Awareness of the Pensions Regulator’s 31 quality features

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What are the quality features?

The Regulator believes that in order for a defined contribution (DC) pension scheme to be capable of delivering good member outcomes, trustees should adopt six principles which apply to a well-run scheme. These principles, which cover areas such as scheme design, governance and member communication, are underpinned by 31 DC quality features that provide more detail about the activities, behaviours and control processes that are more likely to deliver good member outcomes.

The Pensions Regulator has conducted a survey looking at the extent to which its DC quality features have been embedded into DC and hybrid schemes. Results vary across different sizes of scheme, with the picture generally looking more positive for larger schemes.

22 of the quality features relate directly to legislation, while the remaining nine either have a partial basis in legislation or are based on current industry good practice.

The DC quality features form the core of the Regulator’s regulatory approach – schemes that demonstrate their presence are more likely to meet the standards of governance and administration that it expects.

As a reminder, the 31 quality features are listed in the Appendix to this note.

Action for trustees

The Regulator expects schemes to publish a governance statement on the extent to which the quality features have been embedded into their scheme, with the statement being made available to both the scheme members and the sponsoring employer. To do this, schemes need to conduct an assessment of their scheme. The Regulator expects the first governance statements to be published by the end of 2014/15.

How are schemes progressing with meeting the quality features?

Earlier this year, the Regulator conducted some research to assess the presence of the 31 features in DC and hybrid schemes. (In actual fact, only 30 features were assessed, since the quality feature relating to scheme set-up was not included as the schemes involved were already established.)

The survey consisted of telephone interviews with 573 schemes. The data was weighted to be representative of the overall population of DC schemes with 12 or more members.

For the purposes of the survey, the Regulator divided DC schemes into small schemes (12-99 members), medium (100-999 members) and large schemes (1,000+). Hybrid schemes were divided in into small/medium (12-999 members) and large schemes (1,000+).

The Regulator has now published the results of this survey and this briefing note summarises some of the main findings.
Awareness of the quality features

82% of all DC and hybrid schemes were aware of the DC quality features with awareness being greatest amongst large DC schemes and hybrid schemes.

Awareness was lowest amongst small DC schemes.

Plans to review schemes against the quality features

Overall, 40% of schemes have been reviewed against the DC quality features so far. Large schemes (DC and hybrid) are most likely to have done this.

Use of schemes for automatic enrolment

Of the open DC and hybrid schemes surveyed, the majority are either currently used for automatic enrolment (34%) or plan to be used in the future (33%).

The presence of quality features

Amongst the 30 DC quality features DC and hybrid schemes had 19 features present on average.

There was a variation by size. Large DC schemes had 24, medium 21 and small schemes 15 features present on average. Large hybrid schemes had the highest feature presence with 25 on average.

Schemes that were being used or planned to be used for automatic enrolment had higher feature presence than schemes that either were not being used for automatic enrolment or did not know their associated employer’s plans for the scheme.

The quality features most likely to be present

Overall the most common quality features present in schemes were that trustees will:

- Ensure that a process is provided which helps members to optimise their income at retirement (94% of schemes).
- Support employers in understanding their responsibilities for providing accurate information, on a timely basis, to scheme advisers and service providers (94%).
- Ensure that sufficient time and resources are identified and made available for maintaining the ongoing governance of the scheme (93%).

Results between the various sizes of schemes (both DC and hybrid) were largely consistent in respect of these features, suggesting broad compliance with these requirements.
The quality features least likely to be present

Overall the least common quality features present in schemes were that trustees will:

- Ensure that the performance of each investment option, including the default strategy, is regularly assessed against stated investment objectives (28% of schemes).

- Understand their duties and be fit and proper to carry them out (30%).

- Ensure that administration systems are able to cope with scale and are underpinned by adequate business and disaster recovery arrangements (31%).

Unlike the features that were commonly present, there were some big variations in the results between different sizes of scheme. For example, on monitoring the performance of investment options, only 8% of small DC schemes met this feature, whereas it was present in 80% of large hybrid schemes.

The assessment of how well a scheme is run against the Regulator’s DC code of practice, which is underpinned by the 31 quality features, is very much a live issue for trustees, with the requirement to produce a governance statement on how a scheme measures up.

While it is concerning that trustees apparently understand their duties and are fit and proper to carry them out in only 30% of schemes, this may well be down to the deluge of requirements from the Regulator, rather than any inherent widespread trustee failings.
Find out more

If you would like to discuss the content of this briefing note and how it will impact your organisation, please contact us at

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Information contained in this briefing note is of a general nature only; it represents our understanding of current (and proposed) law and practice but should not be relied upon as advice in any specific situation.
Appendix:
The Regulator’s 31 quality features

Trustees will:

1. Understand their duties and be fit and proper to carry them out.
2. Ensure that sufficient time and resources are identified and made available for maintaining the ongoing governance of the scheme.
3. Regularly review their skills and competencies to demonstrate they understand their duties and are fit and proper to carry them out.
4. Ensure that accountability and delegated responsibilities for all elements of running the scheme are identified, documented and understood by those involved.
5. Establish and maintain adequate internal controls which mitigate significant operational, financial, regulatory and compliance risks.
6. Ensure that investment objectives for each investment option are identified and documented in order for them to be regularly monitored.
7. Ensure that the number and risk profile of investment options offered reflects the needs of the membership.
8. Ensure that a default strategy is provided which is suitable for the needs of the membership.
9. Act in the best interests of all beneficiaries.
10. Predominantly invest in assets admitted to trading on regulated markets. Where unregulated investment options are offered, it must be demonstrable why it was appropriate to offer those investment options.
11. Understand the levels of financial protection available to members and carefully consider situations where compensation is not available.
12. Understand and put arrangements in place to mitigate the impact to members of business and/or commercial risks.
13. Monitor the ongoing suitability of the default strategy for the membership.
14. Ensure that arrangements are established to review the ongoing appropriateness of investment options.
15. Ensure that the performance of each investment option, including the default strategy, is regularly assessed against stated investment objectives.
16. Establish and maintain procedures and controls to ensure the effectiveness and performance of the services offered by scheme advisers and service providers.
17. Ensure that members are regularly made aware of their current investment strategy and what this means for them.
18. Be able to effectively demonstrate how they manage conflicts of interest.
19. Ensure that all members receive value for money.
20. Ensure that all costs and charges borne by members are clearly disclosed to members.
21. Ensure that all costs and charges borne by members are transparent and communicated clearly at point of selection to the employer to enable value for money comparisons to be made and to assess the fairness to members of the costs and charges.

22. Ensure that schemes offer flexible contribution structures that give members the option to pay more.

23. Ensure that members are regularly informed that their level of contributions is a key factor in determining the overall size of their pension fund.

24. Ensure that member data across all membership categories is complete and accurate and is subject to regular data evaluation.

25. Support employers in understanding their responsibilities for providing accurate information, on a timely basis, to scheme advisers and service providers.

26. Take appropriate steps to monitor contributions and resolve contributions which have not been paid in accordance with the payment schedule in full on or before the due date.

27. Ensure that core scheme financial transactions are processed promptly and accurately.

28. Ensure that administration systems are able to cope with scale and are underpinned by adequate business and disaster recovery arrangements.

29. Ensure that a process is provided which helps members to optimise their income at retirement.

30. Clearly communicate to members the options available at retirement in a way which supports them in choosing the option most appropriate to their circumstances.

31. Ensure that scheme communication is accurate, clear, understandable and engaging and it addresses the needs of members from joining to retirement.