BUCK

UK

FYI®
For Your Information®

Volume 2022

Issue 16

6 July 2022

Authors
Gary Crockford
Nikki Williams

DC pension schemes - key findings from the Regulator's 2021 survey

The Pensions Regulator has sought in recent years to promote and improve the quality of defined contribution (DC) pension arrangements.

The Regulator's latest annual survey report of DC trust-based pension schemes reveals a gradual improvement, but more needs to be done.

In the Regulator's press release, David Fairs urges trustees of smaller DC schemes to show they offer value or wind up. However, this is not the only issue brought to light by this survey, which had a number of important wide-reaching objectives.

Background

This annual survey (carried out between October and December 2021) covered 305 schemes of differing sizes, 21 of which were master trusts. In comparison, the 2020 survey covered 216 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)

Annual survey objectives

The objectives of the latest annual survey were to:

- monitor the extent to which DC trustee boards were assessing the extent to which member borne charges and transaction costs provide good value for members (KGR 2);
- measure awareness of the new value for members assessment that will apply to all schemes with less than £100m of assets under management, and assess the extent to which schemes have prepared for this;
- explore the extent to which trustee boards scrutinise and challenge reports provided by the pension scheme administrator, and whether they have dedicated budgets for administrative improvements;
- measure awareness of pensions dashboards among schemes with 100+ members, and identify the actions they have taken (or planned) to prepare for the dashboards;
- better understand the processes used by schemes to manage climate-related risks and opportunities;
- measure awareness, use and perceptions of current codes of practice, and explore awareness and perceptions of the new single code of practice;
- explore perceptions of the Regulator’s supervision of master trusts; and
- assess the extent to which schemes record diversity data in relation to their trustees.

Value for members (KGR 2)

Of the five key governance requirements, this survey concentrated on value for members. 91% of DC members were in a scheme that met KGR 2, up from 58% in 2020 and the highest proportion since the research began in 2016.

However, when viewed from a scheme basis, only 21% of schemes met the requirement of KGR 2, up from 14% in 2020. The likelihood of meeting the requirement increased with scheme size from 14% of micro schemes to 81% of master trusts.

To meet the requirements of KGR 2 trustees are required to:

- have a good understanding of investment transaction costs;
- have a good understanding of costs/charges deducted from members' funds both in default arrangements and self-select arrangements;
- annually assess that charges/costs represent value;
- research members and take what they find into account when assessing value for members; and
- obtain information needed for a value for members assessment.

Whilst most schemes were meeting at least some of the requirements, the main barrier to them meeting KGR 2 was that schemes did not research the characteristics, preferences and needs of members and thus take this into account when assessing value for members. This requirement was met by only 28% of schemes. Again, the likelihood of meeting this requirement increased with scheme size from 20% of micro schemes to 86% of master trusts. The results were broadly consistent with the 2020 survey, with the only significant statistical change being an increase from 39% to 61% in medium schemes, which is only 4% lower than large schemes.

New value for members assessment

Schemes with less than £100m of assets under management are required to carry out a more prescriptive 'value for members' assessment and those not offering value are expected to improve or wind up. This came into effect as of the first scheme year end that fell after 31 December 2021.

Whilst this question was asked of affected schemes before the requirement came into effect, overall awareness of it stood at 33%. Only 24% of micro schemes were aware of the new requirement whilst 90% of large schemes were aware.

Of those schemes that were aware of the new requirement, 51% had carried out a self-assessment of their governance and administration, but only 17% had compared costs and 10% had compared charges, with three other schemes.

The most widespread barrier to preparing for the new value for members assessment was recorded to be a lack of guidance on how to self-assess scheme governance and administration.

Challenging administrator performance

49% of schemes believed the trustee board was well equipped to scrutinise and challenge reports from their administrators. But 7% of schemes did not receive any reports and 30% of schemes never challenged the reports they received. Only 12% of schemes challenged administrators reports most of the time but this included 100% of master trusts and 91% of large schemes, which account for 99.5% of all DC membership.

Only 15% of schemes had a dedicated budget set aside for administrative improvements such as data cleansing. Larger schemes at 67% were ahead of master trusts and smaller schemes, both on 52% with micro trusts on 5%. Just 2% of those that did not currently have a budget for administrative improvements intended to introduce one in the next two years.

51% of schemes still had at least some records held non-electronically. This was most likely to be the case for micro schemes (61%), but 5% of master trusts and 21% of large schemes still held records on paper or microfiche.

Pensions dashboards awareness

Dashboards are to be introduced in stages, with larger schemes having to meet the requirements first. Accordingly only schemes with more than 100 members were asked a series of questions related to dashboards.

94% had heard of dashboards and 83% were aware of the legal requirement on trustees to provide data to savers through pensions dashboards. Only 64% were aware of the Pensions Dashboards Programme team, set up by the Money and Pensions Service to develop the technology infrastructure behind the dashboard programme.

Of those respondents who were aware of dashboards, 85% had heard of them through trade press and only 37% had attended an industry event on dashboards. Only 44% of those aware of dashboards had spoken to their scheme administrator with another 31% planning to do so in the next six months. Just 36% had undertaken work to update scheme data with 27% more planning to do so in the next six months.

Climate change

17% of schemes had allocated time and resources to assessing financial risks and opportunities associated with climate change. However, this included 100% of master trusts and 92% of large schemes. 55% of medium schemes had also done so, but only 9% of small schemes and 5% of micro schemes.

13% of schemes included climate-related issues as a regular agenda item at trustee meetings, 12% had added climate-related risks to their risk register, 9% had assigned responsibility for climate-related issues to a trustee or sub-committee, and 9% included, monitored and reviewed targets in the scheme's climate policy.

On the issue of stewardship and climate risks, 16% had discussed their engagement and voting policies with advisers, 13% had asked prospective new asset managers how they had included climate change in engagement and voting behaviour and 4% had signed the UK Stewardship Code.

Regulator's codes of practice

84% of schemes were aware of the Regulator's codes of practice. Whilst 80% of micro schemes were aware of the codes, only 8% of these schemes had used them in the last 3 months and 23% had never used them. Amongst large schemes and master trusts, awareness of the codes was 100%. 56% of large schemes and 100% of master trusts had used them in the last 6 months. Only 6% of large schemes never used them.

Awareness that the Regulator was soon to replace the codes with a single code stood at 32%. Again, awareness depended on the size of the scheme with 94% of large schemes being aware of the single code.

Of those aware of the single code, 62% thought it would make it easier to understand the Regulator's expectations, but 60% thought it would increase the work required by schemes.

Master trusts

Master trusts were asked a number of questions on their perception of the Regulator's supervision of their schemes. 71% thought the Regulator focused on the most important processes, risks and controls. Similar percentages thought the supervision team had a constructive relationship with them, but only 43% thought the team helped them consider their key risks and how they managed them.

Diversity and inclusion of trustees

Schemes were asked whether they formally obtained and recorded any diversity data in relation to the trustees and, if so, what type of data was collected. Only 14% recorded any form of trustee diversity data. This was broadly consistent by scheme size but increased to 31% of master trusts. Gender and age were the most widely collected data (13%), with the other types of trustee diversity data captured by between 8 and 10% of schemes.

30% of schemes had not even thought of collecting the data. Of those that did collect it 47% could not identify any ways in which this data was used by the scheme.

Comment

The focus in last year's press release about the 2020 survey was on how few trustee boards were looking at climate change. This year the Regulator wants to call out the smaller DC schemes that are not offering value for members and are unaware of the new value for members assessment, as well as unaware of other regulatory requirements such as the new single code of practice.

The message for these schemes continues to be that "consolidation is the answer".

Produced by the Knowledge Resource Centre
The Knowledge Resource Centre is responsible for national multi-practice compliance consulting, analysis and publications, government relations, research, surveys, training, and knowledge management. For more information, please contact your consultant or call us on 0800 066 5433.