PASA Consultation Response

FCA Consultation: Value for Money Framework

October 2024

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About PASA

The Pensions Administration Standards Association (PASA) was created to provide an independent infrastructure to set, develop, guide, and assess administration standards.

PASA acts as a focal point and engages with industry and government to create protocols for understanding good administration - but also appreciates there's no one size fits all. PASA develops evidential Accreditation practices allowing benchmarking across and between the industry regardless of how the administration is being delivered.

As well as raising the profile of pension administration generally, PASA focuses on three core activities:

1. **Defining good standards of pensions administration relevant to all providers, whether in-house, third party or insurers**
2. **Publishing Guidance to support those standards**
3. **Being an independent Accreditation body, assessing the achievement of good standards by schemes**

There's no organisation providing such services across schemes, yet there's a demand for evidence of service quality from scheme trustees, sponsors, administrators, insurers, savers and regulators.

1 Introduction

We support the intent of the Value for Money (VFM) framework, which aims to improve retirement outcomes for savers. Historically, there's been an overemphasis on costs and charges at the expense of other factors, such as contribution levels, which are critical for achieving favourable outcomes.

While we agree the VFM framework is a positive step, it's important to note it continues the trend of driving consolidation by increasing governance costs, threatening the sustainability of many pension arrangements. If the driver for the framework is better outcomes, many of the measures/processes included don't in themselves guarantee good outcomes. Many metrics don't equate to VFM, but perhaps an enhanced experience for savers does.

A simplified approach, focusing on 10 - 12 key data points, would be more impactful, easier to report on, and pave the way for a more efficient and effective VFM framework.

The proposed RAG status could oversimplify pension product complexities, resulting in significant harm and unintended consequences. We caution against creating a league table, as this can also result in oversimplification.

Steps should be taken to ensure the finalised framework is compatible with regulations and guidance issued by the Department for Work and Pensions (DWP) and the Pensions Regulator (TPR), to avoid the creation of a two-tier system.

2 Consultation Questions & Answers

Scope and thresholds

1. Do you agree with the proposed scope, thresholds and exclusions? Why or why not? If not, what alternatives would you suggest?

In practice, pension arrangements will struggle to establish the number of employees figure in the 80% threshold calculation. Typically, they will only know the number who've been enrolled at some point. Noting the other measures impacting scope, we'd suggest the measure should be a 'majority' instead.

If extended to trust-based schemes, the 80% threshold captures many, as the majority of their employees are in the arrangement due to automatic enrolment.

3. Do you agree with the proposed 1,000 member threshold? Why or why not? Do you think there are risks around this level, for example excluding too many savers? If you don't agree, what would you suggest?

This is an appropriate threshold, subject to our recommendations for a simplified approach.

Costs and charges

14. Do you agree with the proposed costs and charges metrics? Why or why not? If not, what alternative metrics would you suggest?

The current approach to costs and charges is incomplete. The intention is to compare similar offerings, therefore the framework needs to adequately account for the benefits or services savers receive in return for the charges. For example, one provider may offer a multitude of saver engagement tools, with financial education, at retirement guidance, all as part of the product and service to differentiate themselves from the competition. Another may provide the bare minimum, targeting a different type of client/employer. The former charges may be higher, but they can still represent VFM because the saver is getting much more for their money.

It's better to define a basic model for services other than investment, administration, and governance and ask what each provider would charge in this instance.

16. Do you agree with our proposed approach to converting combination charging structures to annual percentage charges? Why or why not? If not, what alternative would you suggest?

This approach is necessary for understanding the overall cost and benefits, but it's important to ensure the metrics are constructed to provide a broader understanding of the value being offered.

18. Do you agree with the proposed approach to multiemployer cohorts? Why or why not? If not, what alternative would you suggest?

This approach may impose challenges for providers and doesn't necessarily allow for a fair comparison of different pension schemes.

Quality of services

19. **Do you agree with the proposals on scope? If not, what alternative approach would you suggest?**

Measuring service quality is challenging, but we agree qualitative measures focusing on saver outcomes are essential indicators of service quality.

It's important to note the clear distinction between the quality of the saver experience and the quality of the product itself. This distinction isn't always apparent in the proposals, and ensuring the framework addresses both aspects in a structured manner is crucial.

Quality of perceived experience might relate more to how quickly the helpdesk answers a call or the administration team processes a transaction or deals with a complaint. The quality of the product itself has more to do with the ability of the product to support good decision-making, appropriate choices at retirement, provision of a sustainable and adequate income and the minimisation of poor decision-making concerning matters such as tax and product.

SLAs, transaction speed and efficiency, and customer service levels are all important. The trust gained through strong customer service leads to engagement and a better chance of good decision making.

20. **Do you agree with the five proposed indicators of service quality? If not, what alternatives would you suggest, with metrics?**

We support the five areas of focus. However, we believe the individual metrics within these areas require further consideration and refinement, and we're pleased to outline specific feedback under Q. 21. We suggest more focus is given to the savers' service experience on the telephone - a key indicator often cited as a point of customer frustration in other industries and customer satisfaction studies. Comparable call metrics, e.g. average wait times or call abandonment rates, can be helpful.

Considering the question as to whether or not there are other metrics, we could look at different ways to track outcomes. Lagging indicators are the most useful metric for measuring outcomes, but tracking lagging indicators for pension products is incredibly challenging, as stated in the framework document. We can, however, create much more focused leading indicators of good saver outcomes. We can track behaviours which are much closer to good outcomes. Statistical evidence shows savers tend to draw money out too readily and too soon, and when they do set up an income, they often draw too heavily, resulting in funds being exhausted too quickly. Savers tend to make isolated decisions, keeping their pension pots fragmented.

We know savers interact little with their pension pots. They don't think about when they want to draw an income, as selected retirement ages are rarely reviewed. Very few savers think about who their money would go to in the event of death before retirement, with less than 15% of savers making a death benefit nomination on their policies.

When setting meaningful communication metrics, consideration of the following objectives should be made:

- Those putting more money into their pension should result in a larger pot
- Those setting up a realistic income stream (like a drawdown policy, for example) rather than cashing out are less likely to run out of income in retirement
- Those who think about when they want to draw an income (their Selected Retirement Age) and then align their investment strategy, are less likely to see an unexpected drop in their pension fund due to market volatility at the crucial point when they want to fix their income levels
- Those who manage their pension arrangements as a cohesive and consolidated plan rather than a disparate collection of legacy pots

While these considerations around metrics are still leading indicators, rather than lagging indicators, they are much more specific and linked directly to measurable behaviours – they're not simply a list of product features. It would also provide a set of measures which would allow comparison of one product objectively against another without relying solely on charges and investment performance. Precise and uniform definitions of administration measures and these services alongside communication would be beneficial.

21. For each of the five proposed indicators, do you agree with the proposed metrics for measuring these? If not, what metrics would you suggest? We would particularly welcome views on these metrics

There should be far fewer metrics with a narrower focus. There's no standard methodology for aggregating the different metrics into an overarching score (which we accept would be both difficult and contentious), and there are too many data points to enable even an informed reader to reach an opinion of the quality of the savers' overall service experience. We also suggest many of the metrics are 'input' rather than 'outcome' focused. For example, understanding transaction volumes or SLAs doesn't help in understanding the service experience (whereas the average timeline for delivery does). We accept some metrics have inherent value from a regulatory perspective but aren't sufficiently outcome-focused to help form an opinion on the saver's service experience.

Savers can be confident transactions are secure, prompt, and accurate

The proposal talks about the quality of common data and scheme-specific data. The self-reporting measures are open to interpretation concerning the completeness and comprehensiveness of data. There's virtually no definition of scheme-specific data making it entirely open to interpretation. Under the definition of scheme-specific data, a scheme should hold details of a saver's salary, the definition of pensionable pay, contribution rates and payment method (e.g. salary sacrifice).

The key financial transactions are good indicators of the scheme's efficiency. While most large providers will have SLAs in place for these functions, some smaller schemes may struggle significantly to provide this information in the required format due to systems limitations, making it expensive to comply with.

Also, while prompt financial transactions are desirable, the long-term impact on saver outcomes of the timeframe for transferring between accounts is arguably financially negligible. Efficient interactions build trust with savers, leading to better engagement and more informed choices.

The speed of payments to beneficiaries is a significant measure and should be tracked.

Savers are satisfied with the service they receive

Most of the larger pension providers will already track these data points and have SLAs in place. However, defining some of the measures can be difficult. For example, with complaints, there can be a large variance in how different schemes, providers and regulatory regimes define what is deemed to be a complaint, along with terms like *resolution* and *end-to-end*.

Savers are supported to make plans and decisions for their retirement

While we support the intentions outlined in sections 7.41 and 7.42, the question is too broad and access to support services aiding good decision-making is vital to delivering good outcomes.

Tracking usage of decision-making support is welcomed. However, this is likely to be more meaningful if this were to be linked to critical points in a saver's financial journey. For example, joining a scheme, changing jobs, receiving a pay rise, preparing for retirement, reaching 55 and drawing a retirement income.

It's also worth noting the pool of data will be primarily tilted to those engaging online. The support given through call centres is overlooked here. Many providers offer robust helpdesk services following strict processes—for example, pension transfers, pre-retirement, flexible access drawdown, and investment switching. The support a saver receives over a telephone call may be just as, if not more, valuable than that available online.

Savers can amend their pension with ease

While the metrics set out under section 7.44 are useful, there's a risk the results obtained could be misconstrued. Savers may review their contributions but not do anything about them.

The review envisaged by the framework must be a positive step, not merely interpreted from other actions. Misalignment of investment decumulation strategies with actual vesting dates presents a significant risk to good saver outcomes.

Savers are supported to engage with their pension

In section 7.48, many of these statistics form part of stewardship reporting. In addition, tracking online usage stats of key decision-making tools and functions, such as usage of pension modeller tools, access to information hubs, calculators, and drawdown calculators should be monitored at the Trustee and IGC levels.

22. Do you agree with our proposal to include a non-employer related email address and phone number when defining common data? If you don't agree, please explain why not.

These are helpful metrics to include when defining common data. These data points become especially important following a change of employment/leaving the pension scheme where contact via the employer is no longer possible. Administrators might obtain this information while a saver is employed, but the key outcome is the percentage of deferred/pensioner savers where the data is present/accurate.

23. Do you agree with our proposals for an event-based member satisfaction survey? We would particularly welcome feedback on the trigger events and proposed questions.

The proposed events and activities are appropriate. However, 'using the online account' should be included as an additional trigger event. More thought should be given to the process/questions and how they might be applied in practice. There's a weight of acknowledged best practice in satisfaction surveying and the possibility of introducing 'noise' in reported results unless there's enough consistency in the application of the surveying process, for example, in the selection of savers to be surveyed, timing and sequencing of questions.

Having a series of similar questions for each activity, which may provoke different responses from any single saver, has the potential to be confusing. A single leading question appropriate to the activity and score on a consistent scale should be used.

Future developments

45. How do you think the use of data will evolve and what other measures may be needed?

Work needs to be undertaken to simplify the framework and the number of data items/measures to make them more user-friendly.

This doesn't mean the measures themselves should be discarded, but schemes and arrangements should look to build more of them into their internal governance processes. Regulators would then receive a higher-level, more concise set of data points which are more meaningful to outcomes rather than saver experiences.

As providers look to cover a range of savers' retirement needs, the framework could expand to cover additional products, such as add-on savings vehicles.

46. We invite views on the roll out, evolution and future phases of the framework, over what time periods, and on the correct sequencing of these developments.

The VFM framework should only be rolled out once there's an industry consensus on its requirements. It should start with simple statistical evidence, on which 10-12 key data points can be reported and which can be built into the reporting desired by the regulators.

Phasing the rollout, starting with the largest providers/schemes/master trusts covering the largest proportion of savers, should be required before rolling it out more widely. Once the initial framework is up and running, the data points measured could be reviewed to ensure they are effective.

While the proposed VFM framework has commendable intentions, it is currently disproportionately burdensome, even for well-managed schemes.

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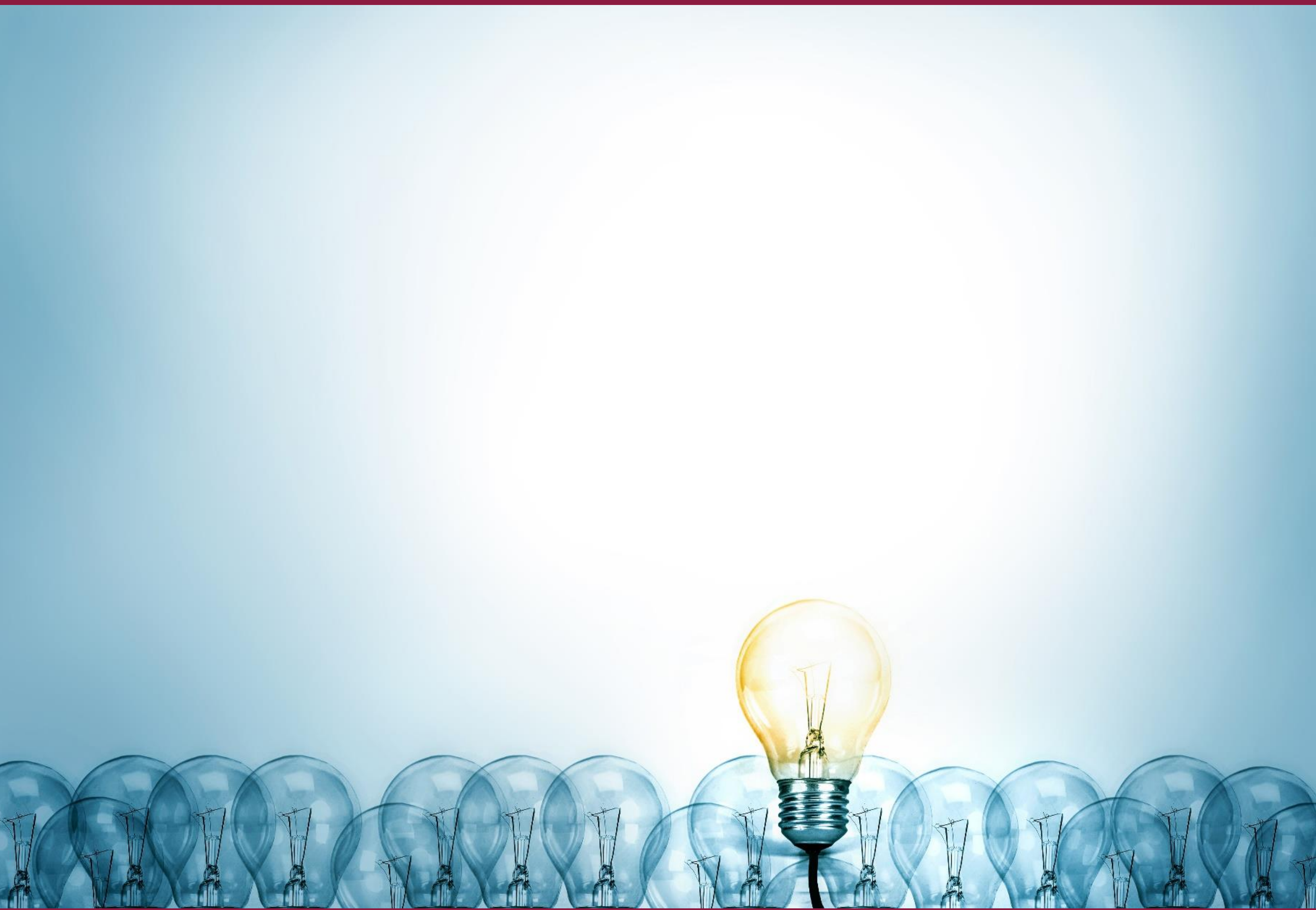

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