the other hand, some trustees might challenge the apparent centrality given to assessing charges rather than to considering overall member outcomes.

The Command Paper stresses that charges should be 'fair and only relate to services that add value to their pension saving'. In practice, it might be hard to argue that all the services provided to a pension scheme do add value to pension saving. For example, it might be argued that audit fees are charged to satisfy regulatory requirements rather than to add value for members. Equally, if the proposals in the revised IORP directive for DC schemes to appoint a single depositary come into force, it would be hard to argue that the additional costs add value to members' savings.

We would also note that many of the charges faced in a pension scheme arise from complying with additional UK or EU regulatory requirements. Arguably, meeting the costs of regulatory compliance does not always add value to pension saving. Once the charges cap

is in place, it will be even more imperative for the Government to be conscious about the justification for introducing additional requirements (and therefore additional charges).

#### Trustee knowledge

The idea that those running pension schemes should be well-informed and competent is clearly essential. We note that the Command Paper does not include any requirement for trustees or those managing pension schemes to have 'professional' qualifications (although this was floated in the earlier consultation).

Instead it is for the trustee board as a whole to 'have, or have access to, all of the knowledge and competencies necessary'. This potentially opens up a conflict with the requirement in the revised IORP directive for those running pension schemes to have appropriate professional qualifications.

#### Reporting requirements

We are sceptical as to whether the requirement for the Chair of Trustees to make a formal report in the scheme's Report and Accounts would lead to a significant benefit for the members of the scheme (especially given that few members ever look at the full report). Depending on the length and complexity of the report required, this could see non-trivial costs being introduced on well-governed schemes simply in order to demonstrate that they are well-governed.

It is important that the scale of any such reporting requirement is proportionate to the likely benefit of the measure. 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.

#### **Transparency for DC schemes (Question 10)**

Please see the section above for our response on the requirement from April 2015 for chairs of trustees to make a formal report on costs and charges in the scheme's Report and Accounts.

It is even more important that the proposed longer-term requirements for the disclosure of complete, comparable and consistent information on all costs and charges should also be kept proportionate. Providing information in a comparable format may not help if employers (or members) are comparing different types of schemes or funds. There is a risk that, if disclosures become too complex, they will not only lead to significant additional costs to produce, but also will risk obscuring the key messages

#### **Transparency for DB schemes (Question 11)**

We agree that employers should be able to scrutinise the costs and charges of their DB schemes and that such a measure could provide employers with additional oversight on costs, potentially enabling to control them more effectively. In practice, we expect that many employers with DB schemes will already have mechanisms in place to do this, given that it is employers who effectively underwrite the investment risk and therefore who already have a keen interest in minimising investment management and administration costs. In many schemes, the employer may already meet some of the costs directly outside the pension scheme.

There may therefore be more of a need for such a requirement in the case of multi-employer schemes where individual employers have less control over the charges and costs that are being incurred.

If requirements for transparency on costs and charges are introduced to DB schemes, we do not think these should apply to disclosure to members. It is not relevant for members of DB schemes to know the costs that are being incurred by the employer, and therefore the costs of producing any disclosures would be without any benefit to members at all.

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

Yours faithfully,

A handwritten signature in black ink, appearing to read 'José Leo', with a long, sweeping line extending from the end of the signature towards the top right of the page.

**José Leo**  
*Chairman*

*The Hundred Group – Pensions Committee*