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Value for money - where next for trustees and IGCs

One of the most difficult questions currently on the agenda for anyone who runs a defined contribution (DC) arrangement, whether trust-based or contract-based, is value for money. Trustees and providers understand that it is important that members receive value for money – but pinning down exactly what that value is, and how you measure and disclose it, has proved harder.

Independent Governance Committees (IGCs) have already had to grapple with these issues in publishing their first round of annual reports in time for 5 April 2016. For trustees, the challenge is starting to unfold as schemes prepare their first annual statements from February 2016 in line with their individual scheme year end.

Maximising member outcomes

All trustees, IGCs and providers I have spoken to are clear that value for money is about maximising good member outcomes. Many of us agree that, although fair charges are important, there is much more to achieving a good member outcome than price. For most, investment return and approaches to risk are critical in any value for money assessment. However, interestingly, what members themselves value tends to have a different emphasis. Research undertaken by a number of the providers has shown that members typically tend to place value on the range of funds on offer, the quality of online access and functionality, and the support they receive from the scheme or provider.

Unfortunately, the Financial Conduct Authority (FCA) has issued no real guidance on value for money beyond the standard IGC terms of reference. The Pensions Regulator's draft DC Code of Practice and supporting draft 'How-to' guide on 'Value for members' is more helpful, recognising a broader spectrum of ingredients, but this still only provides high level commentary on the issues. It appears to be a deliberate policy by regulators at this early stage to allow trustees and IGCs to develop their own thinking and not to be too prescriptive.

IGCs lead the way

IGCs have produced very different annual reports in the first year. Whilst common themes have emerged (all provided comment on charges, investment performance and service standards), there are some significant variations. The approach to product design and member engagement is very different. Some reports are technical in nature; others use more accessible language. Some are assertive in tone; others are more passive. What is apparent is that views vary on whether the report should target members, employers or the FCA. This goes to the very heart of the issue: the industry still needs to establish a view on the purpose of the report and its assessment. I would, however, expect to see more convergence over the next few years, either through adoption of best practice or by a firmer regulatory steer.

Benchmarking the next challenge

Much of the work in assessing value for money to date has been on a particular DC scheme or provider's own products. Benchmarking offerings between different pension schemes and providers is our next significant challenge. It should in theory be relatively straightforward to measure factors such as charges, investment returns, risk and service standards. Both the FCA and Department for Work and Pensions (DWP) specifically require trustees and IGCs to assess and disclose charges, including transaction costs. However, without any corresponding duty on managers to disclose the relevant information to trustees and IGCs, this requirement has in many cases been impossible to meet. Progress remains slow and it is important that the industry and the FCA engage with each other over the coming months to address this. There is also currently no universal benchmarking product which is easily available. To solve this, many stakeholders with differing commercial priorities will need to be able to agree on the factors that will be benchmarked and how these comparative findings will be presented. This task should not be underestimated.

What is clear is that there are still some mountains to climb when it comes to assessing value for money. However, I believe the industry is willing to embrace the next stage to try to make it work.