Department for Work & Pensions

GUY OPPERMAN MP
Minister for Pensions

Rt Hon Stephen Timms MP
Chair, Work and Pensions Committee
House of Commons
London
SW1A 0AA

13 January 2020

REVIEW OF THE DEFAULT FUND CHARGE CAP AND STANDARDISED COST DISCLOSURE

Dear Stephen,

I want to make you aware of the key findings from the DWP's Review of the Default Fund Charge Cap and Standardised Cost Disclosure, which will be published on 13 January 2021.

As you know, this review fulfils a commitment made in 2017, and, which we reiterated in the Government's formal response to the Work and Pensions Select Committee's report "*Pension Costs and Transparency*", published on 5 August 2019.

The Review began with a Call for Evidence in June 2020, which sought views on topics which were broadly aligned with some of the key themes and recommendations of the Committee's 2019 report. We sought views on the scope and level of the charge cap, the use of combination charges, the impact of flat fees on pension savings, the use of cost transparency initiative (CTI) templates, and whether their use should be made mandatory.

Overall, 68 organisations including private pensions providers, asset managers and consumer groups, responded to the call for evidence. In addition, the Department also undertook its Charges Survey, which provided further valuable insight into the current level of charges and how they are working within the industry which be published alongside the Charges Review.

The findings from the call for evidence, and charges survey combined, inform our next steps, in ensuring that pension scheme members' interests continue to come first as follows:

020 3267 5027
Minister.pensions@dwp.gsi.gov.uk
www.gov.uk/dwp
Caxton House
Tothill Street
London, SW1H 9AJ

Level of the Charge Cap (WPSC report recommendation 1)
We will not be reducing the level of the charge cap at this time. Evidence from the Pension Charges Survey indicates that the average charge across schemes is below the 0.75% cap level.

Combination Charges and Flat Fees (WPSC report recommendation 1)
We propose to bring forward legislation to introduce a de minimis on individual member's pots held in qualifying schemes used for automatic enrolment, initially set at £100, below which flat fees cannot be charged. The de minimis would apply to all pots held by one individual.

I believe that setting a de minimis is another important way to protect the savings of scheme members. We will consult prior to introducing legislation, so that all impacts including on the providers who use flat fees as part of their charging structure are properly considered. Setting this de minimis at £100, strikes the right balance between protecting members, and limiting the financial impacts on those providers.

Of course, this de minimis is only part of the solution to the small pots challenge and I support the work by the pensions industry to work towards addressing administrative challenges and on developing proof of concept trials to help move towards consolidation solutions. I will also be considering recommendations from the Small Pots Working Group in detail over the coming period.

Scope of the Charge cap (WPSC report recommendation 1)
The Government has considered the responses provided in the Call for Evidence regarding the inclusion of transaction costs in the charge cap and has decided that it is not appropriate to include transaction costs within the scope of the charge cap. Evidence indicates that doing so may stifle innovation and diversification and the ability of providers to manage volatility risks.

Use of CTI disclosure templates (WPSC report recommendation 2)
We are not minded to mandate CTI templates at this time. Whilst there was support for improving costs disclosure, respondents to the call for evidence advocated giving more time to drive up voluntary adoption of CTI templates. CTI templates are a relatively new initiative, having only launched in May 2019. We recognise that it will take industry time to continue to adapt their processes to adopt the templates. We will closely monitor uptake and if adoption does not improve sufficiently, we will move to legislate to mandate the use of these templates. I remain committed to improving transparency and will look into what more can be done on standardisation of costs disclosure information.

Guy Opperman

Guy Opperman MP
Minister for Pensions and Financial Inclusion