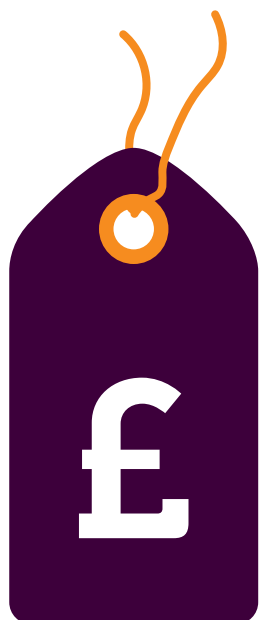


## DC hot topic

March 2015

### Value for money



#### Why is this important?

From April 2015 new minimum quality standards will affect DC schemes.

- Trustees must assess the extent to which an occupational DC scheme's charges and transaction costs represent "good value". (This new duty will sit alongside their existing responsibility to test value for money in accordance with the Pensions Regulator's (TPR) DC Code of Practice.)
- Independent governance committees (IGCs) must assess and raise any concerns about the "ongoing value for money" of a provider's contract based workplace DC pension schemes.

#### What is value for money?

There is no statutory definition of value for money which means that both trustees and IGCs will need to develop their own assessment process. Essentially it will mean comparing costs against benefits.

There can be no one size fits all approach because all schemes will be different. However, the table below shows the kind of factors that may be relevant. Some of these will be objective, and others will be subjective.

According to TPR, a value for money scheme is one in which the costs of membership provide good value in relation to the benefits of membership when compared with other options available in the market. TPR goes on to say that it "does not necessarily mean low cost, provided higher costs can be justified by improved benefits". It will therefore be important to weigh factors such as cost, against the value members would place on matters such as good administration and clear communication. In other words, a well run scheme may cost more but it could lead to better outcomes for members and therefore be of "good value".

#### Trustees

Calculate the charges and (in so far as they can) transaction costs borne by members

Consider investment return

Compare to others in the market, where possible

#### IGCs

Consider the level of charges borne by members and the direct and indirect costs (including transaction costs) incurred in managing and investing

Consider the design of default investment strategies and the net performance of all investment strategies

Compare to others in the market, where possible

Objective factors

## Value for money cont.

	Trustees	IGCs
Subjective factors	<p>Weigh up benefits and services received by members against what members value in:</p> <ul style="list-style-type: none"><li>• Governance</li><li>• Communications</li><li>• Administration</li></ul>	<p>Weigh up benefits and services received by members against what members value in:</p> <ul style="list-style-type: none"><li>• Governance</li><li>• Communications</li><li>• Administration</li></ul>
	<p>This includes a statutory requirement to consider whether core financial transactions are processed promptly and accurately</p>	<p>This includes a FCA requirement to consider whether core financial transactions are processed promptly and accurately</p>

### How can it be assessed?

TPR has produced guidance to accompany the DC Code of Practice which sets out a model process that trustees can use to assess value for money. There is no equivalent at present for IGCs, although the FCA policy document on IGCs (PS15/3) offers helpful insight.

When putting a process together it will be important to consider:

- What information is available about the scheme?
- What information is available about other schemes?
- Should the trustees/IGCs be asking for further information from third parties (such as a further breakdown of costs) or the employer (regarding benefit design or communications)?
- How will the trustees/IGCs establish what members value most?
- What weight will trustees/IGCs give to each factor and how will this be decided?
- How will the process be documented?
- Who will the information be shared with at the end of the process?

Well governed schemes will find that these considerations are not new, as the process is likely to have been implicit in many exercises to monitor providers and services used by the scheme in the past. The difference is that, from April 2015, such an assessment will have to be undertaken on an explicit basis and will also need to be documented.

### Next steps

It is worth bearing in mind that this area will develop over time, and the first assessment undertaken will be a learning curve for everyone. TPR has said that it will revise its DC Code and Guidance in 2015 and there is further legislation expected on transparency (to assist with comparisons). As regards the FCA, it is supporting a new IGC Chairs forum with a view to providing guidance on value for money so expect further news on this topic in the future.

*For more information, please contact Helen Ball or Faith Dickson or visit [www.sackers.com/dc-schemes](http://www.sackers.com/dc-schemes).*