Response by TISA to:
Driving Value for Money in defined contribution pensions

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About TISA

The Investing and Saving Alliance (TISA) is a unique, rapidly growing membership organisation for UK financial services.

Our ambition is to improve the financial wellbeing of all UK consumers. We do this by focusing the convening the power of our broad industry membership base around the key issues to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

TISA membership is representative of **all sectors of the financial services industry.** We have **over 200-member firms involved in the supply and distribution of savings, investment products and associated services**, including the UK's major investment managers, retail banks, online platforms, insurance companies, pension providers, distributors, building societies, wealth managers, third party administrators, Fintech businesses, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

As consumers, the financial services industry and the economy react to and recover from the effects of the pandemic, the importance of the three key pillars of work that TISA prioritises has never been more apparent:

- **Strategic policy initiatives** regarding the financial wellbeing of UK consumers & thereby enhancing the environment within which the industry operates in the key areas of **consumer guidance, retirement planning, later lifetime lending, vulnerable customers, financial education, savings and investments**.
- TISA is recognised for the **expert technical support provided to members** on a range of operational and regulatory issues targeted at improving infrastructure and processes, establishing standards of good practice and the interpretation and implementation of new rules and regulations covering **MiFID II, CASS, ESG/RSI, operational resilience, Cyber Risk, SM&CR** and a range of other areas.
- **Digital transformation initiatives** that are driving ground-breaking innovation and the development of industry infrastructure for greater operational effectiveness and revenue promoting opportunity for firms. TISA has become a major industry delivery organisation for consumer focused, digital industry infrastructure initiatives – **TISAtech** (a digital marketplace that brings together financial institutions and FinTechs for greater collaboration and innovation) and **TURN** (TISA Universal Reporting Network – a digital platform providing a secure data exchange for financial services using blockchain technology) – alongside projects **Digital ID** and **Open Savings & Investment**. This reflects TISA's commitment to open standards and independent governance.

Executive Summary

TISA welcomes the opportunity to respond to the joint TPR and FCA discussion paper – Driving Value for Money in defined contribution pensions.

We fully support the broad objective of strengthening the pension framework and driving forward the principles of delivering good Value for Money (VfM) for consumers. If this can be effectively achieved, we can boost engagement and understanding, increase consumer confidence in the UK pensions system and enhance retirement outcomes.

We have approached the discussion paper (DP) on the basis that the scope encompasses workplace pensions and schemes which offer Investment Pathways. We have not considered it from the perspective of non-workplace pension schemes more generally as we do not believe the proposals are relevant where active investment decisions are made. At the time of writing, CP21/32 – 'Improving outcomes in non-workplace pensions' is an open consultation which targets non-advised individuals and note that VfM and benchmarking are referenced to the proposed accumulation default. Should these be implemented, our comments relating to the risks this may expose an individual to, which feature throughout this response remain relevant to this group.

VfM is a subjective term as what one person values highly, another may not. Scheme members are not a homogenous group, so we need to ensure that VfM metrics should focus on aspects which are sufficiently broad to encompass all scheme members to some degree. We should also be mindful that some aspects of VfM cannot be translated into a metric for comparison purposes. Given its broad and diverse nature, this makes standardising VfM and its underlying core components extremely challenging. Especially when you are then comparing these against groups who are also broad and diverse in nature.

We appreciate the DP is looking to develop metrics which are capable of being standardised, however our response to individual questions highlights the challenges and the likely factors that cannot be included in some metrics but are nonetheless factors which should be considered during the assessment. These include investment risk considerations aligned to scheme demographics, appetite to embrace government initiatives including illiquid and green investment and TCFD/ESG factors, all of which cannot be easily quantified within a single comparable performance statistic.

The overarching concerns we hold regarding the proposed disclosure and easy access requirements for viewing, ultimately by individual savers are:

1. It essentially creates 'league tables' where data can be easily viewed, and information extracted. This principle could work when it is used by groups with the appropriate experience and expertise i.e. IGC and Trustee boards, although the sheer volume could be overwhelming. However, where individuals are making comparisons based on short-term trends or isolated data sets such as 1-year net performance, this could drive the wrong behaviours and lead to poor consumer outcomes. We cannot expose this large amount of information to individuals without first creating the relevant support and guidance framework to wrap around it.

2. Media is likely to scrutinise data sets and firms may be incorrectly and unjustly named and shamed. This could be due to reviews being based on short-term trends which are not relevant metrics for a long-term savings product. Other metrics which simply cannot provide the full picture through a single cost or performance figure can also provide a distorted view and lead to misleading commentary.

3. A consolidated view of industry metrics may encourage firms to focus solely on these aspects, without broader consideration of VfM. This may lead to innovation being stifled and longer-term approaches to future proof member outcomes being scaled back or disregarded.

Enhanced VfM assessment requirements have only just been implemented for IGC and Trustee boards this year through a separate DWP and FCA consultation process. The new Consumer Duty may achieve similar outcomes for non-workplace schemes and an FCA consultation focusing on improving outcomes in non-workplace schemes is currently open. It would be prudent to allow time for these to become embedded and progressed before considering building on them further.

More generally, given the scale of change which is occurring in pensions and the role government sees it playing within their ‘building back better’ and ‘green’ initiatives, we need to consider future change from a holistic perspective, consider the impact on the various moving parts and ensure it is collectively delivering in all relevant policy areas.

Question responses

Q1. Do you agree that consistent disclosure of performance is necessary to enable better decision making?

We agree that without consistency in disclosure, it is not possible for meaningful comparisons to take place. However, there are many factors which need to be considered when constructing appropriate investment options for scheme members and not all of these will have the sole purpose of maximising returns. Workplace default funds and Pathway Investments may embrace the government desire for more illiquid and green investment, factor in different levels/types of ESG and should take a different risk-based approach based on the underlying scheme demographic.

A performance figure on its own cannot incorporate or illustrate these important factors and without this context, it is not possible to know what you are comparing against or enable comparisons to be made on a consistent and meaningful basis.

Where comparisons are made without this context, it creates the risk of poor decisions being made which can result in bad consumer outcomes.

Q2. Do you agree that comparisons should be of net rather than gross investment performance?

Yes, notwithstanding the answer to Q1, comparisons should be made on a net basis. Certain charges will directly impact on investment performance. As costs & charges form a separate element of the VfM assessment, care needs to be taken to ensure these are not double counted. Given that transaction charges are directly linked to the investment(s) themselves, these should be considered as an investment cost and not also included in the Costs and Charges section of the assessment.

Q3. Do you have any suggestions on how to make disclosure of net investment returns effective given that there may be varying charges for the same funds within multi-employer schemes? For example, displaying a range, or requiring disclosure of each different level of net investment performance.

From October 2021, “relevant pension schemes” already need to disclose net returns in such a way that a scheme member would be able to identify the returns they have or would have received. It would seem logical for these new requirements to remain in place rather than introduce a further set of rules.

However, we would re-emphasise that investment decisions are multi-dimensional, it is not solely about maximising returns. These factors cannot be included in a single figure and the comparison itself cannot be made on a truly like for like basis.

Q4. Would it be helpful to mirror the DWP’s approach in terms of the reporting periods?

As an industry, we know that pensions are long-term investment vehicles and decision making should not be based on performance over short periods. Whilst we understand why latest performance (i.e. one year) would be reported, it is important that performance related comparisons are not based on these figures. Returns over a minimum period of five years and longer are the relevant figures that need to be assessed. If it deemed necessary to disclose the most recent yearly performance, it is important this is not given high prominence and is provided in context to long-term saving principles.

This is particularly important from the semi-engaged consumer perspective, who may review these performance tables and base a decision solely on the most recent performance figure or another metric taken without context. Furthermore, if this data is pulled into Pension Dashboards, we need to consider the types of behaviour that this will drive. Pension dashboards will provide consumers with an array of comparable scheme data, but without the context and Trustee/IGC knowledge, could lead to poor decision making and outcomes where guidance or regulated advice is not sought.

This is an example of the large scale of change the industry is currently experiencing and demonstrates its complex and overlapping nature. When reviewing any single aspect of proposed change, it is necessary to consider the interaction and potential knock-on impact in relation to other proposed or future scheduled change.

Q5. Would publishing a set of metrics based on age cohorts bring investment performance reporting closer to the saver's investment performance experience of a pension scheme/product? If not, is there a better alternative we have not considered?

Q6. When considering which age cohorts to consider, is the example we have provided appropriate? Alternatively, would it be more effective to mirror the DWP's approach?

Considering the large quantity of data that is likely to be mandated for disclosure, we need to consider how meaningful some of this becomes. An overload of data will complicate the process, some data will effectively become meaningless and buried in tables, leading to adverse impacts on assessments. As performance data could potentially be segmented by employer cohort and then again by age cohort, we need to consider how useful this really is and does it lend itself to making meaningful comparisons.

Glidepaths target different retirement outcomes–annuity/drawdown/full withdrawal or a universal option, making a comparison based on years to SRD ineffective. As they also vary in length (typically between 10 and 20 years), performance based on age cannot be made on a consistent basis.

It would be more appropriate for IGCs and Trustees to directly challenge the design and effectiveness of the glidepath if they are not comfortable that it meets the requirements of the scheme and its membership.

Q7. What disclosures, if any, should be made for self-select options?

We believe that disclosure requirements should be limited to workplace scheme default funds and pathway investment solutions. This group of investors are likely to have the lowest levels of engagement and need the most support. This is appropriately provided through scheme governance bodies who have the skills, expertise and authority to make these decisions to benefit those with low levels of engagement.

The nature of self-select funds requiring an active choice essentially removes the need for additional governance, over and above what is already in place.

At the time of writing, CP21/32 – 'Improving outcomes in non-workplace pensions' is an open consultation which targets non-advised individuals and note that VfM and benchmarking are referenced to the proposed accumulation default. Should these be implemented, our comments relating to the risks this may expose an individual to, which feature throughout the response remain relevant to this group.

Q8. Do you think reporting based on age cohorts would be enhanced through the use of risk-adjusted returns as an element of a scheme's VFM assessment or would risk-adjustment then be unnecessary?

Q9. If risk-adjustment is used, what risk-adjustment metric(s) would you suggest? For example, the Sharpe ratio as i) a standalone factor, or ii) in combination with other risk metrics?

Q10. Is there any reason why it would be impractical to report on risk-adjusted performance metrics in addition to providing a metric based on actual performance returns?

Q11. What are your views on presenting returns as an annual geometric average to provide consistency with the DWP's requirement?

Linking into our response to Q1, we need to ensure that comparisons can be undertaken on a like for like basis. Pension scheme investment decisions are not driven purely by returns alone, and need to factor in considerations such as ESG, illiquid investment opportunities, UK infrastructure, 'green' factors, other government initiatives and not least scheme requirements/demographics.

Risk does not necessarily correlate to returns and may or may not impact on performance. It will not be possible to place a number against some forms of risk as these are more about reflecting cultural and ethical values, which cannot be replicated in a mathematical formula. Furthermore, many risk adjusted metrics focus on short-term volatility measures, which are not as pertinent to long-term pension saving as other risks such as keeping pace with inflation and climate risk.

Given the significant challenges in incorporating risk whilst retaining consistency to ensure meaningful comparisons can be made, it would make more sense for the risk to be separately assessed by the IGC or Trustee board. Direct challenges should be made where there are risk related concerns, including the impact on performance and when the risk exposure is not appropriate for the scheme demographic.

Q12. We would welcome views on how you see this developing. Would it be helpful/possible to establish a benchmark, or would you prefer to compare cohorts against a market average or against a few selected similar schemes? If so, how would that selection be made?

Q13. Do you think a commercial benchmark is likely to emerge if these data are made publicly available?

We do not believe benchmarks will result in better consumer outcomes. They would essentially create a limit which would generate a strong and safety-first focus on the generation of investment returns not straying too far from the benchmark, over and above all other VfM and wider government pensions policy considerations. This would inevitably stifle innovation and is not fully compatible with government aspirations for DC schemes increasing investment in illiquid assets, particularly UK infrastructure and green initiatives with a view to building back better.

Q14. Do you agree the quality of communication is a relevant factor to consider in VFM assessments?

Yes, communication is an important factor in the VfM assessment and the way in which this is measured is of equal importance. Communication should not be measured solely on the percentage of membership this reaches. Firms should be considering how the content and method of communications can be structured and delivered in a way which engages the membership and aids understanding and the ability to make informed decisions. There are several methods that schemes currently use to measure the effectiveness in this way, including recording the percentage of membership that logs into an online account, the number who keep their nominated beneficiaries updated and those who change their retirement date to ensure a selected glidepath starts at the right time.

We note that the new VfM assessment requirements for IGC and Trustee boards already include this as an area for comparison.

It is worth pointing out that employees in a workplace pension scheme will not necessarily receive communications at the same time, as the rules regarding timed communications differ between FCA and TPR regulated schemes. An example is the FCA wake-up pack requirement at age 50 and quinquennially thereafter until the arrangement has been fully crystallised. This is not a requirement for occupational DC schemes, with the wake-up pack timing based on selected retirement date. Given the importance and need for consistency for all employees, there should be a higher-level initiative undertaken in parallel to align requirements. All employees are exposed to the same risks and have the same support needs, irrespective of the regulatory regime of the scheme their employer has selected.

Q15. Do you agree administration is a relevant factor that contributes to long-term VFM?

Yes, we agree that administration standards should feature in the VfM assessment, and they feature in the new requirements for IGC and Trustee boards. Although this is often carried out by third party providers, the scheme is responsible for choosing the administrator and ultimate responsibility lies with them.

The introduction of STAR for pension transfers and ongoing industry proposition improvements and reporting will make this assessment easier to undertake in the future.

There may, at times, be justifiable reasons why administration standards may temporarily fall below normal levels. Where a firm for instance takes a long-term strategic view on member outcomes and embarks on an exercise of implementing new administration systems with possible migration exercises planned, this will inevitably have a short-term impact on some aspects of administration. However, this does not mean it isn’t the right decision for the scheme and its members – it is essentially future proofing the ability to provide good VfM.

Other aspects of administration fall outside of the remit of the scheme. For instance, where transactions such as transfers and share dealing involves a third party such as an investment manager, there is a reliance placed on their administration within the process.

Q16. Do you agree the effectiveness of governance is a relevant factor that contributes to long-term VFM?

Yes, good governance is crucial across the value chain to ensure that requirements and expectations are being met. This is not only limited to IGC and Trustee boards but extends to the pension provider and the sponsoring employer for workplace schemes.

The quality of governance should already be reflected in costs & charges, administration standards and investment performance. Care needs to be taken to ensure this is not double counted and included as an additional and standalone component of the VfM assessment.

Q17. In your opinion, are there any obvious service standards missing from the above list? Please explain how your suggestion contributes to scheme value.

It is not possible to create an exhaustive list as individuals have different needs and priorities. A scheme member just starting on their retirement journey will have very different priorities to someone who is approaching retirement. Importantly, we note that there is no reference to vulnerable customers and how effective and inclusive the scheme culture and policy is in effectively servicing this group.

Notably, the security of the pension scheme should be evaluated as part of the assessment. If we are to continue to progress the creation of a robust and trusted pensions framework, the security of the pension funds administered is crucial.

We would also point out that it is very hard for a scheme to be classed as offering VfM where lower paid employees are not receiving tax relief due to the Net Pay anomaly. We welcome the resolution to this included in the Autumn 2021 budget but note this will not relate to contributions made before 2024/25 and therefore remains a consideration until that time.

Lastly and as stated in Q14, we should be looking for consistency in the administration requirements across the board for all DC schemes, irrespective of the regulatory regime that they fall into.

Q18. Do you agree this is not a role for the regulators at this stage?

Q19. Would it be helpful to appoint a neutral convenor to develop a service metrics standard? If not, who do you think should create metrics on service in pensions?

Q20. Do you think that over time independent certification against a standard is worth exploring for benchmarking service metrics? If not, what alternative arrangement would you suggest?

We do not believe there is a need for further intervention in this area. If schemes are adhering to the agreed VfM requirements and the correct governance is in place from the regulators, IGC and Trustee boards, providers, and employers (where applicable), there should be no need to establish another set of standards for schemes to be measured against.

There may, at times, be justifiable reasons why administration standards may temporarily fall below normal levels. Where a firm for instance takes a long-term strategic view on member outcomes and embarks on an exercise of implementing new administration systems with possible migration exercises planned, this will inevitably have a short-term impact on some aspects of administration.

However, this does not mean it isn't the right decision for the scheme and its members – it is essentially future proofing the ability to provide good VfM.

Other aspects of administration fall outside of the remit of the scheme. For instance, where transactions such as transfers and share dealing involves a third party such as an investment manager, there is a reliance placed on their administration in the process.

We are concerned with the wording of paragraph 36 "This standard-certification approach could be designed to raise the quality of service and governance up to a minimum level that all savers should expect. It is not our intention to encourage competition on service above this minimum threshold, as this may result in higher costs and charges for scheme savers than necessary." We would query why the regulators do not wish to encourage service levels above a minimum threshold? As already established, VfM is not solely about costs and charges. If an increase in costs and charges is more than offset through significantly better outcomes in other areas, then this has a net benefit to the consumer and the pensions industry more generally. We would ask if this area could specifically be addressed in the consultation response, as it could drive behaviours where schemes aim simply to meet minimum standards to save on costs. This would effectively have the opposite effect of what it is we are collectively trying to achieve.

Q21. Should we use the existing administration charges and transaction costs definitions in developing VFM costs and charges metrics?

Q22. Would splitting out the administration charges be a more useful metric? If not, are there other definitions you think would be more appropriate?

We agree that transparency is a good principle to adopt for the disclosure of costs and charges.

There are a variety of business models in the market which provide choice for consumers which is a good thing. However, this means different providers will charge in different ways, some charge separately for each element of their service others charge a single price for a holistic service. If we want to consumers to continue to benefit from a choice, we may have to accept that direct like for like comparisons (other than a total cost basis) may not be possible

As mentioned in Q2, the requirements need to ensure that no double counting occurs. Transaction costs for example are an associated investment cost and should be included in the net performance calculation and not feature in the disclosure section for Costs and Charges.

Q23. Do you agree we should introduce benchmarks for costs and charges?

Q24. What are your views on our suggested options for benchmarking costs and charges? If not these options, what benchmarks should be used?

We do not believe there is a need for further intervention in this area. If schemes are adhering to the agreed VfM requirements and the correct governance is in place from the regulators, IGC and Trustee boards, providers, and employers (where applicable), there should be no need to establish another set of standards for schemes to be measured against.

They would essentially create a limit which would generate a strong and safety-first focus on the generation of investment returns not straying too far from the benchmark, over and above all other VfM and wider government pensions policy considerations. This could also drive complacency that as long as costs are not exceeding the benchmark, there are no further considerations required.