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Authors
Nikki Williams
John Dunkley

Key findings from The Pensions Regulator's 2020 survey of trust-based DC pension schemes

The Regulator's latest survey report into defined contribution (DC) pension schemes focuses on how well trustees are meeting two of the five key governance requirements: assessing whether charges and transaction costs provide good value for members and ensuring the default investment strategy is suitably designed.

The research also looked at a number of other governance requirements. Significantly, they considered whether DC schemes were setting strategic objectives for investment consultants, what cyber security controls were in place, and what proportion of schemes had taken account of climate change in their investment approaches.

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Background

This annual survey (carried out between January and March 2020) covered 216 schemes of differing sizes, 16 of which were master trusts. In comparison, the 2019 survey covered 447 schemes. (For the purposes of the survey, hybrid schemes were instructed to answer questions only in relation to the DC section of their scheme.)

Pension schemes are grouped by size (as below) with master trusts considered as a separate group:

- Micro schemes are defined as schemes with 2-11 members;
- Small schemes with 12-99 members;
- Medium schemes with 100-999 members; and
- Large schemes with 1,000+ members.

Key governance requirements

In 2015, the Regulator introduced five key governance requirements (KGRs):

Number	Requirement
KGR 1	Trustee boards must possess or have access to the knowledge and competencies necessary to properly run the scheme
KGR 2	Trustee boards must assess the extent to which charges/transaction costs provide good value for members
KGR 3	Core scheme financial transactions must be processed promptly and accurately
KGR 4	Trustees of master trusts must meet independence requirements
KGR 5	Trustee boards must ensure the default investment strategy is suitably designed for their members (applicable only to schemes with a default investment strategy)

Key findings for 2020 (KGR 5 and KGR 2 only)

The default investment strategy

In 2019, 90% of members were in a scheme that met this KGR. This has risen by 5% in 2020. Two-fifths of schemes met the requirements at the overall level. Three-quarters of schemes with a default investment strategy review its suitability and performance at least every three years.

The design of the default investment strategy should be influenced by member analysis or research. This is found to be the primary barrier to meeting this KGR, particularly for small schemes. However, more than 70% of schemes with 100+ members are using member analysis or research to design the investment strategy.

Value for members assessment

In 2019, 80% of members were in a scheme that met this KGR. Interestingly, this fell to 58% of members in 2020. However, this change was apparently due to the failure of one of the larger master trusts to meet this KGR. Overall, the level of schemes meeting this requirement are similar to those in 2019 (14%).

As for the default investment strategy design, the primary barrier to meeting this KGR is undertaking member research and taking account of what members value.

Other key findings

Setting objectives for investment consultants and tendering for fiduciary management services

Overall, 45% of schemes were aware of the new duties introduced by the Competition and Markets Authority. The same percentage were subject to these duties and 55% of these had set objectives for their investment advisers (with over 78% of schemes with 100+ members doing so). Where objectives hadn’t been set for medium and large schemes, this was for a variety of reasons (e.g. they were in the process of developing the objectives, advice was on an ad hoc basis or the requirements were not relevant).

Only 6% of schemes had a fiduciary manager in place, increasing to 31% of master trusts. For those that had not selected them via competitive tender (60%) this was likely to be because they had been appointed before the requirements came in. 88% of schemes did not use fiduciary management and were not considering this in the next 12 months.

Administration practices

Trustee meetings and requirements

Overall, less than one-fifth of trustee boards discuss administration quarterly, with 80% of large schemes and 33% of medium schemes doing so. However, three-quarters included it annually as a dedicated item in the trustee meeting. Two-thirds of schemes do not have an administration strategy, although 57% of large schemes and nearly half of medium schemes do have one. However, 86% of schemes said it was important to meet the Regulator's expectations; 81% said the same about implementing legislation change, and 76% about addressing issues that impaired their ability to run the scheme effectively.

Half of schemes think it is important to improve members' experience and increase automation or administration efficiency; this rose to 95% for large schemes. Although only 17% were focused on moving to a new administrator or new system.

Measuring administrator performance, knowledge of accreditations and standards

Most schemes measured administrator performance by testing the accuracy of calculations (37%), auditing administration functions/systems (36%) and assessing complaint volumes/trends (35%).

Large numbers had little or no knowledge of the accreditations held by their administrators or the standards they complied with. The highest awareness was about the Pension Scams Industry Group code of practice (64%) and the PASA code of conduct on administration provider transfers (38%).

Interestingly, overall only 8% of schemes had identified issues with the quality of their data in the previous two years; however, the proportion was 29% of medium schemes, 33% of large schemes and 50% of master trusts. Although where they had, three-quarters had implemented a new or updated data improvement plan or taken other action in the last 12 months.

Online access for members was offered by 59% of medium schemes and 91% of large schemes, with master trusts scoring 100% for this question.

Cyber security risks

Schemes were asked about 10 specific controls to protect their data and assets from cyber risk, and overall 78% had more than half of these in place. There was a slight increase (+9%) of schemes with access to specialist skills and expertise to understand and manage cyber risk and increases in the proportion of schemes with 1000+ members that had assessed which systems and parties were at risk and had an incident response plan.

Overall, 9% of schemes reported experiencing some form of cyber attack or breach in the previous 12 months. This proportion was relatively consistent across the different sizes of scheme but rose to almost half of master trusts. Across all sizes of scheme, the most common cyber breaches/attacks were staff receiving fraudulent emails or being directed to fraudulent websites (6%). The most common impacts were software or systems being corrupted or damaged (20%). No schemes reported that personal data had been altered, destroyed or taken in the previous 12 months.

Taking account of climate change in investment strategies

In 2019, only 21% of schemes with at least 100 members and/or used for automatic enrolment had considered climate change in their investment strategies, although these schemes covered 82% of DC members. In 2020, this had risen to 43% of this group covering 95% of DC members.

As the vast majority of members are in master trusts and 94% of master trusts took account of climate change the figures are deceptive. However, 70% of large schemes and 49% of medium schemes had taken account of climate change. Of those that had, the vast majority had discussed this with the trustees or an adviser (97% and 92% respectively). Nearly half had added climate-related risks to the risk register.

Consideration given to winding up

Overall, 42% of schemes (excluding master trusts) reported that they had considered winding up, an increase of +23 percentage points since 2019. Large schemes of more than 1000 members were least likely to have considered winding up (17%).

The main reason given for considering winding up has not changed since 2019: the time and cost involved in running the scheme (31%). The main barriers to winding up were felt to be time constraints (20%), the decision still being under review (15%) and waiting for members to retire or leave the scheme (15%), with this last barrier being new to the survey.

Comment

When this survey was published earlier this month, the Regulator chose to focus on the survey's findings about trustees' consideration of climate change when formulating their investment strategies and approach. In the press release, David Fairs said "Our survey shows trustees of DC schemes must give greater attention to the risks and opportunities facing their schemes from climate change."

Even though there is a phased approach to the requirements in the Pension Schemes Act 2021, the Regulator is saying "Trustees should build their capacity in this area now, so they can understand what climate change will mean for their scheme and so be better placed to make decisions contributing towards good outcomes for savers".

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