



The Money Charity Response - FCA Consultation Disclosing Costs and Charges to Workplace Pension Scheme Members (May 2019)

The Money Charity welcomes the opportunity to comment on the FCA's Consultation Paper CP19/10, *Publishing and disclosing costs and charges to workplace pension scheme members and amendments to COBS 19.8*.

The Money Charity is a financial capability charity whose vision is to empower people across the UK to build the skills, knowledge, attitudes and behaviours to make the most of their money throughout their lives.¹

Complementing our financial capability work we engage with financial services regulation, as the design, pricing and communication of financial products have a direct bearing on people's ability to behave in financially capable ways. As part of our offer we run pensions workshops for employees of commercial and public sector organisations and these workshops give us an understanding of scheme members' information needs.

Effective disclosure of the costs and charges of workplace pension schemes is key to achieving better value for money for scheme members. For this information to be

¹ See box on back page.

meaningful, it must be provided to members in a prominent and easy-to-understand form.

Key Points

- We support the progress made in disclosing pension scheme costs and charges, as far as it goes.
- We think it essential that a statement of costs and charges applicable to an individual member's pension savings should be included in the topline annual statement sent to the member.
- In our view, it is not sufficient to rely on a web link, as it is unlikely that many scheme members will follow such a link. If pension costs and charges remain unseen by most members, the disclosure rules will not have the impact sought by the FCA.
- In websites and apps giving members live updates of their scheme value, the impact of costs and charges on their individual account should be shown.
- The FCA should consider developing a costs and charges standard measure, similar to the proposal to encourage consumers to use APR to compare overdraft costs. This would give scheme members a quick way of comparing the costs and charges of different pension schemes.

Responses to Consultation Questions

Q1 Do you agree that we should, where appropriate, mirror DWP's approach in making our rules?

As set out in CP19/10, the *Government's response to a consultation on the draft Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018*² and the Explanatory Memorandum to the same regulations³ progress has been made on a disclosure regime for costs and charges of pension schemes, with The Pensions Regulator having responsibility for trust-based schemes and the FCA for contract-based schemes, both of which form large parts of the UK workplace pension scheme landscape.

We support this progress. In our view it is vital that scheme members are aware of the costs and charges deducted from their pension savings, as the ultimate value of their

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/684664/government-response-to-disclosure-of-costs-charges-and-investments-in-dc-occupational-pensions-consultation.pdf

³ <http://www.legislation.gov.uk/uksi/2018/233/memorandum/contents>

savings is significantly influenced by the level of charges, whether these are transaction charges, management costs or other charges. Such charges should not be hidden, but should be explicit and accurately quantified.

Disclosure is necessary not only in principle, but to encourage effective competition and scheme responsiveness to member needs. If scheme members see that costs and charges are too high, they can shift their savings to other more efficient funds, or put pressure on scheme managers and trustees to get better outcomes.

While we support the progress made, we disagree with one important aspect of the proposed approach. As we read the DWP rules and FCA proposals,⁴ scheme members will be pointed to a web link in order to access a statement of costs and charges. In practice, this is a significant barrier. It will not be apparent to many scheme members why they should follow this link. It takes effort to do so, and people have other priorities. If they do follow the link, they may find that information is presented in ways that require a certain level of technical knowledge, which they may not have.

In our view, the “one step removed” approach to information disclosure will undermine, possibly fatally, the achievement of the declared aims of policy.⁵

We recommend that the headline costs and charges figure be included in the simplified annual statement sent to scheme members. A more detailed breakdown and explanation can be provided via a web link, but the topline cost needs to be shown in the topline statement of the value of the individual account. Scheme members should be able to see the impact of costs and charges on the value of their individual savings pot. Only then will costs and charges have sufficient visibility to spur members to ask questions or consider action.

In simple terms, the change in value of a pension fund in the course of a year equals contributions plus investment earnings plus changes in market value minus costs and charges. The balance at year end is the balance of the previous year adjusted for the changes that occur in the course of a year.

From a financial capability point of view, these are the numbers that need to be seen clearly and simply by scheme members. These numbers give scheme members the information they need to do a mental check on the movements in the value of their fund(s), to see whether costs and charges seem fair in relation to the value of the fund and to make further enquiries if necessary.

Pension schemes increasingly give members access to live updates of their pension savings via website or app, so we recommend that, in addition to paper statements, the

⁴ As in proposed rule 19.5.13R.

⁵ FCA DP19/10, page 8.

topline costs and charges number be part of the topline presentation of current individual fund value in website and app presentations. Again, more detailed information can be available by clicking deeper into the application, but to have practical effect, costs and charges need to be in the topline presentation of the value of the member's individual account.

Further, we think the FCA should develop a costs and charges standard measure similar to the proposal to encourage consumers to use APR to compare overdraft interest rates.⁶ If there is a standard measure that can easily be compared between funds, this will assist members make sound choices.

Q2: Do you agree with the proposed structure and scope of our new provisions?

No comment.

Q3: Do you agree with our proposed approach to requiring scheme governance bodies to publish costs and charges information about a relevant scheme?

Yes.

Q4: Do you agree with our proposed approach to giving members and certain others costs and charges information about a relevant scheme?

We agree with the proposed approach as far as it goes but, as set out in our answer to Question 1, we think it vital that in addition to a web link, **the topline number for costs and charges is included in the annual pension statement sent to scheme members**. Because of well-known human behavioural traits, we would not expect many scheme members to follow a web link to look at a costs and charges document. This will only appeal to specialists or people with particularly high pension engagement.

To make costs and charges an active element in the consciousness of most scheme members, they need to be disclosed in the topline statement.

Further, we recommend that annual statements including cost and charge information are consumer-tested by pension fund managers to make sure that a high level of comprehension is achieved. This testing should be part of FCA rules.

In this regard, we refer the FCA to the recent conclusions of the House of Commons Treasury Committee Report on *Consumers' access to financial services*, in particular to paragraphs 165-170, "Use of plain English to simplify communications", which show that

⁶ <https://www.fca.org.uk/news/press-releases/fca-announces-proposals-fundamentally-reform-way-banks-charge-overdrafts-and-extends-protections>

it is both desirable and possible to design communications that ordinary customers can understand.

Paragraph 170 of the Committee's report is addressed directly to the FCA:

“The Committee recommends that the FCA issues guidance to all financial services providers instructing them to ensure that all their communications with their customers—especially terms and conditions—are written in language that an average consumer can read and understand in full. The FCA should consider reviewing progress made by firms on simplifying their terms and conditions on a regular basis. The Committee will monitor FCA progress on this matter in future evidence sessions.”

While the Committee emphasises T&Cs, the recommendation applies to “all communications with customers”, which includes annual pension statements.

Q5: Do you agree with our proposed implementation timetable?

We agree with the April 2020 date.

Q6: Do you agree with our proposed amendments to COBS 19.8?

No comment.

Q7: Do you have any comments on our cost benefit analysis?

No comment.

The Money Charity is the UK's financial capability charity providing education, information, advice and guidance to all.

We believe that everyone achieves financial wellbeing by managing money well. We empower people across the UK to build the skills, knowledge, attitudes and behaviours to make the most of their money throughout their lives, helping them achieve their goals and live a happier, more positive life as a result.

We do this by developing and delivering products and services which provide education, information and advice on money matters for those in the workplace, in our communities, and in education, as well as through influencing and supporting others to promote financial capability and financial wellbeing through consultancy, policy, research and media work.

We have a 'can-do' attitude, finding solutions to meet the needs of our clients, partners, funders and stakeholders.

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