Discussion paper response:

Pensions of the future – a discussion on our strategy

The Pensions Regulator's corporate strategy

March 2021

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Introduction

On 16 October 2020 we published our new long-term corporate strategy for discussion. This response summarises the feedback we received and the changes we have made to the strategy as a result.

Across the two-month consultation period we received 24 responses as well as contributions from 42 stakeholders at a series of virtual roundtable events in November and December 2020. We are grateful to all who provided feedback and a list of those who responded is available at the end of this document.

Putting the saver at the heart of all that we do

Our corporate strategy for discussion set out our commitment to put the pension saver at the heart of all that we do.

Putting the saver at the heart of all that we do means two things:

1. Savers entering, or in retirement, over the next 15 years can expect us to do all we can to protect their savings.
2. Savers who are further away from retirement can expect us to do all we can to drive participation and enhance the quality of their savings outcomes.

Looking ahead over a 15-year horizon, our strategy for discussion proposed five strategic priorities, which will be our future focus.

1. **Security** –savers' money is secure
2. **Value for money** –savers get good value for money
3. **Scrutiny of decision-making** –decisions made on behalf of savers are in their best interests
4. **Embracing innovation** –the market innovates to meet savers' needs
5. **Bold and effective regulation** –TPR is a bold and effective regulator.

These strategic priorities were drawn up based on our analysis of the pension saver and a forecast of the major changes that we predict will take place in the market over the next 15 years.

We categorised savers by their age (what stage they are in their working lives and how long they may be saving for) and their levels of income, but also considered a broad range of other factors – including other protected characteristics. For each cohort we set out the different pensions challenges and circumstances they face.

We also predicted seven overarching trends will shape the future of retirement saving. They are:

1. The nature of work and retirement is changing
2. The balance of the marketplace is shifting
3. The proportion of DB memberships and assets continues to reduce
4. The DC market is growing and consolidating
5. Suppliers will innovate and integrate
6. Technology will drive and enable change

7. Regulatory frameworks will evolve

With that in mind, we asked for feedback on the overall content and ambition of the provisional strategy. We asked four questions:

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

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?

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?

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

Comments received and our response

Question one

We asked:

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

Comments received

Saver analysis

Most respondents felt that thinking of savers in terms of income and generation was helpful, and that we had identified many of the key challenges and circumstances that savers face.

However, several comments were made with suggestions for improving our analysis. These included:

- references to the fact that gender, ethnicity and vulnerability all contribute to pensions inequalities
- that we should further outline that the nature of retirement is changing and evolving based because of increased longevity and flexibility
- specifics around the needs and pressures on Generation X like the late start to accumulation and potential wider care costs should be included
- that indicating the comparative size of each cohort would help guide regulatory intervention

A large number of respondents also said it was important for us to engage with the debate around the adequacy of retirement savings in light of current saving levels.

Relative reliance on different forms of savings

Alongside the general comments on our analysis of the saver, some comments were also specifically about the graphic on page 5 depicting the relative reliance of different saver groups place on different forms of savings. Some respondents felt that:

- we had underrepresented the importance of the state pension to savers in groups other than those on low or very low income
- it was unclear if public service schemes were included in our analysis and focus

Our response

Saver analysis

We recognise that all protected characteristics can potentially impact savers, and this is reflected in the final strategy, and also that vulnerable savers may experience particular challenges. Vulnerability, not in itself a protected characteristic, is also reflected. We have also made clearer in the strategy why we have set out our analysis in terms of age and income. This is to cater for the significant structural shift in the pensions landscape – from a largely DB landscape to one where the vast majority are now in automatically enrolled DC schemes – which has impacted groups of savers differently. This shift can be most clearly shown by looking at savers in terms of their age and income.

Given the complexity of the factors that affect savers, we acknowledge that this is a broad categorisation, but this is a start of a bigger conversation about how we focus our actions to best improve saver outcomes. As we continue to gather and analyse evidence, our approach will continue to develop, which will help guide targeted interventions in the future.

We also recognise that the nature of retirement is changing for many, a topic we will explore during our forthcoming review of the consumer pensions journey with the FCA, and this is reflected in the strategy. We have also included additional analysis of the broader costs Generation X may face in the future.

The indicative numbers of savers within different scheme types and different cohorts will be considered as part of a broad range of factors when developing future policy interventions. However, given the long-term nature of this document, and the potential changes over time, including the emergence of the Generation Z cohorts, we felt that indicative numbers would be of limited value in the strategy.

We acknowledge that the adequacy of pensions saving was the most frequent topic highlighted by respondents who wanted us to encourage people to save more and requested that we stated this within the strategy. The adequacy of pension savings, especially automatic enrolment contribution levels, is a matter for government. As a regulator, our job is to make sure that the system savers are in is well-governed and well-run providing the best possible outcomes. It is not to set the level of funds that people should be contributing.

Relative reliance on different forms of savings

The graphic to show savers' relative reliance on different forms of retirement savings was intended to illustrate the growing importance of DC savings to many, particularly younger savers. Our underlying analysis included the state pension for all saver groupings. However, for illustrative purposes, we showed the state pension for low-to-very low income graphs only to demonstrate the lower reliance on workplace pensions for people in this category, many of whom are not in occupational schemes and rely more fully on state support. However, we recognise that this was confusing, and we have amended the graphic to show the state pension for all groups and have amended the graphic to provide a high, medium and low reliance traffic light-style system to show reliance in broad terms.

We have also clarified that public service schemes are included within our DB estimates.

Question two

We asked:

- 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?

Comments received

Suggested new segmentations

There was broad consensus that different saver cohorts would have different priorities or regulatory needs. For example, it was suggested that Generation X and younger generations would need help in navigating the complex decumulation environment.

A couple of respondents suggested new segments – including for the industry sector or those specifically brought into the system under automatic enrolment. They stated that thinking in this way may bring about different regulation to better serve savers.

Current legislation is DB-focused

Some respondents highlighted a perception that much of the legislative focus, and historic pensions laws, are for DB schemes. As DC pension memberships continue to grow, they felt that legislation should be developed with DC firmly in mind. Respondents also noted that the shift towards DC brought a closer relationship towards the ‘commercial’ finance environment as opposed to the traditional employer-and member-linked DB model.

Our response

Suggested new segmentations

We will continue to monitor our approach, and the analysis within the strategy recognises that a number of factors will influence a saver’s experience of the pensions system.

Within the strategy, we set out that regulatory frameworks will evolve to meet the challenges of the day and changes in the market. Providing further regulatory support for the decumulation journey is likely as more and more savers rely on DC pension pots and have to make decisions on their retirement income. We will continue to support and influence the government’s policy development in this area and look to support schemes in their efforts to improve members’ access to appropriate guidance and, where appropriate, advice.

Automatic enrolment brought a shift in the pensions landscape, rapidly expanding the number of savers and bringing even more diversity to the pensions savers' landscape. However, this is reflected in the strategy's focus on the increased importance of DC savings within Millennial and Generation X savers in the middle-to-low income and high-to-middle income cohorts. While in the final strategy we have more explicitly drawn attention to this in the analysis of the savers landscape, we do not feel it would be appropriate to create new saver segments. By the same token, industry could be another way to segment savers, but would add a level of complexity on top of the other factors we have listed which might act as a barrier to understanding how we have determined our strategic priorities.

Current legislation is DB-focused

Pensions legislation is a matter for parliament. However, our DC code of practice and forthcoming New Code of Practice are designed to make sure that the steps required for compliance with the law and our expectations for DC schemes are clear. However, we will continue to work with government to ensure that any future proposed pensions legislation has the needs of savers and DC schemes at its heart. We will also continue to work with the FCA on joint regulatory solutions.

Question three

We asked:

- 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?

Comments received

There was broad consensus among respondents that the seven key trends outlined in the strategy captured the broad systemic changes that the sector anticipates will happen in the UK pension system over the next 15 years.

Climate change

Climate change was highlighted by some respondents as a further issue that would influence the market and was deserving of its own trend.

The importance of DB

Respondents also recognised that although there has been, and will continue to be, a shift towards DC, DB pensions are still of long-term importance to many savers and the needs of DB schemes will continue to attract a considerable amount of policy and regulatory focus for the whole of the 15-year strategy window.

Several respondents made reference to our ongoing work to provide a clearer funding framework for DB schemes and a perception that this would, unintentionally, accelerate the closure of open schemes.

COVID-19 and Brexit

Several respondents reference two large external events that will influence the pension system systemically: the recovery from the COVID-19 pandemic and the future economic and regulatory environment that may develop as part of the UK's exit from the European Union.

Our response

Climate change

We agree that climate change will impact all walks of policy-making, consumer behaviour and society. The government has committed to ensuring that the UK brings all greenhouse gas emissions to net zero by 2050 and is proposing new requirements for trustees of larger schemes and authorised schemes to address climate change risks and opportunities. We will shortly publish a climate change strategy setting out how we as a regulator can help trustees meet challenges around climate change. This increased focus has now been reflected in the final strategy.

We see the impact of climate change on investment strategies as part of a broader trend on the stewardship of assets within pension schemes. We have therefore also introduced a new trend on stewardship in the final strategy. This captures climate change, corporate governance, sustainability and social investment, reflecting the growing demand for connecting investment decisions closely with these key issues.

The importance of DB

For many savers, particularly Baby Boomers, DB schemes are an important source of retirement income. As a regulator we are committed to protecting savers within DB schemes now and in the future.

Our corporate strategy acknowledges that in the past, due to the weight of assets and the nature of the pensions landscape, our focus has tended towards DB pension schemes. Given the shifting nature of pensions saving towards DC, our focus will need to be effectively balanced across both DB and DC.

The 'sunset' graphs on page 12 of the strategy discussion document were intended to show this shift in the market over the next 15 years. They illustrated the changes to the DB and DC scheme landscape with a huge increase in active DC scheme membership. However, these graphs do not indicate the volume of assets that remain within DB schemes over the next 15 years, which are projected to remain above the assets in DC schemes.

As a result, we have introduced new graphics to demonstrate the volume of assets with DB schemes versus the number of active memberships. We hope in doing so, we show that there is a narrowing gap between the volume of assets between the two scheme types, and demonstrate why it is important that our regulatory focus is across all scheme types.

Our proposed revised DB code will maintain a scheme-specific approach and allow sustainable open DB schemes to continue to offer future DB benefits to their members. We have published an interim response to our first consultation on a revised DB code and will be responding in detail later this year.

COVID-19 and Brexit

As we outlined in the CEO's introduction to the strategy for discussion, we had previously paused the publication of our strategy to assess the impact of the COVID-19 pandemic on both our analysis of the saving landscape and the major trends we expect to see in the market. This further assessment has been reflected in the strategy and will continue to be at the front of our mind when analysing the pensions landscape over the coming years.

The UK government and the European Union agreed a Trade and Cooperation Agreement in December 2020 following the end of our consultation period. As part of this, the agreement provides for UK Parliament to take back sole control of legislation. As set out in the key trends section of the strategy, we believe that regulatory changes will evolve depending on the external environment which includes the impact of the UK leaving the European Union. We will work with government to manage future developments in this area.

Question four

We asked:

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

Comments received

We received a broad number of comments on this question with respondents outlining potential areas of focus for us and comments on how we might look to regulate schemes in the future. Overall, there was a broad endorsement of the strategic priorities that were set out with some specific feedback points drawn out below.

More broadly, many respondents asked what the strategy meant by 'putting the saver at the heart of all that we do' given that our regulatory remit is over schemes and employers.

Security

Some respondents wanted us to be clearer that security in pensions is wider than just DB pensions. Cyber risk was highlighted as an example of this by some respondents. It was thought to be a significant continuing risk that was not sufficiently surfaced within the strategy. Some respondents also called for a continuing focus on tackling and preventing scams.

There was some discussion around the importance that our focus on security should not come at the expense of putting too much pressure on employers at a time of economic difficulty.

Value for money

Value for money was considered to be a key area of focus by many stakeholders and we were encouraged to quickly increase our focus in this area. In particular, it was felt that the lack of common standards and frameworks for defining and pursuing value for money was one of the largest barriers for the industry in building on the progress that has already been made in the area. That is, the introduction of the charge cap and the move to more low cost, passively-driven investment strategies.

There was also a broad consensus that value for money should focus on outcomes and a more holistic assessment than just cost and charges, in line with ours emerging work in this area.

Scrutiny of decision-making

At roundtables and via written responses, a number of points were made regarding scrutiny of decision-making.

Some respondents asked whether scrutiny of decision-making signalled a more interventionalist approach from us looking at the decisions that individual schemes make.

Many stakeholders suggested that decisions made by savers, as well as decisions made on their behalf, should be a key focus for us. To that end, there was broad consensus of the need to engage savers and help inform good decision-making. It was suggested that one way to engage savers could be through communicating and engaging in environmental, social and governance issues.

One potential barrier to engagement was the perceived difficulty for employers and schemes in providing guidance and risking straying into the regulated advice sphere. It was also suggested that employers needed more support and guidance in choosing the right schemes for their employees.

We predict a consolidation of the market and the potential emergence of single or professional trustee models becoming more widespread. Respondents broadly agreed with this analysis but some also highlighted that ensuring diversity of decision-making remains a key part of this trend.

Embracing innovation

There was broad consensus that the right level of regulation needs to be in place to foster an environment where innovation and technology can flourish but also protect against risks it may bring.

Some respondents stated that we should say more within the strategy on how we will support ‘product’ as well as technological innovations. This included emerging consolidation models like superfunds and multi-employer collective DC pension schemes – and the potential future development of master trust decumulation options.

Bold and effective regulation

There was a range of responses by stakeholders across how we should regulate in the future.

One theme that emerged was the need to ensure the regulatory overlap between trust- and contract-based schemes was consistent and that we worked with the FCA to ensure clarity.

There was a perception that we focus on schemes by size rather than thematic risks and that often schemes would approach good trusteeship in ‘tick-box’ compliance rather than focusing on improved outcomes.

However, we were also seen as being uniquely placed to capture and share examples of what good looks like to help improve schemes across the board.

Our response

Putting the saver at the heart of everything we do signals that our regulatory approach will zero in on how our actions affect the outcomes of savers. Respondents are right to say that our regulatory grip extends over employers and schemes – this means we don't hold all the levers that determine the quality of saver outcomes. However, by putting the saver at the heart of all that we do, we are also signalling to the outside world our commitment to working closely with government and partners in the regulatory family to create a pensions system that works to generate the best possible outcomes for savers.

Security

We consider security to be important across DB and DC schemes. One way to recognise this has been to note that cyber-security is an important element of protecting savers income – no matter the scheme type – and we have added an explicit reference to it within the strategy to reflect this.

Working with partners to prevent and tackle scams was also highlighted as a key area for the Baby Boomer cohort. However, we recognise that this is equally important for all savers, Generation X, Millennial and future Generation Z savers to come. We will continue to play an active role in ensuring that schemes comply with the new measures introduced through the forthcoming Pensions Act and all pensions legislation, coordinating joint action through the multi-agency Project Bloom.

As we have demonstrated over the course of the COVID-19 pandemic so far, we will continue to take a pragmatic and proportionate risk-based approach to regulating schemes and employers consistent with our statutory objectives.

Value for money

As set out in our joint regulatory strategy with the FCA, developing a consistent set of standards for value for money is a priority across both trust- and contract-based pensions. We are committed to working with industry to establish these principles and will shortly launch a first discussion paper on the topic. A reference to this has now been included within our final strategy. Alongside this we continue to support the DWP in driving consolidation of poorly run small DC schemes to achieve greater value for money for savers.

Scrutiny of decision-making

Over several years, we have followed a clear, quick and tough approach to regulation and extended our regulatory grip through a new supervision model. We do not intend to move away from this approach and will continue to be a bold and effective regulator. As DB and DC schemes continue to consolidate into fewer, larger entities, is also to be expected that their decision-making is subject to more scrutiny.

In the final strategy, we have broadened this priority area to capture supporting savers' and employers' decision-making.

Driving saver engagement and helping to ensure savers make good decisions is a key part of the Money and Pension Service's UK Strategy for Financial Wellbeing. We are supporting this work and agree it is vitally important to securing good outcomes.

We also recognise that many savers look to employers and schemes for guidance on their pensions and that new employers need guidance to help navigate which schemes may be suitable for their businesses and employees.

That's why we have committed to publishing a joint review of the consumer pensions journey with the FCA to see how, as regulators, we can boost engagement with pensions, and effectively funnel employers and savers towards appropriate guidance and regulated advice.

Alongside this, we have also added a commitment to work with partners in the strategy to improve access to decision-making guidance and information and to explore issues related to decisions made by employers on behalf of savers.

We agree that diversity of decision-making is a key element of successful scheme stewardship. This was already set out in our strategy but we have reworded the strategic priority that contains it to make this clearer.

Embracing innovation

While technology has the potential to drive engagement with pensions, in the final strategy we have also referred to the fact that it is important to guard against any potential new risks it may bring.

It is not for us to decide, which emerging models would suit the market and savers best. However, we will seek to strike a balance between encouraging the positive aspects that innovative new technology and products bring while ensuring they provides the protection savers deserve, supporting the development of legislation with this aim. To reflect the weight of comments on collective DC pension schemes, and our continued support on the Pension Schemes Act 2021 to support its implementation, we have also emphasised our role in supporting their development in the strategy. Alongside this we have referred to the development of DB consolidation vehicles such as superfunds and the development of master trust decumulation products.

Bold and effective regulation

Savers care that their pension savings are in a system that is well-run, secure and focused on providing good outcomes. They do not necessarily care which regulator ensures this is the case. It is therefore essential that, building on our joint regulatory strategy, we continue to work with the FCA to make sure that across, trust- and contract-based pensions, savers' needs are met. As a result, we have added a further commitment to work with partners to improve regulatory alignment and minimise burden.

Sharing what good looks like is important and we will continue to explore ways to do this. This importance has been reflected in the final strategy.

We welcome stakeholders comments on a principles-based approach to regulation and have also added a commitment to pursuing this in the final strategy.

Alongside these ambitions, we will continue to be a clear, quick and tough regulator to ensure that savers within all scheme types are protected.

Next steps

We would like to thank all of those who participated in the digital roundtables, asked questions and provided comments at speaking engagements and submitted written responses to aid the development of our strategy.

Alongside this response to consultation, we have now published our final corporate strategy, putting savers at the heart of all that we do.

Over the course of the next 15 years we will continue to publish corporate plans that will seek to deliver on our statutory objectives and be aligned to the five strategic priorities outlined in the strategy.

We will continually monitor the market and pensions landscape so we can reflect the changing environment in our areas of focus and ensure we deliver value for the taxpayer as well as good outcomes for savers.

We want the strategy to be part of ongoing dialogue with the sector on the key issues affecting pensions and we look forward to engaging in essential work around value for money, climate change and much more.

Appendix: List of non-confidential respondents or attendees at round tables

We received 24 responses as well as contributions from 42 stakeholders at a series of virtual round table events in November and December 2020. Forty-nine contributors consented to be listed below:

- Association of British Insurers (ABI)
- Aegon UK
- Age Wage Ltd
- Aon
- Association of Consulting Actuaries
- Aviva
- Aviva Master Trust
- BESTrustees Limited
- Capital Cranfield Trustees Ltd
- Clara Pensions (Superfund)
- Confederation of British Industry
- Creative Benefits
- Dalriada Trustees Ltd
- DC Investment Forum
- Ernst & Young
- Evolve
- Gazelle Corporate Finance
- ICAS Pensions Panel
- Isio
- JP Morgan UK Pension Plan
- KGC Associates
- Lane Clark & Peacock LLP
- Legal & General
- Lloyds Banking Group
- Member of the public
- Mercer
- NEST
- Pensions Administration Standards Association (PASA)
- Pension and Lifetime Savings Association (PLSA)
- Pensions Management Institute (PMI)
- Phoenix Group
- Profile Pensions
- PwC
- Railways Pension Trustee Company
- RBS Group Pension Fund
- Ross Trustees Services Ltd
- Sackers
- ShareAction
- Spence and Partners
- Travers Smith
- UK Sustainable Investment and Finance Association (UKSIF)
- University of Warwick

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