Department for Work & Pensions

Completing the annual Value for Members assessment and Reporting Investment Returns:

Guidance for trustees of relevant occupational defined contribution pension schemes

October 2021

Background

About this Guidance

1. From 05 October 2021[1] the Occupational Pension Schemes (Administration, Investment, Charges and Governance) (Amendment) Regulations 2021 ("the 2021 Regulations") introduced an additional requirement for trustees of 'relevant'[2] occupational pension schemes with under £100 million of assets which have been operating for three or more years ('specified schemes'[3]).
2. Trustees of specified schemes must carry out a holistic assessment of how their scheme delivers value for members. The outcome of this assessment must be reported in the annual chair's statement and include consideration of reported costs and charges, fund performance (investment returns) and other measures of scheme governance and administration.
3. This change enhances the existing requirement for specified schemes to assess the extent to which costs and charges represent good value for pension scheme members. Relevant schemes that are not specified schemes must continue to conduct a value for member's assessment of their charges and transaction costs, but are not required to adhere to the new requirements.
4. The 2021 Regulations also require all relevant pension schemes, regardless of asset size, to report on their investment returns in the annual chair's statement.
5. These new duties introduced by the 2021 Regulations require trustees and managers to have regard to guidance issued from time to time by the Secretary of State for the Department of Work and Pensions.
6. This guidance, in tandem with the Regulations, will assist trustees of 'specified schemes' in determining what factors should be considered as part of the new value for members assessment. It will also provide guidance to such trustees on how they might carry out a relative assessment against three alternative schemes. This assessment will support trustees in determining whether it is in scheme members' interests to wind up the scheme and consolidate into a larger pension scheme that may provide better value.

---

[1] The new requirement will apply in relation to a scheme from the day after the last day of the first scheme year which ends after 5 October 2021

[2] A 'relevant scheme' as defined by Regulation 1(2) of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 http://www.legislation.gov.uk/uksi/1996/1715/regulation/1.
This definition covers most money purchase pension schemes and excludes defined benefit schemes.

[3] 'Specified scheme' is defined by new regulation 25(1D) of the Occupational Pension Schemes (Scheme Administration) Regulations 1996, inserted by regulation 2(3)(b) of the 2021 Regulations.

7. The guidance also assists all relevant pension schemes, regardless of asset size, in reporting their net investment returns.

8. The 2021 Regulations require trustees to assess the value for members offered by the quality of their governance and administration in addition to the costs, charges and net returns. The 2021 Regulations do not themselves set new specific requirements for administration and governance, apart from the new duty to report net investment returns.

9. A range of legislation[4] imposes duties on trustees in relation to scheme administration and governance and trustees must ensure they are familiar with these duties. Trustees should refer to TPR's codes of practice and guidance on the standards expected when complying with these legal duties and seek their own legal advice.

10. This guide does not provide an exhaustive definition of value for members. It sets out what trustees and managers must have regard to, as a minimum, when carrying out a value for members assessment.

11. It is up to trustees and managers of occupational pension schemes to decide how, in conjunction with their existing legal obligations and having regard to the elements described in this guidance, to implement the requirements of the 2021 Regulations.

Expiry or review date

12. This guidance will be reviewed as a minimum every three years, from the date of first publication, and updated when necessary.

13. When the guidance is reviewed, established and emerging good practice and user testing may be included.

Who is this guidance for?

14. This guidance is for trustees and managers of all 'relevant' occupational pension schemes regardless of size, who are required to comply with regulation 23(1)(aa) of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations"), with regard to the reporting of past investment performance (net returns). Pages 6 to 10 of this guidance are of relevance.

15. For completion of the new value for members assessment this guidance is targeted at trustees and managers of 'specified schemes' who are

---

[4] Such legislation includes – but is not limited to - the Pensions Act 1995, the Occupational Pension Schemes (Scheme Administration) Regulations 1996, the Occupational Pension Schemes (Investment) Regulations 2005, the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and the Occupational Pension Schemes (Governance) (Amendment) Regulations 2018. This is not an exhaustive list.

required to comply with regulation 25(1A) of the Administration Regulations.

16. Trustees of larger schemes with total assets greater than £100m must continue to assess how the costs and charges of their scheme generally present value for members in their chair's statement, in accordance with regulation 23(1)(c)(iv) of the Administration Regulations.

17. Trustees of those larger schemes are not required to have regard to the sections of this guidance that refer to assessing value for members. Trustees of larger schemes may however find it useful and good practice to do so when assessing the extent to which the costs and charges of their scheme present value for members

18. None of the requirements in the 2021 Regulations or this guidance apply to:

- pension schemes where the only money purchase benefits offered arise from Additional Voluntary Contributions (AVCs).
- 'relevant small' pension schemes.[5]
- executive pension schemes.
- public service pension schemes, as defined by section 318 of the Pensions Act 2004.

Legal status of this guidance

19. This statutory guidance is produced under the powers in:

- Paragraph 2(2)(b) of Schedule 18 to the Pensions Act 2014,
- Section 113 (2A) of the Pension Schemes Act 1993.

20. Trustees and managers must have regard to this guidance when complying with their obligations under regulations 23(1)(aa) and 25(1A) of the Administration Regulations, as amended by the 2021 Regulations.

Compliance with this guidance

21. TPR regulates legislative compliance for all occupational pension schemes and publishes guidance on the roles of employers, trustees and scheme managers. Neither the Government nor TPR can provide a definitive interpretation of legislation, which is a matter for the courts.

22. Where trustees do not comply with a relevant legislative requirement TPR can take enforcement action depending on the nature of the breach. This could include a financial penalty.

---

[5] Definition of 'relevant small' schemes is found in regulation 1 (2ZB) of the Administration Regulations https://www.legislation.gov.uk/uksi/1996/1715/regulation/1

23. Enforcement of Part V of the Administration Regulations, including the production and content of the chair's statement, is provided for in Part 4 of the Occupational Pension Schemes (Charges and Governance) Regulations 2015[6].

Reporting investment returns

For: all relevant DC schemes

24. Trustees must report the past net investment returns in their chair's statement. This will provide greater transparency, and will assist the trustees of specified schemes when comparing the value for members they achieve.

25. The guidance below is designed to assist trustees in reporting on net investment returns for past years. For illustration only, we suggest how information could be displayed for different member age cohorts and different charging structures.

Investments for which returns should be shown

26. Legislation requires the disclosure of net investment returns for all default arrangements, and for funds which scheme members are, or have been able to, select, and in which scheme members are currently invested.

Clarification of net returns

27. Net investment returns refers to the returns on funds minus all costs and charges.

Reporting period

28. It is an annual requirement for trustees of all relevant schemes, regardless of size, to report on investment returns in their chair's statement. As a minimum, it is recommended that net investment returns from April 2015 or the start date of the pension scheme, if later, should be reported.

29. Where data is available, trustees should report on returns for longer periods. We recommend that pension schemes should start with multiples of 5 year intervals, with an additional disclosure where returns are only available for part of a 5 year interval.

30. Please refer to the tables which illustrate how returns could be reported.

31. Regardless of the time series available, returns should be shown from April 2015 as a minimum (or the start of the pension scheme if the scheme started later) to aid comparison.

[6] http://www.legislation.gov.uk/uksi/2015/879/part/4

Composition of returns

32. We expect returns to be shown as an annual geometric average - the annual net return which, when compounded over time, delivered the return shown.

Consideration of savings profile

33. For illustrative purposes we expect returns to be shown for a £10,000 lump sum investment at the start of the reporting period, with no subsequent contributions.

Investments where net returns vary with scheme member age or with employer

34. For an arrangement where the net returns vary with age – for example a target date fund, lifestyle arrangement or an arrangement with some other kind of de-risking – trustees should show age specific results for savers aged 25, 35, 45, 55, 65 in 2015. It is not expected that trustees will show age specific results for savers aged under 25 or over 65.

35. For an arrangement where the net returns vary with employer – for example, because employees of different employers are charged different amounts for the same funds – pension schemes should present net returns in such a way that each scheme member is able to identify the returns they have received or would have received, were they to have the savings profile and age suggested above.

Example presentations of data

Example 1: Arrangement with no age-related returns – same charge levied on all savers

Annualised Returns (%)				
[if available]			*[expected]*	
20 years (2001-2021)	15 years (2006-2021)	10 years (2011-2021)	6 years (2015-2021)	5 years (2016-2021)
x.y %	x.y %	x.y %	x.y %	x.y %

Example 2: Arrangement with no age-related returns – same charge levied on all savers

Age of member in 2021 (years)	Annualised Returns (%)				
	[if available]			*[expected]*	
	20 years (2001-2021)	15 years (2006-2021)	10 years (2011-2021)	6 years (2015-2021)	5 years (2016-2021)
25	x.y %	x.y %	x.y %	x.y %	x.y %
35	x.y %	x.y%	x.y%	x.y %	x.y %
45	x.y%	x.y%	x.y%	x.y %	x.y%

55	x.y%	x.y%	x.y%	x.y %	x.y%
65	x.y%	x.y%	x.y%	x.y %	x.y%

Example 3: Arrangement with age related returns and returns which vary by employer

In this example, the scheme applies different charges to different employers, meaning that returns may vary between employees. Trustees do not need to produce multiple tables of returns but can instead provide additional information for each group of employers. The example below shows a scheme with four groups of employers who are charged differently:

Table shows employees in Group A.

Employees in Group B: add 0.05% to returns
Employees in Group C: add 0.15%
Employees in Group D: add 0.20%

Age of member in 2021 (years)	Annualised Returns (%)				
	[if available]			*[expected]*	
	20 years (2001-2021)	15 years (2006-2021)	10 years (2011-2021)	6 years (2015-2021)	5 years (2016-2021)
25	x.y %	x.y %	x.y %	x.y %	x.y %
35	x.y %	x.y%	x.y%	x.y %	x.y %
45	x.y%	x.y%	x.y%	x.y %	x.y%
55	x.y%	x.y%	x.y%	x.y %	x.y%
65	x.y%	x.y%	x.y%	x.y %	x.y%

Subsequent updating of returns data

36. Subsequent years' data should be added and the average return recalculated. There is no need to remove data from earlier years, as longer time series allow for more reliable comparison. Example 2 is amended below for reporting in 2022.

Age of member in 2022 (years)	Annualised Returns (%)				
	[if available]			*[expected]*	
	21 years (2001-2022)	16 years (2006-2022)	11 years (2011-2022)	7 years (2015-2022)	5 years (2017-2022)
25	x.y %	x.y %	x.y %	x.y %	x.y %
35	x.y %	x.y%	x.y%	x.y %	x.y %
45	x.y%	x.y%	x.y%	x.y %	x.y%
55	x.y%	x.y%	x.y%	x.y %	x.y%
65	x.y%	x.y%	x.y%	x.y %	x.y%

Longer term updating of data

37. Over the longer term, new cohorts can be added and older ones removed. Example 2 is again amended below for reporting in 2031.

Age of member in 2031 (years)	Annualised Returns (%)				
	[if available]			*[expected]*	
	16 years (2015-2031)	15 years (2016-2031)	10 years (2021-2031)	6 years (2015-2021)	5 years (2016-2031)
25	x.y %	x.y %	x.y %	x.y %	x.y %
35	x.y %	x.y%	x.y%	x.y %	x.y %
45	x.y%	x.y%	x.y%	x.y %	x.y%
55	x.y%	x.y%	x.y%	x.y %	x.y%
65	x.y%	x.y%	x.y%	x.y %	x.y%

The value for members assessment

For: specified schemes only

A. Factors to take into account

38. When carrying out the value for members assessment, trustees must consider three factors:

- Costs and Charges.
- Net investment returns
- Administration and Governance

39. Costs and charges and net investment returns must be assessed relatively, based on comparison with other pension schemes, having due regard to this guidance.

40. Administration and Governance is assessed on an absolute basis within the pension scheme itself, having due regard to this guidance.

Who should trustees compare themselves against for the relative assessment?

41. For the purposes of the assessing costs and charges and net investment returns as part of the value for members assessment, each specified pension scheme must compare itself with three "comparison schemes". [7]

42. We expect trustees to have a clear rationale for the schemes they have chosen as comparators. The comparators should include a scheme that is different in structure to their own, where possible. For example, bundled corporate pension schemes should look at an unbundled example, and

[7] The requirements that must be met by a "Comparison scheme" are set out in new regulation 25 (1C) of the Administration Regulations as amended by the 2021 Regulations as:-
i) an occupational pension scheme which on the relevant date held assets equal to or greater than £100 million; or
ii) a personal pension scheme, which is not an investment-regulated pension scheme within the meaning of paragraph 1 of Schedule 29A to the Finance Act 2004.
The trustees must believe, on reasonable grounds, that one of the three comparison schemes would be prepared to accept a transfer of members of the specified scheme if the specified scheme is wound up.

pension schemes not used for Automatic Enrolment should not limit their comparison to other such schemes.

43. Trustees of pension schemes in which employers subsidise charges should take this benefit into account when comparing charges with other schemes.

44. Trustees of pension schemes with combination charge structures[8] should use their scheme's demographic profile to identify an approximate per member average reduction in yield, and use this for the basis of their comparison of net returns and charges with those available from other pension schemes.

Factor 1: Costs and Charges

45. Relevant pension schemes are already required to report charges and transaction costs, and the government has produced guidance to clarify how they may do so. [9] For the purposes of the value for members assessment, however, trustees could choose to report in a simple form similar to the below.

	Charges	Transaction costs	Total
Default A			
Default B			
Self-select 1			
Self-select 2			
Self-select 3			
Self-select 4			

46. Where charges and transaction costs vary by age, we suggest that charges and costs are shown for a number of ages, for example at 10 year intervals.[10]

Sources of comparison data

47. As with investment performance, trustees should be able to compare their charges and transaction costs against other relevant pension schemes, using the disclosures which those other pension schemes are required to publish.

48. Trustees may also use data from their advisers, dedicated service providers, or other published reports such as the Department for Work and

[8] A combination charge structure includes a percentage funds under management charge and one other charge, either a flat annual fee which is levied irrespective of the value of the member's pension pot, or a percentage charge on each contribution. Members of such schemes face a different percentage charge, and therefore a different net return, depending – for example - on the size of their pension pot and their level of contributions.
[9] "Reporting on costs, charges and other information: Guidance for trustees and managers of occupational schemes" is under revision, a draft is being consulted on at the same time as this draft statutory guidance
[10] See paragraphs 42-44 of chapter 1 of Disclosure of costs, charges and investments in DC occupational pensions: Government response

Pensions DC Pension Charges Survey, and those which are published by commercial organisations.

What should be compared

49. Trustees should compare the most recent scheme year's total charges and transaction costs for their own funds with those of their chosen comparison pension schemes.

50. Where charges and transaction costs are unusually high for the most recent pension scheme year for a reason which is unlikely to be repeated, trustees may use an average of the last 5 years. Where data is available for fewer than 5 years, an average of total charges and transaction costs over the years for which data is available may also be used.

51. Trustees should compare costs of their own default arrangement against other schemes' default arrangements, even though the investment strategy may not be identical.

52. Trustees should compare the total most recent charges and transaction costs for their popular self-select funds with the nearest comparable funds in other pension schemes. Where the trustees provide popular non-default "legacy funds" such as with-profits, and the comparison pension scheme does not offer comparable funds, these legacy funds should be compared with default arrangements [see paragraph 111 of this guidance].

53. The total charges and transaction costs in default arrangements should be given most weight, and significantly more weight than self-select funds. Trustees should not give weight to funds in which only a small proportion of members are invested.

When the charges represent good value for members

54. If – giving greater weight to the charges and costs relating to the default arrangement– a majority of the total of charges and transaction costs across popular funds are closely comparable with or lower than the average for comparator pension schemes, then it would be reasonable to assume that the scheme as a whole represents good value for members from the standpoint of costs and charges.

55. Where, however, again giving greater weight to defaults, a majority of the funds under consideration have higher total charges and transaction costs than the average for comparator pension schemes, and there are not mitigating circumstances, e.g. higher average performance, then it would be reasonable to assume that the pension scheme as a whole represents poor value for members from a costs and charges perspective.

56. If higher charges are justified by higher, not just broadly comparable, returns, then pension schemes can be reported as good value from a costs and charges perspective.

Factor 2. Investment Returns (Fund Performance)

57. Trustees are expected to focus on the returns achieved rather than solely on costs.

58. While past performance is not necessarily an indicator of future performance, sustained long-term underperformance of investments will be a key driver of poor value for members. When looking at investment returns, the focus should be on the long term performance rather than on how successful returns have been within the past year. Short-term periods of good or poor performance may not be sustained.

Sources of comparison data

59. Trustees of relevant pension schemes should be able to compare their net returns against those contained in the disclosures of other relevant pension schemes that are required by the amendments introduced in the 2021 Regulations.

60. As these requirements begin to come into force, there will be some pension schemes that need to make comparisons without access to equivalent disclosures from other pension schemes. For this first assessment they may ask advisers or dedicated service providers for data from other pension schemes they advise. Alternatively, they can use commercially published sources of data.

61. Trustees may wish to continue to supplement published statutory disclosures as a data source with sources of intelligence on net returns.

What should be compared

62. Trustees should compare returns of their own **default** arrangements with other pension schemes' default arrangements – it is not necessary for the default arrangements to have a similar asset allocation.

63. Trustees should compare returns for **self-select** funds with the nearest comparable funds in other pension schemes. Where the trustees provide "legacy funds" such as with profits, and the compared pension scheme does not offer comparable funds, these should be compared with default arrangements [see "How to value legacy funds" in paragraph 111].

64. The returns in default arrangements should be given more weight than self-select funds. Trustees should not give weight to funds in which only a small proportion of members are invested.

65. Trustees should compare net performance over all of the time ranges for which broadly comparable data can be found. Broadly equal weight should be given to each period (say, 5, 10 and 15 years) over which data can be compared.

When the performance is good value for members

66. If a majority of net return figures for a pension fund in which the scheme members are frequently invested are closely comparable with or better than the average for comparator funds, then it would be reasonable to deduce that the fund represents good value for members from the standpoint of investment returns for that fund.

67. If – giving greater weight to the defaults – this is repeated across a majority of other funds offered by the pension scheme in which members' funds are frequently invested, then it would be reasonable to deduce that the pension scheme as a whole represents good value for members from an **investment returns** perspective.

68. Where a clear majority of net performance figures for a particular fund are worse than the average for comparator funds, this is an indicator that the fund represents poor value for members. If this is repeated across a majority of funds in which members are frequently invested, again giving greater weight to the defaults – and there is not a clear strategic choice that explains this outcome – then it would be reasonable to deduce that the scheme as a whole represents poor value for members from an investment performance perspective.

Factor 3. Governance and Administration

69. Effective scheme governance is essential for the operational and financial sustainability of pension schemes, for good outcomes from investment, and for the trust and confidence of scheme members.

70. Trustees must assess the value delivered by their governance and administration offering as part of their assessment of value for members, together with costs and net returns.

71. Where functions or tasks have been delegated to third party administrators or other suppliers, trustees should remember that the responsibility for those functions remains with the trustees. Trustees must ensure that the performance of their scheme administrator and all other providers of key functions to the scheme are closely and regularly monitored.

72. For the value for members assessment, legislation sets out seven key metrics of Administration and Governance that must be considered and assessed:

I) Promptness and accuracy of core financial transactions

73. Delays or inaccuracies in processing financial transactions, and the work to reconcile and rectify errors significantly impact on the value members receive. Trustees should have effective processes in place to control such risks and these should be reviewed regularly.

74. Core financial transactions must be processed promptly and accurately.[11] Transactions that are not processed promptly not only affect scheme member satisfaction, but can also affect scheme members' net returns due to out-of-market risks. Trustees should also remember that there are legal requirements to complete certain tasks and transactions within maximum timescales.

75. Identifying, reconciling and rectifying errors is a cost and resource intensive exercise. The quality of member records and scheme data has a significant impact on accuracy.

76. The promptness and accuracy of the following four core financial transactions should be considered by trustees of specified schemes as part of their value for members assessment. (General guidance on effective processing of core transactions may be found on TPR's website[12]) :-

    A. Payment in and investment of member and employer contributions
    B. Transfers between schemes
    C. Transfers and switches between investments within a scheme
    D. Payments out of the scheme to beneficiaries

77. Trustees should assess the proportion of member transactions that have been completed accurately and within required timeframes set in legislation and according to any service level agreements (SLA) set within the scheme. This should help to determine whether they are achieving good value for members under this measure. Trustees could also examine the level of member/beneficiary complaints in determining whether the scheme delivers value for members in terms of promptness and accuracy.

II) Quality of Record Keeping

78. Reliable, accurate and secure data is essential to delivering value for scheme members, particularly where employment patterns are becoming increasingly disjointed and unpredictable.

a) Security of Data

---

[11] http://www.legislation.gov.uk/uksi/1996/1715/regulation/24

[12] https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-13-governance-and-administration-of-occupational-trust-based-schemes-providing-money-purchase#576da7373de042e3a115a0f09c800fd9

79. Trustees should have controls in place to ensure that scheme members' data is secure and complies with the requirements of the Data Protection Act 2018.

80. Data security is a key part of trustee governance and should feature prominently in the scheme's risk register and risk planning. This is particularly important when considering business continuity mitigations and how the scheme can continue to operate securely if, for example, key personnel are unavailable. Trustees should assess the robustness of the controls they have in place. Trustees should also consider whether they have effective controls in place to deal with data security and cyber risk.

81. Where record keeping is outsourced trustees should look at the effectiveness of data security controls put in place by their outsourced provider.

b) <u>Accuracy and scope of records/data kept</u>

82. It is essential that accurate scheme data and member records are kept. Smaller schemes with legacy records may find it particularly challenging to demonstrate value for money in terms of data accuracy.

83. Trustees should check that they are holding all the data that they are required to hold by law including, for example, books and records relating to trustee meetings and certain transactions. [13] [14].

84. Trustees could assess the quality and accuracy of their *common* data (member's personal data and membership status) and *scheme specific* data (financial data and options exercised). Guidance on what common and specific data should be held can be found on TPR's website[15].

85. Questions that trustees should ask when assessing the quality of all their data include:-

Is the data up to date?

Is there any data missing?

Are there systems in place to monitor and update data regularly – e.g. members' addresses and members' fund choices?

Is it clear who is responsible for maintaining, monitoring and updating the data?

Are validation checks and reports being run regularly?

---

[13] Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715) – regulations 12-15

[14] Section 49 of the Pensions Act 1995 : Receipts, Payments and Records

[15] https://www.thepensionsregulator.gov.uk/en/trustees/managing-db-benefits/governance-and-administration/record-keeping/what-records-to-keep

86. TPR requires schemes to report their data scores for common and scheme specific data in their annual scheme return. Trustees may wish to consider using the level of these scores as a guide to determining how well they are delivering value to their members in relation to accuracy and scope of their data.

c) Review of Data

87. A review of scheme member records should be undertaken regularly. TPR advises that this should be at least once per year. Trustees should complete such a review in advance of each annual value for members assessment. Regularly reviewing the quality of record keeping is essential for maintaining good standards, and is a key component of delivering value for members in this area.

88. Trustees should collectively consider the security, accuracy and fullness and quality of their data review to determine whether they are providing value for members in the area of record keeping

III) Appropriateness of the default investment strategy

89. The quality of decision-making and governance of the scheme's investment strategy is a crucial part of the value delivered by the scheme.

90. Legislation requires the chair of trustees to include a copy of the most recent statement of investment principles for the default arrangement in the annual chair's statement, and to give details of any review of the default strategy and the performance of the default arrangement taken during the year.[16]

91. In order to assess the value for members delivered by the default strategy, trustees should assess the extent to which the following apply to their default arrangement, and explain how these positions have been achieved:

a) The investment strategy is clear, is appropriate for each stage of the member journey, and is consistently followed in accordance with strategy objectives;

b) The value added from portfolio construction, asset allocation and manager selection is assessed when the investment strategy is reviewed;

c) The risk and return in the investment strategy is properly considered and is suitable for the objectives of the scheme;

[16] http://www.legislation.gov.uk/uksi/1996/1715/regulation/23

d) The policies on ESG and climate considerations are not generic, but reflect the particular circumstances of the scheme and its members.

IV) Quality of Investment Governance

92. Trustees retain responsibility for securing the proper management of the scheme's assets, and good scheme investment governance is crucial. Expert and robust investment governance comes to the forefront particularly during economic shocks that affect the value of pension assets.

When assessing value for members in this area, trustees should consider the following measures of good investment governance :-

a) Documented and robust investment governance procedures are in place and adhered to. In schemes where there is more than one trustee, there is a clear investment governance structure in place and each member within that structure is clear about their role and level of authority in decision making;

b) Where tasks and decisions in relation to investment are delegated, those individuals have the required knowledge and expertise to perform their role competently in accordance with section 36 of the Pensions Act 1995[17] and are being held to account;

c) Trustees can demonstrate that where fiduciary managers and investment managers are used, trustees remain actively engaged with such managers when investment decisions are made;

d) The trustee board as a whole has the knowledge and competence to oversee investment effectively, they ensure investment objectives and strategies are understood and followed, and are able to challenge investment advice where necessary;

e) Reviews of how funds are performing against those objectives and reviews of portfolios are being carried out regularly;

f) Trustees recognise the role of trustees in asset allocation, setting investment strategy and the selection, monitoring and retention of managers;

g) Trustees have risk management and continuity plans in place to deal with economic crises and market volatility, and clear governance structures in place in relation to long term financial sustainability of investments;

[17] http://www.legislation.gov.uk/ukpga/1995/26/section/36/enacted

h) Trustees have good oversight of the communication strategies used to keep members informed about their investment options.

93. Trustees should consider all of the points above when assessing whether they can demonstrate value for members in this area.

V) Level of trustee knowledge, understanding and skills to operate the pension scheme effectively

94. The knowledge, understanding and skills held across the trustee board as a whole greatly affects the member experience and outcomes.

95. Sections 247 to 249 of the Pensions Act 2004[18] set out the legislative requirements that trustees of occupational pension schemes must meet in terms of understanding trust deeds/rules, investment and funding principles and pensions law and trusts. TPR also provides comprehensive guidance on trustee knowledge and understanding and scheme management skills[19].

96. When assessing the value for members delivered by their scheme, trustees should assess and explain how well they have performed against these requirements.

97. In addition, trustees should look at the following elements :-

Whether sufficient time is spent running the scheme

Diversity of trustee board in terms of background, experience and skills

Quality of leadership and effectiveness of board decision making

Trustee Continuous Learning and Development

Quality of working relationships with employer/third parties

VI) Quality of communication with scheme members

98. The Disclosure Regulations set out the type of information that must be communicated to scheme members by trustees as a minimum.[20]

---

[18] http://www.legislation.gov.uk/ukpga/2004/35/part/5/crossheading/obligations-of-trustees-of-occupational-pension-schemes

[19] https://www.thepensionsregulator.gov.uk/en/document-library/regulatory-guidance/trustee-knowledge-and-understanding

[20] http://www.legislation.gov.uk/uksi/2013/2734/part/2

99. In addition to their statutory obligations, the following points should be considered by trustees as part of an assessment of the quality of communications with scheme members:

i) Information should be given to scheme members in an accurate, clear and concise way which is easy for them to understand. How well this is done could be assessed by feedback from scheme members, including the number of complaints about quality and quantity of information received

ii) Scheme members' individual preferences for mode of communication should be acknowledged and technology and digital platforms used as appropriate.

iii) The quality and timeliness of information in the following areas:-

- Information and guidance in relation to the rights to transfer to another scheme
- The quality of guidance on spotting potential scams
- Information to help with decision making on investment options
- Information in the retirement wake up pack
- General signposting of members to various guidance bodies

To have demonstrated good value in this area we expect trustees to have concluded that they've met their statutory obligations, as well as explaining how they have met the expectations in points (i) to (iii) above.

VII) Effectiveness of management of conflicts of interest

100. Conflicts of interest may arise either among trustees, between trustees and the employer or scheme provider, or with service providers and advisers.

101. The pension scheme should therefore have:

i) a robust policy and written procedures in place that identify, manage and monitor conflicts of interest effectively, which is regularly reviewed

ii) controls in place to ensure that all trustees are aware of the requirement to declare and discuss any potential conflicts

iii) a conflicts of interest register in place to record and declare interests that is discussed at every Board meeting

iv). controls in place to ensure that all conflicts of interest are declared upon appointment of trustees and other service providers

102. We would expect trustees to have all four of points (i) to (iv) in place to demonstrate they have achieved value for members in their management of conflicts of interest.

Does the scheme governance and administration overall provide value for scheme members?

103. Having considered all seven metrics within the theme of administration and governance trustees should decide if overall the administration and governance of the scheme provides good value for scheme members.

104. We would expect all of the metrics for administration and governance to be satisfied for a pension scheme to be able to demonstrate satisfactory value for members. In the event that one or more of the metrics are not successfully met then trustees should seriously consider the impact of this on the overall quality of administration and governance and the quality of services in general that members are paying for.

Deciding the outcome of the value for members assessment – does the pension scheme provide overall value for members?

105. Trustees should be able to explain how the scheme delivers on all three overall areas of this assessment –

- costs and charges
- net investment returns
- governance and administration

106. Trustees should not give excessive weighting to costs and charges in their assessment. They should ensure that costs and charges are viewed in the context of the returns on investments and the operational and financial resilience of the scheme, as evidenced by their performance on governance and administration. A focus on driving down cost should not be at the expense of data quality or operational sustainability. Similarly, for some asset classes or investment strategies higher charges may be justified in terms of the returns achieved.

107. Pension schemes are a long-term financial product and trustees should ensure members' retirement savings are protected by an effective system of governance. Trustees who are finding governance standards challenging should consider their capacity to sustain effective operational resilience in the longer term.

108. We would expect trustees to give more weight to net returns, and to their ability to properly manage the scheme over the long term, rather than focussing solely on charges.

109. However, in cases where there is a significant difference in the costs and charges that can be achieved in the market, for example for some small schemes compared to large master trusts, we would expect trustees of smaller schemes to conclude that they are unable to deliver value for members.

How to value legacy funds

110. By “legacy funds”, this statutory guidance refers predominantly to funds with special features - typically, guaranteed annuity rates, defined benefit underpins and with-profits, whether those have a guarantee or are simply smoothed. Trustees of schemes with legacy funds should value these to determine what action to take going forward for the future of the scheme.

111. When such legacy funds are default arrangements, they should be compared with a range of other default arrangements, not just defaults with similar features. When legacy funds are self-select funds, they should be compared with similar funds in comparison pension schemes where present, or with the default arrangement if not.

112. It can be difficult for trustees to compare the value offered by these benefits with those from products currently available in the market. The market may not be able to provide such generous benefits in existing products.

113. However, trustees should not assume that benefits with such guarantees are automatically value for members. Trustees should compare the value available from modern products without guarantees, as well as, where appropriate, other guaranteed products – or the same products offered by other providers.

114. In particular, trustees of specified schemes should remember that they need to assess the value offered by their scheme in the round. Trustees should also consider their ability to provide long-term operational and financial stability for members.

115. Trustees of specified pension schemes who are considering consolidating their scheme, in common with trustees of all pension schemes considering wind up, should not assume that it will be impossible to find an alternative scheme willing to accept transferring scheme members with guarantees. Some authorised Master Trusts will accept with-profits or other funds with guarantees that are underwritten by third party insurers. The issuers of the guarantees may accept the scheme

members – sometimes via a process called “assignment” - into an individual personal pension or a ‘section 32 buyout’.

116. Trustees of pension schemes offering guarantees who wish to exit pension provision should strongly consider contacting the issuer of the guarantee and a range of authorised Master Trusts to discuss their options.

Valuing Guaranteed annuity rates

117. Guaranteed annuity rates (GARs) may offer particularly valuable rates of conversion of a pension pot into a guaranteed income stream for life. For the purposes of the value for members assessment, trustees should estimate the value of a GAR as follows:

- First, calculate the multiple by which the GAR exceeds the open-market rate for a comparable annuity. For example, a GAR of 8.00% for a level single life annuity at 65 is 50% higher than an open market GAR of 5.33%
- Second, calculate the average age of the membership who are in possession of a pension policy with a GAR (say, 55 years), and the percentage of the membership who have such a guarantee (say, 60%)
- Then calculate the annualised increased return which the average saver would need to receive to achieve an equivalent uplift to that offered by the GAR – while taking account of the proportion of the membership who are eligible for the guarantee
- For the example data above, a 4.1% annual increase in the investment return from age 55 would deliver a 50% higher pension pot by 65, when the GAR becomes available. However, as this is only available to 60% of members, the investment returns can be treated as 0.6 x 4.1 or 2.5% higher
- As the annual assessment in the chair’s statement measures the value of the scheme to members as a whole, the above illustrated assessment assesses the value of the guarantee spread across the whole of the scheme. However, as some members of a scheme may have guaranteed benefits and others may not, schemes may wish to consider the value they offer separately for each group of members.

Valuing with-profits and DB underpins

118. While a with-profits fund or a DB underpin may offer guarantees, the practical value of such a guarantee should be measurable over the long

term. Trustees should evaluate the net performance, charges and transaction costs of with profits in the same way as any other fund, but in doing so they should specifically select comparison schemes which are able to report net performance data over a long time horizon. When assessing value trustees should also consider any terminal or annual bonuses in such schemes that could be lost on transfer.

119. Note that these are processes for valuing the legacy funds for the purposes of the value for members assessment. Where trustees are seeking to transfer scheme members to another pension scheme, for example, without consent under regulation 12 of the Occupational Pension Schemes (Preservation of Benefits) Regulations 1991 [21], the safeguards set out in the regulations – as well as trustees' fiduciary duties – apply.

Reporting the outcome of the Value for Members assessment

120. The outcome of the value for members assessment and an explanation of the assessment should be reported in the annual chair's statement. The outcome should also be reported in the annual scheme return.

121. In the annual scheme return, the outcome of the previous value for members assessment should also be given, along with the date on which it was completed. The annual scheme return will also give trustees space to set out which action(s) they intend to take as a result of the value for members assessment.

122. Trustees should decide how to present the outcome of the value for members assessment in their chair's statement, considering the communication needs and preferences of the scheme membership. Pension schemes may also decide to use different approaches for particular groups of members.

123. After providing a rationale in the chair's statement to explain the various measures considered in the value for member's assessment, trustees may wish to summarise the results for members.

Action following the value for members assessment

Specified pension schemes - total assets of less than £100m

124. If, after having completed the value for members assessment the scheme is deemed not to provide value for members overall, then we expect trustees to consider winding up the scheme and consolidating members' pensions into a larger occupational pension scheme or personal

[21] The Occupational Pension Schemes (Preservation of Benefit) Regulations 1991 SI 1991/16

pension scheme[22]. If trustees do not take immediate action to wind up the scheme then in accordance with the 2021 Regulations they must explain why they are not immediately consolidating in the annual scheme return, and set out what steps they will take to ensure that the scheme delivers value for members.

125. There are of course costs involved in winding up a scheme. Sometimes the employer will agree to meet these costs. Members may also be liable for exit penalties upon leaving a scheme. Both these types of costs should *not* be considered as part of the annual value for members assessment as that is designed to assess the value of the scheme while in operation. However, when trustees are considering the best course of action after failing to demonstrate value for money then the level of wind up costs and exit penalties should then be considered.

126. We would expect the benefits of moving members to a better governed scheme with lower costs and potentially higher long term net returns to be considered very carefully, even if the wind up costs and exit penalties appear to be relatively high. Exit and wind up costs should not be an automatic barrier to winding up the scheme and consolidating.

127. If trustees strongly believe that there are only small areas of improvement required to raise scheme standards to levels that would deliver value for money, and that the resource commitment and cost of making those improvements is more favourable to members than the costs of winding up and consolidating, then that option could be explored. However, this needs to be considered very carefully in the interests of members. The improvements should ensure members enjoy a continued level of good value for members in the long term.

128. In the event of a scheme not providing value for members, trustees should not wait until they report this in the annual scheme return before taking the necessary corrective action. Depending on when the scheme year ends, completion of the annual scheme return could be some months away. Trustees should start the wind up process or start making improvements immediately, and report this to TPR when their next scheme return falls due.

129. Trustees should be aware that if the improvements identified are not made within a reasonable period then the scheme will be expected to wind up and consolidate without further delay.

Compliance - for all schemes

130. A pension scheme must comply with legislative requirements for the level of costs and charges, for example, in relation to the charge cap, and

[22] The personal pension scheme should not be an investment regulated scheme within the meaning of Paragraph 1 of Schedule 29A of the Finance Act 2004

demonstrate the standards of administration and governance required by law. If a scheme does not comply with these requirements, then TPR through its supervision and compliance monitoring, can issue an improvement notice and/or issue a financial penalty, and in certain circumstances can order the wind up of the scheme.

Summary

131. This document provides guidance for trustees of specified schemes which they should have regard to when completing their annual value for members assessment. The guidance assists trustees in each of the three areas: costs and charges, net investment returns and governance and administration.

132. The outcome of the schemes value for members assessment should be based on a holistic consideration of these three areas.

133. The government is clear in its expectation that members should be in well run schemes that deliver optimal value for members over the long term, and that this can be achieved by consolidation. The basis of the value for members assessment is therefore to determine whether members will receive this value in their existing scheme over the long term, or whether they would achieve better value in a larger scheme.

134. The government expects that when trustees are making this decision they will make it with the best interests of the generality of the scheme members in mind.

135. This document also provides guidance for relevant pension schemes, regardless of asset size, about reporting on their investment returns in their annual chair's statement.