

XPS DC Agenda

If your key goals for 2021 are to protect and improve member outcomes and deliver value for money:

2021 Quarter 1 – Items for discussion

1. Role of **sustainability and integration of ESG** in your strategy



2. **Member analytics** and meeting your members' needs



3. Continued **member support and financial planning** for those impacted by COVID-19



4. Demonstrate **value for money** or consider consolidation



5. **Financial wellbeing** for members through retirement



6. Effective and **value-add investment design**



We look into each of the above in further detail and highlight some key actions to consider.

Introduction

2020 was a turbulent year for DC schemes, members, employers and those that govern them – Trustees and Governance Committees. COVID-19 continues to impact every area of DC pensions; as it does in all areas of our lives. We now look ahead to the DC Agenda for the three months ahead to help shape your discussions.

In this, our first edition, Alan Greenlees and Ken Anderson look at the key items that should be on your DC Agenda for 2021 – which of course may evolve further if there are any tax changes announced in the Budget in March!

Gordon Bown completes a round-up of key pension aspects that you should be aware of.

We do hope that you find DC Agenda of interest.

If you have any questions about anything that we cover in this DC Agenda, or any other questions please do get in touch.

Sophia Singleton
Partner, Head of DC



Sharing our DC insights with you to help you shape your DC Agenda.

Sophia Singleton
Partner, Head of DC

Alan Greenlees
Head of DC Investment



Setting your agenda

1.

Move to sustainability and driving change



The importance of ESG and how schemes address these risks remains top of the agenda, with schemes continuing to address matters such as:

- ESG and stewardship via annual Implementation Statements,
- monitoring risks through ESG dashboards, and
- documenting via Statement of Investment Principles.

Member awareness of, and demand for, more sustainable and climate-aware funds is expected to increase, with schemes looking to align offerings with member demand. The largest schemes will also contend with the new TFCF requirements, which are aimed at improving and increasing reporting on climate aware issues.

▶ Actions

Consider your approach to ESG and the level of integration with strategies; be proactive and forward-thinking with your policies on sustainability and review member engagement for such fund options.

▶ How XPS can help

We can provide ESG training for those governing schemes, as well as tailored solutions that include sustainable fund options. Our ESG beliefs surveys can help you identify areas to focus on with detailed ESG monitoring to keep you up to date with fund developments.

2.

Identifying and meeting members' needs



Your investment strategy should be bespoke to your scheme, fit for purpose and tailored to your members' needs. Identifying those member needs continues to be challenging, as does general engagement with members. Seeking member views poses logistical challenges and we expect more schemes will continue to use alternative approaches. Developing investment beliefs to reflect their membership, based on Trustee/Governance Committee views and non-intrusive approaches to capturing member views will increase and is useful for improving member understanding.

▶ Actions

Consider how you can demonstrate that your strategy reflects member views and is meeting their needs. Developing investment beliefs can be really useful to articulate your chosen approach.

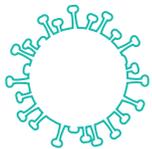
▶ How XPS can help

Our non-intrusive member profiling analysis can give you valuable insights into your membership and opens up a number of powerful conversations on engagement, member outcomes and overall pastoral care. Our online DC beliefs survey can help you capture your views across the core areas.

Setting your agenda (Cont.)

3.

COVID-19 member support



DC schemes must continue to focus on providing positive member outcomes amidst the COVID-19 pandemic. This may be particularly relevant this year with many employees and members feeling distanced from employers (e.g. those on furlough) and their retirement benefits. Member engagement and communication will continue to be high up on agendas for 2021, with schemes keen to re-establish connection with members. Scams are an increasing concern – we are now seeing red flags in over 60% of transfers covered by the XPS Scam Protection Service, indicating members have little understanding of where their savings are going or fees being charged.

▶ Actions

Review your communication strategy to effectively support your members. Those approaching retirement may warrant special care to select suitable options and mitigate scam risks.

▶ How XPS can help

Our specialist communications teams can support you in developing and reinvigorating your scheme communications. Member analytics can be insightful in identifying the most effective and powerful engagement approaches for your members.

The **XPS Scam Protection Service** can help protect your members to ensure they receive value – in 5 years it has helped protect 4,500 members' transfers totalling over £1bn.

4.

Demonstrating value for money



Governance continues to evolve and can be so much more than a 'box-ticking exercise'. Good governance can add value to DC schemes and members. **Demonstrating value for money will be a core area for schemes to consider, particularly with the DWP proposal for consolidation being considered by the Government.**

▶ Actions

For schemes within the remit of the DWP consolidation proposal, a governance review including demonstrating value for money will be critical. Consideration of consolidation and a review of alternative options (such as master trusts) should factor into conversations.

▶ How XPS can help

We can review your DC governance and value for money analysis to help you determine the appropriate course for your members and keep you ahead of legislative requirements.

Setting your agenda (Cont.)

5.

In-retirement solutions



It is approaching six years since pension freedoms and the increased retirement flexibilities became available. However, research shows that many members are still not making the right decision for them and are losing out due to excessive fees or tax being paid. Retirement solutions should reflect the options available. Members need support to understand and access the right option(s) for them to ensure financial wellbeing through retirement.

6.

Investment design



Effective investment design continues to be a powerful approach to enhancing member outcomes. Investing members' contributions and aligning the strategy to investment beliefs should remain a core focus. The continued role of cash in DC strategies should be questioned, as well as the role of multi-asset funds to deliver returns. We expect schemes to review their default investment strategy, as well as alternative fund options available, to ensure that the strategy delivers on key aspects such as value for members.

Ken Anderson
Senior Consultant



▶ Actions

Review your membership and the retirement provisions available to them. Is your scheme meeting members' needs? Has an effective solution been put in place to deliver the retirement flexibilities?

▶ How XPS can help

We can help you to review members' retirement choices and align to investment goals offered by the scheme. We can also support with external solutions to complement your scheme which offer the full retirement options, such as master trusts. Communications can help to illustrate the options available and support members with their decision making.

▶ Actions

Review your investment strategy and continue to monitor performance against agreed objectives. Identify investment beliefs to adopt and how the strategy meets the unique characteristics of your membership.

▶ How XPS can help

Our Member Insights software and collaborative style to working puts you in control of designing your bespoke strategy. Our simplified and pragmatic approach to investment design means that the process can really add value by enhancing member outcomes.

Round-up of other key DC developments

Gordon Bown
Consultant



Govern or consolidate – perhaps the biggest potential change to DC pensions in years. The DWP’s response to this consultation has been delayed, with the expectation of an update in May 2021. For more information, please read our [October 2020 XPS Insights](#).

Contribution payment timescales – The Pensions Regulator (TPR) has updated its guidance to confirm that the reporting for late payment of contributions resumes from 1st January 2021. Any payment later than 90 (previously 150) days will now become reportable.

Auto-enrolment requirements unchanged – auto-enrolment requirements have not changed during the pandemic. Employers should be mindful of their responsibilities as highlighted by the huge increases in fines and enforcement notices issued at the end of last year.

A review of the charge cap applicable to default investments has also confirmed there will no change.

Gated investment funds – we have seen some types of investments (e.g. property) become gated or withdrawn during the pandemic due to market volatility. This creates a number of challenges using property and other types of potentially illiquid assets in DC pension schemes:

- redirecting contributions to an alternative fund without member consent could mean the alternative fund becomes a default fund.
- TPR has stated gated investments is no justification to delaying a statutory transfer (or retirement).

TPR pledge to combat pension scams – with the growing risk from pension scams, TPR is asking schemes to review and improve processes to identify scams and protect members. A key aspect is engaging directly with members to check they understand what they are being advised to transfer to and what the fees are. Selecting and signposting members to a high quality retirement vehicle could greatly assist.

TPR’s annual survey of DC schemes – released on 2 February 2021, the survey shows that only 43% of DC trustees are considering climate change in their investment strategies – with a further 19% planning to review this.

Trustees are required to consider climate change as part of their statement of investment principles. The new Pension Schemes Act will phase in further requirements, based on scheme size.

DC annual benefit statement changes – The DWP consulted on simplifying the format and introducing innovations ranging from a benefit statement season to coloured envelopes. Feedback was mixed – with those that had developed more engaging communication worried this would be undone. The conclusion was that most would be dropped but a template statement would be looked at in a forthcoming consultation this year.

TPR and FCA – as we head into the first quarter look out for more possible consultations from the TPR on trustee knowledge assessment and a possible joint consultation from the FCA and TPR on a qualitative value for money assessment framework.

About us

XPS Pensions Group is the largest pure pensions consultancy in the UK, specialising in actuarial, investment consulting and administration. The XPS Pensions Group business combines expertise, insight and technology to address the needs of more than 1,500 pension schemes and their sponsoring employers on an ongoing and project basis. We undertake pensions administration for over 930,000 members and provide advisory services to schemes of all sizes including 29 with over £1bn of assets.

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