XPS Pensions Group

XPS Insights
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Improving member outcomes. Should you govern or consolidate?

What you **need to know**

- Following its February 2019 consultation on improving benefit outcomes for members in occupational defined contribution (DC) schemes, the Government issued a further consultation on 11 September 2020 including draft regulations and guidance. The consultation closes on 30 October 2020, with regulations intended to be in place from 5 October 2021.
- Under the draft guidance all relevant schemes (broadly all occupational DC schemes) will have increased reporting requirements via their annual scheme return to the Pensions Regulator (TPR), and their chair's statement.
- It is proposed that 'smaller' schemes (those with less than £100m in assets and having been in operation for at least 3 years), must undertake additional value for members assessments in defined areas each year. The results must be included in the annual chair's statement and scheme return.
- If the scheme is not delivering good value for members, trustees must confirm in the scheme return whether they plan to wind up the scheme and if not, why not and how they plan to improve it. Any improvements need to be made in a 'reasonable period' which is undefined, but it can be assumed this is likely to be before the following year's assessment.
- The proposals, as drafted, do not apply to schemes with only DC AVCs. Yet, trustees already have a fiduciary responsibility and are obliged to govern such schemes in line with Code of Practice 13. All members should be supported to receive good outcomes – and if this is not the case, trustees should improve support or consider consolidating these benefits into a DC scheme that does.

Actions you should take

- **Determine** whether your scheme is likely to sit in the new 'smaller' scheme category.
- **Review** whether your arrangements provide value for members (regardless of scheme size).
- **Consider** whether improvements are needed, or consolidation into a larger scheme (for example a DC Master Trust) can provide better member outcomes.

The **main changes** proposed from 5 October 2021

Item	Impact of change
Additional disclosures	All relevant DC schemes required to report net investment returns for all investment options used by members within annual chair's statement.
Mandatory VFM for 'smaller' schemes	VFM assessments are currently needed on all schemes but content is only broadly defined. A specific list of matters to be covered, communicated and reported to TPR, will be mandated.
Charges and net investment returns	'Smaller' schemes will also be required to compare costs, charges and net investment returns with those of three larger comparators, at least one of which the trustees must have reasonable grounds to believe could receive a transfer of all the scheme's benefits.

The finer detail:

Timeframe	The Government has indicated that it expects to effect the required legislation **from 5 October 2021**.
Background	The Government believes that bigger DC schemes give better outcomes. It wants 'smaller' DC schemes (noting that around 2150 out of the 3000 DC schemes registered with TPR have fewer than 100 members) to meet new minimum governance requirements, or consolidate into larger schemes. There is clear evidence from this consultation that it regards the majority of DC schemes as not sufficiently governed, as a 'small' scheme is now defined as one with less than £100m in assets (whereas in the preceding consultation, an amount of £10m was suggested).
Additional disclosure requirements	All relevant schemes will be required to show the net investment returns (back to 2015 where possible) on both the default(s) and all self-selected funds in which members are invested. These must be included within the chair's statement, which is available via a publicly accessible website.
VFM for 'smaller' schemes – comparator assessment	In addition, relevant smaller schemes will have to compare their net investment returns and also their costs and charges with those of three 'larger' (over £100m in assets) comparator schemes, on an annual basis. This must include one that the trustees have reasonable grounds to believe would be prepared to accept a transfer of the scheme's benefits should it be wound up. Costs and charges information can already be found in schemes' publicly accessible chair's statements. However, and particularly for the initial assessment, the availability of comparator investment returns could be restricted to those that already make this available, such as Master Trusts, which could also be the main recipients of benefits from smaller schemes upon their wind-up.
VFM for 'smaller' schemes – administration and governance	As well as 'comparator assessments', trustees' VFM consideration would need to include: • record keeping • core financial transactions • member communications • default investment strategy • investment governance • trustee knowledge However, smaller schemes would not need to compare themselves to bigger ones on these matters.
VFM for 'smaller' schemes – reporting requirements	The output of the VFM assessment will have to be disclosed in the chair's statements and the annual scheme return, thus giving TPR direct sight of these assessments. If, based on their assessment, trustees do not believe that their scheme is providing VFM then TPR will require improvement within a reasonable period or, the scheme to start winding-up, with a transfer of assets to a larger arrangement (e.g. a Master Trust).
Other aspects of the consultation	The consultation also covers several tweaks and clarifications to requirements including a proposed relaxation to the charge cap requirements in order to permit wider direct investment in illiquid assets (e.g. property and infrastructure), a requirement for 'with profits' default schemes to produce a default Statement of Investment Principles and an amendment to extend the costs disclosure requirements to funds which members are no longer able to select.

For further information, please get in touch with Ian Johns or Christopher Barnes or speak to your usual XPS Pensions contact.

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