making process and understood the changes. The lack of evidence the NAPF received was startling.

"I suspect consumers don't understand the charge and its impact, and that people are paying the higher charges," says Wilson.

But EBCs claim they are merely providing a service employers already ask for. Paul Armitage, DC consulting director at JLT, says that while claiming EBCs approach providers for AMDs was fair comment, it wasn't them driving the market.

"EBCs have a client here in the employer and yes, they've cottoned on to the fact this is an attractive bargaining position, but they're reacting to the market rather than creating it," he says. "Most EBCs are happy to support AMDs, provided the leaver isn't disproportionately affected – the stakeholder limit of 1% is the absolute ceiling for us."

Robin Hames, head of technical, marketing and research at Bluefin, also recognises AMDs aren't a panacea. "There is a fundamental difference in the relationship between an employer and an ex-employee, compared with a trustee's fiduciary duty to scheme members and beneficiaries. AMDs can assist in reflecting this, and enhance the credentials of a pension as part of reward strategy aimed at retaining talent," he says.

"But we do have concerns that some IFAs have used AMDs as a means of persuading employers to change providers and generate commission."

Steve Watson, head of defined contribution delivery at Alexander Forbes, supports Webb's small pots crusade, but says it must become easier to remain an active member of a pension scheme after leaving an employer. He says: "The provider must allow the member the opportunity to continue being an active member with the discount applied if they want to – with a reasonable contribution. Advisers must make sure consumers understand there's an opportunity to keep the same annual management charge."

But here's the problem: frequently members won't receive advice, and there are ongoing concerns about the language used in communications to members when they leave their employer.

In one example shown to *PW*, the provider told the member they were to lose their right to 0.75%, but doesn't explain that by taking no action their pension would be "converted into an individual personal pension" with a 1.5% AMC.

It's always dangerous to apply a definitive response to any issue in pensions as the industry is sufficiently complex enough to demand shades of grey – but employers should consider the ramifications of using AMDs and ensure the providers and advisers used are in the leavers' best interests.

Tim Banks

The plight of the deferred pensioner

One of the big issues facing the defined contribution workplace savings industry is how we deal with members once they have left the company. Deferred members have rarely been top priority for either defined benefit or DC schemes, yet for a DC member the way in which the pot of money they leave behind is invested will be a key determinant of their eventual pension income.

The vast majority of workplace scheme members end up in the default fund. So what should we be doing on their behalf?

Members have a number of clear, if unspoken, expectations. They assume the default strategy is being professionally managed on a daily basis, towards an objective they can understand; that someone is accountable for the decisions made; and that the default strategy adapts – taking account of the changing investment environment, the best new ideas and evolving retirement patterns. Finally, the member might reasonably expect some independent oversight built into the model.

So who is responsible for making all this happen once the member leaves the employer providing the scheme? In a trust-based arrangement it's quite clear – it's the trustees' responsibility. When a scheme changes its default offering, the trustees give deferred members a choice. Unfortunately, because they're not engaged, hardly any members move. A contract-based scheme is more complex – very often the employer and adviser have moved on, but the deferred members are still using yesterday's solution. This presents a dilemma.

The issues are compounded by the typical default design – a lifestyle approach, which is a formula that moves people into less risky assets over time. That's the theory, although the asset allocation needs to be managed actively for these members. Last year saw long gilts return more than 20% – what if this had gone the other way?

Lifestyle ignores such prevailing market conditions and is usually only reviewed with hindsight. It's expensive and time consuming to change, making the mechanism a real impediment to good governance. And in this scenario who will lead that change on behalf of the member?

Is there another way to ensure investment defaults remain current for deferred members? Flexible target-date funds, professionally managed at the total strategy level, can provide an answer. Crucially, the fund manager is mandated to keep the default fresh using the latest investment ideas, with the assets suitably diversified and dynamically managed within an open-architecture framework. It becomes irrelevant whether or not the original plan sponsor or adviser are still involved – and therefore much more possible to meet those unspoken member expectations.

Tim Banks is head of sales and client relations at AllianceBernstein

AllianceBernstein