PENSIONS AND LIFETIME SAVINGS ASSOCIATION

The Pensions Regulator’s Corporate Strategy

A RESPONSE TO TPR’s “Pensions of the future – a discussion on our strategy”

December 2020

ABOUT THE PLSA

We're the Pensions and Lifetime Savings Association (PLSA); we bring together the pensions industry and other parties to raise standards, share best practice, and support our members. We represent over 1,300 pension schemes with 20 million members and £1 trillion in assets, across master trusts and defined benefit, defined contribution, and local government schemes. Our members also include some 400 businesses which provide essential services and advice to UK pensions providers. Our mission is to help everyone to achieve a better income in retirement. We work to get more people and money into retirement savings, to get more value out of those savings, and to build the confidence and understanding of savers.

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

EXECUTIVE SUMMARY

- The PLSA agrees with TPR's overall analysis of the circumstances and challenges facing different cohorts of savers. Our own research on adequacy also suggests that in addition to thinking about savers as individuals, it is also helpful to take into account that many people in retirement are able to share a variety of living costs.

- One of the greatest risks to outcomes in DC pension schemes is an inadequate pension pot. We believe TPR has a role to encourage pension schemes to provide information to savers that will help them grapple with decisions about contributions. The Regulator also has a crucial part to play in ensuring employers are making the correct automatic enrolment contributions. The PLSA's Retirement Living Standards aim to assist savers in planning their retirement expenditure.

- Equally, the decisions faced by savers in DC pension schemes at retirement are incredibly complex. As such, we ask that TPR (and DWP) give consideration to the PLSA's proposal to provide a statutory obligation on schemes to provide support to savers, such as through sign-posting to products, and by assisting with product selection.

- While TPR is right in its assessment that it must play an increasing role in the regulation and supervision of DC pension schemes, it will need to achieve this while not diminishing oversight of DB pension schemes. TPR will also need to continue to support the administration of public sector schemes such as the LGPS; public sector schemes should be explicitly addressed in TPR's corporate strategy.

- While there are many benefits to TPR focussing on the outcomes of pension savers, its role in statute is mainly focussed on the regulation and supervision of pension schemes and the protection of members' benefits. We note that there is little mention of how TPR will seek to fulfil its statutory objective of ensuring that DB funding is affordable for the sponsoring employer. We believe TPR should articulate its policy on this point and ensure that funding requirements are not overly rigid.

- We agree with TPR that fintech, for example the Pensions Dashboard, has the potential to greatly help people better understand pensions saving. However, fintech also presents enormous risk, particularly if pension dashboards or similar tools, lead to funds being transferred to fraudulent vehicles or to less good value schemes.

- Pensions scams present the greatest risk to savers and we believe TPR (and DWP) should seek to think afresh on how to combat scams. It is equally important that TPR and wider Government agencies do all they can to minimise risks related to pension transfers, in particular from DB schemes.

- While we accept that TPR has growing regulatory tasks, it is important that it aims to be as efficient as possible. It will need to ensure its approach is tightly focussed on achieving key beneficial outcomes for scheme members and that the costs of the Regulator, which are passed on to schemes and their savers, do not rise inexorably.

- Additionally, it will be important that TPR's good intentions in governance do not create scenarios where trustees are spending a disproportionate amount of their time completing what would effectively be audit checklists, rather than ensuring the best outcomes for savers.

- To be effective in the DC area, it will be essential that TPR works very closely with DWP, FCA and MaPS across its strategic priorities.

CONSULTATION QUESTIONS

Q1: Do you think our approach to thinking about savers has identified the most significant current and future challenges for each cohort?

1. We agree with the Pensions Regulator's (TPR's) assessment about the adequacy challenge, especially for Generation X and Millennials. We also believe TPR has an important role to play in encouraging pension schemes to provide the right information to savers to assist with decisions about contributions. The PLSA's Retirement Living Standards (RLS) could be an important tool to help savers begin to understand the levels of income[1] they will need in order to have the retirement they ideally want. We also think there would be value in drawing out the challenges of making optimal DC decumulation decisions, and in the case of DB savers, making sound decisions with regard to pension transfers. We discuss each of these areas in turn below.

2. Additionally, the PLSA's research on adequacy suggests that in addition to thinking about savers as individuals, it may also be helpful for the new strategy to take into account that many people are able to share living costs in retirement.[2]

PLSA's Retirement Living Standards and Adequacy

3. As the PLSA set out in Hitting the Target[3], people tend not to know how much they need in retirement and would find goal setting helpful, so we committed to developing the Retirement Living Standards (RLS).[4] Launched in October 2019, the Standards

[1] It is important to note that the PLSA's Retirement Living Standards show expenditure, rather than income. However, the Standards can help savers to begin to engage about the retirement income that they will need, based on this expenditure.
[2] PLSA (2019) Developing Retirement Living Standards. Please see: https://www.retirementlivingstandards.org.uk/developing_rls_research_report.pdf
[3] PLSA (2018) Hitting the Target: A Vision for Retirement Income Adequacy. Please see: https://www.plsa.co.uk/Policy-and-Research/Document-library/Hitting-The-Target-A-Vision-for-Retirement-Income
[4] PLSA (2019) Retirement Living Standards. Please see: https://www.retirementlivingstandards.org.uk/

demonstrate what life in retirement could look like at three different levels, and what a range of common goods and services would cost for each of those levels.

4. The PLSA will continue to rollout our Retirement Living Standards across the industry throughout 2021 and beyond. At the time of submitting this document, we have 53 adopters, of which 30 are schemes and providers who serve more than 14 million pension savers (more than 10 million of whom are active savers). By 2025, our ambition is for 90 per cent of active savers to be served by schemes or providers using the Standards.

5. The PLSA will be updating the Standards in 2021 to ensure that the figures remain current. A full-scale review of the baskets of goods underpinning the RLS will come in the medium-term. We are also considering what further work we could do to support savers who use the Standards. In particular, the PLSA is looking at whether there are other rules of thumb the Standards could be the basis for, such as approximate monthly savings rates needed to achieve the different Standard levels.

6. Guidance on the wider adequacy challenge is also crucial. Over the next 15 years, it will be important to answer questions on whether we should expect trustees and employers to engage with members on adequacy, and if so, how this should be done given a challenging set of circumstances: low interest rates and no meaningful prospects to increase Automatic Enrolment (AE) in the near term given the wider economic outlook. There will also be cohorts who simply have not saved enough, perhaps due to persistent low income, and may be running out of time. Additionally, some may have personal circumstances that may make them less able to respond to any immediate interventions – for instance, periods of unemployment and illness, which may make pensions saving very difficult. In these instances, it will be crucial to have joined-up policy across government departments to have appropriate safety nets in place to ensure that good retirement outcomes are still possible.[5]

PLSA's Final Recommendations for DC Decumulation

7. Members need more help to make good choices at and during retirement; we believe this is an area that TPR could be doing more work on. We have started looking at this issue and in 2020, the PLSA launched its recommendations for DC Decumulation.[6] Our solutions seek to address the tension between the importance of supporting savers' needs and the risks that come in providing for it. It also aims to provide a clear framework of expectations (see the graphic below), which is designed to deliver a more consistent experience for savers across the market, to support demand side pressures, and to help support emerging innovation and drive future change.

[5] Pensions Policy Institute (2017) Consumer Engagement: the role of policy through the lifecourse. Please see: https://www.pensionspolicyinstitute.org.uk/research/research-reports/2017/2017-07-19-consumer-engagement-the-role-of-policy-through-the-lifecourse/

[6] PLSA (2020) DC Decumulation: Evolving the Pension Freedoms – Final Recommendations. Please see: https://www.plsa.co.uk/Policy-and-Research-Document-library-DC-Decumulation-Final-Recommendations

8. The PLSA, in its final DC Decumulation recommendations:

- calls on Government and Regulators to deliver the new framework in consultation with industry to evolve the freedoms and meet the needs of savers;
- calls on industry to embrace and support the framework; and
- commits to further work with the industry, government and regulators – to develop and support detailed guidance, mitigations for small schemes, and explore the potential for best in class standards.

9. In particular, given that the decisions at retirement faced by savers in DC schemes are so complex, we ask that TPR – and the Department for Work and Pensions (DWP) – give consideration to the PLSA's proposal to provide a statutory obligation on schemes to provide support to savers, such as through sign-posting to products and by helping with product selection.

<u>Pension Transfers</u>

10. There needs to be more work done in collaboration with the Financial Conduct Authority (FCA), HM Treasury and the Money and Pensions Service (MaPS) on ensuring that savers have access to the right financial expertise to make transfer decisions, including readily available and detailed guidance or an increase in the amount allowed to be taken from one's pension to put towards fees for financial advice.

<u>Additional comments on the overall approach taken in the new corporate strategy</u>

11. It would be good to have an understanding of what metrics TPR will use to monitor its progress and the success of its new corporate strategy, as well as projected timescales of what it hopes to achieve and by when.

12. There should be a focus on TPR's role to ensure the good administration of public sector schemes, which is currently missing. It will be important to provide sufficient staff and

skills to the stewardship of both funded and non-funded schemes, which are significant providers of pensions in the UK. The Local Government Pension Scheme (LGPS) alone represents £347 billion in assets across England, Wales, Scotland and Northern Ireland. In England and Wales, the LGPS is the largest funded DB scheme, with £291 billion in assets, 5.9 million members, and with 15,700 employers.[7]

13. It is relevant to highlight that TPR's corporate strategy analysis adopts a very saver-centric approach. While this reflects two of TPR's statutory objectives, it does not explicitly take account of some of TPR's other, equally important, statutory objectives, notably the affordability of DB pension contributions to the employer, protection of the Pension Protection Fund (PPF), or the obligation of employers to meet their duties under Automatic Enrolment – in particular whether employers are paying the right AE contributions. PLSA would like to see TPR explicitly discuss how these duties fit within its new strategic priorities and how the Regulator can ensure they are being met.

14. The DB Funding Code is also estimated to cost sponsoring employers an aggregate of £100 billion over the next decade, compared to £60-65 billion under current rules.[8] This financial burden may hasten insolvencies, leading to poorer outcomes for savers. It would be useful to know how TPR's strategic priorities will attempt to mitigate against this scenario of increased insolvencies in the coming years.

Q2: To what extent should we differentiate our approach to regulation for these different saver groups? At what pace would you expect to see this happen?

15. TPR is right to acknowledge the shift from DB to DC pensions saving, but given that DB assets will continue to exceed those of DC pensions throughout the 15-year period, we do not think that the Regulator can reasonably do less on DB and more on DC; there needs to be a way to do both tasks. DC schemes' members do need protection and support now, but equally, DB schemes' members will not need less protection over the next decade and a half.

16. The PLSA would also like to understand the detail behind how TPR intends to map these different saver groups onto their new five strategic priorities.

[7] Please see LGPS Annual Reports for England and Wales, Scotland and Northern Ireland:
https://lgpsboard.org/index.php/schemedata/scheme-annual-report
https://lgpsab.scot/wp-content/uploads/2020/02/SAB-Annual-Report-2019.pdf
https://www.nilgosc.org.uk/DatabaseDocs/new_8491329__annual_report_and_accounts_2018-19_updated.pdf

[8] LCP (2020) "Employers face finding £100bn in next decade if proposed pension funding rules go ahead". Please see: https://www.lcp.uk.com/media-centre/2020/10/employers-face-finding-100bn-in-next-decade-if-proposed-pension-funding-rules-go-ahead/

PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

Q3: Do you think the key trends we have identified adequately capture the most likely system-level changes pensions will experience over the next 15 years? Are there other system-level changes you believe we need to consider?

17. We agree with TPR that consolidation and the greater use of technology will occur over the 15-year period. We believe there may be scope for TPR to play a more proactive role in anticipating and, sometimes with other regulators, protecting against the likely consequences of innovations regarding fintech, especially with the use of pensions dashboards. While fintech provides a huge opportunity to help people engage with pensions saving, and may go a considerable way to making financial guidance more accessible at low cost, it could also create greater risk of pension scams.

<u>PLSA and Pension Scams</u>

18. Because of this, we support TPR's work on Project Bloom – the multi-agency task force – which helps to educate savers about the risks of pension scams. The PLSA also welcomes the recent initiative, "Pledge to Combat Pension Scams", which includes a list of commitments for trustees, providers and administrators, such as completing the scams module in the Trustee Toolkit, as well as using the Pension Scams Industry Group (PSIG) Code of Good Practice.

19. Additionally, the PLSA welcomes DWP's work to create a system of red flags that would allow a scheme to stop a transfer if there is concern over a potential scam. The saver could then be passed on to MaPS for further guidance. The PLSA has called for the tightening of the rules for Small Self-Administered Schemes (SSAS) by re-introducing a pensioneer trustee – a professional qualified pension trustee – or another appropriately equivalent professional, such as a lawyer or a regulated financial adviser.

Q4: Do our strategic priorities provide the coverage, focus and flexibility we need to achieve our ambitions for savers over the next 15 years?

Strategic Priority 1: Security

20. The focus on security, including pension scams, is appropriate. Given the risk to savers, the PLSA believes TPR should do even more on scams, including continuing to contribute to DWP's policy thinking in this area (please see paragraphs 17 to 19).

21. While TPR is right to note in its corporate strategy that while the role of DC schemes in retirement income is growing, it is essential that TPR's regulatory oversight over DB schemes, which have millions of members, does not wane (please see paragraph 15).

22. TPR states within this strategic priority that, "We will encourage the simplification of DB schemes, work with the market on alternatives to 'traditional' schemes and drive

consolidation where this is in savers' interests." While the PLSA supports whatever provisions achieve good retirement outcomes, including superfunds and DB Master Trusts, we believe strongly that simplification and consolidation is not always the right answer for every scheme. For instance, while large scale does bring economies of scale, it can also bring distance from the sponsoring employer, which could lead ultimately to lesser outcomes for savers. Please see paragraphs 23 to 25 below for additional views on value for money, including its interaction with consolidation.

Strategic Priority 2: Value for Money

23. The principles highlighted in this strategic priority are those that the PLSA shares. It will be important for TPR to continue to contribute to Value for Money (VfM) work by helping to define the metrics of VfM and to help collect the right data so that they can be measured. As VfM remains very subjective, the PLSA believes it is appropriate that there is a flexible supervisory regime to oversee this policy area.

24. In our response[9] to DWP's consultation in October 2020 – "Improving Outcomes for Members of Defined Contribution Pension Schemes" – we made the following points on VfM:

- Consolidation or scheme scale should not be an end in and of itself. Though we agree that there can be benefits to scale in terms of governance, access to expertise and availability of particular investment approaches, it is the quality of service – and not the size of the scheme – which matters.
- Trustees will need further clarity and appropriate guidance from TPR and FCA on how to ensure the views of sponsoring employers, and also of scheme members, are incorporated into any subsequent decision to wind up a scheme and to consolidate.
- Additional reporting of net returns could be helpful to members where the information is presented in a meaningful way, as well as to other schemes, in order to compare net returns for the purposes of value for money assessment.

<u>Cost Transparency Initiative</u>[10]

25. The PLSA's contribution to VfM includes its work on developing an industry-wide approach to cost transparency, called the Cost Transparency Initiative (CTI). This is a new standard for institutional investment cost data. The availability of comprehensive and transparent information on costs and charges is important in helping investors to decide whether investments represent value for money. The PLSA, together with the Investment Association and the England and Wales Scheme Advisory Board for the LGPS, created a set of templates and tools which form a framework that investors can use

[9] PLSA (2020) Improving Outcomes for Members of Defined Contribution Pension Schemes. Please see: https://www.plsa.co.uk/Policy-and-Research-Document-library-Improving-Outcomes-for-Members-of-DC-Schemes

[10] Please see: https://www.plsa.co.uk/Policy-and-Research-Investment-Cost-Transparency-Initiative

to receive standardised cost and charges information from asset managers. Along with the templates, which are open source and free to download, CTI also provides guidance for pension schemes and their advisers on how to make use of cost information, and for asset managers on how to provide cost information to their clients.

Strategic Priority 3: Scrutiny of Decision-Making

26. We support TPR's focus on the important role of governance. However, it is equally important to see additional recognition of the need to improve some of TPR's existing strategies.

PLSA's DC Chair's Statement Template

27. In May 2020, the PLSA published a Chair's Statement template that is intended to help schemes prepare compliant statements and to mitigate the risk that they will breach regulations. This work has benefitted from the input of PLSA members (EBCs and legal firms) and its rollout was supported by David Fairs (TPR's Executive Director for Regulatory Policy, Analysis and Advice) in press comments.[11]

28. In too many cases, schemes are being fined for minor infractions of the regulations regarding Chair's Statements, which do not have a material impact on the ability of individuals to locate and understand information relating to their pension entitlements. The PLSA would like to see changes to legislation that would give TPR greater flexibility in how and when it applies penalties for non-compliant Chair's Statements. PLSA members prefer an approach that is more consistent with a risk-based regulator.

29. Additionally, it will be important that TPR's good intentions in governance do not create scenarios where trustees are spending a disproportionate amount of their time completing what would effectively be audit checklists, rather than ensuring the best outcomes for savers.

Additional support for trustees and schemes

30. Additional support for trustees could also come via education programmes and certificates to encourage and verify the necessary skills, which would essentially be trusteeship professionalisation.

31. It will be important that TPR think about how it will measure whether or not the upcoming Harmonised Code and Guidance module is working, and how it will adapt efficiently overtime to new changes.

[11] Please see: https://www.professionalpensions.com/news/4015771/plsa-publishes-template-dc-chair-statements

32. The decision-making of individuals at and in retirement remains a key component to retirement outcomes, which is why the PLSA launched its DC Decumulation recommendations earlier this year. The proposed framework calls on schemes to support their members in decisions at and in retirement. It will become increasingly important that there is proper scrutiny of the best practices of schemes for DC Decumulation support for its members and this is an area where there should be TPR involvement. Please see paragraphs 7 to 9 for further details.

Strategic Priority 4: Embracing Innovation

33. The PLSA welcomes the focus on market innovation in the interests of savers. The need for transparency, simplicity and choice, as mentioned in this section of the corporate strategy, helps savers to make better decisions. The PLSA's work on the Retirement Living Standards (see paragraphs 3 to 5) and on DC Decumulation (see paragraphs 7 to 9) will help to unpack much of the complexities – and will aid in providing transparency, simplicity and choice – in financial decision-making in both accumulation and decumulation.

34. While we believe innovation in the form of fintech, including the Dashboard, has the potential to augment effective engagement, it also brings great risks. TPR, DWP and FCA have a substantial responsibility to ensure savers are not put at risk by such innovations (please see paragraphs 17 to 19 on scams).

Strategic Priority 5: Bold & Innovative Regulation

35. It is positive that TPR aims to be agile to respond to market needs, with the reference to "driving participation in pension schemes" – an acknowledgement of its role in ensuring employers meet their Automatic Enrolment duties.

36. However, the PLSA urges TPR to provide cost effective regulation, as well as adaptability in its approach, as the industry is already facing a potential rise in the General Levy, the PPF Levy and the Fraud Compensation Levy in the coming years, with overall economic impacts of Covid-19 still uncertain. Much resource from schemes will also be needed for the Pensions Dashboard work, as well as to apply the legal judgements on GMP Equalisation and McCloud (the latter applicable only to public sector schemes). If TPR intends to expand, then the PLSA urges that it do so within the same budget, which may mean re-prioritising its work. It will need to ensure its approach is tightly focussed on achieving key beneficial outcomes for scheme members and that the costs of the Regulator, which are passed on to schemes and their savers, do not rise inexorably.

37. A common observation of our membership is that TPR staff do not always have sufficient knowledge or expertise. As TPR aims to adapt more quickly to changing external circumstances, there will be an increasing need for TPR to upskill its staff on a regular basis, so as to enable effective and efficient regulation and supervision. However, this

must be done within the existing budget, given the other financial pressures facing the industry. However, the PLSA understands this will be a difficult balancing act.

38. To be effective in the DC pensions schemes space, it will be essential that TPR works very closely with DWP, FCA and MaPS across its strategic priorities.

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