TISA Response to

PQM/PQM PLUS/PQM READY: A consultation to help pension providers build better products

August 2017

About TISA

TISA is a unique, consumer focused membership organisation. Our aim is to improve the financial wellbeing of UK consumers by aligning the interests of people, the financial services industry and the UK economy. We achieve this by delivering innovative, evidence based proposals to government, policy makers and regulators.

TISA's growing membership comprises over 160 firms involved in the supply and distribution of savings and investment products and services. These members represent all sectors of the financial services industry, including asset managers, insurance companies, fund managers, distributors, building societies, investment managers, third party administrators, FinTech, consultants and advisers, software providers, financial advisers, pension providers, banks and stockbrokers.

Current themes of TISA policy work include:

- Brexit: developing proposals for government that will enable the savings and investments sector to prosper on a global scale
- Digitalisation: a digital identity for consumers of financial services, innovation, standards and data responsibilities
- ISA's: LISA, simplification of the regime
- Retirement saving: the Auto Enrolment review, self-employed and pension tax relief
- Housing: the use of property to supplement retirement income
- Guidance: developing a framework and services to make guidance more widely available
- Education: supporting the education of young people to make them aware of the impact of finance on their life.

TISA also provides support on a range of operational and technical issues targeted at improving infrastructure and processes, standards of good practice and the interpretation and implementation of new rules and regulations. TISA has a successful track record in working cooperatively with government, regulators, HMT, DWP and HMRC to improve industry effectiveness by reducing cost and risk and to enhance customer outcomes. This work currently includes: MiFID II, CASS, the UK Fund Settlement initiative and Payments Strategy Forum. TISA Exchange (TeX) is providing a model for transfers and re-registrations.

Summary

TISA welcomes the opportunity to provide a response to the PQM consultation to help pension providers build better products.

We support the principle of reviewing existing Quality Mark requirements to understand whether these remain fit for purpose, or should be updated to reflect the current pensions landscape.

As PQM Ready is specifically designed for Master Trusts, we need to be mindful of the regulations coming in from 2018 and ensure that any changes do not duplicate or contradict the new legislation.

Whilst it is important that these standards continue to represent best of breed, we should maintain an awareness that updates should only be made where this results in an improved outcome to the consumer.

As questions relate to individual requirements, it is important to look at the collective result of change.

The net outcome of this consultation should result in revised Quality Marks that are realistically attainable and have demonstrable improvements to consumer outcomes.

Consultation questions and response

Key Question 2

Should PQM Plus be maintained but at a higher required contribution level, with a commensurate increase in the contribution level required for the PQM, with the new levels set at a total contribution of 12% of pay for PQM and 18% for PQM Plus?

In view of the scheduled minimum contribution percentage increases in 2018 and 2019, it seems logical that PQM and PQM Plus are increased to retain a margin that currently exists. 12% seems appropriate for PQM as it is widely acknowledged that contributions need to be around this rate to achieve a sustainable retirement fund. 18% for PQM Plus would achieve the desired retirement outcomes for many. We note that with an increased minimum, this is becoming increasingly exclusive to larger employers, where contributions may reflect former DB levels. It seems unrealistic for employers to increase contribution levels to achieve PQM status.

Question 3-4

What is the appropriate balance between employers and employees to meet the PQM contribution levels; and should this be different for PQM and PQM Plus?

Matched contributions resonate well with individuals and can be expressed in ways that are easy to understand. Whilst not wanting to reduce existing employer percentages, PQM could comprise 6% employee / 6% employer and PQM plus could comprise 8% employee / 10% employer. This ratio also reflects that for PQM Plus, the employer is exceeding the employee contribution level.

Key Question 5

Should the contribution levels required to receive PQM and PQM Plus – set as a result of this consultation – be the default levels of contribution at which members are automatically enrolled into the scheme?

In order to simplify requirements and maintain a consistency to contribution levels for all members, this should be the default for all new scheme entrants. Having different requirements based on age or applying a requirement based on average scheme contributions adds a layer of complexity which we are trying to avoid in pensions. It is important that the effectiveness of the default is monitored, to ensure this does not result in high numbers of members opting down a few months after joining. We need to bear in mind that we have not yet seen what the impact of the contribution rises in 2018 and 2019 will have on the opt out rate.

Question 6

Should schemes have to meet a standard where either a minimum 50% of members are required to be achieving total contributions of the PQM standard or the average across all members must be 75% of the PQM standard?

No, as mentioned in the response to Q5, this creates extra complexity, which we are trying to avoid in pensions. Additionally, take up rates will fluctuate throughout the year, which could result in the Quality Mark status potentially being temporarily lost. Alternatively, if this is measured at a single point in time e.g. renewal, the employer could manipulate the rules by applying to PQM at a point where it is easier to achieve the requirement such as just following the annual pay review.

Question 7

Should all rules relating to age-related contributions be removed from the PQM standards, and be replaced with the requirement for all AE eligible employees to receive contributions at the qualifying level?

Yes, this simplifies the rules and makes the requirement easy for all to understand.

Key Question 13

Should boards submit to a triennial review of their performance by a qualified and independent third party, the submission of which should form part of the PQM application process; and should they provide evidence of work they have undertaken to respond to deficiencies highlighted in these reviews?

Trustee boards are already becoming subject to a stricter governance regime with the implementation of the Pensions Schemes Act 2017. Governance boards for Contract-based schemes do not have the same powers and fall under different legal requirements. However, they both have accountability for ensuring schemes are fit for purpose. To reflect the higher standards that need to be achieved to earn the Quality Mark, we agree that an independent triennial review would be appropriate, providing an additional layer of security and governance, without creating significant extra work for the boards themselves. The scale of this additional requirement is large, so if multiple parties are resourced for this review, it is important that all reviews are carried out on a consistent basis with a high level of governance.

Key Question 17-18

Should the PQM requirement for total default investment option charges as a percentage of members' assets be reviewed, and if so should what would an appropriate level be for a fee cap? Should the focus for PQM going forward be on assessing value for money, and how can value for money be adequately assessed?

We believe the existing fee cap in place is appropriate and should not restrict schemes from offering a broad selection of funds should it choose. With the cap already in place, more focus should be placed on achieving value for money. Boards should already be reviewing their fund selections on a regular basis and ensuring they are both appropriate and meeting their investment objectives. Is this proposing a further requirement over and above what is already in place?

Question 19

Should PQM schemes be required to submit data to the pensions dashboard?

Yes. The dashboard objective is to provide an overall view of members' pension pots to those who request it – not only provide half the story. With only partial scheme take-up, it cannot meet its overarching objective and the potential to be a powerful engagement tool is lost. The industry and government needs to fully embrace this type of initiative and we therefore fully support that all schemes should participate in providing data to the dashboard upon request. Should this be implemented, it wouldn't be necessary for PQM to impose this standard.

Key Question 24

Should PQM schemes be required to communicate with members in default funds or other lifestyle vehicles, as their funds begin to transition their investment strategies from accumulation to decumulation phases?

Yes, moving from Accumulation into Decumulation is a significant event. It is likely a Decumulation investment strategy will need to be different from Accumulation and the associated risks in getting this wrong can be life changing, such as the total erosion of the pension pot. It is important that engagement is maintained throughout the lifetime of a pension plan and schemes must use this transitional stage to communicate the importance and difference of a Decumulation vs Accumulation investment strategy to its members.

Question 29-30

Should the PQM Ready requirement for total default investment option charges as a percentage of members' assets be reviewed, and if so what would an appropriate level be for a fee cap? Should the focus for PQM going forward be on assessing value for money, and how can value for money be adequately assessed?

We believe the existing fee cap in place is appropriate and should not restrict schemes from offering a broad selection of funds should it choose. With the cap already in place, more focus should be placed on achieving value for money. Boards should be reviewing their fund selections on a regular basis and ensuring they are both appropriate and meeting their investment objectives.

Key Question 40

Should PQM Ready schemes be required to communicate with members in default funds or other lifestyle vehicles, as their funds begin to transition their investment strategies from accumulation to decumulation phases?

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