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The Pensions Regulator
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12 May 2016

Dear Sir/Madam,

Consultation on draft DC guides – value for members draft guide

The Financial Services Consumer Panel welcomes the opportunity to respond to the Pension Regulator's draft DC guides. We are only responding to the guide on value for members (VFM).

We believe the VFM guide could give more detail on how to evaluate value for money. This is a difficult area, and it is likely that trustees will interpret their remit in different ways, as we have seen from the wide differences in the annual reports of Independent Governance Committees (IGCs), who have been wrestling with the same problem.

Last year, the Panel commissioned Dr Christopher Sier to research costs and charges in pension funds. This research¹ showed that comprehensive information was difficult to extract in a meaningful form. Dr Sier found large differences in the amount of data supplied by different asset managers, even within a single scheme. Until asset managers are forced to disclose all hidden costs² and charges, it will always be difficult for Trustees to be sure they are getting all the information they need. As members pay these hidden costs, Trustees need to be able to evaluate them.

Following the research, we recommended that the FCA and TPR should develop a template for IGCs and Trustees to use to ask asset managers to report costs in a comparable way³. We do not believe this would be inconsistent with EU legislation such as PRIIPs and MiFID II. Nor would it duplicate work as the information that Trustees and IGCs need should already be collected and reported by asset managers.

We accept that a data reporting template may not be available in the short term, but in the meantime, Dr Sier's template (or an adaptation of it) might be a useful appendix to the guide.

¹ The Drive towards Cost Transparency in UK Pension Funds, Dr Christopher Sier, March 2016:

https://www.fs-cp.org.uk/sites/default/files/finalthe_drive_towards_cost_transparency_in_uk_pension_funds_2015_2016.pdf
Financial Services Consumer Panel Discussion Paper – Investment Costs and Charges – where are we now?, March 2016:

https://www.fs-cp.org.uk/sites/default/files/fscp_final_discussion_paper_investment_costs_20160229_4.pdf

² Including transaction costs.

³ The Drive towards Cost Transparency in UK Pension Funds, Dr Christopher Sier, March 2016, Appendix 1, page 46 onwards: https://www.fs-cp.org.uk/sites/default/files/finalthe_drive_towards_cost_transparency_in_uk_pension_funds_2015_2016.pdf.

An alternative method, suggested by Dr Sier and others, is for Trustees to assess value by undertaking the following exercise:

- Obtain fund value at the beginning of the scheme year;
- Obtain fund value at the end of the scheme year;
- Ask the asset managers for copies of all the invoices produced during the scheme year and total these up; and
- Consider how the invoiced costs stand up against the two valuations and whether there are any costs not accounted for.

The Pensions and Lifetime Savings Association may be able to provide data on other scheme costs such as administration and legal costs that trustees could use as a benchmark against which to compare their own scheme's costs.

Sincerely,

A handwritten signature in cursive script, appearing to read 'S. Lewis', enclosed in a thin rectangular border.

Sue Lewis
Chair
Financial Services Consumer Panel