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To: Secretaries of Local Government Branches  
Regional Heads of Local Government

16 November 2017

**Consultation by the Department for Work and Pensions – Costs, Charges made against the pension fund of Defined Contribution schemes. And the assets owned by members**

This briefing and consultation is for members, activists and officers who are in or negotiate defined contribution pension scheme. It is not for members who are in the NHS, or Local Government Pension Scheme or a defined benefit scheme.

**Key Issue: Costs and charges take place when your pension contributions are invested. They can take out a lot of money from your individual pot of cash and assets leaving you with less to live off when you retire. In order to ensure you get the best out of the investments you must know the costs being taken from you.**

We would like UNISON members and negotiators to make a contribution to this consultation by contacting the officer above. There are a set of questions for you to address further down this document or you can make some general comments.

**Consultation has commenced finishes on 7 December.**

Further information on this subject and another opportunity to respond electronically can be found at the UNISON web page: <https://www.unison.org.uk/get-help/knowledge/pensions/pensions-governance/dwp-consultation-costs-charges-made-defined-contribution-pension-schemes/>

**You can also make one directly to government by contacting:** David Farrar Private Pensions and Arms Length Bodies Directorate Department for Work and Pensions 1st Floor, Caxton House Tothill Street London SW1H 9NA Email: [Pensions.disclosure@dwp.gsi.gov.uk](mailto:Pensions.disclosure@dwp.gsi.gov.uk) or on line at:

<https://getinvolved.dwp.gov.uk/pensions/improving-disclosure-of-member-borne-costs-charges>

**Explanation: Defined contribution (DC) schemes:** An investment fund where all of the investment risk (eg falling value of shares on stock markets) is with the member. The employer pays a fixed amount of salary as does the scheme member. The fund is meant to grow and provide cash when the member retires. There is no benefit payment.

**Defined benefit (DB) schemes:** A type of pension where the amount an employee receives on retirement is pre-determined, and is often calculated on the basis of the employee's final salary/average salary and length of service.

### **Pension provision in the UK is changing**

Pension provision in the UK is moving from Defined Benefit to Defined Contribution. Automatic enrolment is expected to see 10 million people newly saving or saving more into a workplace pension scheme by 2018. Many UNISON members will be auto enrolled into a DC scheme or they may have had their DB scheme replaced by DC.

### **What the government has said**

"Engaged pension savers need to be able to find information about costs and charges, to satisfy themselves that they receive good value for money from their pension, and it will meet their needs for future retirement. The Government has a legal duty to make regulations which ensure that information on costs and charges information is provided. The Government also considers that members have the right to know where their money is invested, where it is proportionate for trustees and managers to tell them".

#### **1. Government consultation on reporting Defined Contribution Pension Schemes Costs, Charges and Assets"**

The government has launched a consultation on the above, we will be making a submission on behalf of the union and we would like to hear your views. You may also make a contribution yourself.

### **Purpose of the consultation**

The purpose of this consultation is to seek views from UNISON members and negotiators on how pension schemes publish information about cost and charges and tell members where they can find it. It also asks for your views on policy proposals and draft regulations for trustees and managers of your pension schemes to provide information, if you ask for it, about the funds in which your money is invested.

**The key objective in requiring disclosure and also publication of charges and transaction costs is to assist members and negotiators understand how to increase the amount of money members have to live on. Publication of charge and transaction cost information will enable UNISON negotiators to compare the value for money they are receiving with their peers and other schemes.**

The Government is proposing:

- that the requirement introduced by law – to publish charge and transaction cost information and disclose this to members, **beneficiaries of the scheme and others including recognised trade unions** – should apply, subject to a small number of exceptions, to schemes that provide DC provision
- that both the Chair of Trustee’s Statement and published cost and charge information should set out the costs and charges for each default arrangement and each alternative fund option which the member is able to select
- not to be prescriptive as to where costs and charges information is published as long as it is published on the internet for public consumption
- that trustees and managers should not only publish the cost and charge information, but also provide an illustration of the compounding effect of the costs and charges affecting their pensions savings
- that trustees and managers of occupational schemes follow statutory guidance to ensure they meet the regulatory requirements
- that trustees and managers should, as a minimum, publish costs and charges on a similar annual cycle to the Chair’s Statement, which must be produced alongside the scheme’s annual reports and accounts
- that the Chair’s Statement content relating to the default investment strategy and value for members should be published alongside the cost and charge information; and
- that each member who receives an annual benefit statement must also be provided at the same time with a web

**It is seeking comments on the following questions**

**As a member of a relevant DC pension scheme (or a representative of a relevant pension scheme member)**

1. **Does your scheme provide you, without asking, with information about the costs and charges that apply to your pension?**
  - (a) Yes
  - (b) No
  - (c) Don’t know

***If you answered ‘No’ go to Q16***

- 2. Do you understand the information that you currently receive?**
- (a) Yes
  - (b) No
- 3. How useful is this information?**
- (a) very useful
  - (b) quite useful
  - (c) not very useful
  - (d) not at all useful
- 4. What further action, if any, have you taken as a result of the information you received about the costs and charges in your pension?**
- 5. How could the information have been presented better?**
- 6. Have you ever requested any additional information about the costs and charges in your pension, beyond anything that is routinely provided by your scheme?**
- (a) Yes
  - (b) No

***If you answered 'No' go to Q10***

- 7. If you answered 'Yes', did you receive the information you requested from your scheme?**
- (a) Yes
  - (b) No
- 8. If 'Yes', how useful was this information?**
- (a) very useful
  - (b) quite useful
  - (c) not very useful
  - (d) not at all useful
- 9. Please explain your views.**
- 10. Do you know what level or amount of costs and charges are applied to your pension?**
- (a) I am confident I know all of them
  - (b) I believe I know most, but I am not certain
  - (c) I believe I know some
  - (d) No, I do not know any of the costs and charges
- 11. What additional information, if any, would you like your pension scheme to provide about the costs and charges that apply to your pension?**

**12. Please provide any other comments you have on our proposals or, if you have read them, our proposed Regulations.**

**2. Government consultation on disclosure of what investments members hold**

The government has requested views and evidence about the extent to which occupational pension schemes are currently able to make information available on investment assets to members, and recognised trade unions on request.

Member's pension investment pots will hold a variety of assets, but mainly company shares and government bonds. Company shares entitle the holder to attend and vote at company AGM's. Members may have their own ethical views on what companies they do or do not want to invest in.

The government is proposing that recognised trade unions have a broader role representing the employees of the employer which recognises them for the purposes of collective bargaining. And propose that recognised trade unions should be able to request information on all the top level funds invested in by the scheme on behalf of the employees whom the trade union represents.

**Questions for individuals on Investment disclosure**

**As a member of a relevant DC pension scheme (or a representative of a relevant pension scheme member):**

**Q1. Does your scheme provide you, without asking, any or all of the following information about the investment managers, investments and policies that apply to your pension?**

**The names of the investment managers**

**The names of funds in which your pension is invested**

**The stated aims of the actual funds**

**The top 5 to 10 holdings of the actual funds**

**How the investment manager engages with the firms in whom they invest**

- (a) Yes
- (b) No

**If you answered No to all of the above, go to Q6.**

**Q2. Do you understand the information that you currently receive?**

- (a) Yes, all of it
- (b) Some of it
- (c) A little of it
- (d) None of it

**Q3. How useful is this information?**

- (a) All of it is useful
- (b) Some of it is useful
- (c) A little of it is useful
- (d) None of it is useful

**Q4. What further action, if any, have you taken as a result of the information you received about investments in your pension?**

**Q5. How could the information have been presented better? 42**

**Q6. Have you ever requested the following additional information about investments in your pension, beyond anything that is routinely provided by your scheme?**

**The names of the investment managers**

**The names of funds in which your pension is invested**

**The stated aims of the actual funds**

**The top 5 to 10 holdings of the actual funds**

**How the investment manager engages with the firms in whom they invest**

- (a) Yes
- (b) No

**If you answered 'No' to all of the above go to Q10.**

**Q7. Did you receive the information you requested from your scheme?**

- (a) Yes, all of it
- (b) Some of it
- (c) A little of it
- (d) None of it

**Q8. If you received 'All of it', 'Some of it' or 'A little of it' how useful was this information?**

- (a) All of it was useful
- (b) Some of it was useful
- (c) A little of it was useful
- (d) None of it was useful

**Q9. Please explain your views**

**Q10. Do you feel you know enough about investment managers, investments and policies that apply to your pension?**

- (a) Yes
- (b) No

**Q11. What other additional information would you like your pension scheme to provide about your investments?**

**Q12. Do you have any other comments on our proposals? If you have read the draft Regulations please provide your views on whether these meet the intent of our policy.**

## **Glossary of (some) pension and investment terms - Helping you to understand pension and investment jargon**

**Administration:** The day-to-day running of a pension scheme, e.g. collection of contributions, payment of benefits, record-keeping.

**Active investment:** An approach to investment that involves the continuous buying and selling of assets.

**Annual management charge:** An investment manager is generally remunerated through receipt of an Annual Management Charge (AMC). The AMC is normally a percentage of the assets, but other pricing options can be used, such as a fixed fee, although this is relatively rare.

**Annuity:** A series of payments, which may be subject to increases, made at stated intervals until the end of the agreed period or the life of the annuitant. This is often achieved by means of an insurance policy underpinned by guarantees.

**Automatic Enrolment:** A new legislative requirement introduced by the Pensions Act 2008 which requires all employers (beginning with the largest) to automatically enrol their qualifying employees into a qualifying pension scheme.

**Broker:** An individual or organisation that acts as an intermediary between a buyer and seller, usually in return for the payment of a commission. They are used by pension funds investing your money.

**Contract-based scheme:** In work-based contract-based schemes, the employer appoints a pension provider, usually an insurance company, to administer their pension scheme. The employees enter into a contract directly with the pension provider, although the employer may make arrangements to collect and pay contributions. These may be work-based or individual.

**Contributions:** The money paid by members and employers into the pension fund.

**Custodian** A bank or institution that is responsible for the safekeeping and administration of assets belonging to another.

**Default fund:** The investment fund into which employees' contributions are paid if they fail to make an active choice of fund for their DC pot. It is usually designed for this purpose.

**Defined benefit (DB) schemes:** A type of pension where the amount an employee receives on retirement is pre-determined, and is often calculated on the basis of the employee's final salary/average salary and length of service.

**Defined contribution (DC) schemes:** An investment fund where all of the investment risk is with the member. The employer pays a fixed amount of salary as does the scheme member. The fund is meant to grow and provide cash when the member retires. There is no benefit payment.

**Department for Work and Pensions (DWP)** The government department responsible for pension policy of trust based schemes.

**Environmental, social and governance (ESG) factors:** Sometimes referred to as “responsible investing”. It refers to the use of certain non-financial factors, such as the carbon production, in the investment decision-making process.

**Explicit costs:** These are the upfront costs the price you can see for whatever you buy.

**Fiduciary duty:** A fiduciary is a legal relationship of trust between two or more parties. Typically, a fiduciary prudently takes care of the assets and money for another person or persons. The most common circumstance where a fiduciary duty will arise is between a “trustee” and a beneficiary of a pension scheme. The “trustee” to whom property is legally committed is the legal—i.e., common law—owner of all such property. The beneficiary, at law, has no legal title to the trust; however, the trustee is bound by law to suppress their own interests and administer the property only for the benefit of the beneficiaries.

**Financial Conduct Authority (FCA):** The regulator of the financial services sector. The FCA is responsible both for regulating the infrastructure of financial markets and standards of conduct. It regulates defined contribution (contract-based) schemes and individual personal pensions.

**Governance:** The process and structure for decision making of a pension fund.

**Implicit costs:** The price you don’t see for the purchase or running of something you’ve purchased – for example the electricity costs for running a fridge or the costs of buying and selling investment assets for your pension fund.

**Independent Governance Committee:** The governance body for contract based pension schemes, usually provided by an insurance company.

**Investment consultant:** An individual (or organisation) that gives strategic advice on the making of investments and/or the selection of an investment manager.

**Investment manager:** Also known as a “fund manager” (for example in pensions legislation) and an “asset manager”. An individual (or organisation) to whom the responsibility for the day-to-day management of a scheme’s assets is delegated. The investment manager will act on the basis of instructions given to them in the investment mandate.

**Investment mandate:** The agreement between an investment manager and their client outlining how the assets of the pension scheme are to be managed. The mandate may contain performance.

targets by reference to a benchmark, or may contain restrictions on which investments the investment manager can make.

**Master-trust:** A multi-employer pension scheme run by a provider which has a trust attached to it that oversees the running of the scheme.

**Member:** An individual who contributes or has contributed to a pension scheme.

**National Employment Savings Trust (NEST)** A government-sponsored defined contribution occupational pension scheme. It is intended to be the default scheme made

available to employees as employers become subject to auto-enrolment. NEST must accept any employer who wants to use the scheme for auto-enrolment.

**Negative screening:** The use of ethical, social and governance (ESG) factors to exclude investment in particular companies or sectors, such as tobacco companies or pesticide manufacturers.

**Passive investment:** An approach to investment that typically involves tracking the investment performance of a specific market index. A passively managed fund is also known as an “index fund”.

**Platform:** Also known as an “investment platform”. May refer both to a “platform” as a piece of technology or to an intermediary who facilitates the purchase of investments.

**Pension freedoms:** The Government announced pension freedom in the 2014 Budget to start in the 2015/16 tax year. It means anyone aged 55 and over can take the whole amount of their pension pot as a lump sum, paying no tax on the first 25% and the rest taxed as if it were a salary at their income tax rate.

**Portfolio-churning:** The excessive buying and selling of investments in a portfolio. It is characterised by very short holding periods for stocks.

With best wishes

A handwritten signature in black ink that reads "Heather Wakefield". The signature is written in a cursive, flowing style.

Heather Wakefield  
National Secretary  
Local Government, Police and Justice Section