Rt Hon Frank Field MP  
Chair, Work and Pensions Select Committee  
House of Commons  
London  
SW1A 0AA

18 January 2019

Dear Frank,

Work and Pensions Committee – Pension costs and transparency evidence session

Many thanks for your letter of 14 December, and for the opportunity to give evidence to the Committee and contribute to your ongoing inquiry into pension costs and transparency.

During the session we discussed the Competition and Markets Authority (CMA) investigation into the investment consultants market, and the subsequent reforms to the sector as a result of their findings. Given that our members are not directly affected by the CMA review, we are not best placed to comment directly on these changes. However, I hope that you will find the below information on the regulatory aspects and level of professionalism of small trust-based schemes helpful.

Regardless of the governance structure and size of a scheme, it is critical that it delivers good outcomes for savers. Small schemes can work well, but they are less able to benefit from economies of scale, for example in accessing professional services. They can therefore present regulatory challenges.

TPR has found that smaller DB schemes tend to display poorer governance standards, and perform worse than larger schemes on meeting the principles of TPR’s funding code, particularly around taking and managing risk. Similarly, TPR’s approach to Master Trust authorisation has reduced the number of Master Trusts and we expect to see further consolidation in that market. A more extreme example is that the Government is due to legislate to limit the statutory right to transfer into an occupational scheme where there is no employment link, due to concerns about small (especially single member) occupational schemes being used as vehicles for dubious investments. More widely, smaller schemes are less likely to be able to provide data to pensions dashboards, and may take longer to administer pension transfers.

There are measures that could be taken to professionalise schemes. For example, prior to 2006, it was compulsory for schemes to have a professional, known as a ‘pensioneer’, trustee. Lessons can also be learned from other jurisdictions, such as Australia, where small schemes must merge or justify why they should not merge.

We welcome the joint pensions strategy by the FCA and TPR which should drive a consistent view between the regulators on good outcomes, good governance and value for money, including service standards. We hope this will help drive up standards in smaller schemes where required.

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I hope that the above is helpful, and very much look forward to receiving the findings of the Committee’s inquiry. In the meantime, we would of course be happy to assist the Committee further in this or other areas of your work.

Best wishes,

[Signature]

Dr. Yvonne Braun
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