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Response from the Pensions Management Institute to DWP consultation: 'Value for Money: A framework on metrics, standards, and disclosures'

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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 7,000) 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.

We trust that the feedback in the following pages proves helpful.

Q1: Do you agree with the proposed phased approach?

We support the introduction of a new value for money framework. For too long the focus of pensions has been on price which, while important, potentially detracts schemes from innovating in product design and investment.

With any reform of this scale and complexity, it is important that it is phased in to make things manageable and to allow the industry time to adapt to the proposed new requirements. While we agree that accumulation default funds under automatic enrolment workplace schemes should be in phase one, we also think that requirements should cover non-workplace pensions, in particular retail SIPPS where we know charges are high and often above the current default charge cap. Whilst retail will, by definition, have more engaged consumers, we think that those consumers deserve to have standardised and comparable information on which to base their decisions. This is particularly important given the volume of consolidation activity in the market and the introduction of pensions dashboards which will only accelerate pension consolidation.

While we would also like to see decumulation funds in the first phase, given the relative immaturity of this marketplace we think that VFM requirements should be considered as part of a wider package of reforms looking at scheme decumulation. However, we can't rest on our laurels and there is an urgency to include decumulation once the framework is developed for phase one.

We agree with the proposal to exempt SSASs and EPPs from the requirements, given the nature of their members and the cost impact of the proposed VFM requirements.

Q2: Do you agree with our focus on and approach to developing backward-looking investment performance metrics?

Yes.

Specifically we agree with the proposal to require reporting net of the sum of member-borne costs and charges and all costs paid by an employer to a scheme or pension provider.

We agree that reporting should be on performance over longer-term periods. The periods suggested seem sensible.

We also agree the proposal to require reporting on the basis of employer cohorts, to avoid excessive data reporting obligations which would not be cost-effective and which may negatively impact upon savers' outcomes.

Furthermore, we agree that it will be important to require reporting in age cohorts, to maintain accuracy and consistency of the picture presented.

Q3: Do you agree with our proposals to use Maximum Drawdown and/or ASD as risk-based metrics for each reporting period and age cohort?

We agree with the principle that reported reports need to involve an assessment of risk. Given that the two metrics proposed are both currently in widespread use it makes sense to utilise them here, to maintain consistency with other value assessments.

Q4: Do you agree with our proposals on "chain-linking" data on past historic performance where changes have been made to the portfolio composition or strategy of the default arrangement?

Yes. Chain-linking in respect of a scheme or provider will be essential to prevent any possible manipulation of figures to produce misleading outcomes in reports. This should also apply where the effective control of the provider or scheme remains unchanged notwithstanding any corporate name or structure change.

We also agree that chain-linking should not apply in respect of a past period where that related to management by a previous scheme or provider unconnected with the current one, and where the current one has assumed control following the past poor performance of the previous scheme or provider.

Q5: Do you agree with proposals for the additional disclosure of returns net of investment charges only?

Yes.

Q6: Do you agree with requiring disclosure of asset allocation under the eight existing categories for all in-scope default arrangements?

Yes, it is important to maintain consistency of approach across the board. We think consideration should also be given to disclosure of frictional trading costs as that can detriment member outcomes.

Q7: Do you think we should require forward-looking performance and risk metrics, and if so, which model would you propose and why?

While it is a nice idea in theory, the practicalities and potential for gaming the system or miss-managing consumer expectations of likely performance should not be underestimated. We would support further work and discussion on this point as we develop the framework, but think we should not let this aspect of the proposals hold up the introduction of the proposed value for money framework.

Q8: Are there any barriers to separating out charges in order to disclose the amount paid for services?

We support splitting out admin and investment fund fees. As a note of caution, we need to avoid falling into the trap of inadvertently creating anti-competitive disclosure enabling the calculation of provider margins and profitability. This warrants further investigation and discussion, particularly if disclosure requirements go beyond headline charges.

Q9: Do you have any suggestions for converting combination charges into an annual percentage? How would you address charging structures for legacy schemes?

We would question why this would be necessary given that TERs should be disclosed to members and that the framework requires schemes and providers to report returns net of both investment and total charges.

Q10: Do you agree with our proposal to provide greater transparency where charging levels vary by employer? Do you agree that this is best achieved by breaking down into cohorts of employers or would it be sufficient to simply state the range of charges?

We agree with the proposal. Breaking down into cohorts of employers would be preferable, for consistency with proposals for reporting net performance data in chapter 4.

Q11: Are these the right metrics to include as options for assessing effective communications? Are there any other communication metrics that are readily quantifiable and comparable that would capture service to vulnerable or different kinds of savers?

It is a challenge to find metrics that will produce an accurate assessment of member communications. Widespread experience to date has shown the difficulties involved in obtaining member feedback or accurately linking member actions to communications. Even with improvements that new regulatory approaches are designed to achieve we are sceptical of any material change in that area.

We also think that standards of communications, and in a lot of cases, marketing need to be assessed bearing in mind the financial promotions rules, but also in presenting things in a clear, fair and not misleading way to vulnerable savers with multiple pots who are looking to consolidate.

Using net promoter Score can deliver a skewed measure as generally on those who have had exceptionally good or bad experience will complete the survey.

However, the proposed approach is as good as any, provided that the results are accompanied by a health warning drawing attention to the likely shortcomings in accuracy.

Q12: Are these the right metrics to include as options for assessing the effectiveness of administration and/or are there any other areas of administration that are readily quantifiable and comparable?

The proposed metrics are appropriate.

Q13: Do you agree with a decentralised or a centralised approach for the publication of the framework data? Do you have any other suggestions for the publication of the framework data?

A centralised approach would be the better option in the long term. However, we recognise the costs and delays inherent in developing a central repository. We therefore suggest that a decentralised model be implemented initially, while work is undertaken centrally and with the industry to develop a central repository.

Q14. Do you agree with the proposed deadlines for both the publication of the framework data and VFM assessment reports?

It does not seem practical to ask trust based schemes to realign their year-end dates to accommodate a change in legislation. It is disappointing that this cannot be included in the Chairs Statement and it is proposed that a set date is used. If this is the approach then we would suggest that an extended first year is considered for those arrangements affected. the proposed deadlines are acceptable for contract based schemes. Again. It makes sense to align disclosure with IGC reporting requirements.

Q15: Do you think we should require comparisons against regulator defined benchmarks or comparisons against other schemes and industry benchmarks?

We think it preferable to build upon existing requirements and follow the market comparisons approach, rather than establish a completely new basis produced by regulators.

Q16: Do you agree with the step-by-step process we have outlined, including the additional consideration?

Yes.

Q17: Do you agree with a 'three categories' / RAG rating approach for the result of the VFM assessment?

Yes. Although this will lose some detail from the data obtained, it will help stakeholders more easily assess and compare results.

Q18: How should we take into account the specific challenges of contract based schemes while ensuring equivalent outcomes for pension savers?

No comment

Q19: Do you agree with our proposals on next steps to take following VFM assessment results, including on communications?

Yes

Q20: If the Chair's Statement was split into two separate documents, what information do you think would be beneficial in a member-facing document?

On the grounds that members are reluctant to read pensions documents, any member-facing document should be brief, written in straightforward language and be restricted to information that is absolutely necessary. Members will also receive a (probably simplified) annual benefit statement, so there should be no overlap in material provided.

The benefit statement will contain the main items that members are likely to be interested in on a regular basis. The detail behind the organisation of the scheme, including member options, will be published in other documents, which most members will never read.

That leaves the member-facing Chair's statement to pick up information on the operation of the scheme over the year. We imagine that members will be interested in receiving reassurance that the scheme has continued to be well-run, that their investments are "safe", and that the scheme is continuing to give "value for money" – or the action the trustees are taking to address that.

Q21: Is there any duplication between the VFM framework proposals and current Chair's Statement disclosure requirements?

Yes, the current requirements for the chair's statement include a report on the value for members assessment.

Q22: Should individual SIPP arrangements be excluded from the requirement on providers to establish an IGC/GAA and to publicly disclose costs and charges and, if so, under what circumstances?

Yes, where all the members have joined voluntarily and have received advice (whether or not they have chosen to follow it). However, we caveat our answer on the basis of comparable vfm disclosures being made for SIPPs and, in particular, retail consolidators. Particularly where we know widespread retail consolidation is happening approaching retirement.

Q23: Do you think there would be merit in a proposal to mandate the inclusion of a pension saver-focused summary alongside the IGC Chair's Report?

Yes – this would be a good discipline on the provider, ensuring a focus on the customer.

Q24: Do you think the provider or the IGC should be responsible under FCA rules for the publication of framework data?

It seems more appropriate for the provider, with its resources, to provide this.

Q25: Which of the metrics do you not currently produce? (This could be for either internal reports or published data). Do you envisage any problems in producing these metrics?

N/A

Q26: Do you agree with our assumptions regarding who will be affected by the framework?

Yes.

Q27: Are you able to quantify these costs at this stage? Are there additional cost components we have not considered? Do you expect these costs to be significantly different for commercial providers and multi-employer schemes?

PMI does not have sufficient relevant information to answer this question.

Q28: Overall, do you think the benefits of the framework outweigh the costs? Are you able to quantify any of the potential benefits?

PMI does not have sufficient relevant information to answer this question.

Q29: Are there additional benefits we have not identified?

We are not aware of any.

Q30: Do you have any comments on the potential positive and negative impacts of these proposals on any protected groups, and how any negative effects could be mitigated?

The point we'd stress here is that consistent and comparable disclosure is important especially for people moving from the workplace environment to retail consolidators given the significant differences in charges.