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Improving outcomes for members of defined contribution pension schemes

Department for Work & Pensions

Pensions Management Institute

Moving pensions forward

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Response from the Pensions Management Institute to DWP consultation: 'Improving outcomes for members of defined contribution pension schemes'

Introduction

PMI is the professional body which supports and develops those who work in the pensions industry. PMI offers a range of qualifications designed to meet the requirements of those who manage workplace pension schemes or who provide professional services to them. Our members (currently some 6,000) include pensions managers, lawyers, actuaries, consultants, administrators and others. Their experience is therefore wide ranging and has contributed to the thinking expressed in this response. Due to the wide range of professional disciplines represented, our members represent a cross-section of the pensions industry as a whole.

PMI is focused on supporting its members to enable them to perform their jobs to the highest professional standards, and thereby benefit members of retirement benefit arrangements for which they are responsible.

1. We would welcome your views on the reporting of net returns - how many past years of net returns figures should be taken into consideration and reported on to give an effective indication of past fund performance?

We are pleased that the Government is recognising that net returns are an important component when considering outcomes for DC members. This appears to be an evolution of the Government's previous focus on charges alone which was overly narrow in our view.

The use of annual geometric averages to measure net returns seems sensible. However this will require clear explanation both to those preparing the reports and also those receiving the reports since we do not believe that this mathematical concept is widely understood amongst the general populace.

The definition of "net return" must be totally clear to avoid confusion. We have seen the definition in the draft regulations and also in paragraph 27 of the draft guidance but urge you to expand on this as much as possible and include examples. For example, what should be done where funds have implicit charges such as With-Profits funds. Based on our experiences of obtaining charge data we foresee that calculating net returns will cause as much, if not more, difficulties for schemes.

We are concerned that your intention is that schemes should provide this information from 2015 (although we note that the consultation says "where possible"). Schemes change their investment funds over time and we do not think this historic information will be readily available in many cases so we believe that flexibility and tolerance on this requirement is required for the first few years of the requirement. Once the legislation has bedded in and reached a "steady state" we think that five past years of net returns should be reported as a minimum but, of course, schemes could choose to show returns for longer than that if they wish.

Paragraph 34 of the draft guidance requires that net returns are split by age for Target Date Funds and Lifestyle arrangements. This will apply to most relevant pension schemes and increase the work involved – particularly where members are invested in more than one underlying fund.

Similarly, paragraph 80 of the consultation states that all relevant schemes will have to publish net returns for their default and self-select funds. For schemes with a large range of self-select funds and also Master Trusts this will be a considerable task to achieve.

2. Do you think that the amending regulations achieve the policy aims of encouraging smaller schemes to consolidate into larger schemes when they do not present optimal value for members?

Yes, if for no other reason than that the compliance costs will drive schemes to consolidate whether they present optimal value for members or not.

We note you intend to increase the threshold below which the new requirements apply from £10M to £100M (a ten-fold increase) despite the majority of respondents agreeing with a threshold of less than £10M (para 29) and question why you are therefore doing so?

On a similar note we read in paragraph 57 that a majority of respondents thought a triennial assessment was appropriate and yet in paragraph 59 you have decided an annual assessment is appropriate. Why is this?

There also needs to be guidance about what schemes with assets that fluctuate around the threshold figure (eg £100M) need to do if, for example, their assets change from £98M to £102M to £97M over three years.

We also ask for clarity about whether the threshold is tested against total scheme assets or just money purchase assets. The consultation generally refers just to "assets" but paragraph 74 refers to "money purchase assets of less than £100m".

Finally, whilst we do of course support the principle that poorly governed schemes, or schemes which do not offer VFM to members, should be encouraged to consolidate, the practicalities of finding the money to make this happen must be considered for some schemes. For example schemes which no longer have an employer standing behind them or "scam" schemes which have had an independent trustee appointed to them by TPR.

3. Do you believe that the statutory guidance increases clarity about the minimum expectations on assessing and reporting on value for members for specified schemes? Are there any areas where further clarity might be required?

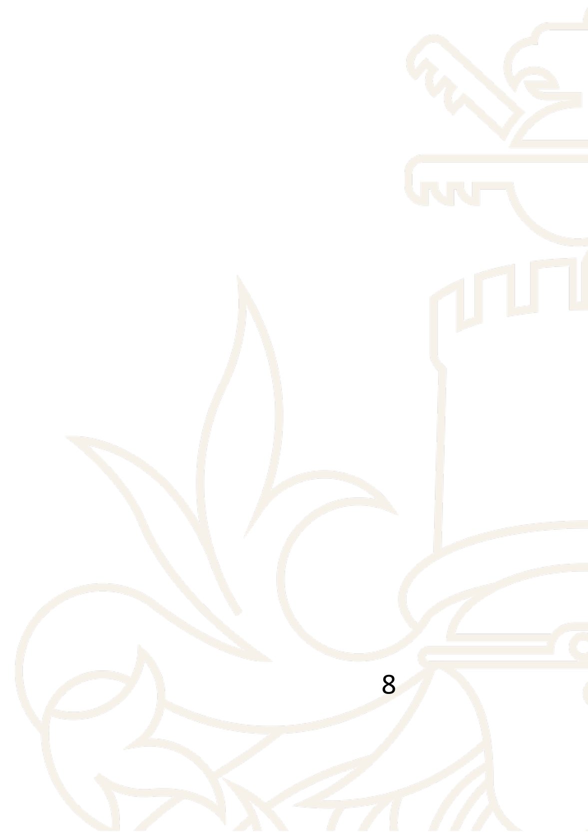
Answering the question narrowly: yes, the guidance increases clarity about expectations. But we do not totally agree with those expectations as set out in previous answers.

4. Do the draft regulations achieve the policy intent of providing an easement from the prorating requirement for performance fees which are calculated each time the value of the asset is calculated?

5. What should we consider to ensure a multi-year approach to calculating performance fees works in practice?

6. We are proposing a five-year rolling period. Is this appropriate or would another duration be more helpful?

7. We are proposing offering a multi-year option as an alternative to an in-year option for schemes. Do you have any suggestions for how to improve this offer?



8. To what extent will providing a multi-year smoothing option give DC trustees more confidence to invest in less liquid assets such as venture capital?

9. Do the draft regulations achieve the policy intent? Do you have any comment on the definitions used?

10. Do you believe that the updated statutory guidance increases clarity about the minimum expectations on both the production and publication of costs and charges information? Are there any areas where further clarity might be required?

Yes, although the information proposed to be required may still represent onerous additional reporting for some schemes – which was a concern of a number of respondents to the original consultation.

We make a number of other observations on point of detail within the consultation:

1. The guidance expects projections to reflect the approximate duration of the youngest scheme member to Normal Pension Age, but using a median pot size. To state the obvious, the youngest members of a scheme are unlikely to have accumulated funds close to the median pot size. This is arguably inconsistent and might be considered to be misleading.
2. In relation to the requirement to include an indication of transaction costs, it is worth bearing mind that the average of the last 5 years' transaction costs may not present a realistic guide for the future, in some circumstances.
3. Consideration should be given to whether the guidance is sufficiently flexible to adequately cover the situation where the AMCs change over time, reflecting a dynamic default investment strategy e.g. life-styling.

11. We propose that where the default arrangement includes a promise, the trustees of the scheme should be required to produce a default SIP.
We propose that this should be produced within 3 months of the end of the first scheme year to end after the coming into force date.

(a) Do you agree with this policy?

Yes.

(b) Do you agree that the legislation achieves the policy?

Whilst we are not lawyers, we believe the legislation achieves this policy.

12. We are proposing that, for relevant schemes, charges and transaction costs should be disclosed for any fund which members are (or were) able to select and in which assets relating to members are invested during the scheme year.

(a) Do you agree with this policy?

Yes.

(b) Do you agree that the legislation achieves the policy?

Whilst we are not lawyers, we believe the legislation achieves this policy.

13. Regulation 8 of the Investment Regulations 2005 upholds a long-standing exemption for wholly-insured schemes from sub-paragraphs (b) and (c) of regulation 2(3) of these regulations. We propose to amend regulation 8(1)(a) of the Investment Regulations to extend that exemption for wholly insured schemes to regulation 2(3)(d). Do you agree with this proposed change? Do you have any other comments on this topic?

Yes. No other comments.