XPS DC

XPS DC Insights

April 2022

Improving member outcomes. Should you govern or consolidate?

What you **need to know**

- Following recent consultations on improving benefit outcomes for members in occupational defined contribution (DC) schemes, regulations that have increased governance requirements are now in place.
- All relevant schemes (meaning most occupational DC and hybrid schemes) have increased reporting requirements via their chair's statement, for scheme years ending on or after 1 October 2021.
- For scheme years ending on or after 1 January 2022, 'smaller' schemes (those with less than £100m in assets and having been in operation for at least three years), must undertake a more detailed value for members (VFM) assessment each year. The results must be included in both the annual chair's statement and the scheme return to The Pensions Regulator, and be published on a publicly available website.
- If a 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.
- For the avoidance of doubt, this does not apply to schemes with only DC AVCs. Yet, trustees already have a fiduciary responsibility and are obliged to govern such benefits in line with codes of practice. 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 can take

- **Determine** whether your scheme sits in the new 'smaller' scheme category.
- **Review** whether your arrangement provides good value for members (regardless of scheme size).
- **Consider** whether improvements are needed, or consolidation into another scheme (for example a DC master trust) can provide better member outcomes.

The **XPS approach**

At XPS, we are engaging with trustees and employers ahead of their VFM assessments, to discuss which path they are looking to take; whether to govern or to consolidate.

Doing so, sets the right path for them, rather than waiting for their next assessment, which could mean lost time and opportunities.

Once a path is decided, XPS has the tools to fully support the next phase of either governance (via our VFM assessment tools) or consolidation.

XPS's survey '**2022: The Year to Decide**' found that **41%** of schemes were looking to consolidate in the next 5 years. **55%** were looking to govern (with the remainder largely undecided). We suspect though, that as trustees begin to understand the new VFM assessment requirements, this ratio could change.

Click here to view our survey

The finer detail:

Timeframe

The new requirements apply as follows:

- **Chair's statement:** scheme years ending on or after 1 October 2021; and
- **Value for members assessment:** scheme years ending on or after 1 January 2022.

Background

The Government believes that bigger DC schemes give better outcomes. It wants 'smaller' DC schemes to meet new minimum governance requirements, or consolidate into larger schemes.

Additional disclosure requirements for chair's statements from 1 October 2021

Almost all schemes, regardless of size, will be required to show the net investment returns (dating back at least 5 years, or longer if possible) on both the default 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

Almost all '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 with which the trustees have discussed it accepting a transfer of the scheme's benefits should it be wound up.

A 'smaller' scheme is defined as one with less than £100m in assets, that has been in operation for at least three years.

For hybrid schemes, it is their combined DB and DC assets that are compared to the £100m measure for being a 'smaller' scheme. If this is greater than £100m, it is not required to complete the new VFM assessment. However, the trustees must still undertake a VFM assessment, but this does not have to be in the new assessment structure.

This requirement does not apply to schemes with only DC AVCs.

VFM for 'smaller' schemes – administration and governance

As well as 'comparator assessments', trustees' VFM consideration needs to include:

- record keeping
- core financial transactions
- member communications
- managing conflicts of interest
- default investment strategy
- investment governance
- trustee knowledge

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 good value for members 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).

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

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