Pensions of the future – a discussion on our strategy

RESPONSE FROM ICAS TO THE PENSIONS REGULATOR

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Background

ICAS is a professional body for more than 22,000 world class business men and women who work in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Almost two thirds of our working membership work in business; many leading some of the UK's and the world's great companies. The others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have over 4,000 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

ICAS was created by Royal Charter in 1854.

General comments

The ICAS Pensions Panel welcomes the opportunity to comment on The Pensions Regulator's (TPR's) strategy discussion paper, which sets out its proposed direction of travel for the next 15 years.

This is undoubtedly a challenging time to be developing a long-term strategy, much is changing or will change in the relatively near future. The ability of people to save into a pension and the ability of employers to support them to save are both impacted by the economic challenges arising from the COVID-19 pandemic and related control measures, as is employer covenant strength in those sectors of the economy with defined benefit (DB) schemes most impacted by the pandemic.

We have raised in previous responses over the years, including responses to the Department of Work and Pension (DWP), that there is tension between TPR's statutory objective to protect the Pension Protection Fund and its statutory objective, in respect of DB funding, to minimise any adverse impact on the sustainable growth of the employer. This tension is likely to be in sharp focus during this time as TPR works on its revised DB Funding Code of Practice and on the development of its strategy.

The strategy discussion document's focus on the saver and how system wide changes impact different cohorts is welcome. However, would like to see a bit of detail in the strategy document about how TPR intends to regulate the DB and defined contribution (DC) sectors. A distinction here is really key so that schemes can understand what to expect from TPR. Further differentiation is needed by scheme type within both the DB and DC sectors and between key stakeholders, for example, scheme trustees, administrators and savers.

We support a system wide approach and joined up working with other regulators in the pensions space and it would be really helpful to see some additional detail in the final strategy about how this is expected to work. Savers will benefit from coordinated and consistent messaging about pensions by regulatory bodies.

We set out our responses to the four consultation questions in the Appendix. In addition, we would also like to mention some of the concerns we have around developments in investment reporting by pension schemes.

Investment reporting requirements have become more onerous in recent years and the implementation of climate change governance and reporting requirements will increase reporting burdens on pension schemes. The different layers of reporting and the inclusion of investment reporting within the scope of pension scheme annual reports adds further complexity, due to there being no requirement to publish other elements of a pension scheme's annual report, including a scheme's accounts.

We believe that the DWP should look to rationalise the investment reporting requirements for pension schemes and consider whether annual reports, including the accounts of schemes, should be published, at least for larger schemes impacted by these requirements. We believe rationalisation would increase the usefulness of investment reports and their transparency, as well as reducing the time and cost burden placed on schemes. From a TPR perspective, we would welcome some commentary on how it plans to check that schemes have met their investment reporting obligations including the new climate change reporting obligations.

We are content for our response to the consultation to be made public. Any enquiries should be addressed to Christine Scott, Head of Charities and Pensions at cscott@icas.com.

Appendix

Question1
Do you think our approach to thinking about savers has identified the most significant current and future challenges for each cohort?

Answer
We understand that ‘cohort’ is referring to each of the three generations featured most in the strategy discussion paper – Baby Boomers, Generation X and Millennials.

We agree that the interests of savers in these three cohorts and, in time, future cohorts, should be the main focus of regulators and other bodies which play a key role on the UK pensions system. We also recognise the significant challenges set out in relation to each cohort.

An increased focus on the saver makes sense given that for those who are now saving for a pension, the risks associated with both pension saving and securing a retirement income based on those savings increasingly sit with the saver.

However, we would like to understand more about how TPR intends to deliver good outcomes for savers over the period of the strategy, including in relation to scam prevention and, in particular, in relation to DB to DC transfers. We envisage that a highly developed communications strategy will be needed to equip savers with the information they need about pension saving, risk and the risk of scams.

While the strategy discussion paper sets out the ‘what’, it does not give a clear sense of how TPR intends to regulate or engage with each different type of trust-based scheme to deliver on its strategic priorities and with key parties (i.e., trustees, scheme administrators, employers, savers and potential savers).

We would be interested in TPR setting out a bit of detail in its final strategy document about the ‘how’, i.e., what particular activities it intends to undertake in support of its strategic objectives in relation to industry bodies and other key stakeholders. Vitally, the final strategy needs to distinguish between its regulatory approach towards DB and DC.

In a DC world, the role of scheme administrators will increase further in importance and we believe it is especially important for the industry to understand TPR’s intended approach to the regulation of administration. Also, with the growth of funds held within master trusts and the potential for further consolidation in this market, any anticipated changes in TPR’s approach to the regulation of master trusts could be usefully set out in the strategy.

For us, what is really key is how TPR intends to drive change in a way that improves saver understanding of what a DC pension is, the extent of saving needed to retire on an income that will meet the needs of the saver and what type of products can be purchased with those savings. In summary, we believe that TPR should have a role which goes beyond ensuring schemes deliver value for money for what is saved to supporting members by communicating what might need to be saved and what happens at the point of retirement.

We are aware that auto-enrolment relies on inertia and that auto-enrolment minimum contribution levels are designed to make saving a habit. However, minimum contribution levels remain insufficient for a reasonable retirement and further work needs to be undertaken so that savers understand how DC saving works and the rate at which they need to save to have an adequate retirement income.

Question 2
To what extent should we differentiate our approach to regulation for these different saver groups? At what pace would you expect to see this happen?

Answer
We welcome TPR’s recognition within its strategy discussion paper of how changes in the UK pensions system impacts different saver groups.

As we describe above, we think that TPR should differentiate between different types of scheme and different types of stakeholder. We believe that this approach would enable TPR to communicate how it intends to deliver its strategic objectives.

We are supportive of TPR's development of the trustee toolkit and wonder whether there would be some merit in exploring the development on an employer toolkit and saver toolkit, in collaboration with other regulators.

Since in the DC world risk and decision-making sits with the saver, a savers toolkit could be a great way of communicating the basics such as understanding your annual pensions statement and could be built on overtime for example, to address decumulation within collective defined contribution schemes or to help savers evaluate different decumulation products, especially if comparison sites for retirement products emerge.

Question 3
Do you think the key trends we have identified adequately capture the most likely system-level changes pensions will experience over the next 15 years? Are there other system level changes you believe we need to consider?

Answer
We believe that the system-level changes referred to in the discussion paper are broadly comprehensive. However, while consolidation is referenced in relation to the regulation of occupational DC schemes and DC master trusts, it would be helpful to understand a bit more about the role TPR will play in relation to the regulation of collective defined contribution schemes and the regulation of superfunds.

We understand that regulations attached to the Pension Schemes Bill will provide further detail about the regulation of collective defined contribution schemes in the near future and that the current Bill does not deal with DB superfunds. Nevertheless, it would be helpful for the strategy document to say a bit more about the role these new additions to the pensions landscape are expected to play.

Question 4
Do our strategic priorities provide the coverage, focus and flexibility we need to achieve our ambitions for savers over the next 15 years?

Answer
We understand that a strategy should be high level and that TPR, as a matter of routine, sets out a three-year rolling corporate plan each year. However, we believe that TPR's proposed 15-year strategy should be more substantial given the extent of system-level changes expected over this period.

A system wide approach is the correct one and working with other regulators in this space is more vital than ever. Therefore, we would also like to see a bit more information set out in the final strategy document about how TPR will work with other regulators during the period of the strategy.