ASSOCIATION OF CONSULTING ACTUARIES

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cp20-09@fca.org.uk

To Whom it May Concern

CP20/9: Driving Value for Money in Pensions

I am writing on behalf of the Association of Consulting Actuaries in response to the above-named consultation issued by the FCA.

We trust that you find the contents of this letter of assistance. We would be happy to discuss them further if that is helpful. In that event, please contact me on 07557 031198 or at tessa.page@mercer.com.

Yours sincerely

Tess Page
Chair, Defined Contribution Committee
On behalf of the Association of Consulting Actuaries Limited

CP20/9: Driving value for money in pensions

Q1: Do you agree with our 3 proposed elements for assessing value for money? If not, what alternative factors do you suggest?

The proposed elements (Charges & Costs, Investment Performance, and Services) are a good starting point to assess value for money (VFM) and provides consistency of assessments in terms of core factors. However, it will be important to compare like with like and ensure that the scheme(s) / products being compared are similar. The services provided and investment strategies pursued by each provider could be very different, so there would need to be recognition of this. It is also important to consider that the assessment will be a snapshot in time and could become out of date very quickly, for example if there is volatility in investment markets that adversely impacts a particular strategy.

Under Investment Performance, risk-adjusted returns could provide a helpful way to ensure that risk levels are taken into account when assessing different products.

Under Services, assessing the quality of existing features (through administration service levels, as an example) is a good baseline but it will also be important to also consider the breadth of features that are being offered – this varies substantially, and must be taken in consideration when assessing VFM.

Another important assessment factor where it would be useful to be more explicit on expectations for the assessments is the extent to which environmental, social and governance aspects (including stewardship and engagement policies) are integrated into the products being assessed.

As outlined in the Consultation Paper, there should also be consistency between the VFM assessments of Trust Based Workplace schemes and Group Personal Pensions.

Q2: Do you agree with our proposed Handbook guidance about the meaning of value for money? If not, what alternative wording would you suggest?

We do not feel that the current wording clear makes clear whether investment fund management charges and additional fund expenses are included.

We consider that they ought to be, but would not interpret "administration charges and transaction costs" as including them. Otherwise, the proposed guidance is appropriate.

We agree the importance of the comparison being made against a similar scheme. For example, in many cases it would be inappropriate to compare a commercially run scheme against a not for profit arrangement such as Nest.

Q3: Do you agree with our proposed process for VFM assessment? If not, what alternative process would you suggest?

Yes, the proposed process is suitable, especially as the IGCs will need to state the reasons why the comparable schemes have been selected.

In practice most IGCs will obtain advice on which schemes should be used as comparators so there will be some external validation in the comparator schemes chosen.

Q4: Do you agree with our proposals for IGCs to consider whether any of the comparable schemes assessed offer lower administration charges and transaction costs? If not, how should IGCs review costs and charges?

As a comparator, this information is useful, but in practice no two schemes will be exactly the same, so there will need to be an allowance made for this or a facility to explain the differences . It is important to remember comparison at a granular level may be difficult for IGCs given the scale and breadth of providers.

Q5: Do you agree with our proposed guidance that fully complying with the charge cap does not necessarily indicate value for money?

Yes, it is more important to assess the value that is being provided to the member for the charges being paid.

In practice many workplace schemes charges are lower than the charge cap and therefore complying with the cap is not a good indicator of value for money.

Q6: Do you agree that a reasonable comparison of costs and charges with other options available on the market will put pressure on high-charging providers to reduce their changes and transaction costs? If not, how else could this outcome be achieved?

It will highlight the discrepancies, but may not lead to any significant changes, unless the information is shared explicitly with employers who continue to use the scheme. This will add a commercial focus to the assessment and could lead to the stated outcome being achieved.

Q7: Do you think that further guidance will improve the assessment of legacy products?

Yes, legacy products are more likely to be providing poor value for money, so any additional guidance would be welcomed, however it would need ensure fairness in the way that the assessment is undertaken.

There are also legacy products which offer poor value for money but do not have a default and are not used for auto-enrolment, so consideration should be given to whether to include these in the scope of any guidance.

Q8: Do you think that our proposed rules and guidance will improve the clarity of IGC annual reports?

Whilst the proposals will help, there is more that can be done to standardise the ICG annual reports and improve the clarity and comparability of them. An "industry standard" summary table could be considered for the summary within the report, together with information on where further details can be found. This would still allow for contextual information to be supplied and retain an ability for providers to tailor their reports to their own member base and interpretation of value, whilst delivering some firmer comparables.

Q9: Do you think that firms providing pension products should have a specific responsibility on ensuring the VFM to customers of these products?

It is likely that the existing legislation and proposed changes will create significant awareness of VFM. Commercial drivers and competition will also play a part in ensuring

VFM, therefore creating a specific responsibility around VFM is unlikely to achieve a substantially different outcome.

It is however important that the VFM responsibilities for ICGs and Trust Based arrangements are consistent.

Q10: Do you agree with the analysis set out in our cost benefit analysis?

The analysis appears reasonable.