



## PENSION REFORM – CONDUCT OF BUSINESS CHANGES

### ***An IoD response to the FSA CP 10/26***

#### ***About the IoD***

The IoD was founded in 1903 and obtained a Royal Charter in 1906. It is an independent, non-party political organisation of approximately 45,000 individual members. Its aim is to serve, support, represent and set standards for directors to enable them to fulfil their leadership responsibilities in creating wealth for the benefit of business and society as a whole. The membership is drawn from right across the business spectrum. 80% of FTSE 100 companies and 60% of FTSE 350 companies have IoD members on their boards, but the majority of members, some 72%, comprise directors of small and medium-sized enterprises (SMEs), ranging from long-established businesses to start-up companies.

#### ***Introduction***

The Institute of Directors is pleased to have the opportunity to respond to this Consultation Paper. We would not propose to respond to the Consultation questions in detail, but would make the following observations.

#### ***Response***

Whilst large parts of the Consultation meet with our agreement or are non-contentious, the following areas are of concern to us.

- The paper examines whether, in the light of auto-enrolment, the existing RU64 rule needs to be maintained and then appears to conclude that there is no function for it going forward. None the less, the rule, it concludes, will be left in being. We cannot see a need for this, other than the possibility of referring the rule to the NEST architecture rather than Stakeholder pensions as at present. This would concern us, as it would effectively place further price pressures on a pensions market already operating on low margins and would inhibit, potentially, competitive product development as well as employer and employee choice. We would also be nervous about an RU64 rule operating across pension regimes; the rule worked in personal pensions, because Stakeholders were a type of personal pension. We should also not forget that Stakeholder pensions will continue to exist and may well have a major role to play in auto-enrolment.
- The paper makes the bold assertion that “level charges” are unlikely to be “suitable” for modest pension savers. We suspect this is actually referring to level monetary charges, rather than a level charge levied as a percentage annual management charge as in Stakeholder, but as drafted would appear to infer that this latter charging structure is “unsuitable”. We think this position needs to be clarified.
- With regard to default funds, the paper appears to suggest that Managed Funds are not a suitable “default” fund, and that design of future default funds should be in line with DWP guidelines on a “comply or explain” basis. Group Personal Pensions and Stakeholder schemes do not always specify a “default” but we see no reason why a Managed Fund, perhaps with “lifestyle” options, should not provide a good consumer outcome. In advised cases, it will be for the advisory firm to recommend a “default” rather than the pension provider. Advised pensions currently form the vast bulk of the market, with very few employers going direct to a provider to set up a pension scheme – although this may well change with auto-enrolment. We are also concerned about the potentially market-distortive effects of all default funds looking pretty much the same and investing in pretty much the same underlying assets. We think the choice of “default” should be left to advisers, employers and employees.

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