HYMANS ROBERTSON

Improving Outcomes for members of defined contribution pensions schemes

Consultation Response

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Contents

Improving Outcomes for members of defined contribution pensions schemes	Page
Introduction	1
Our details	3
Chapter 2: Encouraging Consolidation	4
Chapter 3: Diversification, performance fees and the default fund charge cap	7
Chapter 5: Updates to Statutory Guidance: Reporting costs, charges and other information	10
Chapter 6: Other changes to legislation	12

Introduction

Hymans Robertson provides independent pensions, investments, benefits & risk consulting services, as well as data & tech solutions, to employers, trustees and financial services institutions.

We are supportive of consolidation as a means to raising the overall level of DC governance where this clearly provides better value for members.

We are already seeing a number of smaller to medium sized trust and contract based schemes moving to master trusts where the employer and trustees feel they cannot devote sufficient resources to governance. We think this trend will accelerate next year as employers focus on recovering from the business impact of the pandemic, such that providers' and advisers' capacity for undertaking transitions to master trusts will be stretched. We are therefore concerned that the proposed £100m threshold for comparing value will prompt even more medium sized schemes (which generally have greater governance resources) to move to master trusts, mopping up the capacity for transfers. This means that smaller schemes, where the need to transition is more pressing, will be pushed to the back of the queue.

We therefore suggest that the threshold for schemes comparing themselves against master trusts with over £100m assets is initially set at £20m and gradually increased over a period of time. It is debatable whether a DC scheme of £100m assets should be regarded as small, although it may become so in time as DC assets rapidly increase over the next few years.

The challenges for Trustees seeking to move to master trust should not be underestimated, for instance:

- Providers inevitably offer better terms to larger employers (or those they deem more commercially attractive such as schemes with high average salaries for active members) because the fixed costs are spread over greater assets, so there is no certainty that smaller schemes will obtain better terms by moving to master trusts;
- Related to the above, it is vital to understand that Master Trusts do not bring uniform benefits due to economies of scale; they are in the majority of cases commercial ventures with commercial, differential pricing; arguably those benefitting the most are the larger schemes who could afford to run their own trust and provide more bespoke governance to their members;
- The costs of transfer (provider selection, investment and legal advice, transaction costs) are material and for some schemes would be borne by the members undermining any long-term savings;
- The Trustees of hybrid DB/DC schemes may be unable to transfer groups of members due to GMP underpins or the loss of cash commutation rights;
- Many small schemes closed to new entrants are locked into legacy products (which have often been Part VII transferred to specialist run-off providers) where it is not possible to improve value without losing valuable guarantees;
- Looking at other countries where pension provision is centralised, we can foresee the growth of "sidecar" schemes supplementing master trust benefits tailored to an employer's members.

We suggest that the requirement for a comparison with master trusts is only applied to schemes used for auto-enrolment, while other smaller schemes should be expected to have a strategy in place to run-off their DC benefits in a way which serves members' interests.

We are in favour of flat charge structures for illiquid investments, which will remove complexity and ensure fairness for different cohorts of members. Our view is that the suggested introduction of multi-year smoothing of performance fees adds unnecessary complexity in the regulations and exacerbates the over-emphasis on

charges rather than overall value for members. Ultimately, our concern is that members will not benefit from the potential investment opportunities that exist to improve their long-term outcomes unless we can shift the emphasis away from the absolute level of charges.

We suggest that the FCA and providers work together to find ways of facilitating wider use of illiquid assets in DC. As most master trusts use FCA regulated providers' platforms, we suggest that the FCA rulebook should be in sync with the regulations for Trustees.

The proposed criteria for value for members assessments are quite narrowly drawn objective measures, whereas we believe that assessments should focus on what members value and what drives good member outcomes up to and into retirement. We suggest that any legislation should be based on the Pensions' Regulator's present guidance, expanded to include support into retirement services which is an area many master trusts are seeking to provide.

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Chapter 2: Encouraging Consolidation

Q1: We would welcome your views on the reporting of net returns – how many past years of net returns figures should be taken into consideration and reported on to give an effective indication of past fund performance?

We suggest a maximum of 5 years of net return figures should be taken into consideration to give an effective indication of past fund performance. While it should be a long enough period to show a pattern of performance, we think that 5 years of performance data is the most that schemes are realistically going to be able to obtain. We would also note that transaction cost reporting is still difficult to obtain. However, there are issues in accurately comparing performance that the regulations proposed by the DWP do not deal with, which we have set out below.

The proposals are to use net returns to measure value for members, however, the methodology for calculating performance net of fees is different between providers so is not directly comparable and there is not always transparency of how a provider's fees are made up. It is also different between fund managers where different benchmarks are used to measure performance (for example, otherwise similar multi-asset "diversified growth funds use CPI or LIBOR).

It is hard to measure past performance for lifestyle default strategies as these strategies are constantly evolving to match the profile of the scheme's membership and to keep up with the changing pensions landscape and regulations. Five years ago, most default strategies would have been designed to target members purchasing an annuity on retirement. Now, following changes in member behaviour since Pensions Freedom and Choice, many of these will have changed to target income drawdown. Many defaults will also now be designed to incorporate an element of responsible investment and this will only become more prevalent. Furthermore, charges for a lifestyle default are different for each member within a scheme as they will differ depending on the member's age and place in the lifestyle strategy. Therefore, comparing performance and charges between schemes would need to be done at every age in order to be a true comparison.

Furthermore, simply comparing net returns does not allow for the different levels of risk built into default strategies. The Pensions Regulator ("TPR") encourages schemes to adopt defaults which are suitable for their membership. An employer, such as a large supermarket, which has a lot of lower paid members with small pots and little investment knowledge, will likely have a more cautious investment strategy than an investment bank, for example. Superficially, the returns on the supermarket's more cautious strategy are generally likely to look weaker than the riskier strategy adopted by the investment bank and therefore, by the DWP's standards, offer less value for members, despite the fact that the cautious strategy is entirely appropriate for the membership of the supermarket scheme. Therefore, we believe that any comparison of investment performance between schemes should be of risk adjusted returns, although we believe that an outcomes-based approach would be better still.

As an alternative to using net returns, a simpler and more meaningful approach would be to require all schemes to publish all charges, fund for fund, along with member outcomes for each investment option.

If these proposals proceed, then we would suggest using the same performance data that providers produce in accordance with the FCA rulebook to regulate investment performance, as this approach has been refined over a number of years.

Q2: Do you think that the amending regulations achieve the policy aims of encouraging smaller schemes to consolidate into larger schemes when they do not present optimal value for members?

We do believe that the amending regulations will encourage smaller schemes to consolidate, however we have concerns that this does not help these smaller schemes in understanding the requirements, consequences and costs of consolidation.

In our opinion, there are four issues which can slow the pace of consolidation:

1 Whether providers have the capacity to accept all of the schemes which will be targeted by this policy into their Master Trusts over the next few years;

2 Small schemes may not be able to find a provider willing to take on their members;

3 Schemes cannot transfer without advice where many small schemes do not have advisers and may not be able to afford quality advice; and

4 Technical constraints within the existing scheme which prevent a transfer.

In relation to our first point, pension providers only have finite capacity for transitioning schemes into their Master Trusts. While they may all be looking to increase the assets under management, a lot of work and resource is required to transition a scheme and generally, most providers can only carry out a handful of transitions at a time.

Secondly, another issue facing small schemes is the potential charges that they can expect to be offered by a provider. Master Trusts are mostly commercial vehicles and can be selective about the size and type of schemes that they can accept and the price they offer without undermining their financial case as part of TPR authorisation. A scheme with assets of £150m can expect to be offered significantly lower charges than a scheme with assets of £50m. Larger schemes have the benefit of quality advisers who can negotiate better terms with providers, both on entering arrangements and on an ongoing basis. In contrast, smaller schemes, who do not have bargaining power and for whom the provider’s fixed costs are more material, will tend to remain on the provider’s standard rates offered at the outset. Furthermore, smaller schemes may only qualify for a more limited range of services. This discrepancy between large and small schemes will only become greater over time as large schemes set up governance committees and continue to negotiate, while small schemes get stuck with what they have initially. Schemes of c£10m or less are often not attractive to the Master Trusts offering a range of services which would represent a tangible improvement in value for members coming out of an established scheme. The only option for these schemes may be to transfer to a master trust targeting auto-enrolment provision such as NEST. Even if NEST do have the capacity to take on a large number of smaller schemes and their assets, these schemes may not be able to transfer at the pace indicated in the consultation, while that NEST do not currently have the structure in place for schemes which are not used for automatic enrolment.

In relation to our third point, small schemes suffering from poor or no governance, often do so because of either a lack of funds or a disinterested employer, or both. These problems are the same ones that we foresee being a barrier to consolidation. Many schemes such as these will not have advisers in place and, under trust law, schemes cannot transfer without advice. Indeed, without an adviser to guide them, schemes may well be deterred by the complexity of the consolidation process. Schemes in this position are unlikely to have the financial resources to consider consolidation or wind up, or even to get help in navigating provider selection (assuming a choice was available) and negotiating suitable terms.

Fourthly, it is important not to underestimate the technical difficulties and costs of winding up a scheme, which can be challenging and expensive even for large well-run schemes. A poorly governed scheme may have an employer who will not or is not able to meet the wind-up costs, which would mean these costs would instead have to come out of members’ benefits, thereby negating any improvements in value for members.

In addition, a significant number of schemes of all sizes may face technical issues which prevent or delay a transfer and wind-up. For example, some members may have contracted-out GMP underpins which master trusts are unwilling to accept, while members of hybrid DB/DC schemes may have both DB and DC benefits where a transfer splitting their DB and DC benefits would lead to less favourable aggregate rates for taking a cash lump sum at retirement.

A number of small schemes are effectively locked into legacy contracts (which have been transferred to specialist run-off providers) where it is not possible to improve value and a transfer would result in the loss to members of valuable guarantees. The amending regulations do not currently make any allowance for the characteristics of With Profits Funds. Small historical schemes may be invested in With Profits funds, which can come with valuable guarantees while investment returns are smoothed over time into bonuses. In a value for members assessment, these may appear not to provide good value for members as, due to the nature of the funds and the fact that most of them are closed funds, there is little scope for Trustees to influence or improve the value provided and there is a lack of transparency on fees because of the collective nature of the funds. However, With Profits Funds often provide value through guaranteed minimum rates of return up to retirement or guaranteed annuity rates at retirement, which can be hard to measure in an empirical way as it will depend on the value placed on these guarantees by the members. In addition, the pace at which the investment returns on the underlying assets in varying market conditions are turned into bonuses can mean that a transferring member would forgo as yet undistributed investment returns or surplus orphan estate. These benefits would need to be converted to unit linked investments on transfer and any guarantees would be lost, meaning that With Profits members could be penalised as a result of consolidation.

In addition to these points, it's worth noting that DWP's definition of a small scheme is different from that widely used in the pensions marketplace. In our experience, a DC scheme with assets of c£100m would not be classed as small. Master Trusts, who do not tend to bid for small schemes in the £10m to £20m assets bracket, will actively compete for schemes in the region of £100m. Many schemes in the £100m asset range are well governed and offer good value for members. It is generally schemes of around £20m or less where we tend to see poor value for members as a result of poor governance, and we suggest the £100m threshold could be lower.

Q3: Do you believe that the statutory guidance increases clarity about the minimum expectations on assessing and reporting on value for members for specified schemes? Are there any areas where further clarity might be required?

We do not believe that the statutory guidance increases clarity about the minimum expectations on assessing and reporting on value for members and are concerned that it may reduce the focus on some areas which drive good member outcomes. There also needs to be more consideration of the issues facing schemes seeking to consolidate.

TPR has clear guidance on its requirements for value for members assessments and we think it would be helpful for the statutory guidance to align with these. TPR allows for a wider definition of value for money, which includes services which the members often do not pay for, such as governance (or administration in hybrid DB/DC schemes). In addition, we believe retirement services (including guidance, ongoing support and communications) should be included in the DWP's guidance for assessing value for members as it is so critical to ensuring members' outcomes in retirement.

From our reading of the guidance, in assessing value for members, it is heavily weighted to investments. In carrying out assessments for our clients, while we would also usually place the highest weighting on investments, this would be around 40%-50%, with the rest split between the other criteria, such as communications, administration and governance. The effective proposed allocation to investment feels much higher than we and Trustees consider appropriate, with the measure of value being placed almost solely on fees and investment returns with no consideration of the investment option's quality and suitability to each scheme's member profile. While it is not possible to put a pound cost on criteria such as communication, education and engagement, their impact on members' outcomes can be significant and should not be overlooked. We would consider that comparing like for like schemes and/or looking at suitable outcomes between schemes may offer a more holistic view of value.

Chapter 3: Diversification, performance fees and the default fund charge cap

Summary

We do not believe the draft regulations achieve the policy intent. We are in favour of flat charge structures for illiquid investments, which will remove complexity and ensure fairness for different cohorts of members. Our view is that the suggested introduction of multi-year smoothing of performance fees adds unnecessary complexity in the regulations and exacerbates the over-emphasis on charges rather than overall value for members. Ultimately, our concern is that members will not benefit from the potential investment opportunities that exist to improve their long-term outcomes unless we can shift the emphasis away from the absolute level of charges.

Performance fees are hard to administer fairly in DC schemes, hard to explain to members as well as being hard to report on in Chair’s Statements and benefit statements. Where performance fees are built into default strategies, it causes complications in ensuring the charge cap is continuing to be met where fees are variable. Also, because of the time delay in calculating performance fees, members could end up paying higher fees for performance they did not benefit from, for instance if they joined a scheme at the end of a year of good performance but performance did not remain consistent.

Our understanding is that the reasoning for introducing performance fees is to allow pension funds to access private markets. However, we believe there is scope for schemes and their investment advisers to negotiate flat fees with private markets investment managers, for example, we are aware of schemes having done this with Partners Group.

An in-year adjustment to prorating performance fees

Q4: Do the draft regulations achieve the policy intent of providing an easement from the prorating requirement for performance fees which are calculated each time the value of the asset is calculated?

In our view, the draft regulations do achieve the policy intent of providing an easement from the prorating requirement for performance fees. However, we expect that to ensure fairness in the distribution of charges for all members who may be exposed to illiquid investments, a flat fee structure will be desirable in most instances. This will be particularly relevant to members whose assets are being de-risked as they approach retirement, whose time horizon is less than the investment term for the underlying illiquid investment. For younger members, the impact of different treatment in performance fees will be spread over a longer time period, and likely to be less material. By exempting the performance fee from the assessment of charges against a pro-rated cap, there is the added benefit of reducing emphasis on the assessment of value provided from a pro-rated performance fee. As expressed in the summary of stakeholder responses, it is only at the end of the investment term for an illiquid investment when the full value for members can be determined.

Creating a multi-year rolling calculation approach

Q5: What should we consider to ensure a multi-year approach to calculating performance fees works in practice?

We do not believe the introduction of a smoothing mechanism for performance fees is necessary at this time, given the preference for flat fee structures as suggested in our response to Q4. We would also challenge the materiality of a performance fee component, relative to small allocations to illiquid investments and whether this warrants a significant addition to the regulations. We believe that insufficient emphasis has been placed on communicating the role of performance fees (if indeed they have been adopted, and indeed other variable charges or costs) with members, prior to their investment and that these could be higher or lower than average levels in any given period.

We are concerned that the introduction of a multi-year approach reduces transparency and adds complexity in the regulations surrounding illiquid investments which could ultimately stifle innovation. This is particularly important

given the early stages of development and adoption of illiquid investments across DC schemes generally. Our preference would be to allow DC trustees, asset managers and platform providers to innovate to create solutions that can enhance member outcomes, which could include illiquid investments.

We are generally of the view that too much emphasis is placed on investment charges and costs and not on the value provided from these in terms of member outcomes. We would therefore favour simplicity over complexity, and review once investment in illiquid investments across the DC industry reaches a more material scale, and the industry can benefit from lessons learned.

Q6: We are proposing a five-year rolling period. Is this appropriate or would another duration be more helpful?

Further to our response to Q5, we do not view multi-year smoothing of performance fees as a necessary measure to introduce in regulations if trustees are to focus on flat fee structures.

Within the constraint of a multi-year smoothing framework, we note that the investment term for the underlying illiquid investment could influence the appropriate term for smoothing performance fees. From our experience, the investment term for credit investments may lie in the range 5-7 years, and so a 5 year period for smoothing performance fees may be appropriate. However, for real assets such as property and infrastructure, the investment term is likely to exceed 10 years. Smoothing performance fees over 5 years does not therefore address the policy intent or achieve a fair distribution of performance fees across different cohorts of members.

Q7: We are proposing offering a multi-year option as an alternative to an in-year option for schemes. Do you have any suggestions for how to improve this offer?

We have no further comment on this approach, reflecting our responses to Q5 and Q6.

Q8: To what extent will providing a multi-year smoothing option give DC trustees more confidence to invest in less liquid assets such as venture capital?

We believe that introduction of this approach is more likely to reduce than support confidence of DC trustees to invest in less liquid assets.

Our experience suggests that the principal barriers are management of liquidity relative to long ingrained daily dealing requirements for DC schemes (where we might anticipate consumer resistance to change) and over-emphasis on the level of charges rather than overall value to members when making investment decisions. More recently, the experience of property fund gating is expected to increase the caution applied by DC trustees when considering investment in less liquid assets.

On the practical challenges, as an industry we are overcoming these to provide daily dealing and liquidity around illiquid investments. Indeed, there are a number of practical examples where illiquid assets have been introduced such as for NEST and other leading schemes. From an advice perspective, we are also comfortable advising on the structure and implementation of illiquid investments.

In terms of the level of charges, this is heavily influenced by scale. With relatively small proportions of assets allocated to illiquid investments, it is mainly larger schemes that have sufficient scale to access illiquids. With greater adoption, and growth of the DC market, there is the potential to improve the accessibility of illiquid investments to other schemes. However, with continued emphasis on the level of charges rather than overall value for members, we do not believe the take up of illiquid investments will reach the mainstream.

We further believe that over-emphasis on charges rather than value for members will continue to stifle innovation and development of investment solutions for the benefit of the DC industry and members.

Costs of holding physical assets

Q9: Do the draft regulations achieve the policy intent? Do you have any comment on the definitions used?

We do not believe the draft regulations achieve the policy intent. We are in favour of flat charge structures for illiquid investments, which will remove complexity and ensure fairness for different cohorts of members. Our view is that the suggested introduction of multi-year smoothing of performance fees adds unnecessary complexity in the regulations and exacerbates the over-emphasis on charges rather than overall value for members. Ultimately, our concern is that members will not benefit from the potential investment opportunities that exist to improve their long-term outcomes unless we can shift the emphasis away from the absolute level of charges.

Chapter 5: Updates to Statutory Guidance: Reporting costs, charges and other information

Q10: Do you believe that the updated statutory guidance increases clarity about the minimum expectations on both the production and publication of costs and charges information? Are there any areas where further clarity might be required?

We are generally supportive of greater clarity around the approach to VfM assessments. However, we feel that the proposed criteria are too narrowly drawn and do not fully reflect the aspects of pension provision which members value.

We suggest adopting TPR's best practice overall value for money approach described in its "Guide to Value for Members" while adding a further criterium of member support up to and into retirement. This, in our view, helps members obtain the best outcome from their scheme (and is an area where master trusts often offer a market leading solution) and reduces the risk of scams.

We believe that the various VfM criteria should be considered together (perhaps weighted to reflect their importance) rather than having to "pass good" for each criterium. Otherwise members could be unduly concerned (and opt-out) of a scheme with good standards in most areas as a result of a temporary problem in one area (e.g. administration during the pandemic).

We believe that risk adjusted returns or outcomes based measures should be used. In keeping with TPR guidance, many schemes tailor the risk profile of their default arrangement to their membership, and so a scheme with a high proportion of lower paid members will rightly have a more cautious investment strategy, which will not perform as well as the default of a more risk tolerant scheme membership during a sustained bull market; while conversely a more cautious investment strategy may perform better in volatile market conditions. So, comparing basic investment returns between different schemes will give inconsistent results from year to year which Trustees cannot rely upon when assessing value. We suggest, as a minimum, that risk adjusted returns are used for inter-scheme comparisons, although we believe that outcome based forward looking projections geared to each scheme's demographic profile would be of more use to Trustees and members. It would be perverse to rate a scheme's investment performance as poor value when the trustees were acting in their members' best interests.

We would be concerned about any approach that could lead to undesired consequences in terms of trustee decision making. The risk of using net risk-adjusted return as a sole measure for comparing performance is that it will typically favour portfolios that are overly diversified across a range of asset classes. This is unlikely to lead to the best possible outcomes for members with longer time horizons. Our preference is for trustees to consider a range of measures of performance, reflecting the needs of their members. For example, for members with the longest time horizons, net return measured over a sufficiently long time period may be more appropriate. However, for members closer to retirement, where managing risk matters more, a net risk-adjusted return may be more relevant. In both cases, such comparisons are not perfect, and we would continue to advocate forward-looking measures where possible.

Increasingly, cohorts of DC members are expressing a view that how their money is invested (e.g. to address climate change) is more important to them than financial outcomes. In such instances, it is not likely to be appropriate for trustees to compare financial performance. In a recent study by the DC Investment Forum, 30% of members surveyed said that they would prefer their pension to be invested in a climate friendly way, and would accept lower returns, higher risk or higher charges to achieve this.

Presenting the performance of lifestyle strategies in a simple way has long been a challenge. However, as many schemes have changed their lifestyle strategies on several occasions in recent years and are likely to change again in the coming years (for pension freedoms changing target benefits, the introduction of ESG and funds with

greater exposure to illiquid assets), the proposed basis of setting out investment returns could result in more gaps than figures. For individual funds we suggest using the well-established approach in the FCA rulebook, while for lifestyle strategies we suggest for the time being showing the returns over the past 5 years (or shorter where necessary) for members at age 30, 40, 50 and 60.

We are concerned that comparing charges and investment performance with disparate schemes would be misleading to members and lead to trustee behaviour which wasn't in members' long-term interests. We can foresee a situation where trustees are reluctant to adopt a market leading approach on illiquid assets or ESG for fear of their scheme's funds underperforming other schemes. We believe that the present practice of comparing value for members with "the scheme down the road" or against broad-based market averages still has merit.

Chapter 6: Other changes to legislation

Q11: We propose that where the default arrangement includes a promise, the trustees of the scheme should be required to produce a default SIP.

We propose that this should be produced within 3 months of the end of the first scheme year to end after the coming into force date.

(a) Do you agree with this policy?

We are not sure that this policy will achieve any material benefits to members.

Our understanding of this is that default arrangements that come with 3rd-party benefit promise, typically a With Profits policy with guarantees, will have to explain how their default strategy is in members' interests. While we agree that With Profits Funds ought to be covered in SIPs, it could be a challenge for schemes to explain why it was that this default was adopted 30 or 40 years ago. In most cases the only reason money remains in With Profits is because of the potential losses to (typically older) members of guarantees and undistributed investment gains/orphan estate. Historically, With Profits was often a default imposed by the provider for operational purposes rather than one chosen by the Trustees, while at that time the choice of unit-linked funds and lifestyle strategies was limited. Older members are often now effectively locked in to With Profits Funds because of the past guarantees they have built up. Perhaps, given the often small amounts involved, a proportionate approach would be appropriate.

(b) Do you agree that the legislation achieves the policy?

We are not clear what benefit to members this policy would bring about. Instead, we believe that the FCA should press With Profits Funds to improve their disclosure of bonus setting (for example the spread of pay-outs around fair asset share), costs and charges and distribution of orphan assets making it easier to assess value.

Q12: We are proposing that, for relevant schemes, charges and transaction costs should be disclosed for any fund which members are (or were) able to select and in which assets relating to members are invested during the scheme year.

(a) Do you agree with this policy?

The policy seems to reasonable to us, however we have some concerns about the practicalities of implementing it.

In relation to the requirement for comparison to at least three schemes, one of which has to be willing to accept a bulk transfer, (new reg. 25(1A)(a)(i)) in assessing value for members, we have some concerns about the practicalities of this. Just because a scheme is able to accept transfers, it doesn't mean that they will accept a transfer from the scheme carrying out the VfM assessment – it may be too small or have unattractive demographics which would undermine a master trust's business case with TPR. How are Trustees supposed to know which schemes would accept a transfer of their scheme without going around asking master trusts? Trustees have enough challenges getting information required for Chair's statements and VfMs out of their existing providers without other providers being bombarded with "what if" requests. An alternative could be to compel master trusts to set out their criteria for accepting bulk transfers.

In the past, we have used averages, from DWP and in-house surveys, to provide comparison of costs and charges with other schemes; although this approach is more general than the proposals in the consultation, it is more practical, feasible and understandable by members for schemes to be able to obtain average comparison data.

(b) Do you agree that the legislation achieves the policy?

Yes.

Q13: Do you agree with this proposed change? Do you have any other comments on this topic?

From our review of the draft regulations in Annex C, we understand that is no special provision being proposed, so as to vary the application of the amendments to hybrid DB/DC schemes. We think there needs to be clarity on whether the ‘<£100m in assets’ test for ‘specified schemes’ would apply to *total* holdings, not just the DC assets thereof. We would oppose this interpretation because it would mean that a poor-value DC offering could be excluded from the requirement for self-examination because its assets are combined with the DB ones for the purposes of the test. We think the threshold should be on DC assets only, otherwise, it might produce some perverse results. There tends to be far less overlap of investment managers and funds between DB and DC assets nowadays, meaning that there is little opportunity for DC sections leveraging DB buying power. For example, a £3bn DB plus £50m DC scheme could end up comparing DC VfM with different schemes than appears to be the policy intent. Conversely, the proposed regulations seem to ignore of the possibility of DC members also having DB benefits under the same trust, which Trustees wouldn’t want to split because it adversely effected members’ overall benefits.