PPI policy seminar: Comparison of the regulatory frameworks for DC pensions

The Pensions Policy Institute (PPI) held a policy seminar on 22nd October 2015 to launch its latest report *Comparison of the regulatory frameworks for DC pensions.* Scottish Widows sponsored the research.

The research draws on discussions conducted with experts on regulation, and explores the differences between the two regulatory regimes for DC pensions. It considers the pros and cons of the respective regimes for DC pensions, with a focus on the impact of these for savers.

Chris Curry, PPI Director, chaired the seminar and around 50 people attended representing a broad range of interests within Government, the investment industry, the pensions industry and the voluntary sector.

Melissa Echalier, PPI Senior Policy Researcher presented the findings of the research report.

Peter Glancy, Head of Pensions Policy, Scottish Widows, commented on the Research findings.

- The PPI has produced an independent review of DC pension regulations, which was much needed within the pensions world.
- There is a tension between the need to meet regulatory requirements and to communicate clearly with members. These two needs are not always compatible.
- The Pensions Regulator is well positioned to promote best practice amongst organisations whose sole purpose is the delivery of good outcomes to scheme members. Where firms are promoting propositions with a profit motive, the FCA regime seems to be better suited

Chris Curry asked the panel to introduce themselves and comment on the report prior to the debate.

Teresa Fritz, Financial Services Consumer Panel made the following points:

- This report provides a written reference document that clearly indicates the difference between the two regulators. Although awareness of these differences already existed, it is helpful to have a report that highlights and summarises the gaps.
- The priority is for good consumer outcomes; the industry must look at how regulation influences the pension scheme member.

Graham Vidler, Director of External Affairs, Pensions and Lifetime Saving Association (PLSA) made the following points:

- The introduction of the pension freedoms has been followed with rapidly changing political developments and regulatory changes. These changes lead to uncertainty, creating barriers to helping members achieve optimal outcomes.
- The prominence of Master Trusts is a big issue for regulation as the disorderly exit of Master Trusts from the market could have a negative impact on employers and consumers.

Fiona Walker, Automatic Enrolment Programme Director, Department for Work and Pensions made the following points:

- The challenges of pension reforms and the regulation required should not be underestimated and, therefore, this is an on-going issue for DWP.
- Employers and consumers are concerned with what is tangible and simple and, therefore, do not focus on the way a pension scheme is governed. This means it is up to the industry to maintain and improve regulation to provide high standards to the users.

The following aspects were raised during the question and discussion session with the panellists and the audience. They do not necessarily reflect the views of the PPI or the PPI seminar speakers:

- Financial advice to employers is currently not regulated in the same way as financial advice to individuals. It was suggested that financial advice to employers should also be regulated.
- Employers may take the path of least resistance when complying with automatic enrolment regulations. Therefore, it is important that this path delivers good outcomes for the employees who are enrolled in pensions.
- Significant changes to the regulatory regimes have been made recently to address the risk of negative outcomes for pension savers, for example: Independent Governance Committees (IGCs) have been developed to help regulate contract-based pension schemes, while The Pensions Regulator (TPR) has created simple step-by-step guides for employers.
- The development of Master Trusts offers potential for good outcomes. With the increasing number of Master Trusts, the regulation of these should be carefully assessed, as there is the risk of low quality Master Trusts and/or charges increasing. This would mean these schemes may no longer be an appropriate "path of least resistance".
- The risk of non-compliance from smaller employers may not be an issue, as automatic enrolment becomes a normative behaviour.
- For individuals with small pension pots, we should start with current automatic-enrolment contribution levels to get individuals initially engaged with pensions, and then gradually increase the contributions.

The 2017 review of automatic enrolment will look at increasing contributions. However, there is a risk of deterring individuals from saving into pensions by increasing contributions levels too quickly.
- The value of tax relief is often not acknowledged, but could promote engagement and improve savings into a pension pot.
- IGCs may find it harder to assess value for money for those with smaller pots as charges (exit, AMC) could affect these more significantly.
- The regulatory system faces challenges in the freedom and choice world. There is a tension between safeguarding people against making poor decisions and limiting freedoms. For example, requiring individuals to take advice before accessing pension pots can involve cost and accessibility complications.
- The government's commitment to the reduction of regulatory burdens represents an additional challenge to any changes to pensions regulation.