

## **Standard Life Assurance Limited response to Review of Pension Institutions, Consultation Paper: emerging issues**

Standard Life is the market-leading provider of group money-purchase pension schemes in the UK. We administer group schemes with over one million members. The content of our response reflects the role we play and our experience and success in enabling and encouraging employers and employees to save voluntarily for retirement.

Our main focus is on money purchase business; occupational money purchase schemes, personal pensions and stakeholders.

As we are not directly involved in the administration of defined benefit schemes, we will comment only briefly on the potential merger of the Pensions Protection Fund (PPF) and The Pensions Regulator (TPR).

It does seem to us looking at the issue from a detached perspective that there is a strong case for merger of these organisations. The main reason for this is TPR's responsibility for setting funding standards and deficit recovery plans. The outcome of TPR's actions will have a direct impact upon the PPF's ability to manage the number of schemes making claims against the PPF.

Indeed, one of the key responsibilities of TPR is to reduce the risk of claims for PPF compensation. It would seem obvious that the best body to determine action likely to reduce claims on the PPF is the PPF itself.

Another relevant issue is the potential application of new European solvency rules to defined benefit pension schemes. The Financial Services Authority (FSA) holds responsibility for establishing and monitoring these rules for UK insurers. It would seem a natural fit to use FSA in this role for DB schemes, should scheme specific funding rules be replaced or augmented. This would ensure consistency of application.

Our main interest in your review is the interaction of the TPR and the Financial Services Authority (FSA).

Recent pensions and tax legislation has almost completely removed the differences between trust-based and contract-based (personal pensions) defined contribution schemes. But for governance, these types of scheme have become almost identical:

- Member's have their own earmarked account.
- They invest in the same/similar funds.
- They bear similar risks – investment risk, long-term interest rate risk and longevity risk are borne by the member.
- Both must provide the member with the option of an annuity from the open market.
- Pricing/charges are similar for a scheme of a given size, regardless of whether it is trust or contract.

The only differences that are apparent are:

- The different governance framework (trust versus contract); and,
- Vesting rules (contract schemes have immediate vesting, occupational DC have the 3 month/2 year rule).

Despite being almost identical from the member's perspective, regulation of contract and trust schemes is completely different.

The FSA regulates the sale of contract-based schemes but not the process by which members join DC occupational schemes. Yet the decision making process for the employee is almost identical.

The FSA regulates the marketing and promotion of collective investment schemes and, from April 2007, personal pension schemes. This covers information provided to prospective members of group personal pensions and employer-sponsored stakeholder.

In addition, European legislation (Distance Marketing Directive) has an impact. It insists that (to allow informed decision making) prospective members of contract-based schemes such as group personal pension and employer-sponsored stakeholder must receive a substantial amount of information if the contract is concluded at a distance i.e. without the involvement of any face to face contact with someone who can explain what is being bought.

Prospective members of trust-based DC schemes do not receive the same protection with regard to marketing material and information that must be issued to allow an informed decision to be made. Yet the scheme they are joining is almost identical in nature to a contract-based scheme.

Further differences arise in:

- Access to the Financial Services Compensation Scheme.
- Prudential supervision.
- Access to the ombudsman.

The new system of personal accounts will confuse matters further. This scheme will apparently fly under an occupational pensions flag of convenience, principally to avoid the consumer protection measures introduced by the aforementioned Distance Marketing Directive, that prevent true automatic enrolment (a key feature of personal accounts).

This would normally involve setting up a trust but that is unlikely to happen here. Instead, it will probably be established by its own Act of Parliament and managed on a day-to-day basis by the Personal Accounts Board.

Despite being an 'occupational scheme', it is difficult to see how the existing regulators and regulations will apply.

For example, DWP vesting rules for occupational schemes allow a cash refund of employee contributions within 2 year of joining, a compulsory transfer value after 3 months and full preserved rights after 2 years. However, personal accounts will have immediately vested rights.

There will be no trustees in personal accounts and, therefore, no member-nominated trustees. Equally, it is difficult to see how dispute resolution rules would apply.

Furthermore, contribution controls will not apply because the Personal Accounts Board intends to carry out its own monitoring of employer payments.

So, although officially an ‘occupational scheme’ it is unlikely that the occupational pension scheme regulator, TPR, will regulate much of it.

Equally, the FSA will have little involvement in personal accounts. They are not personal pensions, so the establishment, running and so on of personal accounts will not fall under the remit of the FSA.

Personal accounts will not be sold, nor will they be ‘promoted’ – at least not in the FSA sense. Therefore, FSA sale, marketing and promotion rules (conduct of business), will not apply. The administration function of personal accounts is also not a regulated activity.

FSA involvement will extend only to the prudential supervision of investment firms managing personal account funds.

But personal accounts are very similar to other money purchase pensions. These are individual accounts – just like stakeholder pensions, personal pensions and the individual earmarked accounts of money purchase occupational pension schemes.

Come 2012, the UK will have three near identical types of money purchase pension provision that are regulated in three radically different ways, by five different bodies (including DWP and Treasury).

There is clearly a need for simplification.

We note your preference for the status quo. This appears to be the conclusion backed only by the management of the regulators.

However, it is notable that the customers of these regulators do not vote for the status quo. Both ABI and NAPF suggest that these functions ought to be merged. ABI rightly points out that the regulated risks should cover the risk that people do not save. NAPF says that that the complexity of the current regulatory structure is putting employers off providing pensions.

We urge you to reconsider your preference for the status quo and apply more weight to the customer preference.

Standard Life’s preference is for one regulator to oversee all forms of pension provision. There is an argument that DB schemes could be regulated separately by a

merged PPF and the DB functions of TPR. However, if Solvency II requirements ultimately apply to DB schemes, then FSA is the natural place from which to ensure that solvency standards are applied consistently for both insurers and pension schemes.

Looking purely at money purchase pensions, the current situation of two overlapping regulators, neither with vision of the whole marketplace has led to a situation where there is no strategic direction in the regulation of pensions. Regulators are formed and regulations created to manage matters arising on a piecemeal basis. There appears to be no master plan, no overall strategy for regulating money purchase schemes.

Yet there really is only one sort of money purchase pension. Therefore, one organisation should be responsible for the setting the strategic direction and managing:

- Marketing;
- Sale;
- Governance;
- Prudential supervision of institutions operating such schemes whose failure could cause financial loss to savers;
- The informed choice agenda and generic advice;
- Consumer protection and redress;
- The application of European directives and regulations;
- Consistent tax treatment;
- Timely payment of contributions;
- A central register of membership;
- Compensation; and
- Ombudsman schemes.

We accept that there is a formal relationship between TPR and FSA governed by a memorandum of understanding, but we are concerned that this has little practical effect.

Our recent experience of TPR's foray into the regulation of money purchase schemes is not good. The DC risks consultation betrays the fundamental lack of understanding that TPR has of the money purchase market. Our response to the DC risks consultation is attached as an appendix to this response to illustrate the concerns we have.

TPR's comments in its initial response to you also display its worrying lack of understanding when it says "...complete merger would make it harder to justify distinct approaches to the regulation of insurance and work-based pensions."

It appears to fail to understand that the bulk of work-based schemes *are* insured schemes.

We understand the point that TPR makes about European legislation. For years, DWP has been treating personal pensions and stakeholders as Pillar III pensions when

interpreting some EC directives, even when they are work-based. On the other hand, occupational schemes are treated as Pillar II.

Although unwinding the legislation already made to implement European directives and regulations would be a painful process, in the longer-term, this is the right approach to take. Occupational money purchase and contract-based money purchase are too similar to pretend that they are distinctly different. Implementing EU rules in the UK has become increasingly awkward thanks to the baggage of the past. However, we have many reservations over the way EU rules have been transcribed into UK law that we think would not withstand a challenge in the European courts.

We would be happy to meet with you to explain the preferences noted above.

## **Appendix**

### **Standard Life Assurance Limited – response to TPR consultation on DC risks**

#### **Introduction**

This is Standard Life's response to the consultation on how TPR will regulate DC risks. Standard Life is the largest provider of insured trust-based DC schemes and is also the market-leader in employer-sponsored stakeholder and group personal pensions.

Our response will address the questions asked but we start with a few general observations.

The first thing that is striking about this consultation is that it will result in double regulation, or gold-plating, of regulation for contract-based schemes such as stakeholder and group PP.

Contract-based schemes are already subject to a great deal of regulation from the Financial Services Authority. Trust-based DC are not subject to all of these rules. For example:

- **Conduct of business rules.** The marketing and sale of contract-based stakeholder and group personal pensions is strictly regulated. The sale process must include full disclosure of commission paid, the issue of key features documents (to become key facts in future) and post-sale cancellation rights. This provides potential members with a lot of information (perhaps too much) about the contract that they are entering into. Full details of the fund options and risks associated with these are provided to potential members in advance.
- **Prudential rules.** Insurers' financial solvency is monitored by the FSA. These rules require that funds are ring-fenced and that solvency margin capital is held. Customers in these funds are also eligible for the financial services compensation scheme. These rules also apply to insured funds in trust-based DC (collective investment schemes) but not necessarily to non-insured (unbundled) DC funds.
- **Treating customers fairly.** The FSA is in the process of ensuring that insurers enshrine the principle of treating customers fairly into their business model. This means that we must, amongst other things, ensure that administration operates efficiently, claims are paid on time, savings are invested on time and that communication with the customer is clear and fair.

**Other regulation.** Contract-based schemes are also subject to contract law. This gives the customer the ultimate right to challenge the provider's performance of that contract through the courts.

Trust-based schemes are not generally subject to any of these rules, with the exceptions for insured trust-based schemes noted.

In addition, TPR also regulates some aspects of contract-based schemes such as the late payment of contributions.

Finally, DWP also regulates aspects of contract-based schemes such as disclosures and statutory money-purchase illustrations.

In seeking to apply new regulatory standards to both trust and contract based schemes, you are effectively creating an uneven market in employer-sponsored provision.

Trust-based schemes are not financially viable for small employers who cannot afford to employ/partially employ people to act as trustees. The responsibility is therefore handed to the individual employee. In our experience, small trust-based schemes do not represent the interests of the members well. Many of these schemes were only set up as trust-based schemes to benefit from different (and in some cases more beneficial) tax treatment available before the A-Day changes last year. In some extreme cases, the trustees might not even recognise that they are trustees, never mind the duty they have towards the members of the scheme.

In regulating all money purchase schemes, the UK government and regulators need to be clear on:

- a) How they regard contract-based schemes.
- b) What the aims of regulation are.

Much of the regulation of contract-based schemes views them as a collection of individual contracts. The DWP invariably regards them in this way (Pillar 3) when transposing EU directives and regulations in the UK. On the other hand, contract-based schemes are generally exempt from the provisions of EU directives relating to employers-sponsored schemes (Pillar 2). A recent example is the transposition of the IORP directive.

At the heart of this debate is the question 'Do we give people individual responsibility to manage their own savings, or do we take the traditional paternalistic view of pension provision?'

As noted above, the regulations already applying to contract-based schemes already afford the 'member' a great deal of protection.

In addition, the workplace is becoming less paternalistic, with the death of the job-for-life culture and the introduction of more choice in flexible-benefit pay packages.

This consultation seems to want to impose paternalistic practices upon employers who are moving in the opposite direction. Whether these additional safeguards add much value is questionable. Most employers (and providers) with contract-based schemes will regard them as unnecessary red tape.

Do you want to regard contract-based schemes as Pillar 2 or Pillar 3? If both, does the FSA plan to introduce provisions already applying to Pillar 3 schemes (such as COB, prudential supervision and TCF) to trust-based schemes so that members of these schemes are afforded the same protection?

The risks you identify are all of the second order. The main risk is to the security of savings. Poor administration is tolerable, but losing one's pension fund (as was the case in a number of DB schemes) is not.

It is unclear what evidence you have that these risks are real other than a limited survey of trust-based schemes. What work have you done to measure the risks you identify in contract-based schemes and insured trust-based DC, both of which are covered by at least some FSA regulation?

Before TPR proceeds with its plans set out in this document, it should have careful regard to unintended consequences. One of these is the creation of an uneven regulatory playing field as noted above. But a far greater worry is that this gold-plating will add extra cost.

You should also consider the significant extra risk that many employers will simply walk away from pension provision altogether, if more red-tape is added. It is all too easy to forget that employers are volunteers when it comes to pension provision.

Employers choose contract-based schemes in order to minimise their involvement. Introducing additional paternalistic provisions will prove counter-productive.

In law, employers do have a 'general duty of good faith' towards their employees which would include employees' contract-based pensions. However, practical implications of this duty are unclear and we have no knowledge of it being tested in the courts with regard to pensions.

Regardless of what we say above, Standard Life is not opposed to employers taking a paternalistic approach to contract-based schemes. In fact, we will take an active role in, say, helping to establish a governance committee.

The key is that the choice of whether to create a collective voice should be left to the employer and employees. All workplaces and employers are different, some want to promote individualism and individual responsibility when it comes to pensions, others want a collective approach.

Both these approaches are freely available in the market for UK pensions. The more collective/paternalistic approach is usually trust-based, the individual responsibility approach is contract-based.

### The risks you identify

As noted above, we believe that the risks you identify are of the second order. The principle risk is one of security.

As far as recognising the risks, we believe that you have identified the main ones. However, we would point out that many of these risks are covered by existing regulation.

The market for pensions is also extremely competitive. This competition acts as a regulator of many of the risks you identify.

### Poor administration practices

We can only really speak for the quality of our own administration here. Standard Life has received the highest 5-star rating consistently over the last 10 years in surveys measuring service standards.

We do see schemes switching to us as a result of poor administration from other providers, but whether this is the result of one-off problems for that employer or more endemic administration failures at that provider is unclear.

It is unclear whether poor administration practices are widespread. What evidence does TPR have that there are problems? What investigation has been done?

We do operate individual SLAs with some larger schemes (see example attached) but generally these do not have non-performance clauses. Adding in non-performance clauses adds significant extra cost in monitoring the outcome. It also drives unwanted behaviour – a focus on speed rather than accuracy.

Where SLAs do not apply, we operate to our own internal standards on administration quality. This measures accuracy and timeliness. From this, we compile a customer scorecard which is available to customers (see example attached).

We do not believe that the proposed approach is the right one. Imposing SLAs on small schemes and those schemes who see no need for one, will add significant extra cost to these schemes.

Standard Life wins new business based upon our reputation for first class service. For us, that is sufficient motivation to perform to the highest standards. For the vast majority of our group scheme customers, our commitment and past record provides sufficient assurance that they will be well served without the need for a SLA.

We believe that TPR should sample the satisfaction of customers from each administrator. This will give you an indication of whether service standards are poor or not. This will then give you the proof needed to take individual action against those who are performing poorly. We do not believe that whistle-blowing be the only mechanism for monitoring poor administration. Whistle-blowing should simply be the cue for further investigation.

Note that you cannot intervene by appointing a trustee in a contract-based scheme.

Market forces are a regulator of administration quality in the insured sector. Advisers and employee benefit consultants are free to switch schemes to other providers if service provided is poor.

The same market forces do not necessarily exist in unbundled schemes. In this market, the TPA is often the same firm as the adviser. Conflicts of interest naturally

arise that mean that the employer and members are encouraged to tolerate poor service. Perhaps this is the type of scheme where you see risk?

### Investment practices

The vast majority of members are invested in default funds (whether in the insured sector or otherwise). In the insured market, these default funds are almost always either the UK balanced managed fund or the lifestyle fund (effectively a managed fund with a pre-determined switch to bonds and cash as retirement approaches).

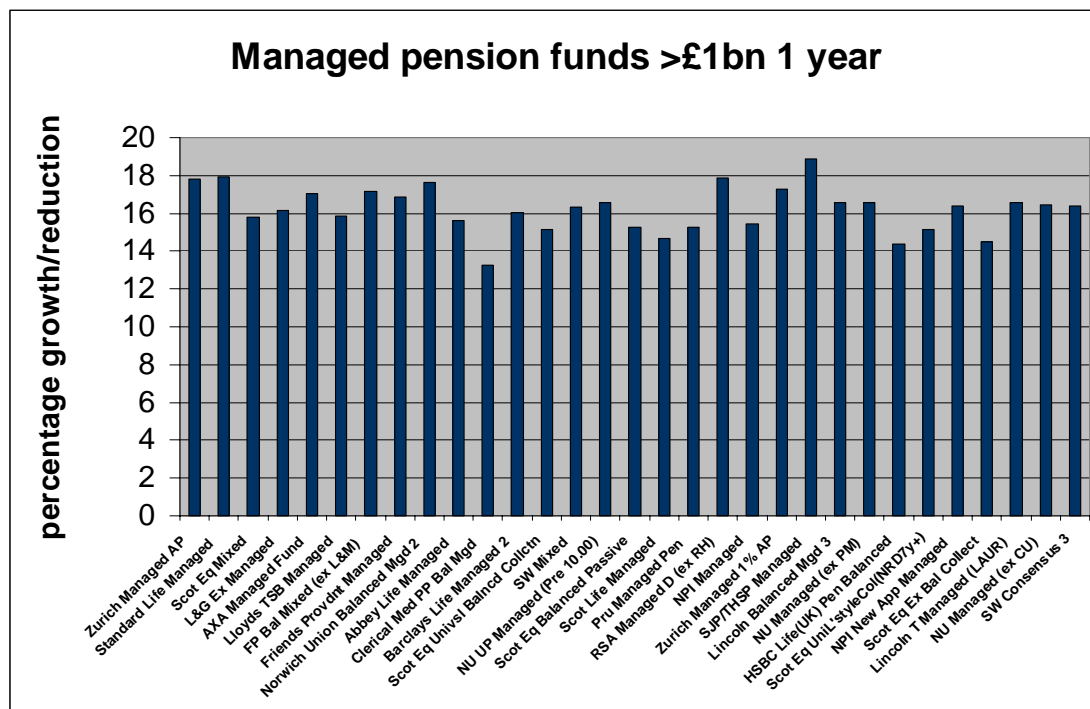
In the insured sector (contract and trust-based), because the bulk of savings is flowing into these funds, these funds become big very quickly.

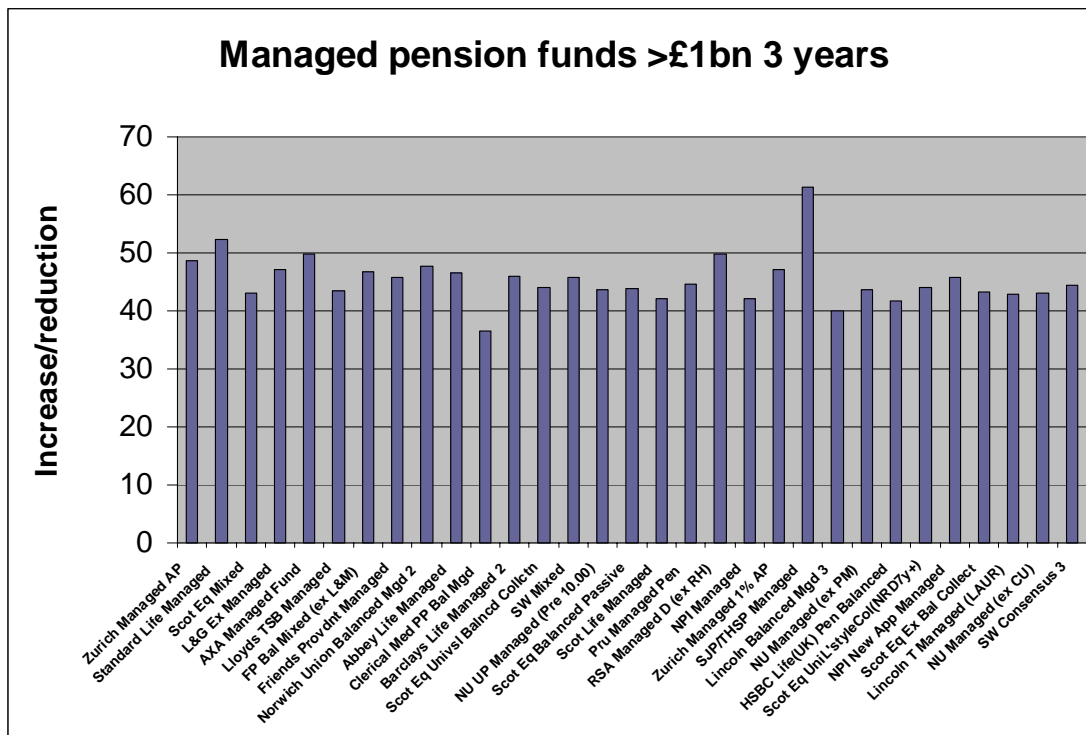
A large fund is forced to diversify more than a small fund. In addition, the fund must meet the sectoral definition, which limits its ability to diversify across asset classes.

So, we have managed funds that are similarly diversified across asset classes and within those asset classes between economic sectors. In addition, because the funds are large, they are immobile. They cannot easily shift all their investments from asset class A to asset class B, nor can they move their equity holding from economic sector C to economic sector D. The size of the holdings simply makes this sort of mobility impossible.

For this reason, large funds are unlikely to under-perform or over-perform when compared to their peers.

The following charts over 1 and 3 years for £1 billion plus managed funds illustrates this effect:





The above illustrates that there is little to be gained from seeking to switch investment manager amongst these large funds.

A switch could be made to a smaller more mobile managed fund to act as a default. However, the smaller fund is equally likely to under-perform against these large funds as it is to over-perform.

Is TPR advocating an approach that exposes pension scheme members to greater risks (of under-performance) on the chance that their fund might outperform?

Regardless of what investment information we provide to members, whether through literature or face-to-face meetings the vast majority still opt for the default fund.

We do not agree that poor investment practice applies on a large scale, although we are unable to speak for the performance of bespoke funds operated on behalf of unbundled schemes. Performance data are not publicly available for these funds because they are not available on the open market. However, the adviser (investment specialists) is often involved in specifying a bespoke fund and, therefore, is unlikely to admit to poor performance. This is perhaps another example of where conflicts of interest can arise when the adviser is too close to the person performing the function – in this case the investment specialist that specifies how that bespoke fund is constructed.

Again, we would ask, what evidence do you have of failure in this area?

### Risk of unduly high charges

The insured sector is extremely competitive. Insurers are offering charges on schemes that require the scheme to stay in force for over 15 years.

We are not aware of any schemes at Standard Life that exceed the stakeholder cap. Indeed, 90% of our schemes operate at single annual management charge of 1% or below.

Bear in mind also that insurers tend to provide schemes for smaller employers. It is not possible to gain the same economy of scale or small schemes as it is for large ones. For example, Standard Life has a number of very large schemes operating at 0.5% or below. Operating small schemes at this charge level would be unprofitable.

Smaller schemes also tend to have higher charges because the charge includes remuneration for the adviser. Without this incentive, advisers would not make the effort to persuade employers to set up a group scheme.

Regulating charges on small schemes to the level of those available on large schemes will force providers and advisers to pull out of the market for small (less than 500 lives) schemes. The result will be less pension saving. Is this what you intend?

The consumer (employer) is strong in this market. The same arguments advanced by Sandler (weak consumer) in his 2002 report on retail financial services do not hold true here. In addition, there are both a commission-based and fee-based elements in the adviser market and competition between these.

Charges in the UK DC market are also amongst the lowest in the world. They are at a level which is comparable to the Australian system despite the fact that the Australian system is compulsory.

You quote Lord Turner and his ideas that a national pension savings scheme can be run for 0.3%. This level of charge is unachievable and is without foundation anywhere in the world. Because Lord Turner (and now the DWP) say that this level of charge is possible, that does not mean that it actually is. This level of charge is only achievable in DC in very large schemes with high average contributions and low staff turnover or with the assistance of (usually government) subsidies.

Lord Turner's misconception is based on a complete misunderstanding of the true costs of the compulsory Swedish defined contribution scheme and the Federal Thrift Savings Plan in the US.

Taking a look at Sweden first, it is factually incorrect to suggest that the average Swede saving in the Premium Pension pays charges as low as 0.3%. The most recent annual report from the Swedish Pension Scheme says that the average charge in 2005 was actually 0.64% <sup>(1)</sup>.

This is despite the Swedish system now having received eight years of contributions. It can no longer be regarded as still being in its 'short term'.

In addition, the Swedish system can only achieve charges as low as 0.64% because it receives huge subsidies to its operational cost. The contributions into the Swedish Premium Pension are collected by the Swedish government at the expense of the Swedish taxpayer. In addition, the annual communication to savers (the 'orange envelope') is also paid for by the taxpayer.

- (1) The Swedish Pension System Annual Report 2005, page 39  
(<http://www.fk.se/filer/publikationer/pdf/par05-e.pdf>)

The Premium Pension Authority (the body that runs the Premium Pension) should reimburse the government (taxpayer) for this cost but until 2005, it paid nothing. Even from 2005, it will reimburse the Swedish taxpayer only around one-third of the true economic cost.

Between 2000 and 2004, the Premium Pension received subsidies towards contribution collection and annual communication amounting to over SEK1.5 billion (GBP109 million)<sup>(2)(3)</sup>. These subsidies are not reflected in the charge to savers, but they are still paying for it through their taxes.

When the Swedish system was being set up, it incurred expenses of over SEK200 million (GBP14.5 million) in an aborted relationship with Computer Sciences Corporation to build the IT system on which the Premium Pension was to operate. This expense was also picked up by the Swedish taxpayer.

The US Federal Thrift Savings Plan is another example of hidden subsidies that make charges look incredibly low. The declared charge is only 0.05% in 2005 (5 basis points).

The TSP is not comparable with UK DC pensions including the proposed personal accounts for a number of reasons:

- It is a mature scheme with over \$170 billion of assets<sup>(4)</sup>. This means that administration costs as a percentage of funds is now low, but that was not the case in 1986 when the scheme first started when charges were higher e.g. 1988 charge was 0.36%<sup>(5)</sup>.
- Annual contributions were \$17 billion in 2005 from 3.6 million active members, giving average annual contribution of USD4,700 (GBP2,410)<sup>(6)</sup>. Personal account average annual savings are estimated to be between GBP800 and GBP1,300<sup>(7)</sup>.
- Employers (federal agencies) are willing participants.

(2) Standard Life's own calculations based upon Swedish pension system annual reports and correspondence with the Premium Pension Authority

(3) Rate of exchange GBP1 = SEK13.75 (11<sup>th</sup> January 2007)

(4) Federal Retirement Thrift Investment Board annual statement

(<http://www.tsp.gov/forms/financial-stmt.pdf>)

(5) Thrift Savings Plan expense ratio (<http://www.tsp.gov/rates/revisedchart2005-01-14.pdf>)

(6) Rate of exchange GBP1 = USD1.95 (11<sup>th</sup> January 2007)

(7) Personal accounts: a new way to save, Department for Work and Pensions, Executive Summary, paragraph 116 (Page 43)

([http://www.dwp.gov.uk/pensionsreform/pdfs/PA\\_PersonalAccountsFull.pdf](http://www.dwp.gov.uk/pensionsreform/pdfs/PA_PersonalAccountsFull.pdf))

But perhaps the biggest issue that is ignored when talking about charges is the hidden subsidies that the TSP receives from the federal (government) agencies that subscribe to it. The TSP works on a wholesale basis rather than a retail basis. It relies upon an extensive network of ‘retail outlets’<sup>(8)</sup> (agency personnel departments) to educate employees about their options under the Plan. The employing agencies’ personnel, payroll, and other administrative officers are responsible for employee counselling, for Plan enrolments, and for the accurate and timely transmission of participant data to the Plan’s record-keeper.

It is not known exactly how many full-time equivalent hours of agency staff that this work requires but a reasonable assumption would be that it requires one FTE agency member of staff to look after 1000 participants. The agencies also have educational duties to perform in respect of non-members. On the assumption that 50% of those eligible actually join, then agency staff are serving 7.2 million workers.

If the average total employment cost (not just salary but all employment costs) of these agency staff is say (Standard Life assumption) USD80,000 (GBP41,025)<sup>(8)</sup>, then the total cost of this work will amount to USD576 million (7,200 agency staff serving 7.2 million workers each costing USD80,000).

Factoring this cost into account would add 0.33% to the TSP charges, raising total charges to nearer 0.4%, despite the fact that this Plan benefits from high average contributions, a willing employer and a 20-year history that has seen it accumulate USD170 billion in assets.

(8) ‘The Thrift Savings Plan Experience: Implications for a Universal Asset Account Initiative’ (<http://gwbweb.wustl.edu/csd/Publications/2000/PolicyReport-Rideout-Fischer.pdf>)

Unbundled charges are not necessarily lower than the bundled annual management charge used by insurers.

Unbundled schemes often pay fees to consultants, investment advisers, actuaries, trustees and custodians in addition to the explicit fund management charge.

These are all charges to DC schemes or employers which do not feature in your list of the types of charges that can apply to DC schemes. They are also charges which would not fit under the ‘transparent’ banner.

What calculations have you done that show bundled DC (trust and contract) are more expensive than unbundled schemes?

What evidence do you have that UK DC schemes are expensive? Is this assumption based solely upon Lord Turner’s incomplete analysis?

As explained above, the UK market in insured schemes is intensely competitive to the point where schemes are on the threshold of being unprofitable. The market has driven this situation to such a point where the scheme member is receiving probably the best deal possible on charges.

Furthermore, we already have price-capping in the UK through stakeholder pensions. Prices on these schemes are limited by regulations laid down by the DWP.

### Poor decisions on retirement choices

All money purchase schemes, both trust and contract are legally required (by Finance Act 2004) to give their members the choice of an open market annuity (lifetime annuity).

The information that insurers must issue is also laid down in FSA-inspired regulations (that replicated pre-existing ABI guidance) which require 3-month and 6-week warning letters to be sent to the customer. These letters outline the customer's rights in relation to the open market option, and value for money. They also explain other options such as income drawdown.

The Treasury has also recently launched its own consultation on the operation of the open market option. This was launched in a paper issued on pre-Budget day 2006 entitled 'The Annuities Market'.

In the interests of joined-up government, should TPR and Treasury not be working together on this issue?

### Lack of member understanding

Aside from:

- DWP disclosure requirements,
- the FSA key features and pre and post-sale disclosure requirements,
- the requirements to communicate the availability of the open market option,
- the disclosure requirements of the Distance Marketing Directive; and,
- statutory money purchase illustration rules,

we also have additional printed literature that aims to educate scheme members.

This includes (amongst others):

- scheme booklets
- description of pension funds
- fund performance factsheets
- customer service standards scorecard
- product guides
- customer magazine
- online pensions projection tool
- electronic access to own pensions savings pot, where it is invested, how it has performed, what sort of pension that will provide

Despite the effort to communicate and educate, levels of engagement are still low. There are a variety of reasons for this including bad publicity but the key problem is that people are not that interested in retirement until it is in their near-term future.

We have found that face-to-face is the best method to increase engagement and we specifically employ teams to hold group employee meetings with the aim of educating members and prospective members. This is commercially viable only because it also results in increased take-up.

### Conclusion

As you might gather, Standard Life is already committed to operating group schemes, both trust and contract, to the highest standard.

However, we are strongly opposed to adding extra costs to the operation of workplace schemes without that extra cost resulting in any tangible benefit for the member.

We get the feeling from reading your consultation document that it is based upon an understanding of the environment in which large unbundled trust-based schemes operate. As you clearly intend to intervene in the small trust-based DC and contract-based scheme market, we are keen to ensure that you also have a good understanding of how these markets operate. Standard Life would be pleased to meet with TPR to explain how these markets operate, the financial drivers, charges, communication and so on.