

Goals for DC pensions

Fred Berry
Lead Investment Consultant

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Agenda

- Our goals for DC arrangements
 - Trusteeship in the 21st century
 - DC Code and “How To” guides
- The problems we foresee in DC arrangements
 - Master trusts
- Helping individuals to make informed choices
 - The pensions dashboard

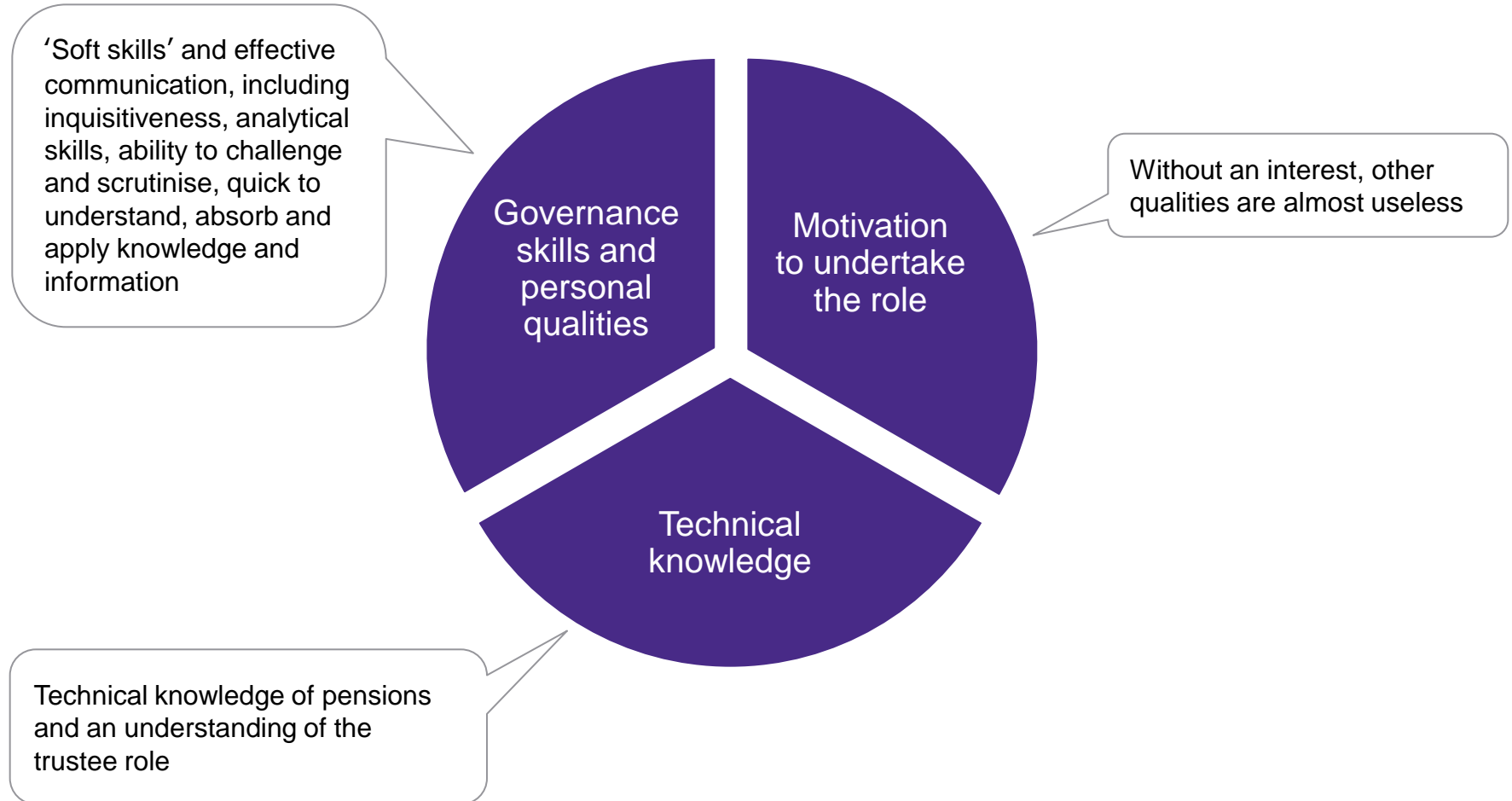
TRUSTEESHIP IN THE 21ST CENTURY

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21st century trustee: key themes from our research

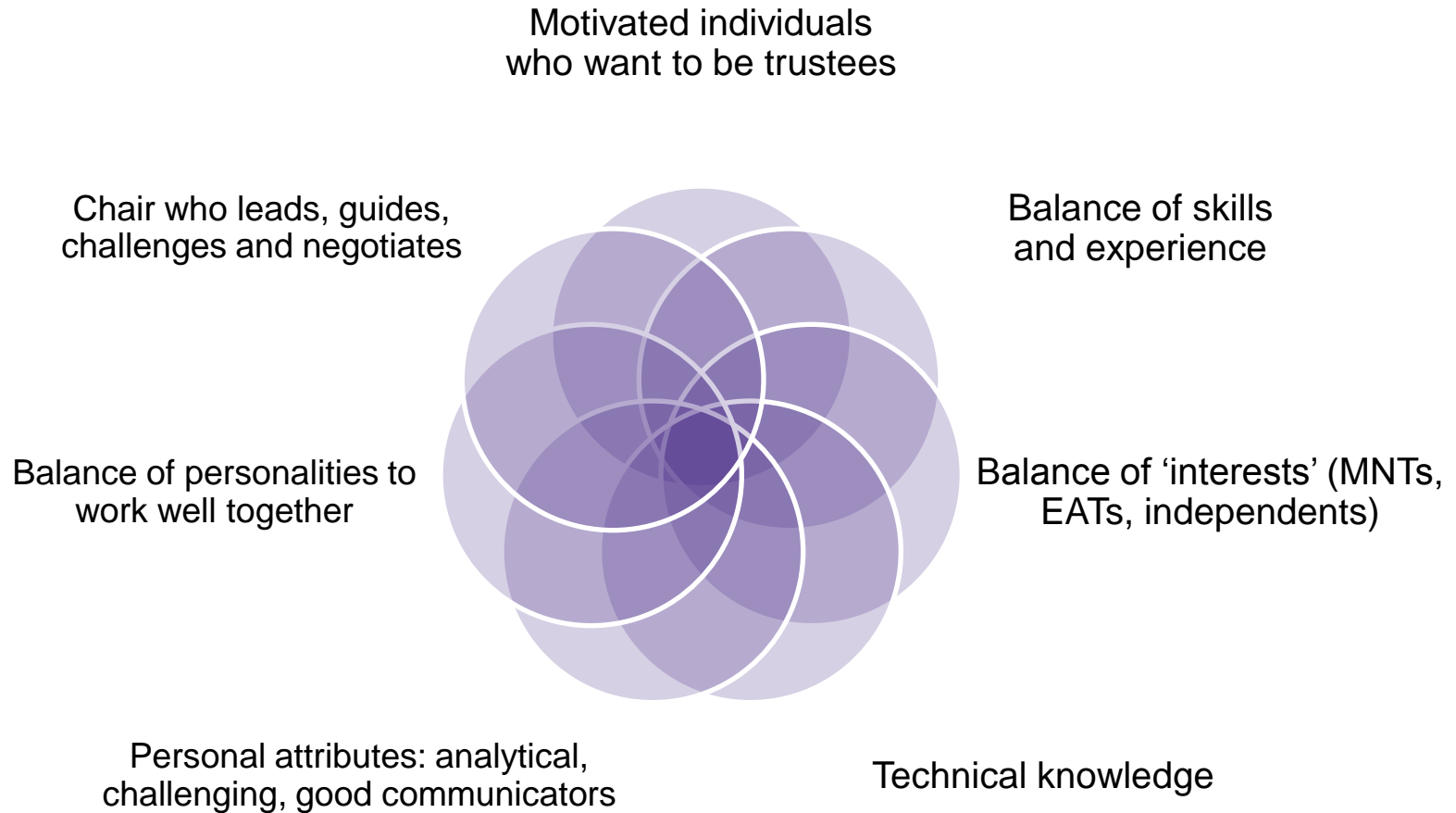
- Importance of effective trustee boards
- Good governance principles universal but are applied differently depending on circumstances
- Trustee model works effectively in many cases
- Although not all trustee boards are reaching the required standards

21st century trustee: effective trustees



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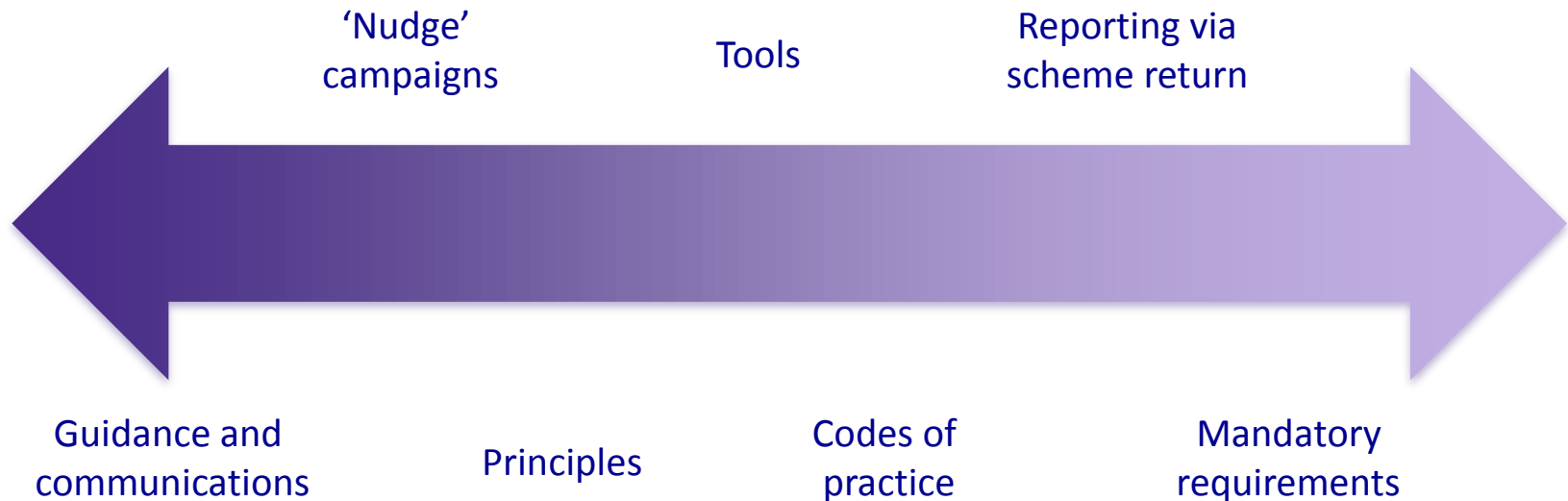
21st century trustee: effective trustee boards



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21st century trustee: how might we help?

- What should a 21st century trustee look like?
- And what should be our regulatory approach?
- Range of options from light-touch to more burdensome



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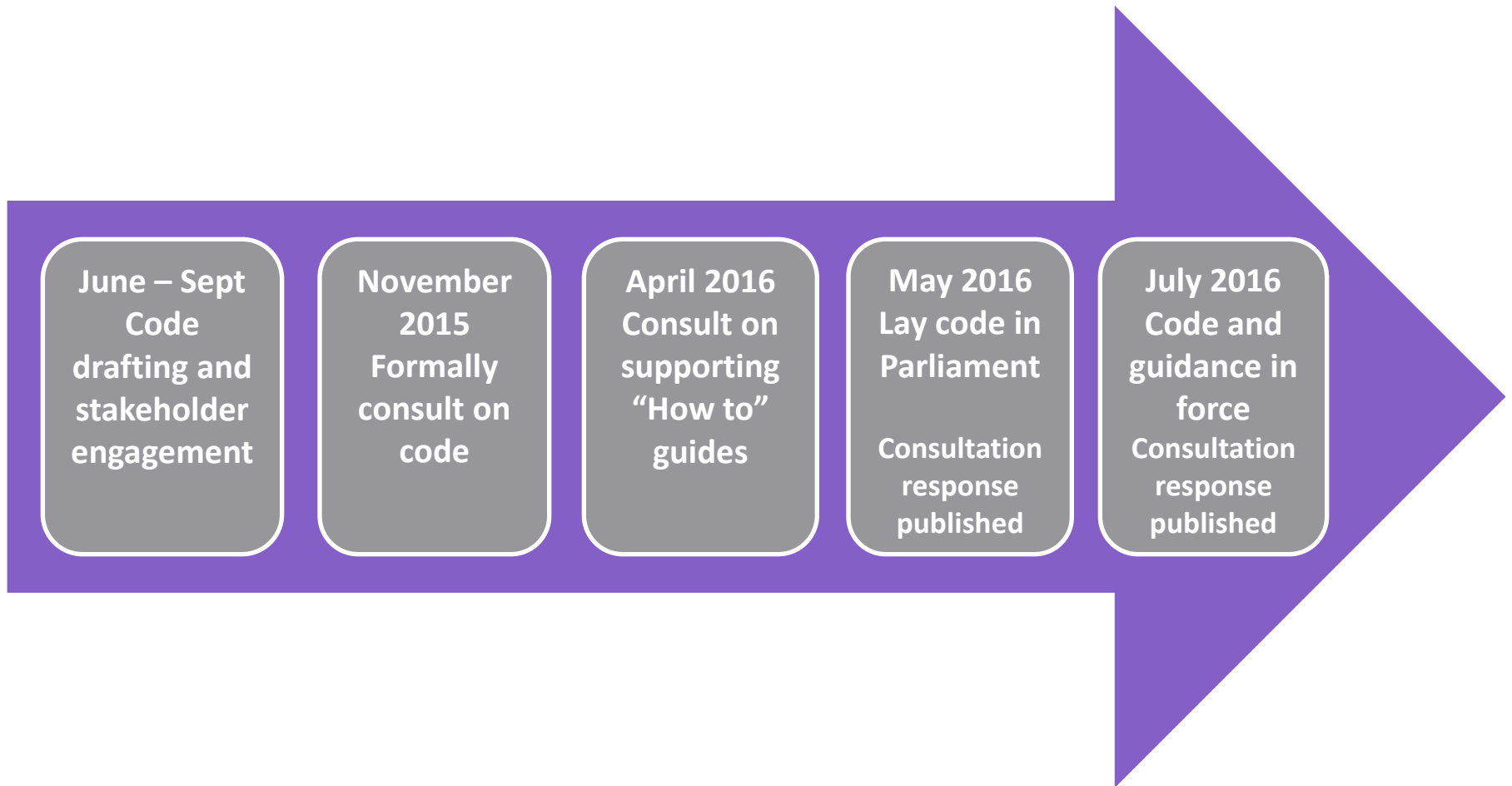
21st century trustee: what next?

- Improving governance and supporting trustees is a key objective for TPR
- We want to get better at getting trustees better:
 - Continue to outline our expectations
 - More targeted, streamlined communications
 - Continue dialogue with industry

DC CODE AND “HOW TO” GUIDES

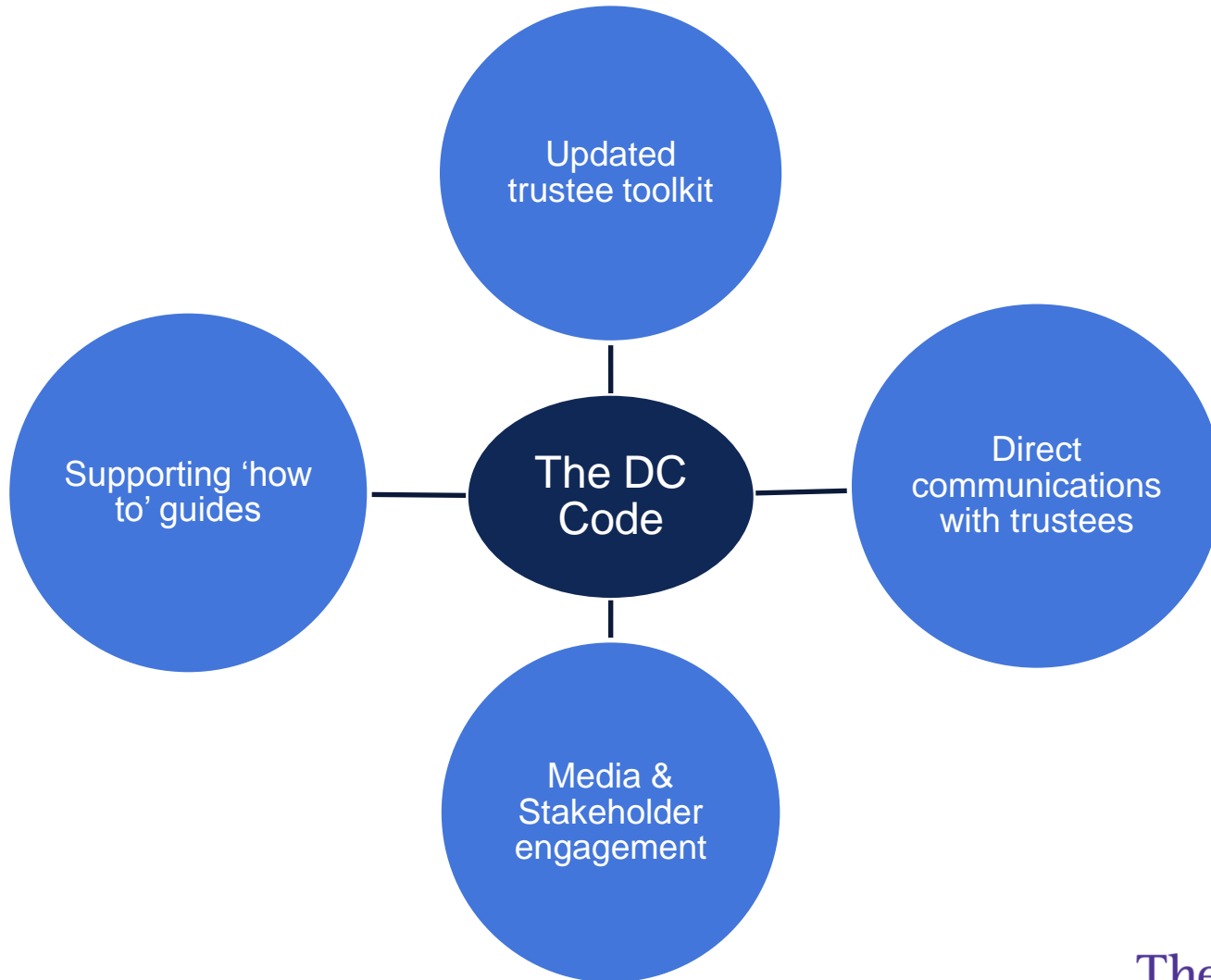
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Overview: timeline



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Promoting the new DC Code



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New DC Code “How To” guides

-One guide for each section of the code:

1. The trustee board
2. Scheme management skills
3. Administration
4. Investment governance
5. Value for members
6. Communicating and reporting

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“How To” Guides – consultation responses

- Closed last month, received 40 responses
- Broadly positive and welcoming of the clear, user-friendly format
- Make clearer which sections of the guides should be viewed as ‘best practice’
- Some of the areas highlighted by respondents included:
 - the important role of the scheme secretary
 - working with the employer
 - security of assets
 - investment transaction costs
 - retirement risk warnings
- Most not in favour of a recommended timescale for the transfer of money purchase benefits.

New DC Code “How To” guides

Trustee Boards

- Appointing the right people has a strong influence over how member interests are protected
- A strong chair should be able to make the most of the attributes of each individual board member and of the board as a whole
- Composition of the trustee board, meetings and related processes help you to use your knowledge, understanding and skills effectively.

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New DC Code “How To” guides

Scheme Management Skills

- Unlikely that you can govern your scheme effectively through formal board meetings alone
- At least annually, you should assess your own knowledge, understanding and skills – including self evaluation of the decisions you have made
- Review the quality and suitability of advisers and service providers before you appoint them and assess performance.

New DC Code “How To” guides

Administration

- Administration function is the key link that members will have with a scheme and the way they see the quality of service provided
- Failure to properly carry out any aspect of scheme administration can seriously affect members' benefits
- You should consider and discuss administration routinely, not just when problems have been identified.

New DC Code “How To” guides

Investment Governance

- Investment governance is one of the more complex areas of running a DC scheme for trustees to get to grips with
- Research we have undertaken consistently shows that some trustees find investment governance particularly challenging
- The investment governance space has moved on significantly over the last few years in the areas of stewardship, the consideration of financial and non-financial factor, and sustainability.

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New DC Code “How To” guides

Value for Members

- Delivering, assessing and reporting on value for money is one of the most important roles for the trustee board
- There is no single approach to an assessment of value – you should develop your own policy which reflects the circumstances of your scheme and its members
- Whatever approach trustees decide to take, it is important that the steps that are taken are documented in the chair’s statement, which should include an explanation of how and why the trustee has its conclusions.

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New DC Code “How To” guides

Communications and reporting

- Good member communications, provided at the right time and in the right format, are vital if members are to engage and make decisions that lead to good outcomes in retirement
- Incorporates good practice guidance from the ‘Essential guide to communicating with members about pensions flexibilities’ – updated for new legislative requirements
- Covers the chair’s statement and statement of investment principles in more detail.

Duties for DC Schemes: Annual Chair's statement

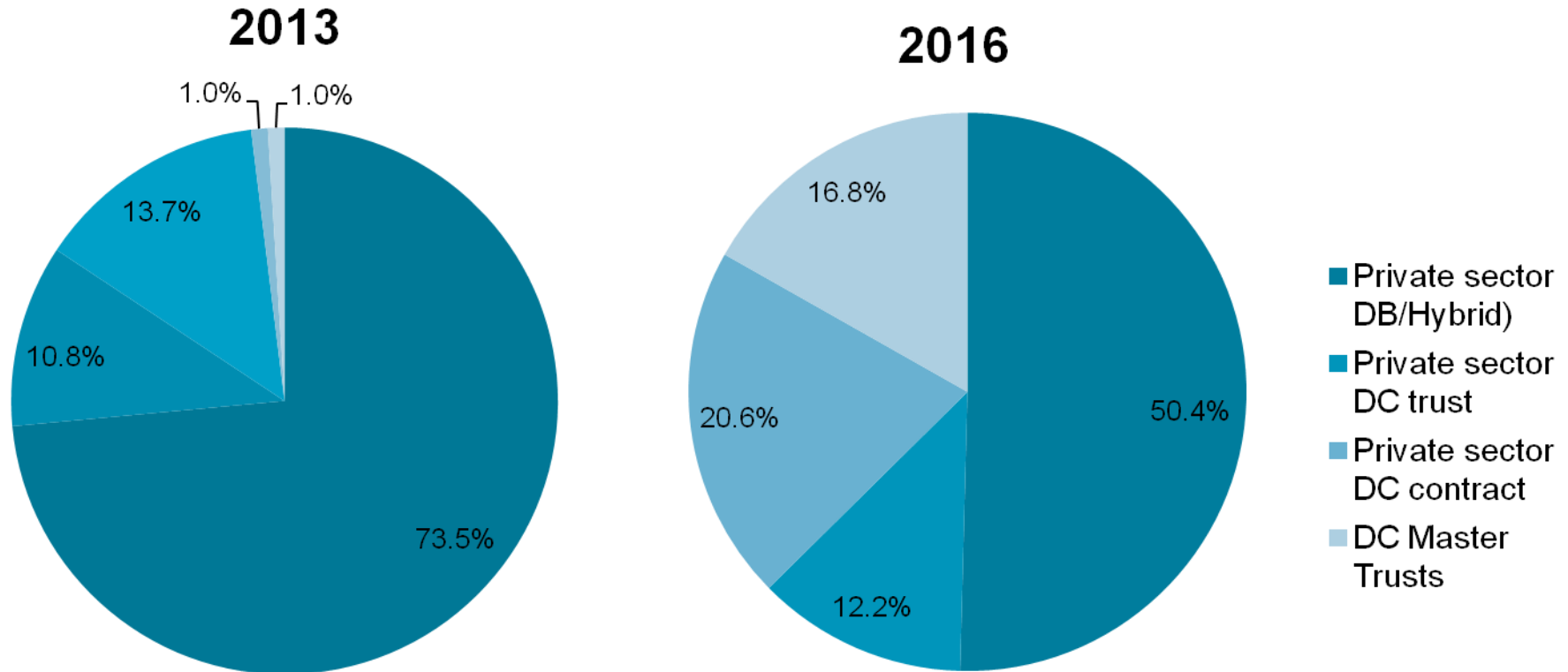
- An explanation of how the trustees or managers have, or have access to, all the competencies necessary to properly run the scheme
- How the scheme meets:
 - the new governance standards
 - trustees' requirements for knowledge and understanding
 - the requirement to process core financial transactions promptly and accurately
- Level of charges & transaction costs applied to the default arrangement and other arrangements
- The Chair must formally sign the Chair's Statement
- Trustees who don't comply will be fined £500 - £2,000

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MASTER TRUSTS

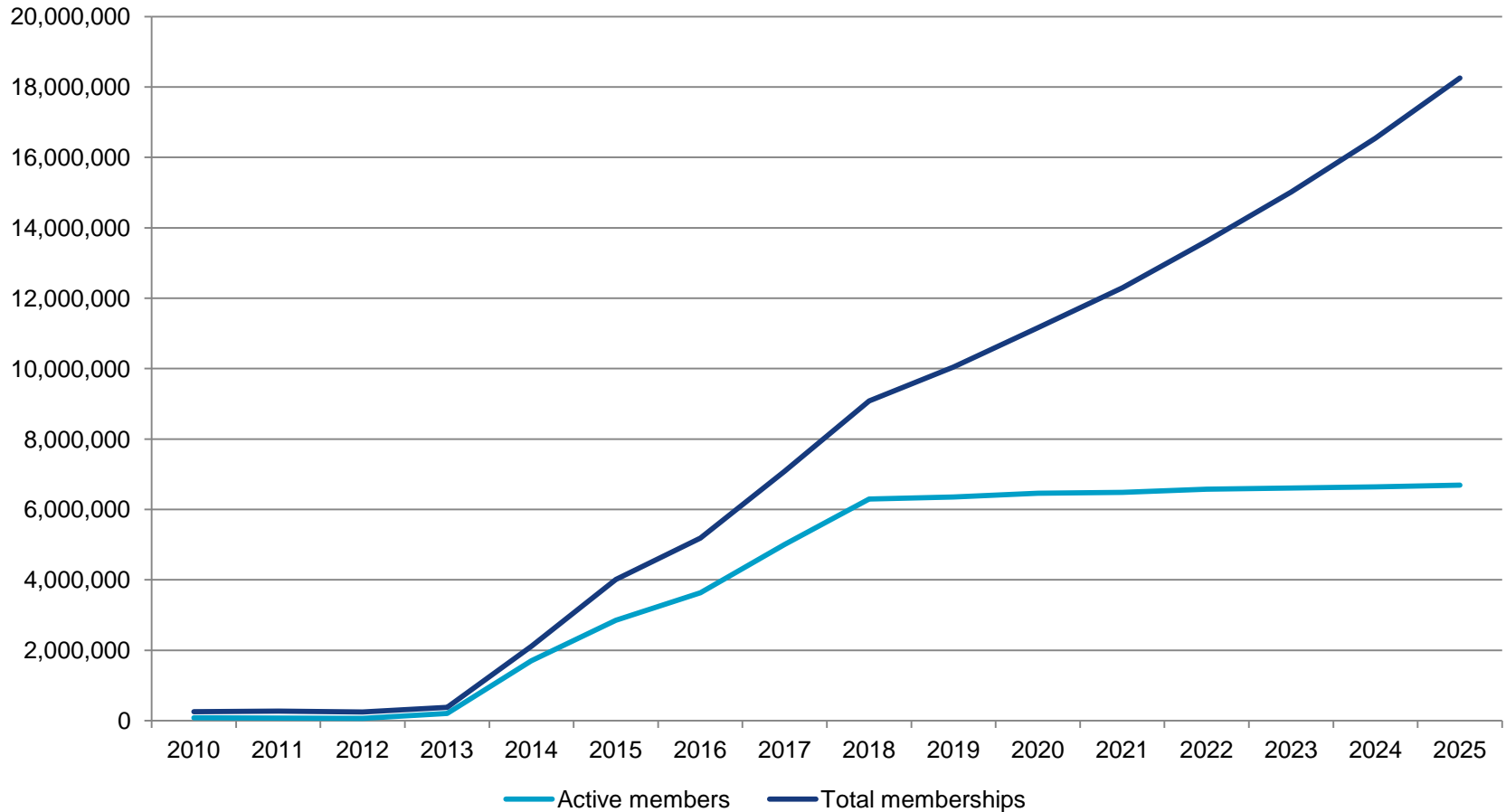
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Growth in memberships by scheme type 2013-2016



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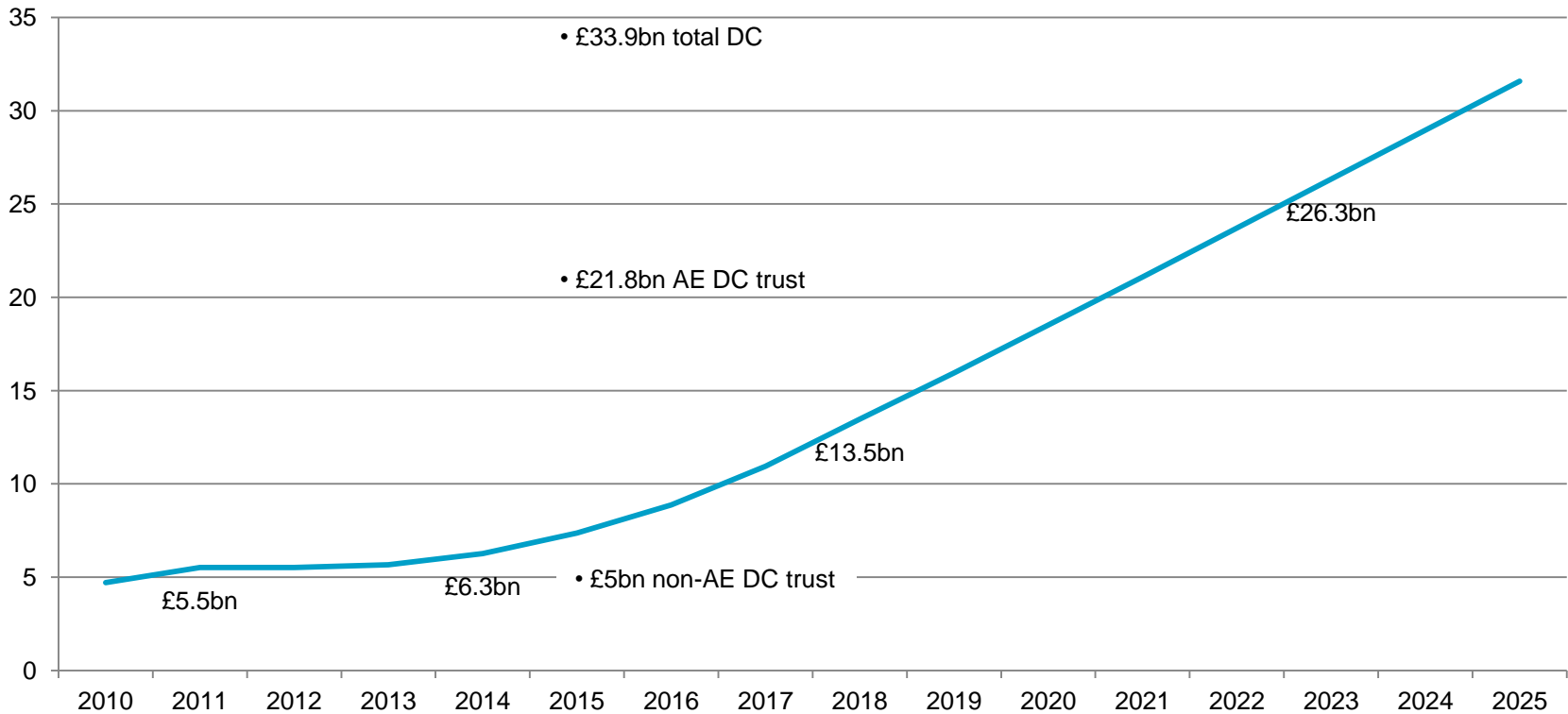
Future growth – master trust memberships



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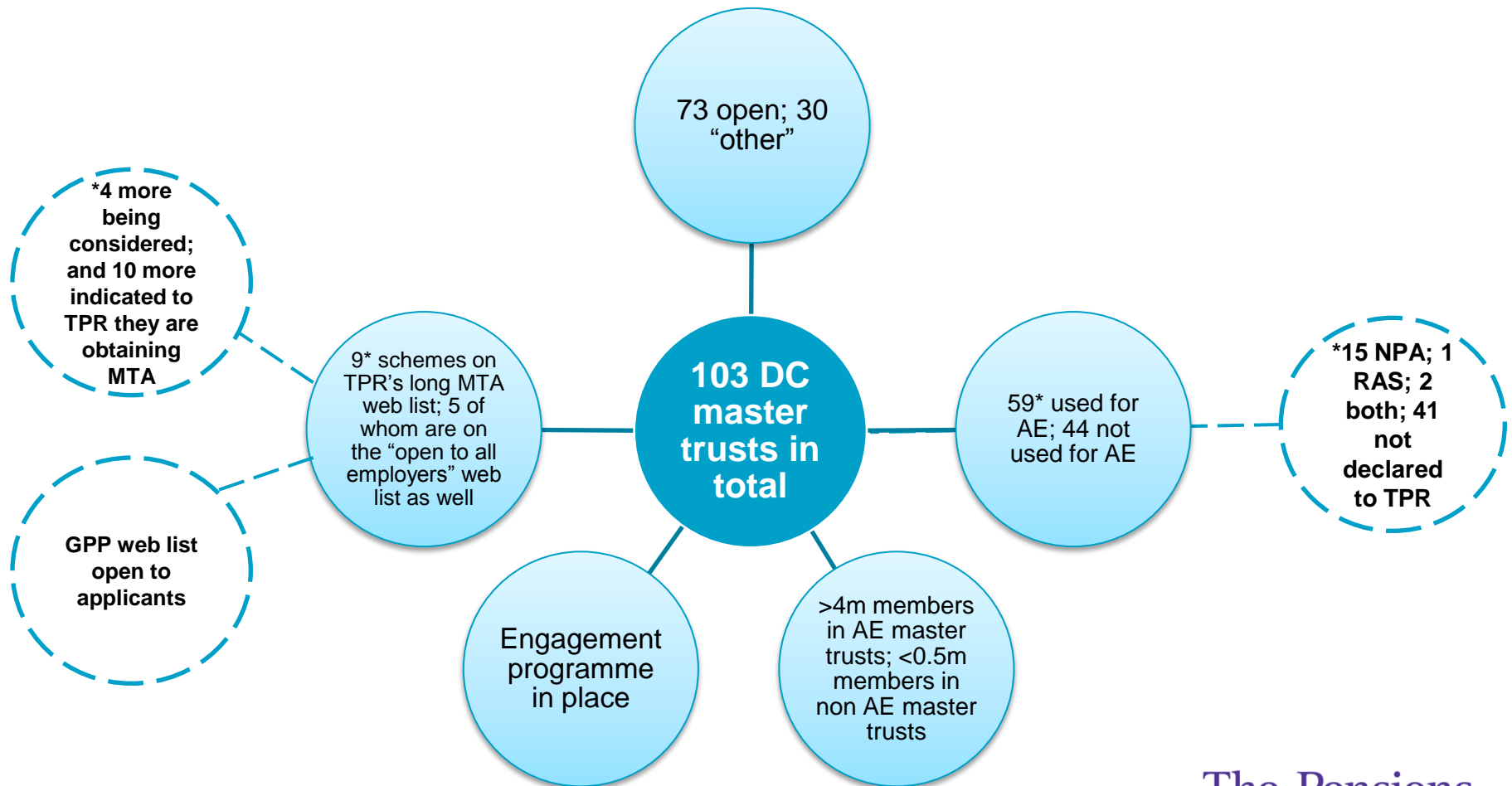
Future growth – master trust assets

Projected assets (£bn)



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The DC Master Trust Universe



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The good

- ❑ Master trusts have a key role in new DC landscape
- ❑ Ideal for AE
- ❑ Adaptable for both accumulation and decumulation
- ❑ Potential to deliver good member outcomes through:
 - economies of scale
 - professional scheme management and governance
 - access to high quality advisers and suppliers
 - leading edge member communication and engagement
 - “value for members”
 - driver of consolidation in the DC market

The not so good

Potential problems include:

- Low barriers to entry
- Supply exceeding credible demand
- No sponsoring employer standing behind the scheme
- The structures can give rise to issues of financial security and conflicts of interest
- The potential for members to bear the cost of a “disorderly exit”
- Risk of members becoming trapped in “zombie” schemes
- Participating employers becoming non-compliant with AE duties

“We want to protect consumers from poorly governed master trusts” Our Corporate Plan 2016-19

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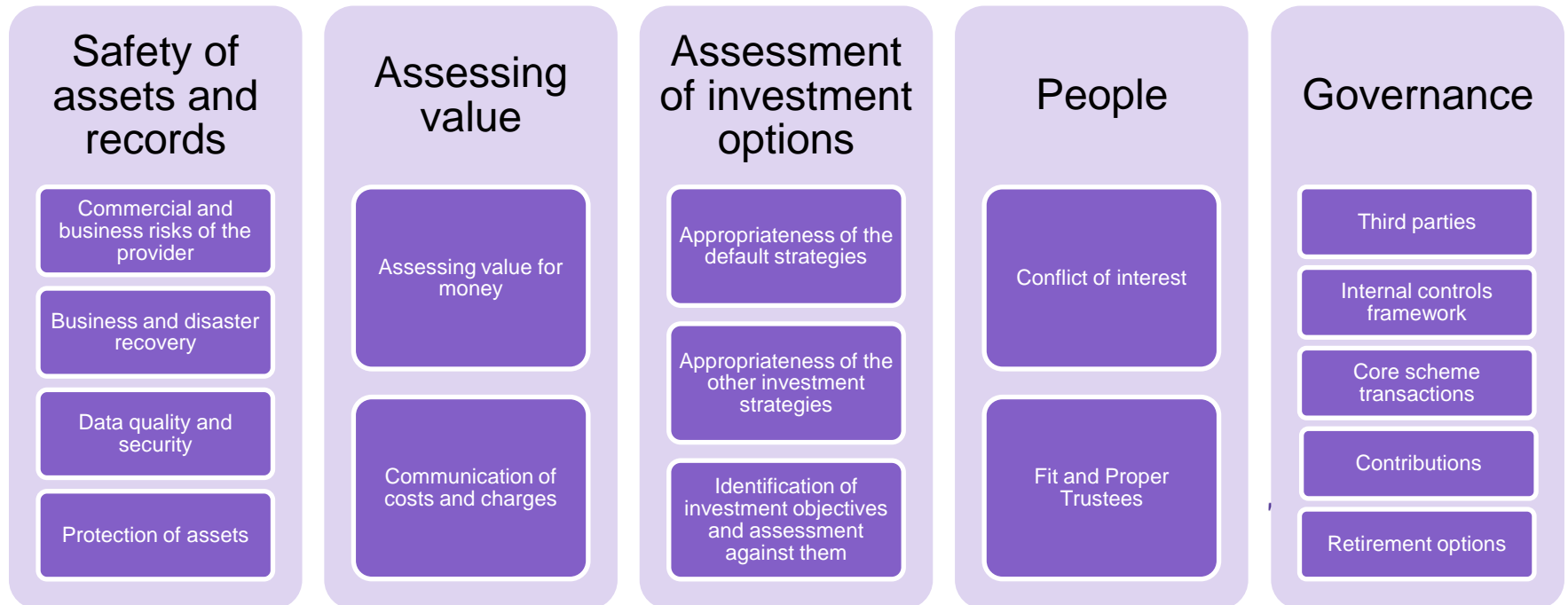
What TPR expects of master trusts

- The legal requirements on master trusts
 - governance requirements, including the chair's statement
 - the revised DC Code, including specific requirements for MTs
 - follow specific rules on representation & independence of the board
 - have at least 3 trustees
 - appoint 'non-affiliated' trustees in an open & transparent fashion
 - have processes in place to encourage members or their representatives to make their views known
- The ICAEW master trust assurance accreditation
 - update on target for Summer 2016

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Master trust assurance framework – responding to risks

- Formulation of a voluntary independent assurance framework
- Developed in collaboration with ICAEW, and subject to public consultation.
- Designed to meet control objectives in our DC Code and Guidance and focusing on:
 - areas specific to master trusts
 - wider governance issues



Our revised criteria for listing schemes with MTA

We've been reviewing the criteria that we have in place to reflect our expectations:

- where the assurance is limited in scope, is qualified or there are significant exceptions
- where a scheme undergoes significant changes, for example has a new service provider or financial backer
- in relation to communications on tax relief
- on timescales, and when a type 1 or type 2 report will be accepted

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Our criteria for listing GPP providers

- Providers will be regulated by the FCA (& PRA where applicable) for GPP provision
- Inclusion on the list is voluntary
- GPP must be open to all employers who wish to use it to comply with their automatic enrolment duties
- All charges imposed on members in a default fund will be within the charge cap
- Investment Governance Committee ('IGC') or Governance Advisory Arrangement ('GAA') must have assessed the GPP under offer
- Most recent IGC/GAA statement(s) can be easily obtained by employers considering using the GPP
- Member communications to include clear description of how tax relief is delivered

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Pensions Bill 2016

- Master trusts: provide for market entry criteria with powers to authorise and supervise these schemes
- Cap excessive early exit charges to remove unreasonable barriers for members accessing savings
- Provisions regarding the new body that will replace MAS, TPAS and Pensions Wise

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Possible developments: the Pensions Bill

- Compulsory Master trust assurance?
- Licensing?
- Enhanced supervision?
- Capital adequacy?
- “Living will”?

It will be up to Parliament to decide the most appropriate response.

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PENSIONS DASHBOARD

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Member engagement: Pensions Dashboard

1. There is a political and commercial will to make the dashboard a reality
2. The Chancellor announced in the Budget 2016 that there will be a dashboard by 2019
3. Treasury leading on the project with TPR playing an active support role
4. It is a complex project – we believe in “start small – build credibility”.

Pensions Dashboard – our thoughts on the next step

1. Establish a steering group; with both government and provider participation.
2. Develop a clear statement of intent from Government and the regulators (DWP, HMT, FCA and TPR), all committing to the development of the dashboard
3. Identify clear ownership and governance, both of the time-limited project to get the dashboard produced, and then on-going ownership and governance of whatever is created.

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