PENSIONS POLICY INSTITUTE
PPI

PPI Launch Write-Up: Value for Money in DC Workplace Pensions

The Pensions Policy Institute (PPI) held a policy seminar on 4th May 2016 to launch its latest report on the Value for Money in DC Workplace Pensions. The report was sponsored by Standard Life and Standard Life Investments.

The report highlights that while there is no single definition of value for money in pensions, there is consensus that it is about more than simply cost. Although costs and transparency of costs are important, consideration of value for money should also include elements such as:

- Administration,
- Communication with members, and
- Governance.

Schemes may also look for consistent returns or an investment strategy in line with the level of risk that members are willing to take.

Three outcomes are likely to be seen as positive indicators of value for money by members. They are pension pot value, the security of the pot, and the level of trust in the scheme. In practice, good governance can be the lynchpin for driving better value for money, as it can communicate the importance of contribution rates and set the right investment strategy for the membership. It can also ensure effective administration and appropriate member communications, as well as challenging and negotiating charge levels. Much debate has so far focused on value for money during accumulation. However, it is important that members get the best value for money in retirement as well.

A broad range of people representing the Government, third sector, the pensions industry and the investment industry attended the seminar.

Chris Curry, PPI Director, chaired the seminar, welcomed attendees and made introductions, thanking Standard Life Group for commissioning the research.

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

Following the presentation, Chris asked if each speaker could give a brief response to the research. The diverse panel was able to provide perspectives from the industry, government, regulator and consumer's on the report.

Barry O'Dwyer, Standard Life Managing Director, Corporate, Retail and Wholesale responded to the research findings, giving an industry perspective:

- Policy discussions have to date focused largely on the 'money' (charges) element of value of money. The report is significant as it examines in more detail the 'value' part of the equation and considers the less tangible things that can improve retirement outcomes for savers.

- The report concludes that while charges are important, they are not as impactful as some other factors in determining value, in particular contribution levels and related consumer engagement initiatives.
- The investment approach, in particular volatility management, can also have a significant impact on the member's perception of the security of, and their subsequent trust in, their DC pension scheme. This provides a further example of the range of issues that need to be properly considered and understood when evaluating value for money in workplace pensions.

David Bateman, DWP, Pensions Policy Manager responded to the report:

- The report's consideration of value for money in decumulation is an important point. Decumulation is no longer a straightforward choice and it would be interesting to assess the value of switching decumulation strategies.
- Trust is an important by-product of value for money. Contribution rates and getting people to save more are factors in improving outcomes for scheme members. The amount in a pension may be a proxy measure for value for money as it takes into account important elements such as charges and investment growth.
- There is no single definition of value for money. It would be difficult to find a single definition inclusive enough to cover all aspects that members consider important.

Andrew Warwick-Thompson, The Pensions Regulator, Executive Director response covered:

- The Pensions Regulator (TPR) welcomes this report as it adds a very valuable contribution to the value for money pool of knowledge. The focus on contribution rates, replacement ratios and decumulation in particular means that the PPI report has a different perspective. TPR currently has a consultation for six guides to support the new DC code of practice and this report will be a useful source.
- Andrew agreed that there is no single way of defining value for money and it is an evolving term. Independent Governance Committees must make decisions for the majority of members in collective schemes.

Doug Taylor, Financial Services Consumer Panel and PPI Governor response covered:

- The Financial Services Consumer Panel has not read the report so the views expressed are Doug's own.
- The majority of IGC reports have been published and there has been a lack of consensus about value for money.
- It is important for the consumer to know what they are paying for, and price and quality can be deemed to represent value for the consumer. It is difficult to look at value for money from the consumer's point of view without transparency. The up-front charges are not the only things to be considered and, where it is appropriate, all costs should be assessed and evaluated.

The following points 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:

- Ensuring value for money is the IGCs' responsibility. IGCs are still new and their remit will adjust accordingly.
- Pensions are a lifelong process of accumulation and decumulation. The pool of knowledge on value for money is growing and needs to be consolidated so the industry can identify where value lies in the chain.
- Good member outcomes are still important and should be looked at in relation to value for money. Value may be a contributor to good member outcomes.
- Perceived value for money can be difficult as members underestimate their longevity. The actual value per year of a large pension pot can sometimes be less than the member initially expects. As an industry, we may need to reconsider how we explain annuities to ensure they understand the value and security of the product.
- Although this is the first period during which value for money has been formally assessed, many organisations have considered it in the past, through various means.

Chris Curry closed the event and encouraged attendees to feed into The Pension Regulator's consultation.