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DC pensions – how to assess value for money consistently

The Pensions Regulator and the Financial Conduct Authority have published a feedback statement following consultation responses to their joint discussion paper on value for money in DC pension schemes.

The feedback statement is lengthy and reflects the extent of the different views provided from a range of respondents. A joint DWP/FCA consultation to be published later this year will include final proposals aimed at introducing DWP legislation for schemes regulated by The Pensions Regulator and FCA rules for FCA-regulated pension providers.

The statement says: "At this stage, we are focused on VFM in accumulation in workplace schemes, and in particular default arrangements. We will consider further how best to extend the framework to self-select options in workplace schemes and to non-workplace pensions, as well as to pensions in decumulation."

Background

The Pensions Regulator (TPR) and the Financial Conduct Authority (FCA) originally issued a joint regulatory strategy (Regulating the pensions and retirement income sector) in October 2018. They acknowledged that value for money (VFM) is "complex to assess and is about quality as well as price" and that stakeholders were looking for more support with defining VFM and there wasn't an industry-wide methodology for assessing VFM.

The joint regulatory strategy included an initiative to further develop common principles and standards for VFM as well as enforcement of those standards.

In September 2021, they published a joint discussion paper (Driving value for money in defined contribution pensions). The aim is to develop a common framework to enable pension savers (as well as regulators and employers) to effectively compare and assess VFM. Available comparable information would make it easier for independent governance committees (IGCs) and trustees to compare the VFM their scheme offers. The expectation would be that this would drive competition on performance through comparison and benchmarking.

Existing requirements for VFM

TPR regulates trust-based occupational pension schemes and, according to the press release accompanying the feedback statement, there are 18.2 million members of DC schemes (including master trusts) with £218 billion in assets.

The FCA regulates the providers of contract-based DC schemes covering, according to the same press release, 12 million members and £260 billion assets in workplace pension schemes (totalling 30.7 million members (£728 billion assets in accumulation) when non-workplace pensions are included).

The existing requirements for VFM are similar but not identical. The following, taken from the original discussion paper, explains their expectations.

TPR-regulated schemes	FCA-regulated schemes
Regulatory expectations are set out in TPR's DC Code. TPR also offers some specific guidance to trustees containing a non-mandatory framework on assessing VFM. This guidance recommends comparisons between pension schemes as part of a VFM assessment, although it does not prescribe how this should be done or include any reporting formats. DWP regulations around driving consolidation of smaller DC schemes came into force on October 2021 and require more detailed annual assessments of VFM for schemes with less than £100m in total assets which have been operating for 3 years or longer.	IGCs are required to assess prescribed aspects of VFM in reaching their assessments of VFM. These include, broadly, the design of the default investment strategy, whether the firm regularly reviews net investment performance and has taken action to make any necessary changes, core financial transactions, communications, and costs and charges. Similar requirements apply to the assessment of the VFM of investment pathway solutions used for drawdown. The existing rules do not prescribe further how assessments should be conducted nor do they require comparisons with other options available on the market. In 2020, the FCA consulted on a detailed framework for scheme governance bodies to assess VFM of FCA-regulated workplace pension schemes and summarise the feedback received from firms. The proposed rules are equivalent to the existing TPR framework for regulated trust-based schemes. The FCA proposes to make final rules in the autumn.

Comment

The press release (TPR and FCA in push to drive pensions value for money) accompanying the feedback statement makes it clear that there are complex questions about how to achieve consistency in approach. Although there is support across the industry for a common framework and metrics to assess VFM (as all parties are focused on delivering good outcomes for savers), developing this is still a way off as there are so many contrasting views on how to achieve it.

The feedback statement says: “The questions we need to consider are complex. It is important that we make progress. Nonetheless, it is also important that any changes we ultimately decide to make have a lasting impact, so we need to give these questions the careful consideration they demand. We will start a programme of further work to examine the options we think are likely to be the most effective and proportionate. This will mean that we need to engage further with the industry to enable us to fully understand the potential impact of our proposals on the industry and savers.”

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