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For the attention of:

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**Statutory Review of the Annual Statement Regarding Governance in a Default Arrangement and Relevant Trust Based Multi Employers (The Annual Chair's Statement)**

We are pleased to respond to this statutory review and are keen to work with you to improve matters for scheme members, trustees and the Pensions Regulator.

**Key points:**

- Information requirements should be guided by what is useful to the target audience.
- The target audience of the Chair's Statement should be clarified. The conflation of reporting detailed governance to the Pensions Regulator and producing an assuring communication to members has led to statements that are over-complicated and thus not meeting their objective.
- The evidence from our members reflects that statements are not engaging the scheme members in any meaningful way.
- The competing goals are best met by disaggregating the reporting of detailed scheme governance to the Pensions Regulator from the requirement to provide genuinely engaging information to the members.
- Mandatory fines should be discontinued and should be applied only on a discretionary basis.

**Detailed Response**

***HOW WELL IS THE CURRENT PROCESS WORKING AND IS THERE A NEED FOR CHANGE?***

*The policy objective underpinning the chair's statement is to provide yearly information on how the scheme meets certain governance standards. Though the chair is responsible for signing the statement, the trustee board as a whole need to ensure that the relevant standards are met.*

***Q1. Does this policy objective remain appropriate – please provide evidence to support your views?***

We believe that the objective as stated remains appropriate, that is, to provide annual information on how schemes meet certain governance standards, with, we assume, members being the focus.

We note that whilst this review focuses on regulations 22 to 29 of The Occupational Pension Schemes (Scheme Administration) Regulations 2016. There are wider objectives within the requirements such as requiring the appointment of a chair of the trustees and it may be some of these should also be considered.

In response to this review, it appears to us that there are three objectives for the policy as it operates in practice:

- to provide a scheme reporting mechanism to the Pensions Regulator
- to make information available for transparent comparison between schemes, to aid improved governance standards
- to inform members

The governance standards themselves should be reviewed to ensure they remain relevant, to include, for example, cybercrime and equality, diversity and inclusion considerations.

## **Q2. Are the current provisions meeting this objective?**

In short, this depends on the key objective. If the driver is to provide information to stakeholders (e.g. to members, the Pensions Regulator, others in the industry), the answer is yes but in respect of the Pensions Regulator this could be done via a scheme return. If the objective is to increase member understanding and engagement with this information, we do not see evidence that the current provisions are achieving this.

The provisions seek to address many potential needs, but in so doing, they are having limited success. We would suggest that it is time to consider a full review of approach, starting with a clarification of purpose. Such a review should cover what is reported, where possible taking a 'less is more' approach, for example with SMPI statements.

Under a review, we see a logic in aligning with contract based schemes, as per DWP's October 2020 consultation, which are now considering value for money.

**It is important to recognise that trustees have worked hard to improve governance in many cases and the legislation has improved standards in many schemes.**

## **Q3. To what extent is the Pension Regulator's role in relation to the chair's statement achieving the policy objectives?**

*The role of the Pensions Regulator is to monitor compliance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 and to issue a penalty where the timing or the content of the statement is not compliant with the regulations.*

There is some perception that the monitoring of compliance is excessively focused on large, high profile schemes, with smaller schemes often not getting direct attention. Where monitoring is undertaken it is robust but is applied without discretion. Awareness of fines has, we anticipate, encouraged smaller schemes to comply. In our experience most schemes are complying by producing a statement.

We believe that whilst the Pensions Regulator is bound by the legislative framework and where fines may be levied, it is essential that there is full clarity, where at present there can be issues over interpretation of language.

In our view it is essential to review the prescriptive nature of the regulations and the mandatory fine regime. The fear of mandatory fines, and the potential reputational damage they bring, has arguably led to excessive resource being focussed on Chair's Statements, without a corresponding benefit to the membership. This is inevitably at the expense of other initiatives that schemes could be focused upon to genuinely help their members.

#### **Q4. Do you feel provision of the chair's statement is having the desired effect?**

*Its primary purpose is to ensure transparency on how the scheme meets certain governance standards.*

From the perspective of the members, we do not view the statement as having its desired effect. The degree of complexity is a hindrance for member understanding. The number of members who engage with and read the statements is very low. Finally, the provision comes at considerable cost, which reduces resource available for improving member outcomes in other ways.

However, from the perspective of improving governance, as opposed to promoting awareness of it, then it may be seen as more successful.

To manage the disconnect between driving governance through detailed reporting and the objective of providing members with information that genuinely engages them, we suggest disaggregating:

- Firstly, clear governance requirements for Trustees, with a requirement to report on this to the Pensions Regulator. This should be quantitative where possible. (e.g. investments last reviewed on x date).
- A separate requirement for the Trustees to communicate their work in a way suitable to their membership, including a comment on value for member.

#### **Q5. What are your views on what constitutes compliance in relation to the format of the statement?**

*While there is no set format or standard template that can be used for compiling a chair's statement, the Pensions Regulator has produced a Code of Practice and detailed guidance. My understanding is that various advisory firms and organisations have produced templates which can be used as a starting point.*

Further clarity is required on compliance, as differing interpretations between the Pensions Regulator and industry specialists can contribute to over-engineered and unnecessarily lengthy statements, to cover all possibilities.

It is important that the Chair's Statement is not treated as a tick box exercise or a piece of governance to itself. Clearer criteria and a degree of discretion from the Pensions Regulator will help. Where there are barriers to action for schemes, this should be accounted for, e.g. legacy products that are poor in terms of member services, but with penalties that cannot be justified on transfer.

#### **Q6. Does the current information requirement relating to the statement need to be changed?**

*For example, removing the requirement to provide a generic statement on prompt and accurate core financial transactions. Would reporting average times to invest contributions, allowing switching and transfers or to allow members to exit be more relevant?*

*The recent Government consultation on "Improving outcomes for members of defined contribution pension schemes" proposed the requirement to add information to the chair's statement around costs and charges and disclose net returns (investment returns less transaction costs and charges) and, in the case of schemes with £100m or less in assets, a comprehensive assessment of value for members.*

Information requirements should be guided by what is useful to the target audience. For example, reporting times for contribution investment may be useful for those governing a scheme, but much less so for members. The conflation of reporting detailed governance to the Pensions Regulator and

producing an assuring communication to members has led to statements that are over-complicated and that will not be read by the average scheme member.

It may be that a clear statement on Trustee governance standards is sufficient – as with a car’s MOT, a simple pass/fail is sufficient for most end users.

Clarification is sought on why trustees must report on investments used previously in a year when assets have been transferred elsewhere. Also, clarification is needed on whether the £100 million of assets is for DC only or the scheme in total for hybrid schemes.

We do not see value in adding SMPI information to Chair’s Statements, it is best to avoid competing projections on different bases between the SMPI and Chair’s Statement.

## **COMMUNICATING WITH SCHEME MEMBERS**

### ***Q7. Is there evidence as to whether or not the chair’s statement is meaningful to scheme members?***

*Providing information at the right time and in an accessible format are vital if members are to engage and make decisions that lead to good outcomes in retirement.*

The evidence available suggests the Chair’s Statement is of minimal use to members. The main exception is the indirect benefit of improved governance/consolidation. Analysis of website hits for costs and charges information suggests very low views.

We note templates provided by various parties risk being too technical for most members. Brevity is essential - a single page analysis with a traffic light visuals may be clearer and more engaging.

We are aware that several schemes have taken to producing Chair’s Statement extracts, providing key information in a more accessible way to members. This requires additional work but indicates that the objective of engaging members can be better met with brevity and relevance.

### ***Q8. Do scheme members look at the chair’s statement?***

*There is a requirement for certain parts of the chair’s statement to be published on a website. Is there any evidence to show whether or not members look at it or find it useful?*

Though compliance with publishing requirements appears to be high, we do not see evidence that members are engaging with this information. The web-page hit rates for the Chair’s Statements tend to be well below 10% (from 0%- 6%) of the membership, and those numbers may be artificially increased through viewings by non-members (including the trustees and their advisers). The average time suggests members are not reading the statements in full. A Master Trust with more than 100,000 members has confirmed that its website analytics show that there have been zero member views of any Chair’s Statement in any year since they have been published on-line. The cost and time resource applied to the production of these statements is not proving a value to the members.

***SPP response ends***

Yours faithfully

**Martin Willis**  
DC Committee, SPP

**Fred Emden**  
Chief Executive, SPP

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