

Association of Accounting  
Technicians response to the  
Department for Work and  
Pensions call for evidence  
“Bulk transfers of defined  
contribution pensions without  
member consent”

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## 1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the Department for Work and Pensions call for evidence “Bulk transfers of defined contribution pensions without member consent”, published on 20 December 2016.
- 1.2. AAT is submitting this response on behalf of our membership and for the wider public benefit of achieving sound and effective administration of pensions.
- 1.3. AAT has commented in order to add value or highlight aspects that need to be considered further and focussed on the operational elements of the proposals.

## 2. Executive summary

- 2.1. **AAT supports the goals set out in the call for evidence, believing it will enable members of workplace defined contribution (DC) pension schemes to be moved to more suitable, often lower cost, schemes.** This will potentially lead to better returns, higher member engagement with long term saving, more appropriate investment solutions and lower operating costs for employers.
- 2.2. **Rather than one investment objective for pension defaults, that of annuity purchase, modern pensions must accommodate those intending to take cash or invest through income drawdown.**  
The rules governing bulk transfers of occupational schemes were set up with the principal aim of governing defined benefit (DB) pensions. DC pensions have evolved considerably over the years, with charges reducing and more suitable investment options being introduced into more modern schemes. The pension freedoms policy has also changed the target investment goal for many pension scheme members, who typically bought an annuity with their pension, but who can now take cash or move into income drawdown.
- 2.3. **AAT believes that the removal of the requirement to obtain individual member consent to transfers of occupational DC schemes will facilitate the consolidation of schemes into larger entities that can be run more efficiently,** while maintaining suitable member safeguards, at lower cost and with better resources. This should lead to better retirement outcomes for scheme members.
- 2.4. **AAT supports the aim of permitting bulk transfers of members of stakeholder schemes and group personal pensions for identical reasons.**

### 3. AAT response to the call for evidence

- 3.1. The following paragraphs are AAT's response to the proposals in the call for evidence and it only lists those questions where a comment has been made.

**Question 5. Sometimes occupational DC pensions have valuable guarantees, either borne by the scheme or by another body. How do you think the process should differ for these types of scheme?**

- 3.2. Where occupational DC pensions have valuable guarantees there should be an explicit requirement that the body or individual assessing the transfer ensures that all members receive at least equivalent benefits in the new scheme. If this safeguard is not present, not only could individuals lose out financially in some cases, but bulk transfers will be exposed to the charge that they are being carried out to save the employer costs at the expense of the members. While factors such as governance, investment strategy, communications and retirement options may be traded off against each other in a transfer without materially disadvantaging a member, any transfer that substantially disadvantages members financially is considerably more sensitive and also risks creating negative media coverage that will be damaging to confidence in pensions.

**Question 6. Do you have any experience of how the scheme relationship condition works in practice? Do you think it serves a useful purpose or does it act as an obstacle in some circumstances? What is the frequency and impact of these obstacles?**

- 3.3. The scheme relationship condition does create a barrier to effective consolidation of schemes, or of membership groups within schemes, such as those with small pension pots. An employer may wish to move the pots of former employees, known as deferred members, to an outsourced scheme such as a master trust in order to reduce the ongoing costs of its ongoing scheme. However, without a relationship with that scheme, the current condition precludes such transfers. AAT supports the removal of the scheme relationship condition to facilitate consolidation of occupational schemes into larger, more cost effective schemes.

**Question 11. Do you think that providers of transferring schemes should be able to invoke the bulk transfer without consent provisions where a stakeholder scheme has not yet commenced winding up?**

- 3.4. Yes, as more modern pension schemes typically have lower charges than stakeholder schemes and offer better options for accumulation investment strategy and drawing retirement benefits. The investment approach used by stakeholder pension schemes is of particular concern as the strategy applied to default investment funds is outdated.
- 3.5. Today many members of contract-based stakeholder schemes are invested in default funds that are riskier than is currently considered appropriate because when the stakeholder scheme was set up, general market practice was to invest more aggressively into equities.
- 3.6. More sophisticated investment default funds now exist, funds that invest in a wider variety of asset classes to better manage risk. However, pension providers risk becoming subject to regulatory or legal action if they move members to a scheme with an investment strategy that is, by modern standards, believed to be more likely to deliver better returns but that then turns out to deliver lower returns than the strategy of the scheme they have left.
- 3.7. Providers should be able to invoke bulk transfers, operating under the Financial Conduct Authority's 'Treating Customers Fairly' principles, on the basis that they move them to a scheme with equivalent or lower charges, and provided the scheme is a regulated auto-enrolment compliant scheme, or is a signatory to The Pension Regulator's Master Trust Assurance Framework.

- 3.8. The Government should also give consideration to allowing members of Group Personal Pensions schemes to be transferred in bulk for similar reasons.

#### **4. About AAT**

- 4.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are over 4,250 licensed accountants who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.
- 4.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

#### **5. Further information**

If you have any questions or would like to discuss any of the points in more detail then please contact Aleem Islan, AAT Technical Consultation Manager, at:

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