Defined Contribution trust-based pension schemes research

A summary report on the 2017 research survey

Prepared for The Pensions Regulator
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Contents

1 Executive summary

This report summarises results from The Pension Regulator's (TPR's) annual survey of trust-based occupational defined contribution schemes (DC schemes[1]), carried out between February and May 2017[2]. The survey was conducted by OMB Research, an independent market research agency, on behalf of TPR.

1.1 Introduction

The growth in DC provision, driven by automatic enrolment into pension schemes, led to new legislative requirements with respect to scheme governance coming into force in April 2015. TPR regulates compliance with these requirements, while continuing to raise standards of governance and administration across all areas of DC scheme management.

TPR's revised code of practice for DC schemes ('the code'), which came into force in July 2016, sets out the standards that TPR expects the trustees of DC schemes to meet when they are complying with their legal requirements. To support trustees, TPR provided further practical guidance in a series of 'how to' guides that were published alongside the code.

More widely, through its work on 21st century trusteeship and governance, TPR is promoting higher standards of governance and administration in defined benefit (DB), DC schemes and public service schemes. This comprises a 3-5 year programme of work designed to improve trustee effectiveness and ensure that the fundamentals of good governance are in place across all scheme types and sizes.

The results from this survey of DC schemes will directly inform this work and help to ensure that TPR focuses its efforts on the areas where trustees face the greatest challenges[3].

1.2 Key governance requirements

Throughout this report, reference is made to the following key governance requirements (KGRs) that DC schemes are subject to:

- **KGR 1:** Trustee boards must possess or have access to the knowledge and competencies necessary to properly run the scheme
- **KGR 2:** Trustee boards must assess the extent to which charges/transaction costs provide good value for members
- **KGR 3:** Core scheme financial transactions must be processed promptly and accurately
- **KGR 4:** Trustees of master trusts must meet independence requirements *(Applicable only to master trusts)*

[1] The survey population included Hybrid schemes. A Hybrid pension scheme includes both Defined Benefit and Defined Contribution benefits. For the purposes of the survey, Hybrid schemes were instructed to answer questions only in relation to the DC section of their scheme.
[2] This report is accompanied by a technical report, also prepared by OMB Research, which details responses to all of the questions asked in the survey, broken down by scheme size.
[3] Further information is set out in TPR's policy response to this survey and an equivalent survey of DB schemes www.tpr.gov.uk/docs/db-dc-survey-response-2017.pdf

- **KGR 5:** Trustee boards must ensure the default investment strategy is suitably designed for their members *(Applicable only to schemes with a default investment strategy)*

1.3 Research objectives and methodology

The objectives of the research were:

- To measure the extent to which DC schemes were meeting the key governance requirements, and to monitor any changes from the 2016 survey[4];
- To understand the extent to which schemes had engaged with TPR, by measuring familiarity with the code and supporting guides, and by asking whether TPR's expectations are clear;
- To measure the extent to which schemes are meeting TPR's expectations, as set out in the code.

The survey comprised quantitative interviews with 400 single-employer schemes and 45 relevant multi-employer schemes, commonly known as 'master trusts'.[5]

A number of the questions included in the survey were used to develop proxy measures to understand the extent to which schemes were meeting five key governance requirements (KGRs).

1.4 Key findings

1.4.1 A third of DC members were in schemes meeting all their KGRs, which is an increase from 2016. Most members were in schemes meeting KGR1 (trustee knowledge and understanding) (93%) and fewest members were in schemes meeting KGR3 (core scheme financial transactions) (54%)

A third of members (32%) were in schemes that met all of their KGRs. This is an increase from 5% in 2016.

Looking at each KGR individually, nine in ten members (93%) were in a scheme which met KGR 1 (knowledge and understanding) and a similar proportion (90%) were in a scheme which met KGR 5 (suitable design of default investment strategies).

Three-quarters of members (77%) were in a scheme that met KGR 2 (value for members assessment) and the majority of master trust members (84%) were in a scheme which met KGR 4 (independence requirements).

However, just over half of members (54%) were in a scheme which met KGR 3 (core scheme financial transactions).

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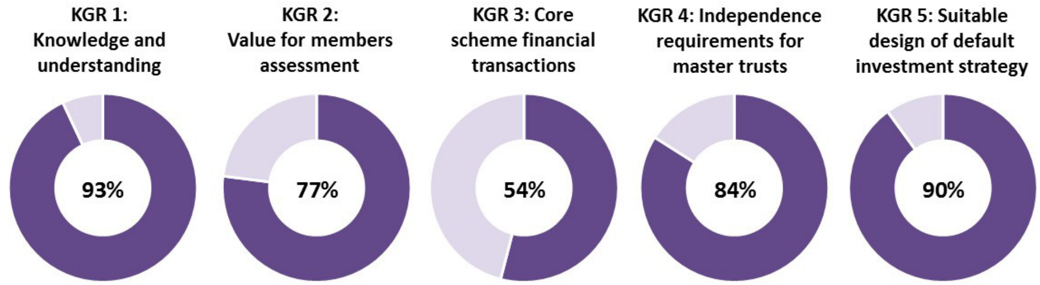
[4] Detailed time series data can be found in the accompanying technical report.

[5] For the purposes of this report, schemes defined as single-employer schemes may also include associated or non-associated employers. Employers are associated if they are part of the same group of companies (including partially owned subsidiaries and joint ventures). The relevant multi-employer schemes interviewed for this research are often termed 'master trusts' and this term is used throughout this report when referring to these schemes.

Proportion of members in schemes that met KGRs



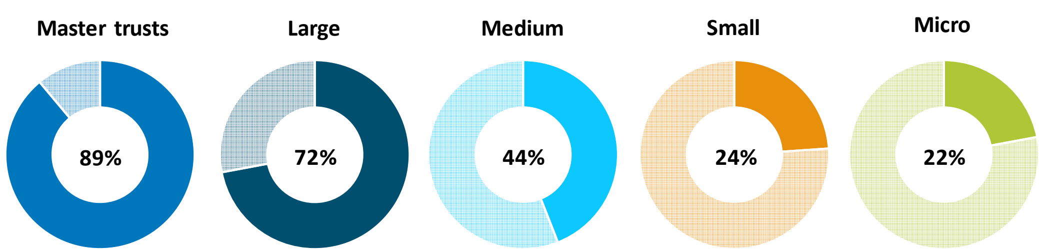
1.4.2 There has been an increase since 2016 in the proportion of members in schemes meeting four of the five KGRs

There have been small but statistically significant increases in the proportion of members in schemes that met KGR 1 (knowledge and understanding) (+6% from 2016), KGR 3 (core scheme financial transactions) (+7% from 2016) and KGR 5 (suitable design of default investment strategy) (+6% from 2016). There was a greater increase in the proportion of members in schemes that met KGR 2 (value for members assessment) (+37% from 2016), but this was partially due to changes to the survey definition for this KGR from 2016 to 2017.

1.4.3 The extent to which the KGRs were met generally increased with scheme size, with micro and small schemes often struggling to meet any of the KGRs. Few changes in the proportion of schemes meeting the KGRs were observed from the 2016 survey

There was a strong correlation between scheme size and the number of requirements being met. The majority of master trusts (89%) met two or more applicable requirements, compared to 72% of large, 44% of medium, 24% of small and 22% of micro schemes[6]. The majority of micro schemes (64%) and half of small schemes (51%) reported not meeting any of the requirements applicable to them.

Proportion of schemes meeting two or more KGRs



There were few statistically significant changes from the 2016 survey results in the proportion of schemes meeting each of the KGRs. Significant increases were observed among large schemes meeting KGR 1 (knowledge and understanding), which increased from 74% to 83%, and among small schemes meeting KGR 3 (core scheme financial transactions), which increased from 11% to 24%, while the

[6] Micro schemes are defined as schemes with 2-11 members, small schemes with 12-99 members, medium schemes with 100-999 members, and large schemes with 1,000+ members. These are groupings of single-employer schemes only. Schemes with multiple-employers are defined as master trusts in this report regardless of membership size.

proportion of medium schemes meeting KGR5 (suitable design of default investment strategy) decreased from 52% to 37%.

1.4.4 Most large schemes and master trusts met the KGR on trustee knowledge and understanding but assessing value for members and core scheme financial transactions were more challenging for all sizes of scheme

Schemes were most likely to report meeting KGR 1 (knowledge and understanding), ranging from 89% of master trusts down to 13% of micro schemes. The main barriers to meeting this KGR (primarily among smaller schemes) were the expectation on new trustees to complete the trustee toolkit or equivalent within six months of their appointment, and the expectation on schemes to have training and development plans in place to ensure that trustees continue to have the required knowledge and skills.

KGR 2 (value for members assessment) was the least likely of all five requirements to be met (by 25% of micro, 20% of small, 18% of medium, 31% of large DC schemes and 43% of master trusts). Schemes' failure to research and take into account the things that members value was often the greatest barrier to meeting this requirement.

KGR 3 (core scheme financial transactions) was also met by a comparatively low proportion of single-employer schemes, ranging from 42% of large schemes to 8% of micro schemes. Among schemes of all sizes, the main barriers to meeting this requirement were the expectations on schemes to track performance on the promptness and accuracy of financial transactions.

More than half of master trusts (57%) and large schemes (69%) met KGR 5 (suitable design of default investment strategy), but fewer smaller schemes met this requirement (44% of micro, 23% of small and 37% of medium schemes). The main reason for not meeting this KGR was that the default investment strategy had not been influenced by member analysis/research.

Over two-thirds of master trusts (71%) met KGR 4 (independence requirements).

1.4.5 Most schemes were aware of the DC code, but knowledge was less consistent

The large majority of schemes were aware of the code, and this awareness increased with scheme size (85% of micro, 90% of small, 99% of medium, 100% of large schemes and master trusts). However, levels of familiarity varied; three-quarters of micro (78%) and small schemes (74%) knew little or nothing about the code.

Among schemes who knew at least a little about the code, most found it useful, and this increased with scheme size: 73% of micro schemes found the code useful, rising to 78% of small, 83% of medium, 94% of large and 96% of master trusts.

1.4.6 Nearly all master trusts, large and medium schemes agreed that TPR makes it clear what it expects from trustee boards, while a smaller majority of micro and small schemes also agreed

Over 90% of master trusts, large and medium schemes agreed that TPR makes it clear what it expects from trustee boards (98%, 95% and 91%, respectively). A smaller proportion, although still a large majority, of micro and small schemes agreed that this was the case (68% and 64%, respectively).

1.4.7 Master trusts were confident in their ability to meet the expectations in the DC code, with smaller schemes less so

All master trusts were very or fairly confident that they could meet the standards in the code. This was less likely to be the case for single-employer schemes, but confidence increased with scheme size: 60% of micro and small schemes were confident, rising to 89% of medium and 99% of large schemes.

1.4.8 In practice, the proportion of schemes meeting the expectations set out in the code tended to increase with scheme size, with investment governance the weakest area for most schemes

Master trusts tended to be the most likely to meet the expectations in the code, followed by large single-employer schemes.

Performance across all schemes was weakest in relation to the expectations on investment governance. On average, micro schemes met 26% of TPR's expectations here, as did 21% of small schemes, 39% of medium schemes, 49% of large schemes and 47% of master trusts.

The difference by scheme size was most polarised with respect to administration: respectively, micro and small schemes on average met 19% and 33% of the expectations related to administration, compared to 61% of medium schemes, 70% of large schemes and 90% of master trusts. In contrast, there was no significant difference by scheme size in relation to meeting expectations on communicating and reporting.

2 Methodology

This report summarises the results from the annual research survey of trust-based occupational DC pension schemes.-

The survey was conducted between 17 February and 10 May 2017, and carried out by OMB Research, an independent market research agency, on behalf of TPR. It is the first measure of performance since the code came into force.

The survey comprised quantitative interviews with 400 single-employer schemes and 45 relevant multi-employer schemes. In this report, schemes defined as single-employer may also include associated or non-associated employers[7]. The relevant multi-employer schemes interviewed for this research are commonly known as 'master trusts' and this term is used throughout this report when referring to these 45 schemes.

The survey covered open, closed and paid-up schemes but those that were in the process of winding up were excluded from the sample. Small self-administered schemes (SSAS) and Executive Pension Plans (EPPs) which are not subject to the key governance requirements were also excluded.

The sample was de-duplicated to ensure that we did not contact the same company or contact them more than once, and records with insufficient contact details (eg no telephone number) were also removed.

Survey interviews lasted approximately 25 minutes. Respondents held a variety of roles (chair of trustees, lay trustee, professional trustee, secretary to the board of trustees, in-house administrator, scheme manager, external adviser) and in order to qualify for the interview they had to have good knowledge of how the scheme was run.

A number of the questions included in the survey were used to develop proxy measures to understand the extent to which schemes were meeting five key governance requirements (KGRs). Summary descriptions of the KGRs measured in the survey are shown in Table 2.2.1. For a KGR to be met in the survey, a particular answer had to be provided to a combination of questions. For example, for a master trust to meet KGR 4 (independence requirements for master trusts) a response of 'yes' was required to the question 'Does the master trust have a majority of trustees, including the chair, that are 'unaffiliated' with any company that provides advisory, administration, investment or other services to the scheme?'. This was one of four questions that had to be answered with a specific response for a scheme to meet KGR 4.

[7] For the purposes of this report, employers are associated if they are part of the same group of companies (including partially owned subsidiaries and joint ventures).

Table 2.2.1 Summary of key governance requirements (KGRs) applicable to DC schemes

KGR 1	Trustee boards must possess or have access to the knowledge and competencies necessary to properly run the scheme
Trustee boards need to have a certain level of knowledge and understanding in order to properly run their scheme. TPR expects them to undertake appropriate training (e.g. the Trustee toolkit), have training and development plans in place, and to have enough time and resources available to properly run the scheme. There is a risk that member benefits will not be sufficiently protected if trustee boards are not able to meet this standard.	
KGR 2	Trustee boards must assess the extent to which charges/transaction costs provide good value for members
Members of DC schemes often pay the costs and charges for services such as investment management, administration and communications. They rely on trustee boards to have a good understanding of the relevant costs and charges and to ensure they represent good value in terms of the quality and suitability of services and in comparison with other options available on the market.	
KGR 3	Core scheme financial transactions must be processed promptly and accurately
For member funds to be protected and accurately assigned to individuals, trustee boards need to ensure members' money is invested (and disinvested) promptly, in the right investment funds and recorded in the right members' accounts. This involves putting in place and tracking performance against relevant service standards. Inaccurate or delayed transactions can lead to members receiving the incorrect benefits or basing their retirement decisions on inaccurate information.	
KGR 4	Trustees of master trusts must meet independence requirements *(Applicable only to master trusts)*
Master trusts account for over half of DC members and employers are encouraged to use these schemes to comply with their automatic enrolment duties. If the trustees are not independent of those who provide services to the master trust, there is a risk of actual or potential conflict of interest, leading to a significant risk to benefits of millions of members. The risk of conflict is mitigated if the trustee boards of master trusts follow specific rules in relation to the composition and recruitment of the board.	
KGR 5	Trustee boards must ensure the default investment strategy is suitably designed for their members *(Applicable only to schemes with a default investment strategy)*
Most members have their funds invested in default strategies where they have no influence over how their funds are invested. Trustee boards are expected to research the characteristics and preferences of their members and use their findings to influence the default investment strategy and make sure that it remains suitable for their members. There is a risk that member funds could be negatively affected if the default investment strategy is not suitable for the membership it serves.	

Full details of the proxy measures used to calculate the presence of each KGR can be found in sections 3.1.3 to 3.1.7 of this report.

The survey covered five distinct sub-groups of DC schemes, namely micro schemes (those schemes with fewer than 12 members), small schemes (12-99 members), medium schemes (100-999 members), large schemes (1,000+ members) and master trusts. Hybrid schemes were also included using the same size groupings. Note that hybrid membership size was based on the total number of members in the scheme. However, these schemes were asked to answer survey questions based only on their DC sections. Throughout this report, DC and hybrid scheme results have been combined, and are reported by size based on their total members.

In both the 2016 and 2017 surveys, the largest master trusts were targeted to ensure coverage of a high proportion of the member universe. However, in 2017 the scope of these interviews was extended, and 45 master trusts were interviewed, compared to 20 in 2016. When comparing master trusts results over time, it appears that performance has declined in some areas[8]. However, this is likely to be due to the increased coverage of smaller master trusts in 2017.

At the analysis stage, the data was weighted to be representative of the overall population of DC/hybrid schemes. For analysis of the findings by members, schemes were weighted to reflect the proportion of members they accounted for within the DC member universe. Unweighted bases (the number of responses from which the findings are derived) are displayed on tables and charts as appropriate to give an indication of the robustness of results.

The data presented in this report is from a sample of trust-based occupational DC schemes rather than the total population. This means the results are subject to sampling error. Differences between sub-groups are commented on only if they are statistically significant at the 95% confidence level (unless otherwise stated). This means that there is at least a 95% probability that any reported differences are real and not a consequence of sampling error.

When interpreting the data presented in this report, please note that results in the charts and tables may not sum to 100% due to rounding and/or due to respondents being able to select more than one answer to a question.

Survey findings by individual question can be found within the accompanying technical report, which includes figures showing change from the 2016 survey.

[8] This makes little difference to the member-weighted data as both surveys covered the vast majority of all master trust members (94% in 2016, 99% in 2017).

3 Research findings

3.1 Key governance requirements

The 2017 DC Schemes Survey sought to measure the extent to which key governance requirements (KGRs) were being met and to identify the type and prevalence of the challenges that DC schemes faced in relation to these requirements.

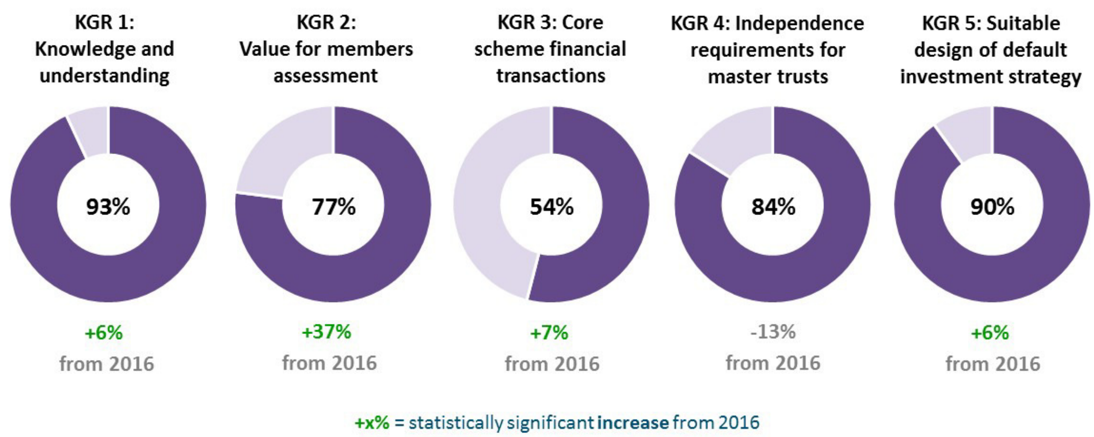
Not all of the requirements apply to all types of scheme. For the purposes of this survey, questions relating to KGR 4 were only asked of master trusts and questions relating to KGR 5 were only asked of those schemes who reported that they had a default investment strategy. All analysis showing the proportion of KGRs met takes account of the number applicable to each scheme.

Details of how the survey questions were designed to calculate the presence of each KGR can be found within the methodology section of this report. Findings to each of these questions are discussed in sections 3.1.3 to 3.1.7 and the accompanying technical report includes the wording of the questions used

3.1.1 Proportion of members in a scheme meeting each KGR

Figure 3.1.1.1 shows the proportion of members in schemes meeting each of the five individual KGRs. Changes from the 2016 survey results are shown as '+x%' or '-x%' underneath the relevant 2017 data.

Figure 3.1.1.1 Proportion of members in schemes that met KGRs



Base: All schemes
KGR 1-3 (445), KGR 4 (45), KGR 5 (358)

Nine in ten members (93%) were in a scheme which met KGR 1 (Knowledge and understanding) and a similar proportion (90%) were in a scheme which met KGR 5 (Suitable design of default investment strategy).

Three-quarters of members (77%) were in a scheme that met KGR 2 (Value for members assessment) and the majority of master trust members (84%) were in a scheme which met KGR 4 (Independence requirements).

However, half of members (54%) were in a scheme which met KGR 3 (Core scheme financial transactions).

Aside from KGR 4, the proportion of members in schemes meeting each KGR increased significantly from 2016. This improvement was greatest for KGR 2 but, as discussed in Section 3.1.4, this is partially due to changes to the survey definition for this KGR from 2016 to 2017.

Table 3.1.1.1 below shows that a third of members (32%) were in a scheme that trustees reported met all five KGRs and a further 59% were in a scheme that met with some (but not all) of them. There appears to have been a shift since the 2016 survey, with just over a quarter of members, who were previously in schemes meeting some or one KGR, now in schemes meeting all applicable requirements.

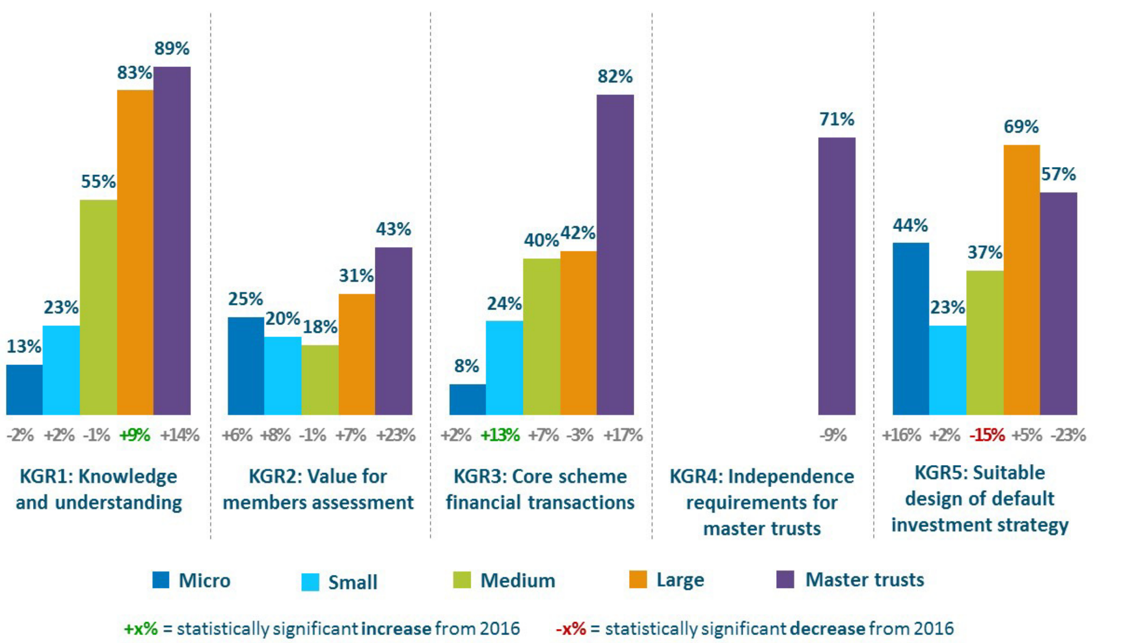
Table 3.1.1.1 Proportion of applicable KGRs met

	Total (all DC members)	Change from 2016
Met all applicable requirements (according to trustees' survey response)	32%	+27%
Met some (but not all) KGRs	59%	-22%
Met one KGR	6%	-5%
Met no KGRs	2%	0%

3.1.2 Proportion of schemes meeting each KGR

Figure 3.1.2.1 below shows the proportion of schemes meeting each of the five individual KGRs, analysed by scheme size. Changes from the 2016 survey results are shown as '+x%' or '-x%' underneath the relevant 2017 data.

Figure 3.1.2.1 Proportion of schemes that met KGRs



Base: All schemes
KGR 1-3: Micro (82), Small (88), Med (98), Large (132), MT (45)
KGR 4: MT (45)
KGR 5: Micro (42), Small (67), Med (88), Large (122), MT (39)

There was a broadly consistent pattern where the likelihood of meeting the KGRs increased in line with scheme size.

Schemes were most likely to be meeting KGR 1 (Knowledge and understanding): 89% of master trusts, 83% of large, 55% of medium, 23% of small and 13% of micro schemes. Large schemes showed a significant improvement in terms of the proportion meeting KGR 1, increasing from 74% in 2016 to 83% in 2017.

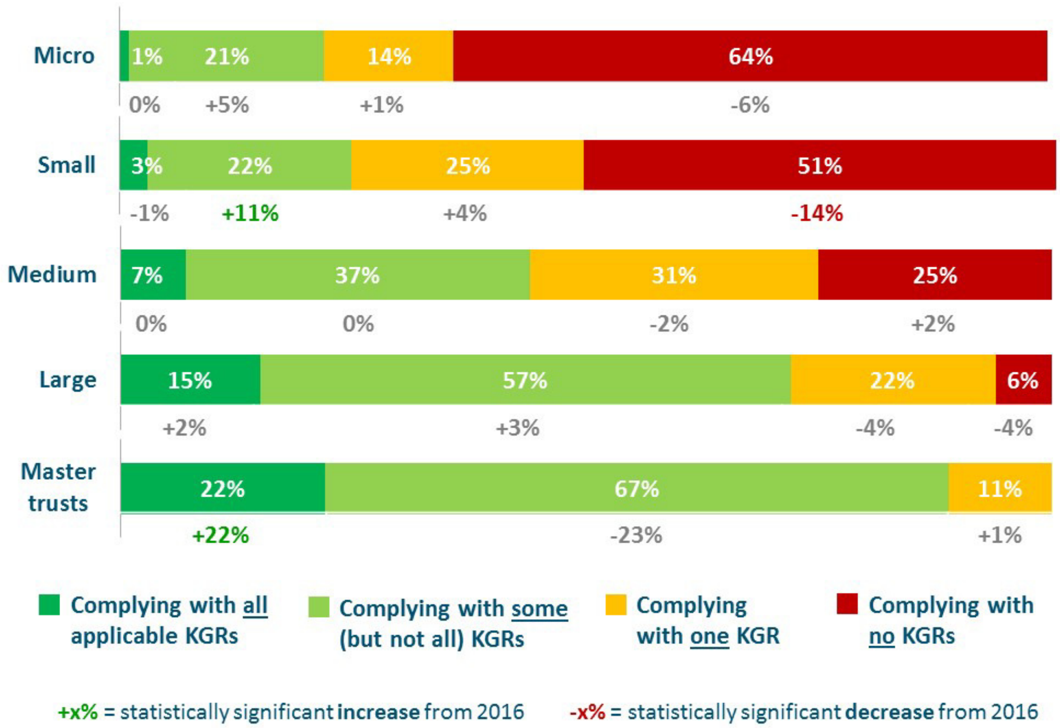
Although a comparatively low proportion of schemes met KGR 3 (Core scheme financial transactions), there were indications of improvements in scheme performance, particularly among small schemes, where the proportion meeting KGR 3 increased significantly from 11% in 2016 to 24% in 2017. Despite some improvements, a minority of micro schemes had service standards in place for either time taken to process core financial transactions (23%) or the accuracy of core financial transactions (37%).

KGR 2 (Value for members assessment) was the least likely of all five requirements to be met. There was relatively little variation by scheme size for this KGR, although small and medium schemes were the least likely to meet it (25% of micro, 20% of small, 18% of medium, 31% of large DC schemes and 43% of master trusts), partly owing to them not researching and taking account of what members value. Although most of the KGR survey definitions were the same as in 2016, the definition of KGR 2 did change (as discussed in Section 3.1.4), and therefore any observable changes over time should be interpreted with caution.

KGR 4 (Independence requirements) only applies to master trusts. Over two-thirds (71%) of the master trusts interviewed met this requirement. Although this is a decrease of 9% from the 2016 results, this is linked to the wider and more representative master trust coverage in 2017.

Figure 3.1.2.2 shows the proportion of applicable KGRs met by schemes, analysed by scheme size. Changes from the 2016 survey results are shown as '+x%' or '-x%' underneath the relevant 2017 data.

Figure 3.1.2.2 Proportion of applicable KGRs met



Base: All schemes (2017/2016)
Micro (82/127), Small (88/160), Med (98/126), Large (132/206), MT (45/20)

Over half of micro and small schemes did not meet any applicable KGRs (64% and 51% respectively). However, the proportion of schemes meeting the KGRs improved since 2016, particularly among small schemes: the proportion of small schemes not meeting any KGRs decreased by 14% compared to the 2016 survey. Master trusts also displayed improvements: a fifth (22%) met with all applicable KGRs, compared to none of those interviewed in 2016.

It is also possible to analyse these findings by scheme age, status and administration arrangement.

More recently established schemes met more of the KGRs: 37% of those established from 2000 onwards met some or all of them, compared to 23% of those established between 1985 and 1999 and 20% of those established before 1985.

Open schemes also met a higher proportion of the requirements than closed or paid-up schemes (respectively, 32% met some/all compared to 18%). A similar pattern was seen for externally administered schemes compared to those administered in-house (respectively, 33% met some/all compared to 17%).

3.1.3 KGR 1: Knowledge and understanding

Table 3.1.3.1 shows a breakdown of each of the measures making up KGR 1 (Knowledge and understanding) and the proportion of schemes meeting each one. The change from 2016 is shown in brackets below each figure, and statistically significant differences over time are highlighted in red or green.

Table 3.1.3.1 KGR 1 – proportion of each scheme size reporting that they met the constituent measures

	Micro	Small	Med	Large	Master
Base: All schemes	*82*	*88*	*98*	*132*	*45*
Access to all knowledge required to run scheme	83% (-3%)	87% (-4%)	97% (-1%)	100% (+1%)	100% (0%)
Knowledge of trustees' particular expertise or specialist knowledge	66% (+3%)	68% (-7%)	92% (-1%)	95% (+2%)	89% (-11%)
Sufficient time and resources to run scheme	85% (+2%)	86% (0%)	91% (-6%)	99% (+2%)	100% (+5%)
Required to complete toolkit or equivalent within 6 months	37% (+8%)	47% (+4%)	69% (+5%)	93% (+6%)	100% (+20%)
Training and development plans to ensure continued knowledge/skills	38% (-1%)	43% (+5%)	79% (-2%)	90% (-2%)	100% (+10%)
Meets KGR 1	**13%** **(-2%)**	**23%** **(+2%)**	**55%** **(-1%)**	**83%** **(+9%)**	**89%** **(+14%)**

Bracketed figures show change from 2016. Statistically significant differences are highlighted in red or green.

The majority of schemes of all sizes believed that their board had sufficient time/resources to run the scheme (85% of micro, 86% of small, 91% of medium, 99% of large schemes and 100% of master trusts) and had access to the necessary knowledge and understanding to run the scheme (83% of micro, 87% of small, 97% of medium, 100% of large schemes and 100% of master trusts).

The main barriers to meeting this KGR (primarily among smaller schemes) were the expectation on new trustees to complete the trustee toolkit or an equivalent within six months of their appointment (met by 37% of micro, 47% of small and 69% of medium) and the expectation on schemes to have training and development plans in place to ensure trustees continue to have the required knowledge and skills (met by 38% of micro, 43% of small and 79% of medium).

3.1.4 KGR 2: Value for members assessment

Table 3.1.4.1 shows a breakdown of each of the measures making up KGR 2 (Value for members assessment) and the proportion of schemes meeting each one.

Table 3.1.4.1 KGR 2 – proportion of each scheme size reporting that they met the constituent measures

	Micro	Small	Med	Large	Master
Base: All schemes	*82*	*88*	*98*	*132*	*45*
Good understanding of investment transaction costs	52% (+6%)	57% (+10%)	69% (-7%)	76% (-3%)	80% (0%)
Good understanding of costs/charges deducted from members' funds[9]	49% (-5%)	51% (-9%)	73% (-9%)	87% (-2%)	100% (0%)
Assesses annually that charges/costs represent value	49% (+7%)	53% (+7%)	71% (+14%)	88% (+16%)	98% (+13%)
Researches members & takes into account when assessing VFM[10]	32% (-1%)	28% (-1%)	28% (-15%)	42% (-6%)	45% (0%)
Confident of obtaining info for VFM assessment	83% (-1%)	80% (-5%)	84% (-10%)	93% (0%)	87% (+2%)
Meets KGR 2	**25% (+6%)**	**20% (+8%)**	**18% (-1%)**	**31% (+7%)**	**43% (+23%)**

Bracketed figures show change from 2016. Statistically significant differences are highlighted in red or green.

The majority of schemes of all sizes (83% of micro, 80% of small, 84% of medium, 93% of large and 87% of master trusts) believed they could obtain the information required to carry out a value for members assessment. A majority also believed that the trustee board had a good understanding of investment transaction costs and the total of costs/charges deducted from members' funds (for both default and self-select options).

The main barrier to meeting KGR 2 was that schemes did not research and take account of what members value (met by 32% of micro, 28% of small, 28% of medium, 42% of large DC schemes and 45% of master trusts).

[9] In 2017, this was asked separately for default and self-select options but combined results have been shown above. To meet the requirement schemes had to have a good understanding for each type of fund they offered.

[10] This definition was wider in 2016, and to meet the requirement schemes just had to 'take steps to research what members value'.

3.1.5 KGR 3: Core scheme financial transactions

Table 3.1.5.1 shows a breakdown of each of the measures making up KGR 3 (Core scheme financial transactions) and the proportion of schemes meeting each one.

Table 3.1.5.1 KGR 3 – proportion of each scheme size reporting that they met the constituent measures

	Micro	Small	Med	Large	Master
Base: All schemes	*82*	*88*	*98*	*132*	*45*
Reviews common data quality at least annually	72% (+10%)	70% (+1%)	73% (-2%)	77% (-5%)	98% (+8%)
Reviews conditional data quality at least annually	70% (+8%)	66% (+1%)	68% (0%)	65% (-6%)	91% (+1%)
Intends to address gaps in data quality (or no gaps)[11]	86% (+27%)	72% (+8%)	87% (0%)	90% (-2%)	98% (+3%)
Service standards for transaction time	23% (-1%)	44% (+7%)	76% (+3%)	88% (-7%)	100% (0%)
Service standards for transaction accuracy	37% (+13%)	51% (+14%)	68% (-1%)	78% (+3%)	93% (0%)
Tracks performance on transaction time standards[11]	11% (-2%)	30% (+5%)	69% (-1%)	85% (-5%)	100% (0%)
Tracks performance on transaction accuracy standards[11]	21% (+4%)	40% (+13%)	60% (+3%)	66% (-2%)	93% (+13%)
Meets KGR 3	**8% (+2%)**	**24% (+13%)**	**40% (+7%)**	**42% (-3%)**	**82% (+17%)**

Bracketed figures show change from 2016. Statistically significant differences are highlighted in red or green.

Most schemes of all sizes reviewed their common data (from 72% of micro schemes to 98% of master trusts) and conditional data (from 70% of micro schemes to 91% of master trusts) at least annually and intended to address any gaps identified (from 86% of micro schemes to 98% of master trusts). Micro schemes showed a significant increase in terms of the proportion intending to address gaps in data quality (from 59% of all micro schemes in 2016, to 86% currently).

The main barriers to meeting this KGR for smaller schemes were the expectations on them to track performance against transaction time standards (met by 11% of micro, 30% of small and 69% of medium schemes) and transaction accuracy standards (met by 21% of micro, 40% of small and 60% of medium schemes). The expectations on schemes to have documented service standards in place for transaction time and accuracy were also barriers to meeting this KGR, particularly for micro and small schemes, but significantly less so than in 2016.

[11] These elements were each constructed from responses to several different survey questions. Results to the individual questions are provided in the technical report based just on those schemes they applied to, but have been reported above based on aggregate results from all schemes.

3.1.6 KGR 4: Independence requirements for master trusts

Table 3.1.6.1 shows a breakdown of each of the measures making up KGR 4 (Independence requirements for master trusts) and the proportion of master trusts meeting each one.

Table 3.1.6.1 KGR 4 – proportion of each scheme size reporting that they met the constituent measures

	Master trusts
Base: All master trusts	*45*
Majority of trustees are unaffiliated	100% (0%)
Open and transparent trustee recruitment process	88% (+3%)
Three or more trustees	100% (0%)
Process for members to make their views known	82% (-3%)
Meets KGR 4	**71% (-9%)**

Bracketed figures show change from 2016. Statistically significant differences are highlighted in red or green.

All master trusts interviewed had three or more trustees and confirmed that the majority of these trustees were unaffiliated with any company providing advisory, administration, investment or other services to the scheme.

All of the measures that make up this KGR were met by the majority of master trusts. However two measures were not met by all: having an open and transparent trustee recruitment process (met by 88%) and having a process in place for members to make their views known (met by 82%). Different master trusts failed to meet each of these elements, resulting in 71% meeting KGR 4 overall. This result does not represent a statistically significant change from 2016.

3.1.7 KGR 5: Suitable design of default investment strategy

Table 3.1.7.1 shows a breakdown of each of the measures making up KGR 5 (Suitable design of default investment strategy) and the proportion of schemes meeting each one.

Table 3.1.7.1 KGR 5 – proportion of each scheme size reporting that they met the constituent measures

	Micro	Small	Med	Large	Master
Base: All with a default strategy	*82*	*88*	*98*	*132*	*45*
Member analysis/research contributed to design of investment strategy for default arrangement	44% (+11%)	24% (+1%)	38% (-16%)	73% (+6%)	57% (-23%)
Reviews suitability of default investment strategy at least every 3 years	83% (+11%)	69% (+4%)	85% (+1%)	91% (-5%)	100% (0%)
Reviews performance of default arrangement at least every 3 years	86% (+5%)	81% (+7%)	87% (-2%)	99% (0%)	100% (0%)
Meets KGR 5	**44% (+16%)**	**23% (+2%)**	**37% (-15%)**	**69% (+5%)**	**57% (-23%)**

Bracketed figures show change from 2016. Statistically significant differences are highlighted in red or green.

The majority of schemes of all sizes reviewed both the suitability (83% of micro, 69% of small, 85% of medium, 91% of large schemes and 100% of master trusts) and performance (86% of micro, 81% of small, 87% of medium, 99% of large schemes and 100% of master trusts) of the default arrangement at least every three years.

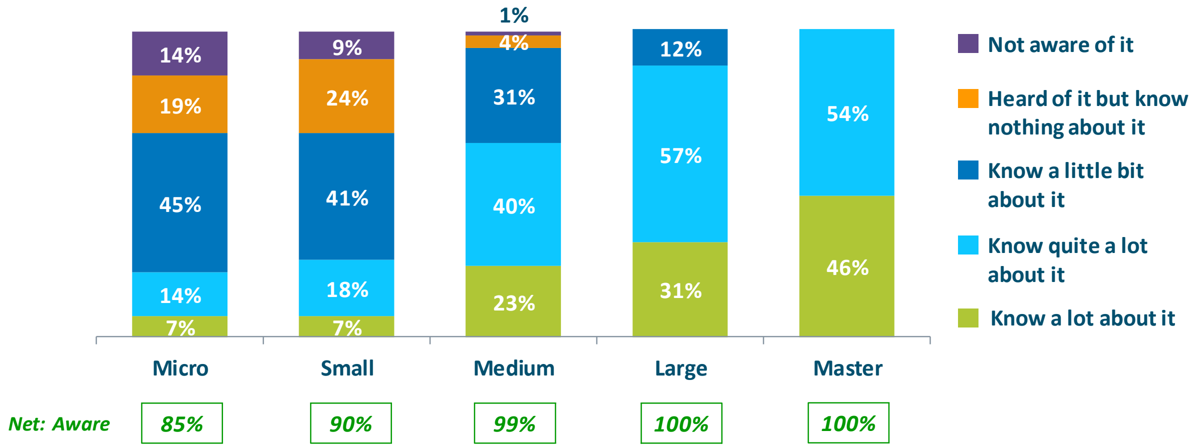
The primary barrier to meeting this KGR was the expectation for the design of the default investment strategy to be influenced by member analysis or research. Small and medium schemes were least likely to meet this element (24% and 38% respectively), with the latter representing a significant decrease from 2016, and resulting in a significantly lower proportion of medium schemes meeting KGR 5 overall.

3.2 Engagement with TPR

3.2.1 Engagement with the DC code and supporting guides

Schemes were asked how well informed they considered themselves to be about the DC code, which came into force in July 2016. Figure 3.2.1.1 shows schemes' awareness and knowledge of the code.

Figure 3.2.1.1 Awareness & knowledge of DC code



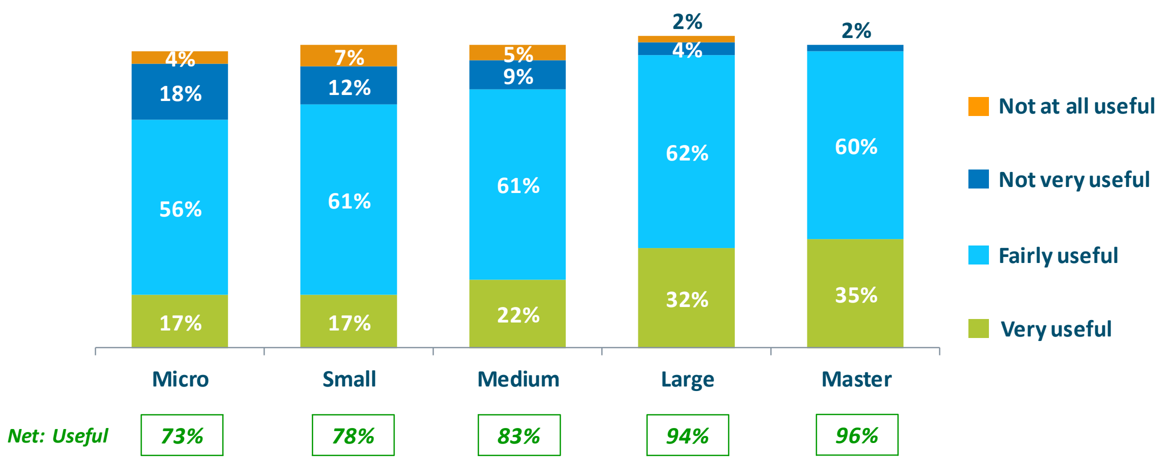
Base: All schemes (Base, Don't know)
Micro (82, 2%), Small (88, 1%), Med (98, 0%), Large (132, 0%), Master (45, 0%)

The majority of schemes were aware of the code, and awareness increased with size (85% of micro, 90% of small, 99% of medium, 100% of large schemes and master trusts). However, knowledge was less consistent, with three quarters of micro (78%) and small schemes (74%) knowing little or nothing about the code.

3.2.2 Usefulness of DC code

Figure 3.2.2.1 shows how useful (or otherwise) schemes had found the code in helping them to comply with their legal duties.

Figure 3.2.2.1 Usefulness of DC code



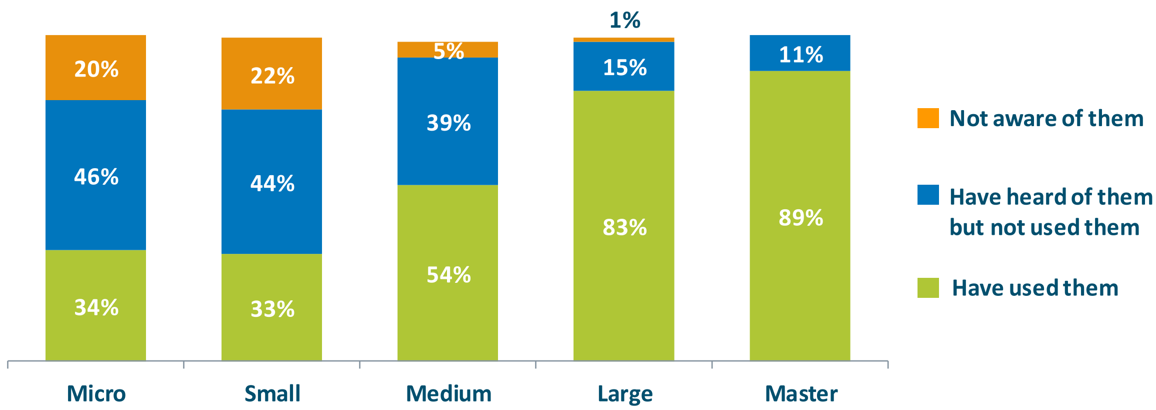
Base: All who know at least a little about DC code (Base, Don't know)
Micro (54, 4%), Small (58, 2%), Med (92, 3%), Large (132, 0%), Master (45, 2%)

Among those who knew at least a little about the code, its perceived usefulness increased with scheme size; 73% of micro schemes found the code useful, rising to 78% of small, 83% of medium, 94% of large and 96% of master trusts.

3.2.3 Awareness and use of supporting guides

Figure 3.2.3.1 shows respondents' awareness and use of the supporting guides, published alongside the code.

Figure 3.2.3.1 Use of supporting guides



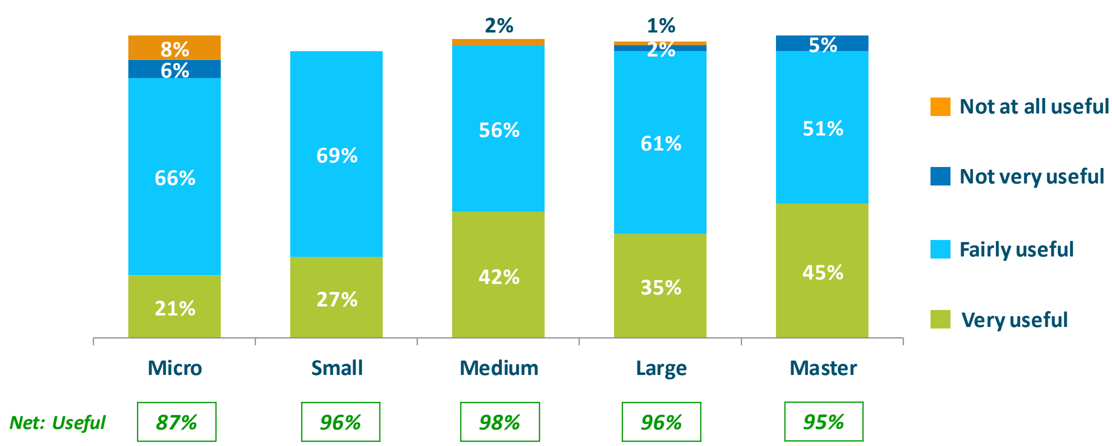
Base: All schemes (Base, Don't know)
Micro (82, 0%), Small (88, 1%), Med (98, 2%), Large (132, 1%) Master (45, 0%)

The vast majority of master trusts (89%) and large single-employer schemes (83%) had used the supporting guides. Micro and small schemes were less likely to have used the guides; a fifth (20% of micro and 22% of small) were unaware of them.

3.2.4 Usefulness of supporting guides

Figure 3.2.4.1 shows how useful (or otherwise) schemes found the supporting guides in helping them to meet the standards in the code.

Figure 3.2.4.1 Usefulness of supporting guides



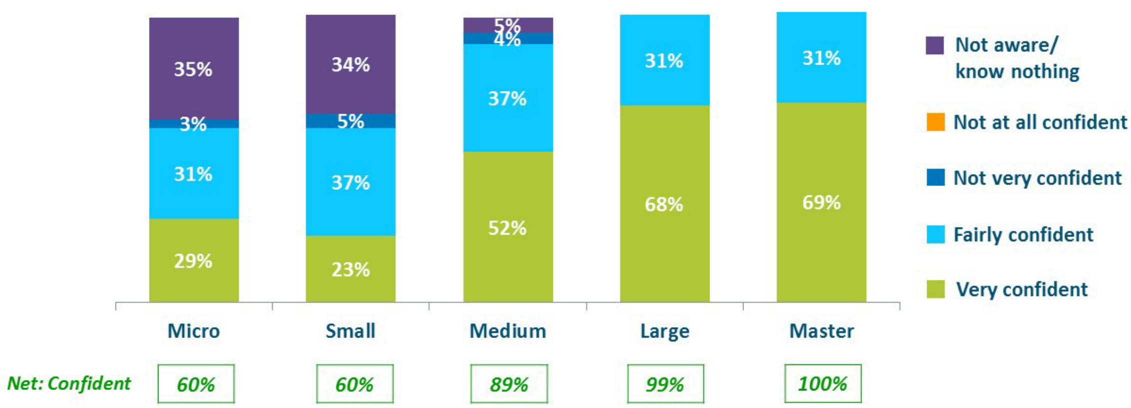
Base: All that have used guides (Base, Don't know)
Micro (29, 0%), Small (29, 4%), Med (53, 0%), Large (107, 1%) Master (40, 0%)

Among those that had used the guides, most rated them as very or fairly useful (87% of micro schemes, 96% of small, 98% of medium, 96% of large and 95% of master trusts). Medium single-employer schemes and master trusts were slightly more likely than others to rate the guides as *very* useful (42% and 45% respectively).

3.2.5 Ability to meet TPR's expectations in DC code

Figure 3.2.5.1 shows how confident respondents were that their scheme could meet the standards that TPR expects, as set out in the code.

Figure 3.2.5.1 Ability to meet expectations in DC code



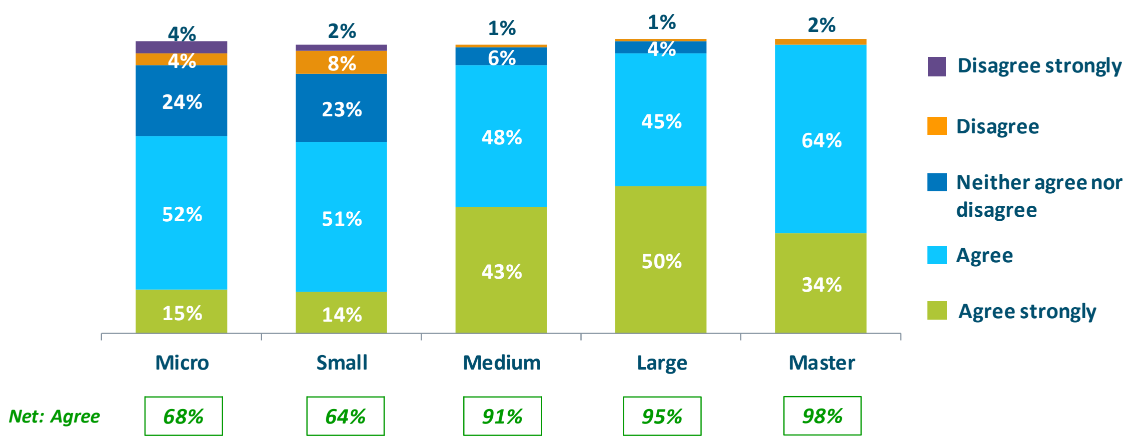
Base: All schemes (Base, Don't know)
Micro (82, 3%), Small (88, 0%), Med (98, 1%), Large (132, 1%), Master (45, 0%)

All master trusts interviewed were very or fairly confident that they could meet the expectations in the code. Although this was less likely to be the case for single-employer schemes, confidence did increase with scheme size; 60% of micro and small schemes were confident, rising to 89% of medium and 99% of large schemes (on par with master trusts).

3.2.6 Clarity of TPR's expectations

Figure 3.2.6.1 shows the extent to which schemes agreed or disagreed that TPR is clear on what it expects from trustee boards.

Figure 3.2.6.1 Perceived clarity of TPR's expectations



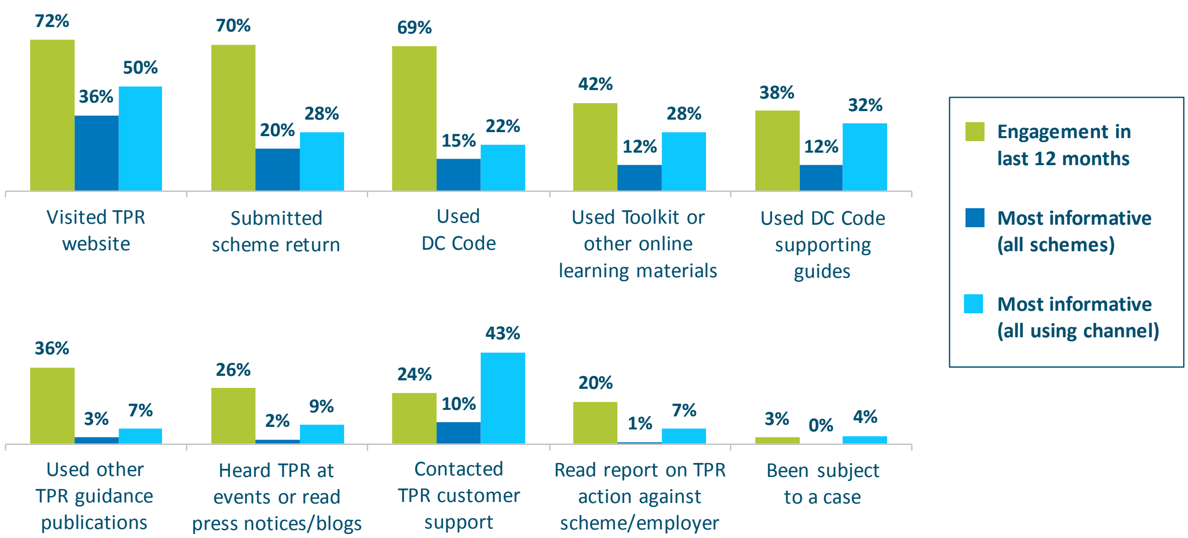
Base: All schemes (Base, Don't know)
Micro (82, 0%), Small (88, 3%), Med (98, 3%), Large (132, 0%), Master (45, 0%)

Most schemes agreed that TPR makes its expectations clear. This was particularly true of larger schemes (68% of micro schemes, 64% of small, 91% of medium, 95% of large and 98% of master trusts).

More recently established schemes were also more likely to agree (82% of those established in 2000 or later agreed, compared to 67% of those established before 2000).

Figure 3.2.6.2 shows the proportion of schemes that engaged with TPR through various different channels. It also shows the proportion rating each one as the 'most informative' about TPR's expectations of trustee boards. Results for this have been shown in two ways: based on all schemes, and based just on those using each channel.

Figure 3.2.6.2 Recent engagement with TPR



Base: All schemes (445) / All using – Website (358), Return (354), Code (381), Toolkit (291), Guides (258), Publications (239), Events (225), CS (94), Report (137), Case (17)

The most common ways of engaging with TPR were through the website (72%), by submitting a scheme return (70%) and by using the DC code (69%).

The website was rated as the most informative method by the largest proportion of schemes (36%). This equated to 50% of those that had used it.

One in 10 schemes (10%) rated TPR's customer support function as the most informative channel. However, this is linked to the fact that just 24% of all schemes had contacted customer support, and when results are based solely on this group 43% judged it to be the most informative method.

3.3 Meeting expectations set out in DC code

Section 3.1 reported on how schemes were performing against five key legislative governance requirements (KGRs). This section looks at the extent to which schemes were meeting the standards that TPR expects trustee boards to meet when complying with the KGRs and other legal duties, as set out in the DC code.

The code sets out the TPR's expectations in seven areas[12]:

1. The trustee board
2. Scheme management skills
3. Managing commercial relationships
4. Administration
5. Investment governance
6. Value for members
7. Communicating and reporting

For the purposes of this survey, proxy measures were developed to illustrate how well schemes were meeting TPR's expectations in these areas.

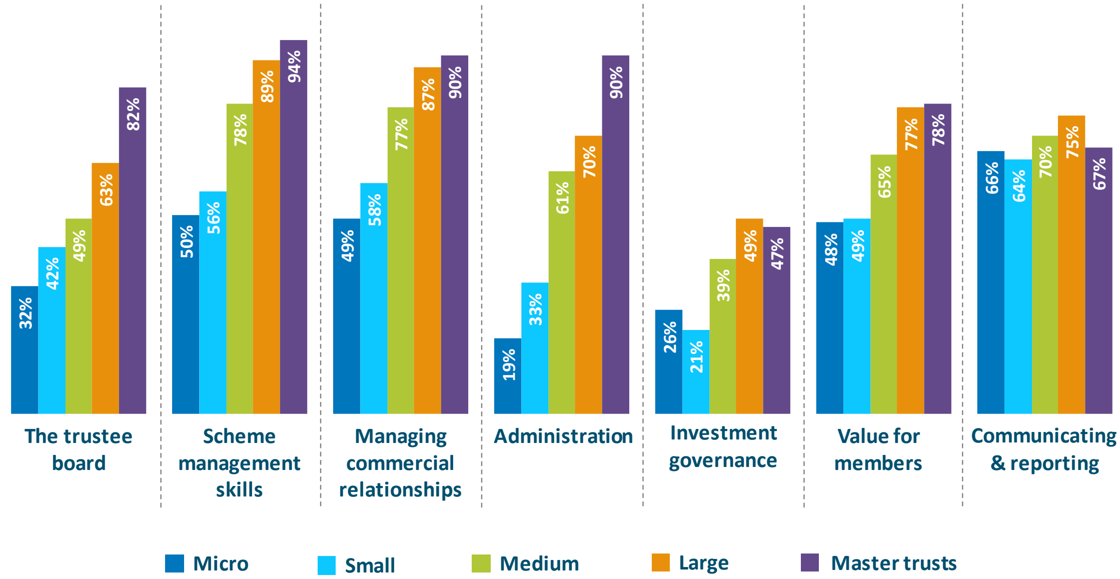
3.3.1 Meeting expectations in DC code - schemes

Performance against each section of the code was defined based on schemes' responses to a combination of survey questions each measuring different expectations set out in the code. The number of constituent questions used to measure performance for each code section varied (from 2 to 12), so results have been expressed as an average percentage of the applicable constituent questions met. Appendix I lists the constituent questions used to calculate these performance scores. This report shows the overall performance scores in each of the seven areas, the full results by individual question are provided in the accompanying technical report.

Figure 3.3.1.1 below shows the mean proportion of elements met by schemes for each code section.

[12] The code itself is divided into six areas as 'Managing commercial relationships' is included as part of 'Scheme management skills'.

Figure 3.3.1.1 Average proportion of DC code expectations met by schemes



Base: All schemes
Micro (82), Small (88), Med (98), Large (132), MT (45)

Master trusts were, on average, most likely to have met expectations in five of the seven areas of the code, while large single-employer schemes were most likely to have met expectations in the remaining two. Micro and small schemes were the least likely to have met expectations, except in relation to communicating and reporting where micro and small schemes met on average two-thirds of expectations.

Investment governance was the worst performing area for all sizes of scheme (micro met 26% of elements, small 21%, medium 39%, large 49% and master trusts 47%). For administration, the difference by scheme size was most polarised: respectively, micro and small schemes on average met 19% and 33% of the expectations, compared to 70% of large schemes and 90% of master trusts. In contrast, there was no significant difference by scheme size in relation to meeting expectations on communicating and reporting.

Schemes using a third-party administrator tended to perform better in a number of areas than schemes using an in-house administrator. Table 3.3.1.1 shows performance is noticeably better among schemes using a third-party in relation to managing commercial relationships (respectively, 65% vs. 41%), administration (respectively, 34% vs. 17%), value for members (respectively, 57% vs 44%), scheme management skills (respectively, 60% vs 49%) and investment governance (respectively, 33% vs 19%).

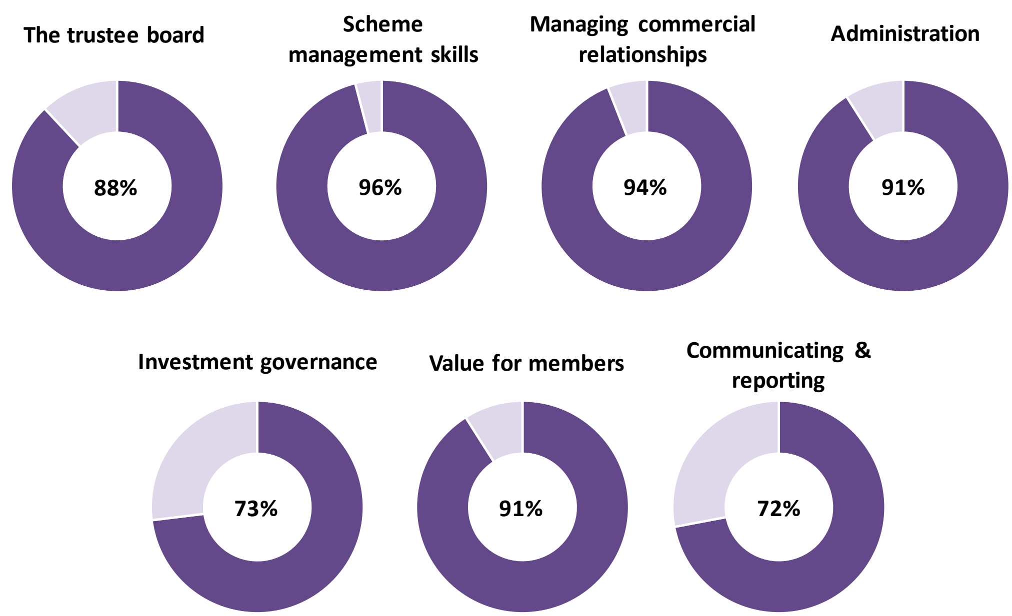
Table 3.3.1.1 Average proportion of DC code expectations met by schemes – by administration arrangement

	Third-party	In-house
Base: All schemes	299	*99*
The trustee board	37%	35%
Scheme management skills	60%	49%
Managing commercial relationships	65%	41%
Administration	34%	17%
Investment governance	33%	19%
Value for members	57%	44%
Communicating & reporting	69%	63%

3.3.2 Meeting expectations in DC code - members

Figure 3.3.2.1 below shows the mean proportion of code expectations met, with results weighted to represent the number of members in schemes meeting each one.

Figure 3.3.2.1 Average Proportion of members in schemes that met DC Code Expectations



Base: All schemes (445)

Reflecting the high volume of members in master trusts, most members were in a scheme that met the expectations in each of the seven areas covered by the code.

The highest performing area here was scheme management skills (96%) followed closely by managing commercial relationships (94%). Members were less likely to be in schemes performing strongly on investment governance (73%) and communicating and reporting (72%). This reflects the poorer performance in these areas across the scheme landscape, including amongst master trusts which account for the greatest proportion of members.

4 Appendix I: Definition of DC code expectations

The tables below show the criteria schemes have to meet to achieve a 100% performance score in each of the seven areas covered by the DC code. The individual questions used to measure these criteria and the findings to each of them are included in the accompanying technical report.

The trustee board

To achieve a score of 100%, schemes had to meet the following criteria:

- When assessing and appointing new trustees, the scheme must have a documented policy to assess their fitness and properness
- The scheme must have a documented process in place for appointing a chair that takes into account the leadership qualities of candidates

Scheme management skills

To achieve a score of 100%, schemes had to meet the following criteria:

- The trustee board must have sufficient time and resources to properly run the scheme
- The scheme must have a risk register
- The scheme must formally review its exposure to new and existing risks at least every 6 months
- New trustees must be required to complete the Trustee toolkit or equivalent within 6 months of appointment
- The trustee board must possess or have access to, all the knowledge, understanding and skills necessary to properly run the scheme
- The trustee board must know which trustees have particular expertise or specialist knowledge
- The trustee board must carry out a regular evaluation of the performance and effectiveness of the board as a whole
- The scheme must have training and development plans to ensure trustees continue to have the required knowledge and skills, including steps to address any gaps

Managing commercial relationships

To achieve a score of 100%, schemes had to meet the following criteria:

- The trustee board must have a good understanding of:
    - The roles, responsibilities, and accountabilities of service providers, including employers
    - The impact of the terms and conditions of service providers' contracts, including limits on liability
    - The scope of the services being provided
    - The cost of those services and basis for calculating those costs
- The board of trustees must have reviewed assurance reports regarding service providers' internal controls and have procedures in place to assess and address the effectiveness and performance of scheme advisers or service providers
- The board of trustees must have both a documented policy to manage trustees', service providers' and advisers' conflicts of interest and a maintained register of trustees', service providers' and advisers' interests

Administration

To achieve a score of 100%, schemes had to meet the following criteria:

- The trustee board must include administration as a dedicated item on the agenda at every regular board meeting
- *Those not using a third-party administrator:* The scheme must have a documented business continuity plan in place and review the plan at least annually
- *Those using a third-party administrator:* The scheme must be satisfied that its business continuity plan is adequate and review the plan at least annually
- The scheme must have documented service standards in place for the time taken to process core financial transactions and track performance against those standards
- The scheme must have documented service standards in place for the accuracy of core financial transactions and track performance against those standards
- The scheme must review the quality of common and conditional data at least annually

Investment governance

To achieve a score of 100%, schemes had to meet the following criteria:

- The scheme must have undertaken an analysis of the profile of its members, undertake other research to discover member preferences in relation to investment, including risk appetite, and this analysis/research must have contributed to the design of the investment strategy for the default arrangement and/or the number and type of self-select investment options available
- *If both default arrangement and self-select options:* The scheme must formally review the on-going suitability of the default investment at least every 3 years, have documented investment objectives and performance targets for both the default arrangement and self-select investment funds, review these at least every 3 years and review the performance of the default arrangement and self-select investment funds at least every 3 years
- *If default only:* The scheme must formally review the on-going suitability of the default investment strategy at least every 3 years, have documented investment objectives and performance targets, review these at least every 3 years and review the performance of the default at least every 3 years
- *If self-select only:* The scheme must have documented investment objectives and performance targets, review these at least every 3 years and review the performance of self-select funds at least every 3 years

Value for members

To achieve a score of 100%, schemes had to meet the following criteria:

- The scheme must have a documented process in place to assess and report, at least annually, the extent to which member-borne charges and transaction costs represent value for members
- The scheme must research the characteristics, preferences and needs of members and take this into account when assessing value for members
- The board of trustees must:
  - Have very/fairly good understanding of the costs and charges deducted from members' funds in default arrangements/self-select options and of the investment transaction costs
  - Be confident that it can obtain all or most of the relevant information to carry out a value for members assessment

Communicating and reporting

To achieve a score of 100%, schemes had to meet the following criteria:

- The scheme must be very confident that member communications are accurate, clear, relevant, and provided in plain English
- The scheme must communicate the following to members at least annually:
  - The level of costs and charges deducted from their pot
  - The investment strategy of the funds they are in
  - That the level of contributions is a key factor in determining the overall size of their pension fund
  - Information on how to spot a scam
  - Information on their right to access their benefits in a variety of ways
- The scheme's pre-retirement communications must include:
  - Clear steps that members should take to make an informed decision about how to take their benefits
  - Risk warnings about the different options available to members in relation to accessing their benefits
- The scheme must continue to communicate with members who remain in the scheme having chosen to flexibly access their benefits
- The scheme must do at least two of the following to assess the effectiveness of the methods of communication they use with members:
  - Research the views of members
  - Conduct an annual review of communications
  - Have a communications plan
  - Review relevant innovations in technology that could improve member access to communications, including interactive tools
- The scheme must be very/fairly confident that the board knows what to include in the annual statement of governance (chair's statement)
- The trustee board, or nominated board member, must review the scheme return prior to submission