Consultation Questions: Consultation on Value for Money: A framework on metrics, standards and disclosures

Name of respondent/s / organisation (please provide):

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About CIPD

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years.

It has 160,000 members across all sectors and sizes of organisation and provides thought leadership through independent research on the world of work and offers professional training and accreditation for those working in HR and learning and development.

Public policy at the CIPD draws on our extensive research and thought leadership, practical advice and guidance, along with the experience and expertise of our diverse membership, to inform and shape debate, government policy and legislation for the benefit of employees and employers. It also seeks to promote and improve best practice in people management and development and to represent the interests of our members.

The CIPD welcomes the opportunity to respond to this consultation. While some of our members will see their workplace pensions simply as another cost of doing business, many others see them as a way of setting themselves out in the labour market, in terms of recruitment and retention.

Pensions are also a crucial aspect of employee financial wellbeing, with 83% of employees surveyed by the CIPD last year saying that being able to save for their future was important. CIPD research also finds that employee performance is more likely to suffer if they are experiencing poor financial wellbeing and 28% of employees questioned reporting that money worries had negatively affected their work performance.

Another reason why workplace pensions are important for our members is that they can represent a considerable investment for their organisation. The CIPD's 2023 UK working lives survey finds that 30% of employees that are members of defined contribution pension schemes reporting that their employer contributes 6% or more of pay, while the CIPD's 2003 reward management survey finds that over two fifths of private sector employers paying in a minimum of 6% of pay. Given the scale of this expenditure, it makes sense that employer try and get value for money, not only for their employees, but also for themselves.

Having a common and uniform framework for assessing Value for Money (VfM) across defined contribution (DC) pension schemes will help the people profession better review whether the money being spent by their organisations on the workplace pensions is being spent wisely.

However, while it is important that DC schemes offer value for money, on its own, this is unlikely to be enough to deliver good outcomes. What is also important is how much and for how long money is being saved in these schemes. This is why the CIPD backs moves to remove the qualifying earnings threshold and to reduce the age at which someone is automatically enrolled into a workplace pension.

In addition, the CIPD also supports gradually increasing the minimum pension contribution to 12%, with at least half of that coming from the employer.

There's also the impact that the cost-of-living that is having on pension contributions, with the latest CIPD survey of employers finding that 15% of them reporting that since the start of 2022, the number of staff either reducing their contributions to the workplace pension scheme, or opting out entirely, has increased. One response is that the employer maintains their pension contribution until the employee opts back. However, we would be happy to explore other options.

Pension Scheme type(s) (please cross all those that apply)	
Master Trust (500 or more employers approx.)	
Master Trust (fewer than 500 employers)	
Single-employer trust-based defined contribution (DC) workplace pension scheme	
Contract-based DC workplace pension scheme (500 or more employers approx.)	
Contract-based DC workplace pension scheme (fewer than 500 employers)	
Contract-based DC non workplace pensions	
Defined benefit pension scheme	
Hybrid pension scheme	
Your role (please cross all those that apply)	
DC pension scheme trustee or manager	
Member of Independent Governance Committee (IGC) or Governance Advisory Arrangement (GAA)	
Administrator	
Investment consultant	
Financial advisor	
Employer	
Employee benefit consultant	
Consumer organisation	
Law firm	
Pension saver	
Other (please state)	Professional Institute for the people profession

Responses to consultation questions are optional. We ask that you provide your reasoning for your answers to the consultation questions that you respond to.

Please indicate, next to any responses given, if you are ***not*** *content for DWP to publish relevant sections of your responses in the future. Without a specific request for anonymity, we reserve the right to publish your response in full.*

Chapter 3: Scope, criteria, and outcomes

Question 1: Do you agree with the proposed phased approach?

Yes. Most employees are in the scheme default, so it makes sense from a workplace financial wellbeing perspective to focus on this first before then extending the VfM framework more widely.

Chapter 4: Investment performance

Question 2: Do you agree with our focus on and approach to developing backward-looking investment performance metrics?

Yes. HR professionals and their intermediaries will find this data useful when assessing whether existing arrangements are delivering VfM, both for employees and the employer.

Question 3: Do you agree with our proposals to use Maximum Drawdown and/or ASD as risk-based metrics for each reporting period and age cohort?

Yes, it should help employers make more considered assessments of VfM.

Question 4: Do you agree with our proposals on "chain-linking" data on past historic performance where changes have been made to the portfolio composition or strategy of the default arrangement?

Yes, it should help our members and their advisers when making VfM assessments.

Question 5: Do you agree with proposals for the additional disclosure of returns net of investment charges only?

Yes, it will make comparisons easier.

Question 6: Do you agree with requiring disclosure of asset allocation under the eight existing categories for all in-scope default arrangements?

Question 7: Do you think we should require a forward-looking performance and risk metric, and if so, which model would you propose and why?

Yes, but after a suitable period, we would like to see an assessment of these forecasts to see if these have been both accurate and useful.

Chapter 5: Costs and charges

Question 8: Are there any barriers to separating out charges in order to disclose the amount paid for services?

Question 9: Do you have any suggestions for converting combination charges into an annual percentage? How would you address charging structures for legacy schemes?

Question 10: Do you agree with our proposal to provide greater transparency where charging levels vary by employer? Do you agree that this is best achieved by breaking down into cohorts of employers or would it be sufficient to simply state the range of charges?

Chapter 6: Quality of services

Question 11: Are these the right metrics to include as options for assessing effective communications? Are there any other communication metrics that are readily quantifiable and comparable that would capture service to vulnerable or different kinds of savers?

Yes. Metrics should be based on improving employee awareness of the workplace arrangement and on encouraging positive behaviours, mindset, and connections. These could be captured against a small number of standard focused questions and could be analysed by certain protected characteristics, such as by age band or gender, to assess the impact across different kind of savers.

Question 12: Are these the right metrics to include as options for assessing the effectiveness of administration and/or are there any other areas of administration that are readily quantifiable and comparable?

Yes. HR professionals and their intermediaries will find such data useful when making VfM assessments of the exiting workplace arrangement. To a certain extent, the quality of the data depends on employees giving up-to-date information (such as their current address). This will require cooperation between employers and their contract-based providers to ensure that they have the information (subject to GDPR) needed to give a quality service.

Chapter 7: Disclosure templates and publication timings

Question 13: Do you agree with a decentralised or a centralised approach for the publication of the framework data? Do you have any other suggestions for the publication of the framework data?

We support a centralised approach. We believe that such ‘a one-stop shop’ approach should make it easier for HR professionals, and their advisers, to get the information they need to carry out a VfM assessment of the existing workplace pension plan. Many of our members have experience of using data accessed from a ‘central repository’ when writing the narrative for their employer’s gender pay gap report.

Question 14: Do you agree with the proposed deadlines for both the publication of the framework data and VFM assessment reports?

Chapter 8: Assessing Value for Money

Question 15: Do you think we should require comparisons against regulator-defined benchmarks or comparisons against other schemes and industry benchmarks?

We would prefer comparisons against regulator-defined benchmarks as we believe that these would be more objective. If a market comparison approach is adopted, then the consequences need to be spelled out to providers what will happen if they game the selection of comparators.

Question 16: Do you agree with the step-by-step process we have outlined, including the additional consideration?

Question 17: Do you agree with a 'three categories' / RAG rating approach for the result of the VFM assessment?

Yes. We think this would help make VfM assessments simpler.

Question 18: How should we take into account the specific challenges of contract-based schemes while ensuring equivalent outcomes for pension savers?

Contract-based DC are typically used by private sector employers as their workplace pension scheme. If a transfer decision is made, then it is important than organisations are involved in the process, especially as the transfer could result in employee queries, anxiety, and possible requests for alternative providers. So, instead of having to deal with one pension provider employers could be asked to deal with multiple providers.

Question 19: Do you agree with our proposals on next steps to take following VFM assessment results, including on communications?

As was mentioned above, contract-based DC plans are common in the private sector, so any communication needs to involve the employer, especially as their workers will eventually find out if the workplace scheme is failing to deliver value for money. We would prefer that the communication to employers involved the regulators as well as the providers.

Chapter 9: The VFM framework and Chair's Statement

Question 20: If the Chair's Statement was split into two separate documents, what information do you think would be beneficial in a member-facing document?

Question 21: Is there any duplication between the VFM framework proposals and current Chair's Statement disclosure requirements?

Chapter 10: FCA specific issues

Question 22: Should individual SIPP arrangements be excluded from the requirement on providers to establish an IGC/GAA and to publicly disclose costs and charges and, if so, under what circumstances?

Question 23: Do you think there would be merit in a proposal to mandate the inclusion of a pension saver-focused summary alongside the IGC Chair's Report?

Question 24: Do you think the provider or the IGC should be responsible under FCA rules for the publication of framework data?

Chapter 11: Impacts

Question 25: Which of the metrics do you not currently produce? (This could be for either internal reports or published data). Do you envisage any problems in producing these metrics?

Question 26: Do you agree with our assumptions regarding who will be affected by the framework?

Question 27: Are you able to quantify these costs at this stage? Are there additional cost components we have not considered? Do you expect these costs to be significantly different for commercial providers and multi-employer schemes?

Question 28: Overall, do you think the benefits of the framework outweigh the costs? Are you able to quantify any of the potential benefits?

Question 29: Are there additional benefits we have not identified?

Question 30: Do you have any comments on the potential positive and negative impacts of these proposals on any protected groups, and how any negative effects could be mitigated?