Defined contribution trust-based pension schemes research

A summary report on the 2016 research survey

Prepared for

The Pensions Regulator

By OMB Research

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1 Executive summary

1.1 Introduction

Unlike Defined Benefit (DB) schemes, where risks are shared between the employer and the member and additional protection is given by the funding regime and compensation arrangements, in Defined Contribution (DC) schemes it is members that bear the risk. Therefore, it has been a key focus for The Pensions Regulator (TPR) to promote and improve the quality of DC arrangements.

The unprecedented growth in DC provision, coupled with TPR's identification of the risks associated with this expansion, has led to new legislative governance standards for certain schemes offering money purchase benefits coming into force from April 2015. TPR is tasked with regulating compliance with the new requirements, as well as those that existed previously, for occupational trust-based schemes offering money purchase benefits.

This provided TPR with an opportunity to build on their regulatory approach with a view to both supporting implementation of the legal requirements and continuing to raise the overall standard of DC scheme governance and administration. They published a new draft DC code of practice ('new code') for consultation from November 2015 to December 2016. The new code has now been laid in Parliament and is due to come into force in July 2016.

This report provides the results from the March – April 2016 survey carried out by OMB Research, an independent market research agency, on behalf of TPR.

The main objective of the research was to identify the type and prevalence of challenges which DC and hybrid[1] schemes faced in relation to the legislative governance standards and the standards of conduct and practice in TPR's new DC code of practice.

The survey comprised quantitative interviews with 639 schemes, including 20 relevant multi-employer schemes. 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 commonly known as 'master trusts' and this term is used throughout this report when referring to these.

Table 1.1.1 shows the work-based pensions landscape for DC trust and hybrid schemes which were covered in the survey and which are subject to the legislative governance standards and the related standards in TPR's new DC code of practice.

[1] A hybrid pension scheme includes both DB and DC elements.

Table 1.1.1 DC trust and hybrid landscape

	Master trusts	Large (1,000+ members)	Medium (100-999 members)	Small (12-99 members)	Micro (fewer than 12 members)*
Schemes	97	360	780	1,540	4,700
Members	4,360,000	621,000	280,000	55,000	20,000
Assets	£7,673m	£6,238m	£3,347m	£900m	£470m

Source: The pension register, TPR January 2016

* Excludes small self administered schemes (SSAS) and executive pension plans (EPPs) which are outside the scope of the legislative governance standards.

This report is accompanied by a Technical Report[2], also prepared by OMB Research, which details the responses to all of the questions asked in the survey, broken down by scheme size and scheme type (pure DC/hybrid).

The legislative governance standards, which since April 2015 schemes are required to annually report on in a 'chair's statement', and their importance to good scheme governance, can be summarised as follows:

Standard 1: Trustee board must possess or have access to the knowledge and understanding 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 (eg 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.

Standard 2: Trustee board 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.

Standard 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 member's 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

[2] www.tpr.gov.uk/data-2016

members receiving the incorrect benefits or basing their retirement decisions on inaccurate information.

Standard 4: Independence requirements for master trusts. (These apply 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.

Standard 5: Investment obligations in default strategies. (These apply 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.

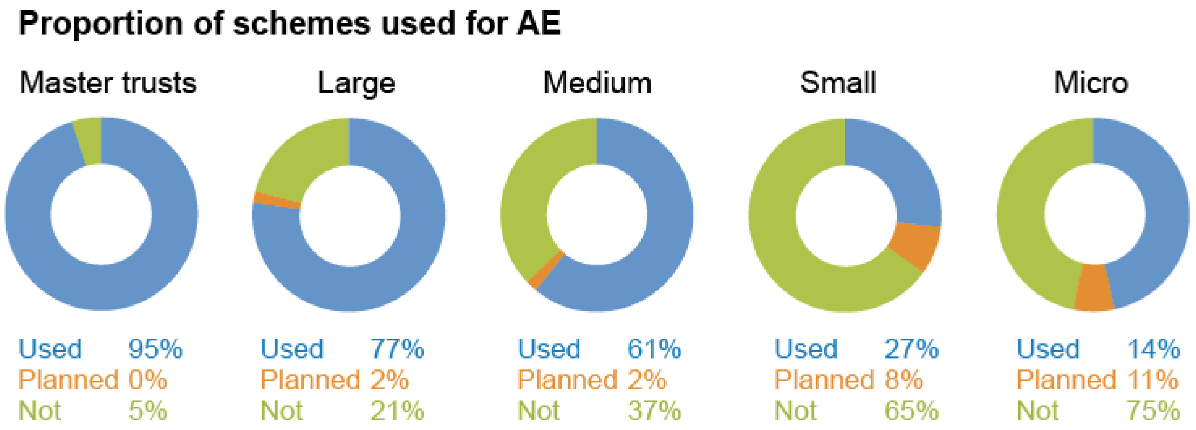
The governance standards are not generally referred to as Standards 1 to 5. For abbreviation purposes they are referred to as such in this report.

1.2 Key findings

The survey findings consistently show that larger schemes out-perform small schemes on all aspects of governance and administration.

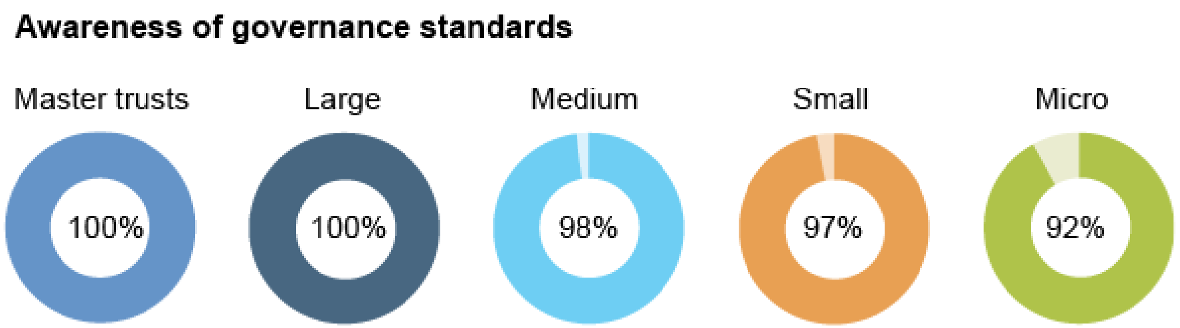
1.2.1 A significant proportion of trustees boards of micro and small schemes reported that their scheme is used or will be used for automatic enrolment

Almost all master trusts (95%), the majority of large schemes (77%) and medium schemes (61%) were already being used for automatic enrolment. While the majority of small and micro schemes were not being used for automatic enrolment, a significant proportion of trustee boards reported they were being used or will be in future: 35% of small schemes and 25% of micro schemes.



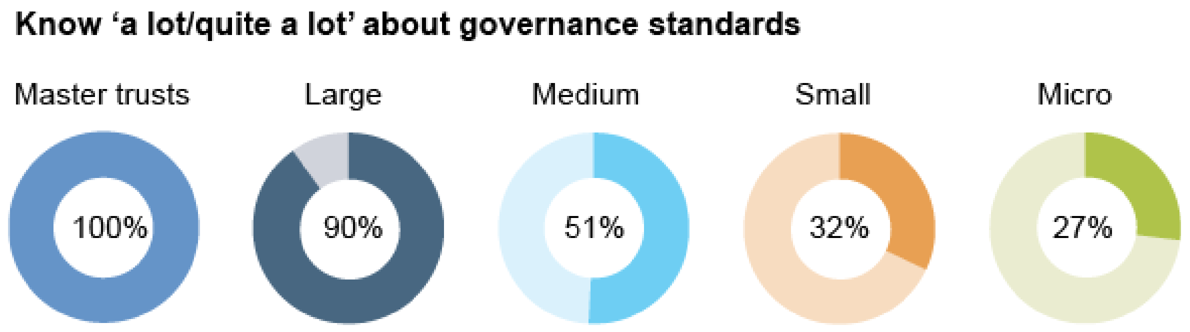
1.2.2 Awareness of the legislative governance standards near universal, but many smaller schemes knew only a little about them

The large majority of schemes were aware of the new legislative governance standards, ranging from 100% in relation to master trusts and large DC schemes to 92% in relation to micro schemes.



Levels of awareness of the governance standards were similar to last year overall. However, awareness increased among trustees of small DC schemes to 97% from 89% last year.

All master trusts (100%) and 90% of large DC schemes reported that they knew 'a lot' or 'quite a lot' about the standards. In contrast, 65% of both micro and small schemes and 47% of medium DC schemes had heard of the standards but said that they knew little or nothing about them.

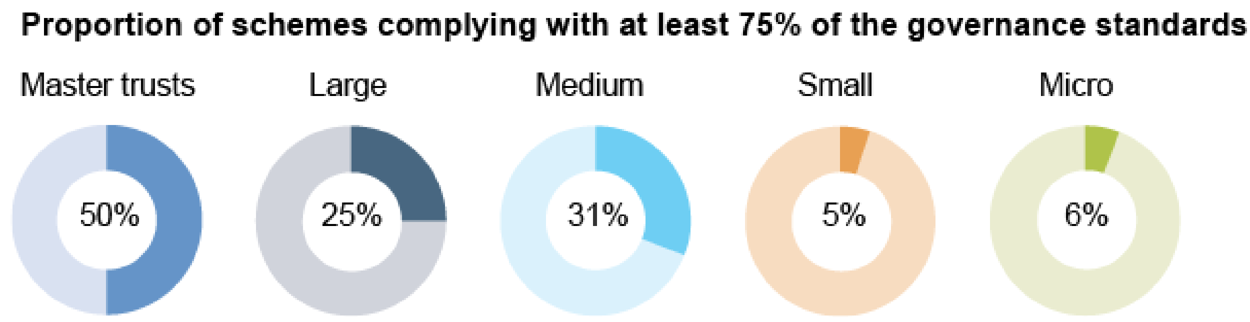


1.2.3 Awareness and knowledge of the new DC code also increased with scheme size

Almost all master trusts and large DC schemes were aware of the new DC code (100% and 98% respectively), and most reported that they knew a lot/quite a lot about it. In contrast, 54% of micro, 48% of small and 29% of medium DC schemes were unaware of the new code or reported that they knew nothing about it.

1.2.4 Reported compliance with the governance standards generally increased as scheme size increased

There was a strong correlation between scheme size and the number of standards being met. Half of master trusts (50%) met at least 75% of the standards, compared to 25% of large, 31% of medium, 5% of small and 6% of micro DC schemes.



1.2.5 Large schemes and master trusts generally met the requirements of Standards 1 (knowledge and understanding) and 5 (investment obligations in default strategies). However standards 2 (value for members assessment) and 3 (core scheme financial transactions) were more challenging for all types and sizes of scheme

There was a broadly consistent pattern whereby the likelihood of meeting each governance standard increased as scheme size increased. Schemes were most likely to report that their scheme met standard 5 (investment obligations in default strategies), ranging from 80% of master trusts down to 19% of small schemes. The primary barrier to meeting this standard was the expectation for the design of the default investment strategy to be influenced by member analysis or research.

The proportion of schemes meeting standard 1 (knowledge and understanding) ranged from 75% of master trusts meeting it to 14% of micro schemes. The main barrier to meeting this standard was the expectation for new trustees to complete the TPR's trustee toolkit or an equivalent within six months of their appointment.

Standard 3 (core scheme financial transactions) was met by a comparatively low proportion of schemes, ranging from 65% of master trusts to 7% of micro schemes. The main barrier to meeting this standard for schemes of all sizes was the expectation for schemes to track performance on transaction accuracy standards.

Standard 2 (value for members assessment) was the least likely of all five standards to be met (by 19% of micro schemes, 13% of small, 23% of medium, 13% of large and 20% of master trusts). The primary reason for not meeting it was that schemes did not take steps to research what members valued.

Most master trusts (80%) met standard 4 (independence requirements)[3].

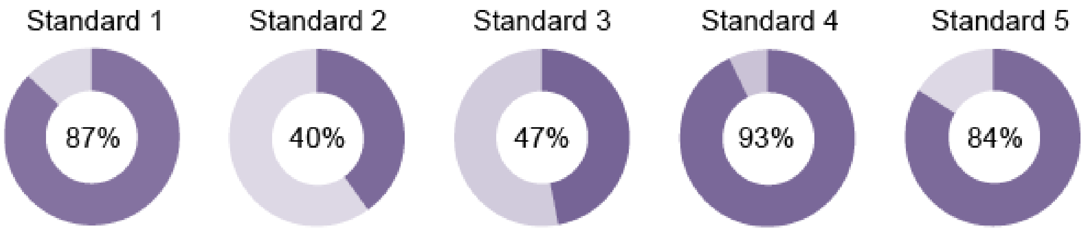
1.2.6 The majority of members were in schemes meeting standard 1 (knowledge and understanding) and standard 5 (investment obligations in default strategies). However, a minority of members were in schemes meeting standard 3 (core scheme financial transactions) and standard 2 (value for members assessment)

Nearly nine in ten members (87%) were in a scheme which met standard 1 (knowledge and understanding) and a similar proportion were in a scheme which met standard 5 (investment obligations in default strategies), 84%.

However, under half of members (47%) were in a scheme which met standard 3 (core scheme financial transactions), while four in ten members (40%) were in a scheme which met standard 2 (value for members assessment).

Nearly all (93%) members of master trusts were in a master trust which met standard 4 (independence requirements).

Proportion of members in schemes that met governance standards



Three quarters of members (75%) were in a scheme which had at least 75% of the legislative governance standards in place.

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[3] This 80% equates to 93% of the master-trust member universe - that is, 93% of members were in a master trust which met the independence requirements.

1.2.7 Although use of external service providers/advisers was widespread, most smaller schemes did not assess their performance

Most schemes used advisers and/or service providers, with usage increasing with scheme size (81% of micro DC up to 100% of large DC and master trusts). However, 60% of micro DC and 48% of small DC schemes did not have procedures in place to assess the effectiveness and performance of these.

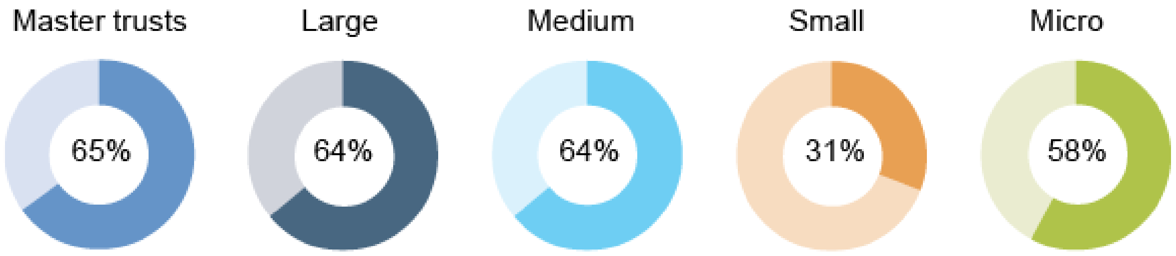
1.2.8 Among smaller schemes there was some disparity between reviewing investment performance and having investment objectives

The majority of micro and small DC schemes reviewed the performance of their default arrangement at least annually (73% and 65% respectively). Despite this, less than a third of these had documented investment objectives or performance targets (28% of micro and 31% of small schemes).

1.2.9 Larger schemes were most likely to take account of members' preferred retirement dates when formulating investment strategies

Small DC schemes were least likely to take account of members' preferred retirement dates when formulating their scheme's investment strategy for the default arrangement (31% of small did so compared 64% of large DC schemes).

Proportion of schemes taking account of members' preferred retirement dates



1.2.10 There was significant variation by scheme size in the frequency with which different information was communicated to members

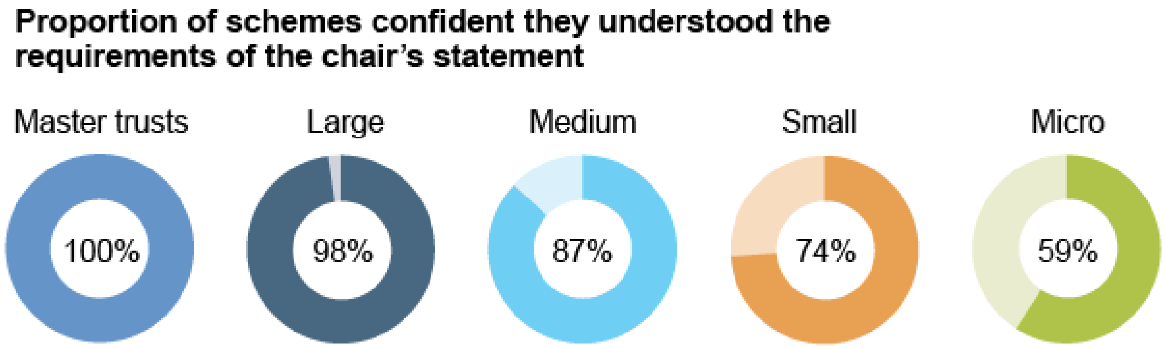
The majority of schemes informed members on an annual basis of the costs and charges deducted from their pot (ranging from 72% of micro DC schemes up to 95% of master trusts).

Information on how to spot a pension scam was less frequently communicated to members by schemes of all sizes (ranging from 31% of small schemes which did so annually up to 70% of large schemes). The provision of risk warnings about options available to members in relation to accessing their benefits also increased with scheme size, ranging from 60% of micro DC schemes to 95% of master trusts.

1.2.11 The majority of schemes were confident that the trustee board understood the requirements of the annual chair's statement, but confidence was lower among smaller schemes

The majority of DC schemes were confident that they knew what they had to include in the chair's statement, but there was significant variation by size. All master trusts (100%) and the majority of large (98%) and medium (87%) DC schemes were confident that the trustee board knew what to include. However, a third of micro DC

(33%) and a fifth of small DC schemes (18%) were not confident that their trustee board knew what to include in the chair's statement.



1.2.12 Scheme returns were typically reviewed by trustee boards prior to submission

Across all sizes and types of scheme, the majority (74% of micro, 73% of small, 86% of medium, 83% of large DC and 70% of master trusts) reported that the trustee board, or a board member, reviewed the scheme return prior to submission.

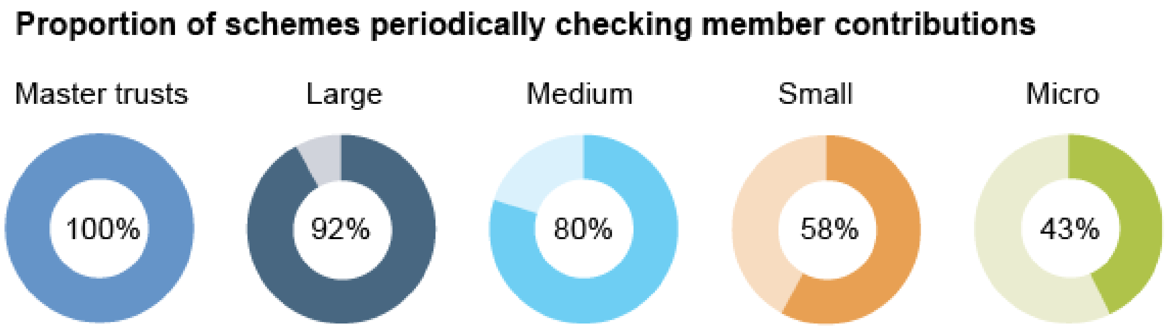
1.2.13 Most schemes that were administered in-house did not have a documented business continuity plan

With the exception of master trusts, the majority of DC schemes of all sizes (81% of micro to 70% of medium DC schemes) that were administered in-house did not have a documented business continuity plan in place.

In contrast, 81% of small to 94% of master trusts using a third party administrator had a business continuity plan in place and were satisfied it was adequate.

1.2.14 Schemes were more likely to run periodic checks that member contributions reconcile than to conduct a full audit of all contributions

Periodic checks were more common than full audits of all contributions, with 75% of medium schemes down to 43% of micro schemes having undertaken a full audit. Around two-fifths of micro (41%) and small (37%) DC schemes had done neither, compared to 5% of large DC and 0% of master trusts.



2 Introduction and methodology

2.1 Background and research objectives

In 2015 TPR drafted a new DC code of practice, which has been laid in Parliament and will come into force in July 2016.

The new DC code sets out standards of conduct and practice for pension scheme trustees to meet when complying with their legal duties, including the legislative governance standards that came into force in April 2015.

This report summarises the results from the March – April 2016 research survey carried out by OMB Research, an independent market research agency, on behalf of TPR.

The main objective of the research was to identify the type and prevalence of challenges which DC and hybrid schemes faced in relation to the new legislative governance standards and the standards of conduct and practice set out in TPR's new DC code of practice.

Other objectives included:

- To measure awareness and understanding of the legislative governance standards for DC schemes and awareness of TPR's DC code of practice
- To measure the level of confidence about requirements for the chair's statement, which schemes must confirm they have produced in their scheme return to TPR
- To identify any differences in the challenges faced and levels of understanding and confidence by schemes size (micro, small, medium, large schemes and master trusts) and type (DC/Hybrid)

The 2016 DC Schemes Survey replaces the previous DC Quality Features Survey which was conducted in 2014 and 2015[4].The 31 quality features – set out in the existing DC code of practice and accompanying guidance, published in 2013 - have now evolved into the standards of conduct and practice set out in the new 2016 code of practice. The focus of the survey has been revised accordingly.

Where feasible and relevant, comparisons have been made between the findings of the 2016 survey and those of the 2015 survey.

The legislative governance standards, which since April 2015 schemes are required to annually report on in a 'chair's statement', can be summarised as follows:

- **Standard 1:** Trustee board must possess or have access to the knowledge and understanding necessary to properly run the scheme
- **Standard 2:** Trustee board must assess the extent to which charges/transaction costs provide good value for members
- **Standard 3:** Core scheme financial transactions must be processed promptly and accurately

[4] http://www.thepensionsregulator.gov.uk/docs/dc-trust-based-pension-scheme-features-summary-2015.pdf

- **Standard 4:** Independence requirements for master trusts. (These apply only to master trusts)
- **Standard 5:** Investment obligations in default strategies. (These apply only to schemes with a default investment strategy).

The governance standards are not generally referred to as Standards 1 to 5, however for abbreviation purposes they are referred to as such throughout this report, along with an abbreviated description. For an explanation of the importance of the governance standards on good scheme governance please see section 1.1.

2.2 Methodology

The survey comprised quantitative interviews with 619 single-employer schemes and 20 relevant multi-employer schemes. In this report, schemes defined as single-employer schemes may also include associated or non-associated employers[5]. 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 20 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. Micro schemes (with less than 12 members) were included for the first time in the 2016 survey but small self administered schemes (SSAS) and executive pension plans (EPPs) which would not be subject to the legislative governance standards were excluded.

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

At the analysis stage, the data was weighted to be representative of the overall population of DC/hybrid schemes.

Survey interviews lasted approximately 20 minutes. Respondents held a variety of roles (chair of trustees, secretary to the board of trustees, in-house pension 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.

The survey asked a series of questions about the activities, behaviours and views of those running the pension schemes. The questions were designed to identify the type and prevalence of challenges which DC and hybrid schemes faced in relation to the legislative governance standards and the standards of conduct and practice set out in TPR's new DC code of practice, due to come into force in July 2016.The 2015 DC Quality Features Survey established a baseline of the extent to which the five legislative governance standards were present in schemes, using approximate proxy measures derived from the existing survey questions (which were designed to measure presence of the quality features). In contrast, for the 2016 DC Schemes Survey bespoke questions were developed specifically for measuring presence of the governance standards, enabling a much more accurate measure for this

[5] 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).

purpose. Therefore comparisons between the baseline (2015) findings and the new (2016) findings are not always on a like-for-like basis.

Presence of the legislative governance standards was measured through the use of proxy measures based on responses to survey questions. For a standard 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 governance standard 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?’. There were three additional requirements which also had to be met for a scheme to meet governance standard 4.

Full details of the proxy measures used to calculate the presence of each standard can be found within the technical report.

The study 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 only on the number of members with DC benefits and excluded any members exclusively in the DB section of the scheme.

The survey was undertaken by OMB Research, an independent research agency, with interviews taking place between 1 March and 29 April 2016. The research therefore took place before the new DC code comes into force (in July 2016) and before the guides supporting the code were published for consultation.

3 Research findings

3.1 Use of schemes for automatic enrolment

The likelihood of schemes reporting that they were being used for automatic enrolment (AE) increased with scheme size. Almost all master trusts (95%) were currently used for AE (with the remaining 5% relating to a single scheme that was closed at the time of the research) and eight in ten (79%) large DC schemes were either currently used or planned to be used for AE in the future. While the majority of small and micro schemes were not being used for automatic enrolment, a significant proportion of trustee boards reported that their scheme was being used for AE or will be in future: 35% of small schemes and 25% of micro schemes. A smaller proportion of hybrid schemes were used or planned to be used for AE, but a similar correlation exists by scheme size.

Although a quarter (25%) of micro DC schemes were used or planned to be used for AE a smaller proportion (14%) were already being used for this purpose. In contrast, almost all medium and large schemes that will ultimately be used for AE were already being used for AE. The survey indicates therefore that it is unlikely that many additional medium or large schemes will become used for AE in future.

Table 3.1.1 shows the proportion of schemes used or intended for use for AE analysed by scheme size (micro, small, medium, large and master trusts) and type (DC or hybrid).

Table 3.1.1 Schemes used for automatic enrolment

	DC schemes					Hybrid schemes			
	Micro	Small	Med	Large	MT	Micro	Small	Med	Large
Base: All schemes	*121*	*136*	*76*	*48*	*20*	*19*	*35*	*95*	*89*
Currently used for AE	14%	27%	61%	77%	95%	0%	18%	35%	62%
Plan to use for AE	11%	8%	2%	2%	0%	6%	3%	3%	0%
Not used/planned for AE	72%	64%	37%	21%	5%	94%	77%	62%	38%
Don’t know	3%	1%	0%	0%	0%	0%	3%	0%	0%
Net: Used/planned	**25%**	**35%**	**63%**	**79%**	**95%**	**6%**	**21%**	**38%**	**62%**

This research included schemes that were closed to new members or paid-up, as well as those that were open to new members; the analysis shown in Table 3.1.1 includes all three types of scheme. Table 3.1.2 shows the proportion of schemes used for automatic enrolment, with results shown by status (open and closed/paid up) and scheme type (DC/hybrid).

It can be seen that open schemes were significantly more likely to be used or plan to be used for AE in comparison to schemes that were closed or paid up.

Table 3.1.2 Schemes used for automatic enrolment – by status

	DC schemes		Hybrid schemes	
	Open	Closed/Paid up	Open	Closed/Paid up
Base: All schemes	*231*	*170*	*134*	*104*
Net: Used/planned for AE	**44%**	**2%**	**76%**	**4%**

At the total level, there have been no significant changes over time in the proportion of schemes that were used or plan to be used for AE. However, the proportion of **small open DC** schemes that were used or planned for AE has increased from 54% in 2015 to 77% in 2016. While this represents a significant rise, it should be considered that it relates to a very small proportion of all members of AE schemes as small DC schemes as a whole account for less than 1% of all DC members.

3.2 Legislative governance standards

The 2016 DC Schemes Survey sought to measure awareness and knowledge of the new legislative governance standards and to identify the type and prevalence of challenges which DC and hybrid schemes faced in relation to the new legislative governance standards, set out in summary form above.

The 2015 DC Quality Features Survey established a baseline of the extent to which the legislative governance standards were present in schemes, using approximate proxy measures derived from the existing survey questions (which were designed to measure presence of the quality features).

In contrast, for the 2016 DC Schemes Survey bespoke questions were developed specifically for measuring presence of the governance standards, enabling a much more accurate measure for this purpose. Therefore comparisons between the baseline (2015) findings and the new (2016) findings are not always on a like-for-like basis.

The 2016 definitions are more accurate (specifically more challenging to achieve as three of the five standards include additional elements for schemes to meet in 2016. Whether schemes met these additional elements is determined by responses to questions that were added for the 2016 survey) than those used in 2015. Not all of the standards apply to all types of scheme. For the purposes of this survey, questions relating to standard 4 were only asked of master trusts and questions relating to standard 5 were only asked of those schemes with a default investment strategy. All analysis showing the proportion of the governance standards met takes account of the number applicable to each scheme.

Full details of the definitions used to calculate the presence of each standard can be found within the technical report.

3.2.1 Awareness and knowledge of legislative governance standards

Figure 3.2.1.1 shows schemes' awareness and knowledge of the new legislative governance standards with results shown separately for different sizes of DC and hybrid schemes. As shown in figure 3.2.1.1, the majority of all sizes of scheme were aware of the governance standards. All master trusts and large DC schemes (100%) and the majority of medium (98%), small (97%) and micro (92%) DC schemes had heard of the new standards. Hybrid schemes displayed similar awareness levels.

Despite the majority of schemes being aware of the governance standards, levels of knowledge were more varied with larger schemes having higher levels of knowledge than smaller schemes. All master trusts (100%) and the nine out of ten large DC schemes (90%) knew a lot or quite a lot about the standards. In contrast, 65% of micro and small DC schemes had heard of the standards but knew little or nothing about them.

Figure 3.2.1.1 Awareness and knowledge of governance standards

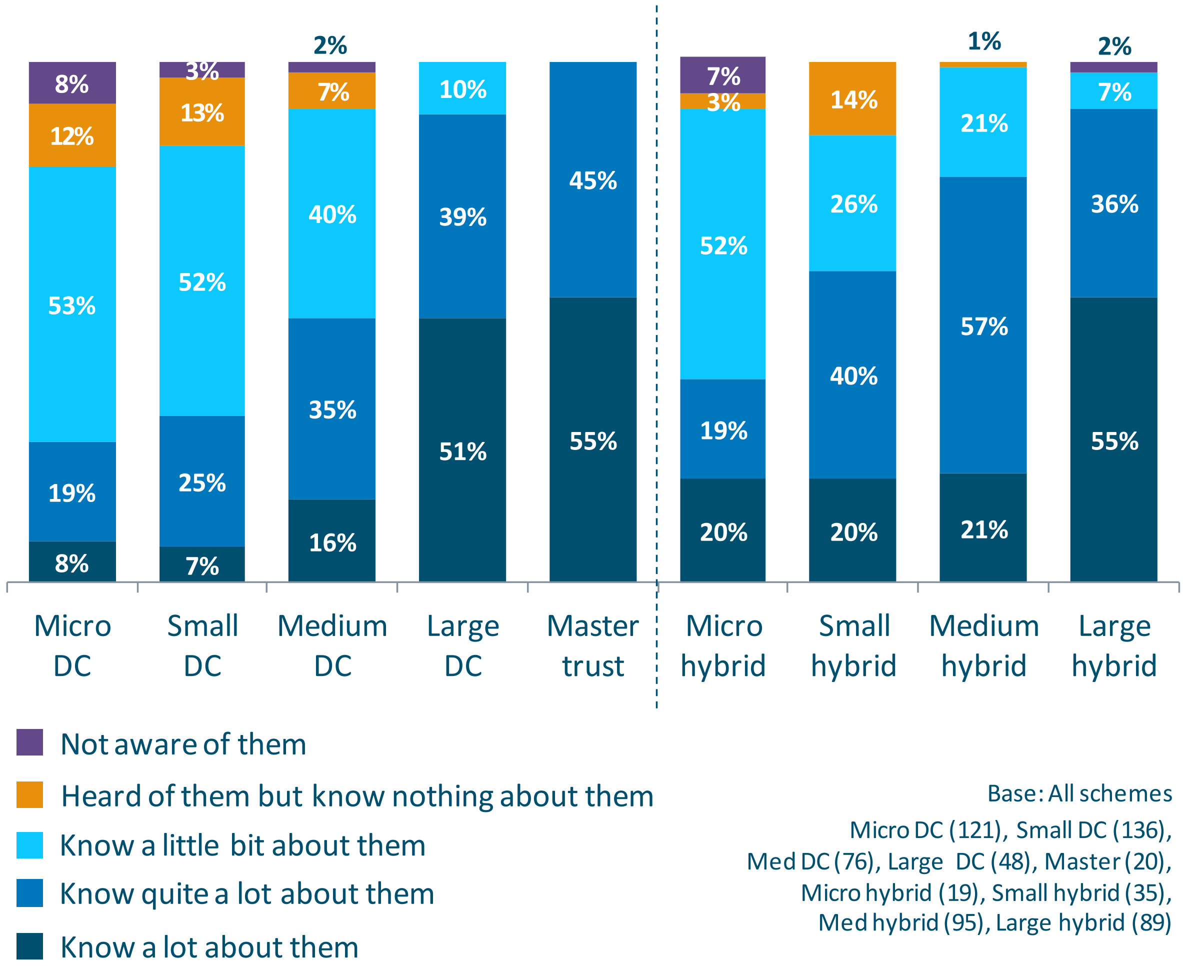


Table 3.2.1.1 shows the proportion of schemes aware of the governance standards, over time. Results are shown separately for different sizes of DC and hybrid schemes. Table 3.2.1.1 shows that levels of awareness of the governance standards were generally similar to last year. However, awareness increased by a statistically significant margin among small DC schemes, increasing from 89% in 2015 to 97% in 2016.

Table 3.2.1.1 Awareness of governance standards – changes over time

	DC schemes					Hybrid schemes			
	Micro	Small	Med	Large	MT	Micro	Small	Med	Large
Base: All schemes	*121*	*136*	*76*	*48*	*20*	*19*	*35*	*95*	*89*
2016 survey	92%	97%	98%	100%	100%	93%	100%	100%	98%
2015 survey	-	89%	95%	98%	100%	-	90%	97%	99%
% change	**-**	**+8%**	**+3%**	**+2%**	**+0%**	**-**	**+10%**	**+3%**	**-1%**

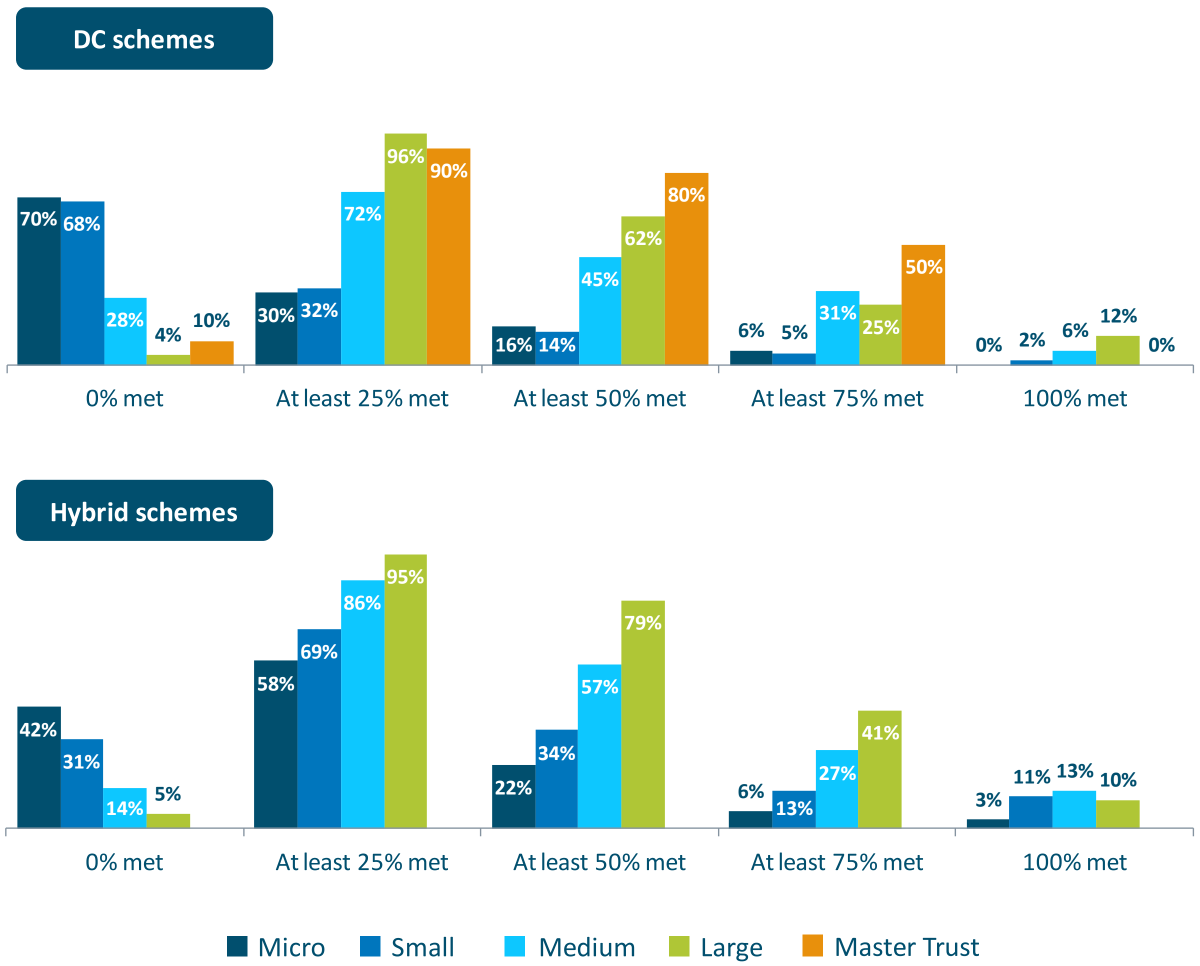
Although not shown in Table 3.2.1.1, knowledge of the standards has also increased for all scheme types and sizes.

3.2.2 Proportion of applicable legislative governance standards met by schemes in full

Based on the measures used to assess the proportion of schemes meeting the legislative governance standards in full (ie meeting all of the survey measures used to define each standard), a minority of schemes (of any size) met all of the standards applicable to them. As shown in Figure 3.2.2.1, this was the case for 0% of master trusts, 12% of large DC, 6% of medium DC, 2% of small DC and 0% of micro DC.

Figure 3.2.2.1 shows the proportion of applicable governance standards met by schemes, with results shown for different sizes of DC and hybrid schemes.

Figure 3.2.2.1 Proportion of applicable governance standards met in full



Base: All schemes
Micro DC (121), Small DC (136), Medium DC (76), Large DC (48), Master (20),
Micro hybrid (19), Small hybrid (35), Medium hybrid (95), Large hybrid (89)

There was a correlation between scheme size and the number of legislative governance standards met. Half of master trusts (50%) met at least 75% of the relevant standards, compared to a quarter of large (25%), three in ten medium (31%) and around one in twenty small and micro DC schemes (5% and 6% respectively). Overall, 70% of micro DC and 68% of small DC schemes did not meet any of the legislative governance standards in full. Among medium schemes the proportion was 28% not meeting any of the standards, 4% of large DC schemes and 10% of master trusts.

A significantly smaller proportion of micro, small and medium hybrid schemes did not meet any of the legislative governance standards in full. There was no difference between large hybrid and large DC schemes. A similar pattern of variation by size existed among both DC and hybrid schemes.

3.2.3 Proportion of schemes meeting each legislative governance standard

Table 3.2.3.1 below shows the proportion of schemes meeting each of the five individual legislative governance standards, split by size and type.

Table 3.2.3.1 Proportion of schemes meeting each legislative governance standard in full

	DC schemes					Hybrid schemes			
	Micro	Small	Med	Large	MT	Micro	Small	Med	Large
Base: All schemes	*121*	*136*	*76*	*48*	*20*	*19*	*35*	*95*	*89*
Standard 1: Trustee board must possess or have access to knowledge/ understanding necessary to properly run scheme	14%	17%	50%	72%	75%	55%	55%	64%	82%
Standard 2: Trustee board must assess the extent to which charges / transaction costs provide good value for members	19%	13%	23%	13%	20%	13%	13%	24%	27%
Standard 3: Core scheme financial transactions must be processed promptly and accurately	7%	11%	32%	45%	65%	3%	34%	41%	48%
Standard 4: Independence requirements for master trusts *(master trusts only)*	-	-	-	-	80%	-	-	-	-
Standard 5: Investment obligations in default strategies *(Schemes with a default strategy only)*	27%	19%	56%	70%	80%	33%	34%	60%	70%

Schemes were most likely to be meeting standards 5 (investment obligations in default strategies and 1 (knowledge and understanding). The proportion of schemes meeting standard 5 was 80% of master trusts, 70% of large, 56% of medium, 19% of small, and 27% of micro DC schemes. The proportion meeting standard 1 was similar with 75% of master trusts, 72% of large, 50% of medium, 17% of small and 14% of micro DC schemes meeting standard 1.

A comparatively low proportion of schemes met standard 3 (core scheme financial transactions). Standard 3 was met by 65% of master trusts, 45% of large, 32% of medium, 11% of small and 7% of micro DC schemes.

In relation to standard 3 there was some disparity among large DC schemes when it came to service standards. While the majority of large schemes (96%) had documented service standards in place for the time taken to process core financial transactions, significantly fewer (73%) had documented standards in place for transaction accuracy or tracked their performance on transaction accuracy standards (62%). The majority of small and micro schemes did not have service standards in place for either time taken to process core financial transactions (77% of micro and 66% of small DC schemes) or the accuracy of core financial transactions (76% of micro and 63% of small DC schemes).

Standard 2 (value for members assessment) was the least likely of all five standards to be met. There was relatively little variation by scheme size for this standard, although large DC schemes (along with micro) were the least likely to meet standard 2 (met by 19% of micro, 13% of small, 23% of medium, 13% of large DC schemes and 20% of master trusts), partly owing to lower trustee understanding of the portfolio turnover rate and investment transaction costs.

Standard 4 (independence requirements for master trusts) only applies to master trusts. Four-fifths (80%) of the master trusts interviewed met this standard.

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

3.2.4 Proportion of members in schemes meeting each legislative governance standard

In terms of the proportion of members that were in schemes which met each standard, nearly nine in ten members (87%) were in a scheme which met standard 1 (knowledge and understanding) and a similar proportion were in a scheme which met standard 5 (investment obligations in default strategies), 84%.

However, under half of members (47%) were in a scheme which met standard 3 (core scheme financial transactions), while four in ten members (40%) were in a scheme which met standard 2 (value for members assessment).

Nearly all (93%) members of master trusts were in a master trust which met standard 4 (independence requirements).

Three quarters of members (75%) were in a scheme which had at least 75% of the legislative governance standards in place.

3.2.5 Key findings on survey measures relating to standard 1 (knowledge and understanding)

The majority of schemes of all sizes believed that their board had sufficient time/resources to run the scheme (83% of micro, 85% of small, 95% of medium, 96% of large DC schemes and 95% of master trusts) and had access to the necessary knowledge and understanding to run the scheme (86% of micro, 89% of small, 95% of medium, 100% of large DC schemes and 100% of master trusts).

The main barriers to meeting this standard were the expectation for new trustees to complete the trustee toolkit or an equivalent within six months of their appointment (met by 29% of micro, 40% of small, 62% of medium, 88% of large DC schemes and 80% of master trusts) and the expectation to have training and development plans in place to ensure trustees continue to have the required knowledge and skills (met by 39% of micro, 34% of small, 74% of medium, 92% of large DC schemes and 90% of master trusts).

Table 3.2.5.1 shows a breakdown of each of the measures making up standard 1 (knowledge and understanding) and the proportion of schemes meeting each measure split by scheme size and type.

Table 3.2.5.1 Legislative governance standard 1 (knowledge and understanding) – proportion of each scheme type reporting that they meet the constituent measures

	DC schemes	Hybrid schemes

	Micro	Small	Med	Large	MT	Micro	Small	Med	Large
Base: All schemes	*121*	*136*	*76*	*48*	*20*	*19*	*35*	*95*	*89*
Access to all knowledge required to run scheme	86%	89%	95%	100%	100%	90%	94%	99%	100%
Knowledge of trustees' particular expertise or specialist knowledge	63%	71%	92%	90%	100%	87%	94%	92%	94%
Sufficient time and resources to run scheme	83%	85%	95%	96%	95%	90%	94%	98%	97%
Required to complete toolkit or equivalent within 6 months	29%	40%	62%	88%	80%	58%	66%	74%	94%
Training and development plans to ensure continued knowledge/skills	39%	34%	74%	92%	90%	68%	72%	90%	93%
Meets Standard 1	**14%**	**17%**	**50%**	**72%**	**75%**	**55%**	**55%**	**64%**	**82%**

3.2.6 Key findings on survey measures relating to standard 2 (value for members assessment)

The majority of DC schemes of all sizes (85% of micro, 84% of small, 93% of medium, 94% of large and 85% of master trusts) believed they could obtain the information required to carry out a value for members assessment. A majority of DC schemes of all sizes also believed that the trustees had a good understanding of the annual management charge (61% of micro, 64% of small, 88% of medium, 96% of large and 100% of master trusts).

The main barrier to meeting standard 2 was that schemes did not take steps to research what members valued (met by 33% of micro, 28% of small, 40% of medium, 38% of large DC schemes and 45% of master trusts). Having a good understanding of the portfolio turnover rate was another measure that schemes were less likely to meet (met by 40% of micro, 33% of small, 59% of medium, 49% of large DC schemes and 65% of master trusts).

Table 3.2.6.1 shows a breakdown of each of the measures making up standard 2 (value for members assessment) and the proportion of schemes meeting each measure split by scheme size and type.

Table 3.2.6.1 Legislative governance standard 2 (value for members assessment) – proportion of each scheme type reporting that they meet the constituent measures

	DC schemes					Hybrid schemes			
	Micro	Small	Med	Large	MT	Micro	Small	Med	Large
Base: All schemes	*121*	*136*	*76*	*48*	*20*	*19*	*35*	*95*	*89*

Good understanding of annual management charge	61%	64%	88%	96%	100%	71%	80%	94%	97%
Good understanding of total expense ratio	47%	47%	71%	87%	95%	61%	57%	83%	92%
Good understanding of portfolio turnover rate	40%	33%	59%	49%	65%	52%	49%	60%	65%
Good understanding of investment transaction costs	47%	44%	73%	59%	80%	61%	74%	81%	86%
Good understanding of total costs/charges	54%	57%	83%	84%	100%	71%	71%	82%	93%
Assess annually that charges/costs represent value	42%	47%	64%	72%	85%	39%	44%	64%	79%
Takes steps to research what members value	33%	28%	40%	38%	45%	16%	33%	46%	54%
Confident of obtaining info for value for members assessment	85%	84%	93%	94%	85%	77%	97%	95%	87%
Meets Standard 2	**19%**	**13%**	**23%**	**13%**	**20%**	**13%**	**13%**	**24%**	**27%**

3.2.7 Key findings on survey measures relating to standard 3 (core scheme financial transactions)

Most schemes of all sizes reviewed their common data (from 61% of micro schemes to 90% of master trusts) and conditional data (from 62% of micro schemes to 90% of master trusts) at least annually and intended to address any gaps identified (from 58% of micro schemes to 95% of master trusts). A minority of small and micro DC schemes had documented service standards in place for transaction time (23% of micro and 34% of small) and accuracy (24% of micro and 37% of small) and the majority of those micro and small schemes that had these standards did not track their performance against them. There was some disparity among large DC schemes when it came to service standards, with the majority (96%) having these in place for transaction time but a smaller proportion having documented service standards for transaction accuracy (73%).

The main barrier to meeting this standard for schemes of all sizes was the expectation for schemes to track performance on transaction accuracy standards (met by 17% of micro, 22% of small, 52% of medium, 62% of large DC schemes and 80% of master trusts). Tracking performance in relation to transaction time standards was a further barrier for micro, small and medium schemes (met by 12% of micro, 18% of small and 54% of medium schemes) while the expectation to have documented service standards in place for transaction accuracy was a barrier for large schemes and master trusts, compared to the other measures for this standard (73% of large DC schemes and 80% of master trusts)

Table 3.2.7.1 shows a breakdown of each of the measures making up standard 3 (core scheme financial transactions) and the proportion of schemes meeting each requirement split by scheme size and type.

Table 3.2.7.1 Legislative governance standard 3 (core scheme financial transactions) – proportion of each scheme type reporting that they meet the constituent measures

	DC schemes					Hybrid schemes			
	Micro	Small	Med	Large	MT	Micro	Small	Med	Large
Base: All schemes	*121*	*136*	*76*	*48*	*20*	*19*	*35*	*95*	*89*
Reviews common data quality at least annually	61%	68%	76%	88%	90%	48%	85%	79%	80%
Reviews conditional data quality at least annually	62%	64%	72%	80%	90%	55%	76%	70%	67%
Intends to address gaps in data quality (or no gaps)	58%	60%	82%	94%	95%	84%	83%	90%	90%
Service standards for transaction time	23%	34%	63%	96%	100%	58%	71%	90%	95%
Service standards for transaction accuracy	24%	37%	63%	73%	80%	48%	60%	75%	79%
Tracks performance on transaction time standards	12%	18%	54%	88%	100%	55%	54%	80%	91%
Tracks performance on transaction accuracy standards	17%	22%	52%	62%	80%	42%	43%	61%	72%
Meets Standard 3	**7%**	**11%**	**32%**	**45%**	**65%**	**3%**	**34%**	**41%**	**48%**

3.2.8 Key findings on survey measures relating to standard 4 (independence requirements for master trusts)

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 standard were met by the majority of master trusts. However two measures were not met by all master trusts: having an open and transparent trustee recruitment process (met by 85% of master trusts) and having a process in place for members to make their views known (also met by 85% of master trusts).

Table 3.2.8.1 shows a breakdown of each of the measures making up standard 4 (independence requirements for master trusts) and the proportion of master trusts meeting each measure.

Table 3.2.8.1 Legislative governance standard 4 (independence requirements for master trusts) – proportion of master trusts reporting that they meet the constituent measures

	Master trusts
Base: All master trusts	*20*
Majority of trustees are unaffiliated	100%
Open and transparent trustee recruitment process	85%
Three or more trustees	100%
Process for members to make their views known	85%
Meets Standard 4	**80%**

3.2.9 Key findings on survey measures relating to standard 5 (investment obligations in default strategies)

The majority of schemes of all sizes reviewed both the suitability (72% of micro, 61% of small, 89% of medium, 100% of large DC schemes and 100% of master trusts) and performance (81% of micro, 72% of small, 92% of medium, 100% of large DC schemes and 100% of master trusts) of the default arrangement at least every three years.

The primary barrier to meeting this standard was the expectation for the design of the default investment strategy to be influenced by member analysis or research. A third (33%) of micro and a fifth (22%) of small DC schemes indicated that member analysis/research had contributed to the design of the default strategy. While a majority of larger schemes reported having met this measure (58% medium DC, 70% large DC, 80% master trusts) it was still the standard 5 measure that was met by the smallest proportion of schemes of all sizes.

Table 3.2.9.1 shows a breakdown of each of the measures making up standard 5 (investment obligations in default strategies) and the proportion of schemes meeting each measure split by scheme size and type.

Table 3.2.9.1 Legislative governance standard 5 (investment obligations in default strategies) – proportion of each scheme type reporting that they meet the constituent measures

	DC schemes					Hybrid schemes			
	Micro	Small	Med	Large	MT	Micro	Small	Med	Large
Base: All schemes with a default strategy	*52*	*91*	*69*	*45*	*20*	*12*	*26*	*84*	*85*
Member analysis/research contributed to design of investment strategy for	33%	22%	58%	70%	80%	33%	42%	63%	73%

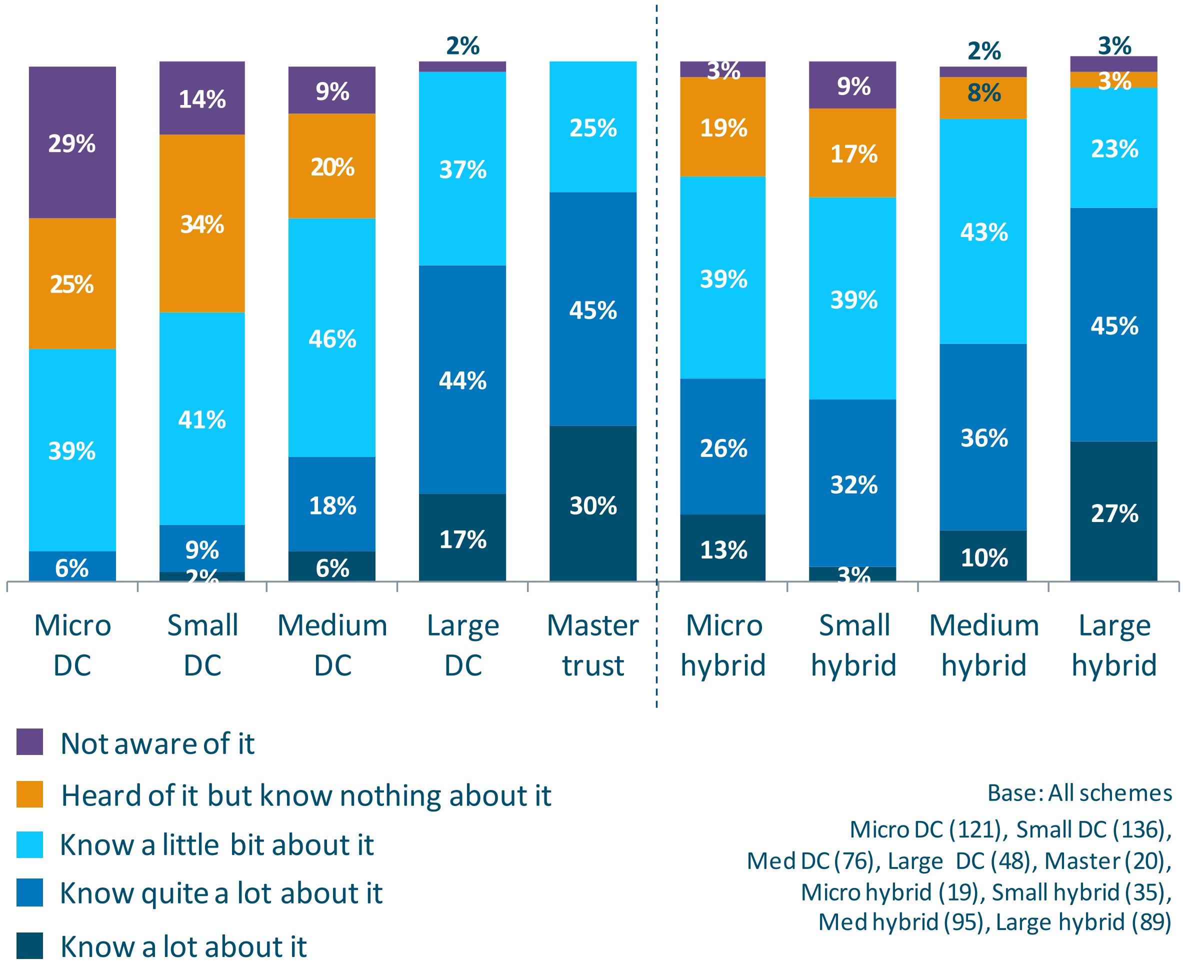
default arrangement									
Reviews suitability of default investment strategy at least every 3 years	72%	61%	89%	100%	100%	72%	80%	93%	96%
Reviews performance of default arrangement at least every 3 years	81%	72%	92%	100%	100%	72%	89%	99%	98%
Meets Standard 5	**27%**	**19%**	**56%**	**70%**	**80%**	**33%**	**34%**	**60%**	**70%**

3.3 Other aspects of the new DC code

3.3.1 Awareness and knowledge of new DC code

Schemes were asked how well informed they considered themselves to be about the new DC code of practice, due to come into force in July 2016. Figure 3.3.1.1 shows schemes' awareness and knowledge of the new DC code, with results shown separately for different sizes of DC and hybrid schemes. As detailed in Figure 3.3.1.1, awareness and knowledge increased with scheme size. Around half of micro (54%) and small (48%) DC schemes and a quarter (29%) of medium schemes were unaware of the new code or knew nothing about it. In contrast, 98% of large DC schemes and 100% of master trusts knew at least a little about it (with most indicating that they knew a lot or quite a lot about it).

Figure 3.3.1.1 Awareness and knowledge of DC code

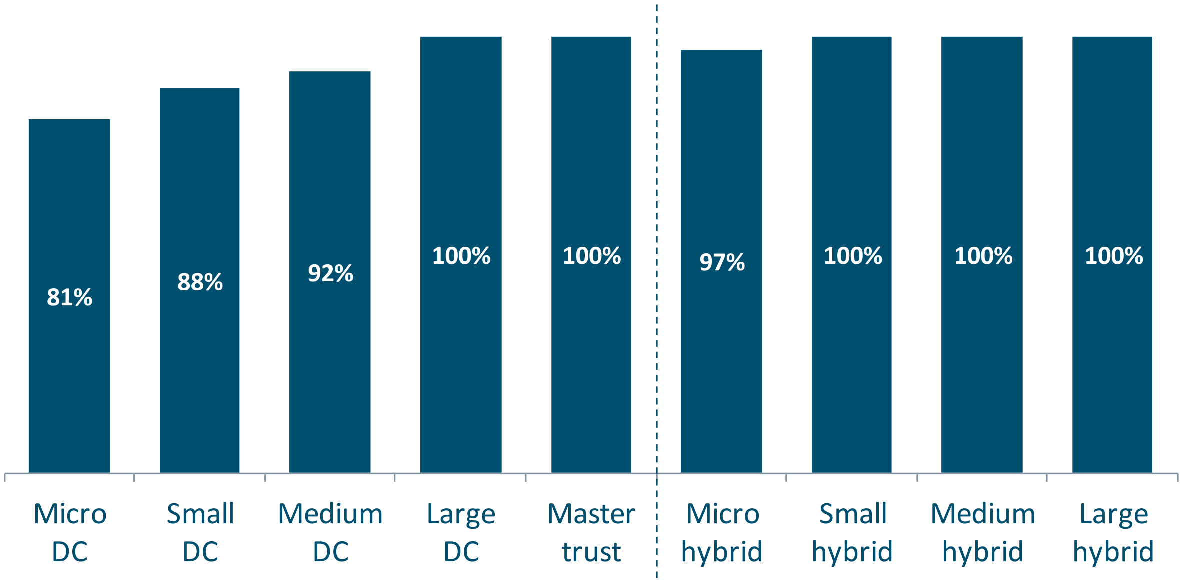


3.3.2 Use of external advisers and service providers

Figure 3.3.2.1 shows the proportion of schemes that used external advisers and/or service providers. Results have been provided separately for different sizes of DC and hybrid schemes.

As can be seen, the majority of schemes of all sizes used external advisers and/or service providers, and usage increased with scheme size.

Figure 3.3.2.1 Use of external advisers and service providers



Base: All schemes (Base, Don't know)
Micro DC (121, 2%), Small DC (136, 1%), Med DC (76, 0%), Large DC (48, 0%), Master (20, 0%), Micro hybrid (19, 0%), Small hybrid (35, 0%), Med hybrid (95, 0%), Large hybrid (89, 0%)

Table 3.3.2.1 below shows the proportion of schemes who believed their trustee board had a good understanding of various aspects of the services provided by their external advisers and service providers. Results are shown separately for different sizes of DC and hybrid schemes.

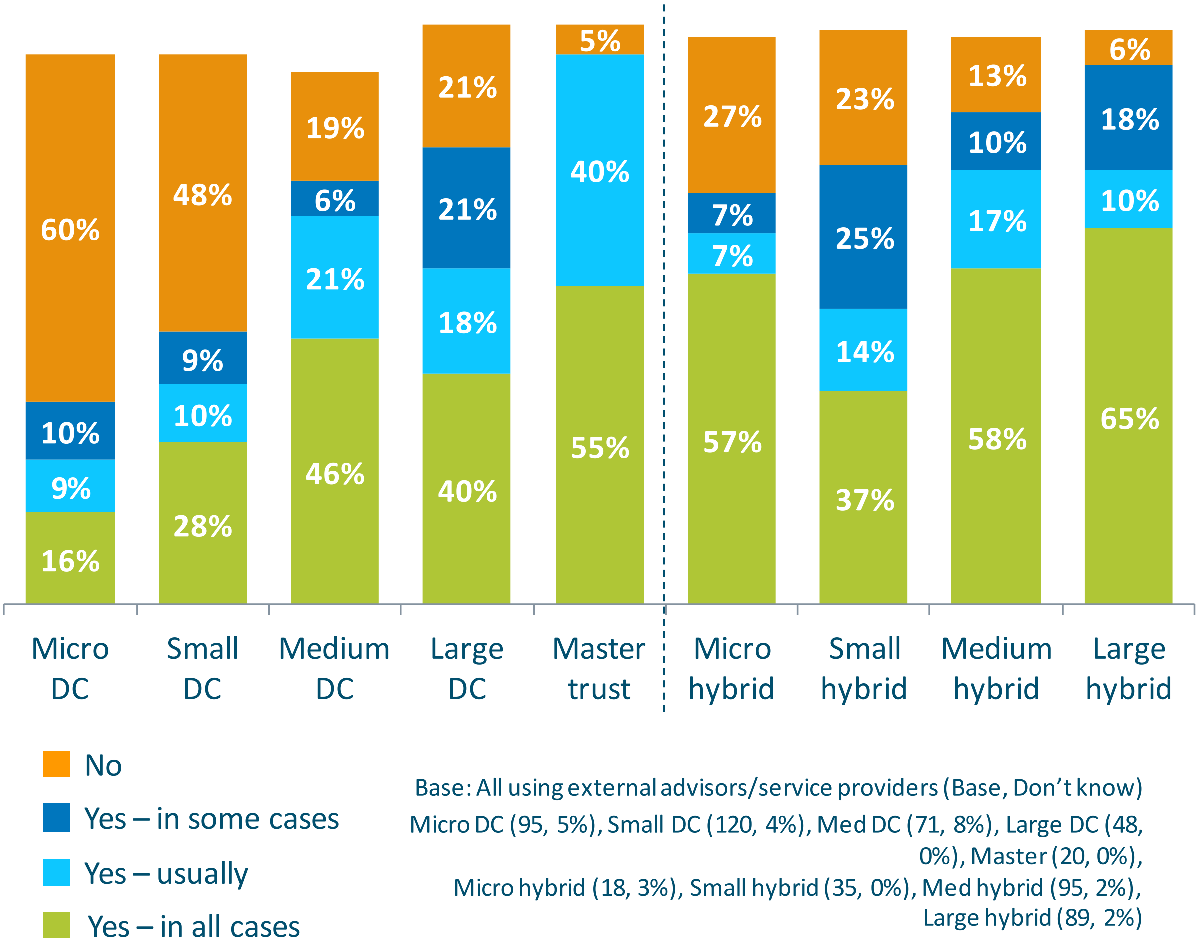
Table 3.3.2.1 Managing external advisers and service providers - proportion of schemes with a good understanding of each aspect

	DC schemes					Hybrid schemes			
	Micro	Small	Med	Large	MT	Micro	Small	Med	Large
Base: All using external advisers/service providers	*95*	*120*	*71*	*48*	*20*	*18*	*35*	*95*	*89*
The roles, responsibilities, and accountabilities of service providers	85%	87%	98%	100%	100%	90%	97%	100%	99%
The impact of T&Cs of service providers' contracts	69%	79%	89%	85%	100%	87%	91%	89%	95%
The scope of services provided	87%	89%	99%	100%	100%	100%	94%	99%	100%
The cost of services and basis for calculating costs	79%	82%	93%	88%	95%	100%	94%	95%	98%

The majority of all scheme types and sizes believed their trustee board had a good understanding of the services provided by their external advisers and service providers. Understanding was particularly strong when it came to the roles/responsibilities of providers and the scope of the services they were delivering. While still high, there was some indication that trustee boards were less knowledgeable about the cost of these services and the impact of providers' terms and conditions (e.g. 31% of micro DC schemes did not have a good understanding of the impact of the terms and conditions of their service providers' contracts).

Figure 3.3.2.2 shows the proportion of schemes that had procedures in place to assess the effectiveness and performance of scheme advisors/service providers. Results are shown separately for different sizes of DC and hybrid schemes.

Figure 3.3.2.2 Procedures in place to assess the effectiveness and performance of scheme advisers/service providers



Although the boards of smaller schemes tended to have a good understanding of what should be delivered by their advisers/providers and the associated costs, six in ten (60%) micro DC and half (48%) of small DC had no procedures in place to assess their effectiveness and performance. Overall, hybrid schemes were more likely to have had these procedures in place, and there were fewer differences by size of scheme among hybrids.

3.3.3 Investment objectives and performance

Schemes were asked whether they had documented investment objectives and performance targets for their default arrangement and self-select funds, and how often they reviewed the performance of these investments.

Table 3.3.3.1 shows the proportion of schemes that reviewed investment performance at least annually and the proportion with documented investment objectives and performance targets in place. Results are shown separately for different sizes of DC and hybrid schemes.

As detailed in Table 3.3.3.1, the majority of schemes reviewed the performance of their investments at least annually. Despite this a minority of micro (28%) and small (31%) DC schemes had documented investment objectives or performance targets in place for these funds.

Table 3.3.3.1 Investment objectives and performance

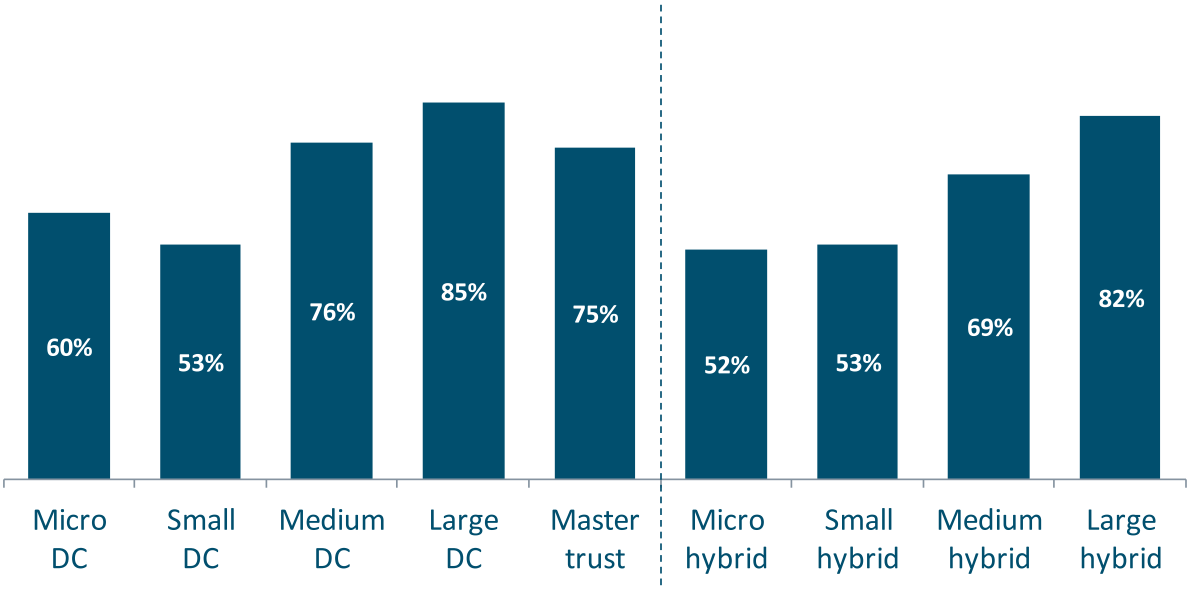
	DC schemes					Hybrid schemes			
	Micro	Small	Med	Large	MT	Micro	Small	Med	Large
Default arrangement(s)									
*Base: All with **default arrangement***	*52*	*91*	*69*	*45*	*20*	*12*	*26*	*84*	*85*
Review investment performance at least annually	73%	65%	89%	98%	100%	67%	84%	93%	98%
Have documented investment objectives and performance targets	28%	31%	70%	82%	100%	45%	53%	88%	90%
Self-select investment funds									
*Base: All with **self-select funds***	*39*	*77*	*60*	*47*	*17*	*8*	*20*	*83*	*87*
Review investment performance at least annually	73%	51%	77%	96%	100%	58%	80%	87%	98%
Have documented investment objectives and performance targets	31%	25%	58%	83%	94%	50%	44%	81%	83%

3.3.4 Engagement with members about retirement benefit date

Figure 3.3.4.1 shows the proportion of schemes that had a process in place to regularly engage with members about the date at which they would like to take their retirement benefits. Results have been provided separately for different sizes of DC and hybrid schemes.

Micro and small schemes were least likely to have engaged with members about their preferred retirement date (60% for micro DC, 53% small DC, 52% micro hybrid and 53% small hybrid).

Figure 3.3.4.1 Proportion of schemes with process to engage with members about retirement dates



Base: All schemes (Base, Don't know)
Micro DC (121, 3%), Small DC (136, 6%), Med DC (76, 0%), Large DC (48, 0%), Master (20, 5%),
Micro hybrid (19, 10%), Small hybrid (35, 3%), Med hybrid (95, 0%), Large hybrid (89, 1%)

3.3.5 Frequency of Communication

Schemes were asked how often they communicated different types of information to their members. Table 3.3.5.1 shows the proportion of schemes that communicated each item at least annually. Results have been provided separately for different sizes of DC and hybrid schemes.

Schemes were least likely to provide members with regular information on spotting scams and, with the exception of large DC/hybrid and medium hybrids, less than half did so annually (or more frequently). In contrast, the majority of schemes (of all sizes) informed members on an annual basis of the costs and charges deducted from their pot, the investment strategy of their funds, and that the level of contributions was a key factor in determining the overall size of their fund.

Table 3.3.5.1 Frequency of communication – Proportion of Schemes communicating each item annually or more often

	DC schemes					Hybrid schemes			
	Micro	Small	Med	Large	MT	Micro	Small	Med	Large
Base: All schemes	*121*	*136*	*76*	*48*	*20*	*19*	*35*	*95*	*89*
The level of costs and charges deducted from their pot	72%	77%	80%	74%	95%	51%	62%	72%	81%
The investment strategy of the funds they are in	62%	63%	78%	72%	50%	64%	77%	67%	89%
That the level of contributions is a key factor in determining the	73%	57%	70%	92%	85%	48%	50%	66%	83%

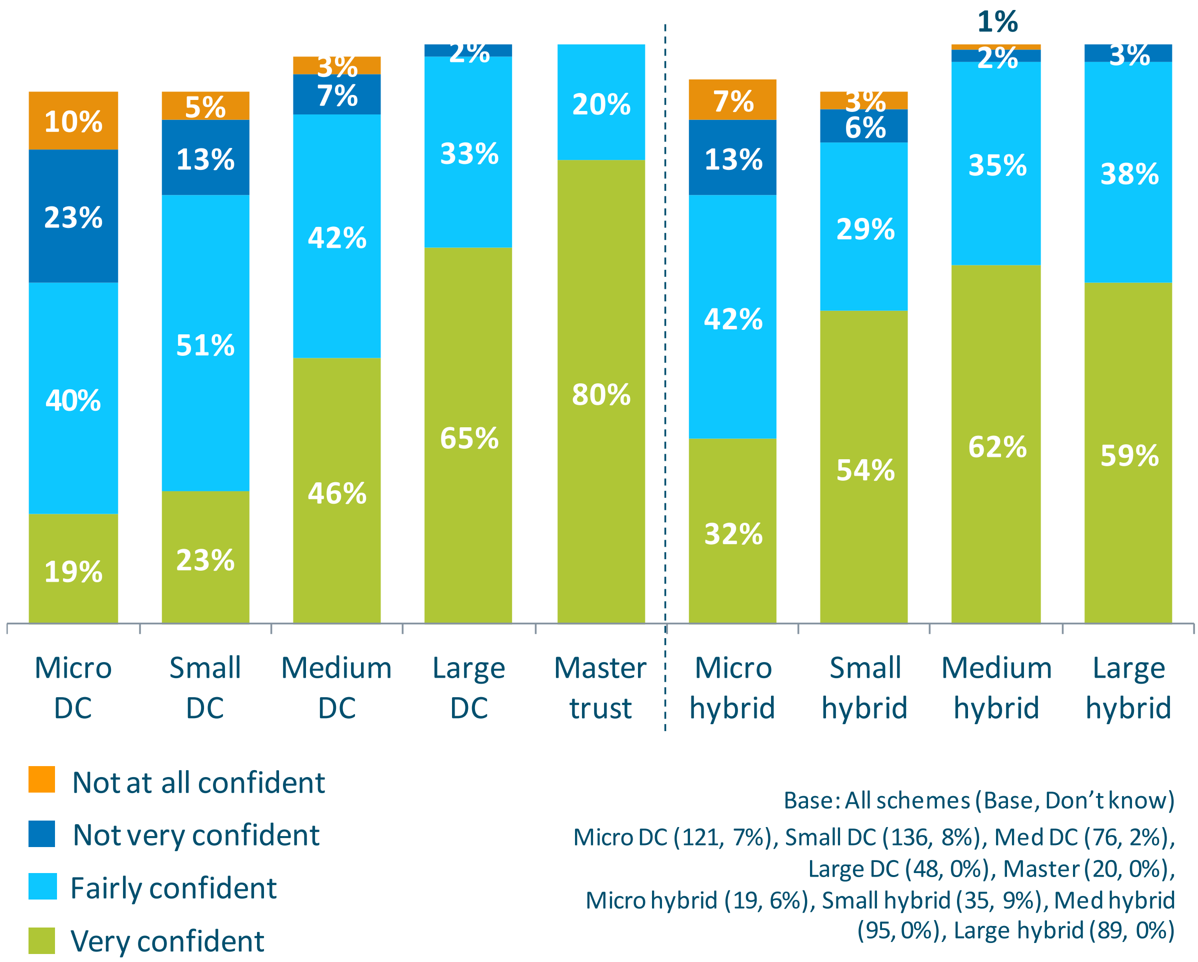
overall size of their pension fund									
Information on how to spot a scam	39%	31%	46%	70%	45%	39%	49%	68%	76%

3.3.6 Understanding of the chair's statement requirement

Figure 3.3.6.1 shows the extent to which schemes were confident that their trustee board knew what to include in the annual statement of governance (also known as the chair's statement). Results are shown separately for different sizes of DC and hybrid schemes.

The majority of schemes knew what they had to include in the chair's statement, but there was some variation by size. A third of micro DC (33%) and a fifth of small DC (18%) were not very or not at all confident that the trustee board knew what to include in the chairs' statement, compared to 10% of medium DC, 2% of large DC and 0% of master trusts. A similar but less pronounced pattern was seen among hybrid schemes.

Figure 3.3.6.1 Understanding of the chair's statement requirement

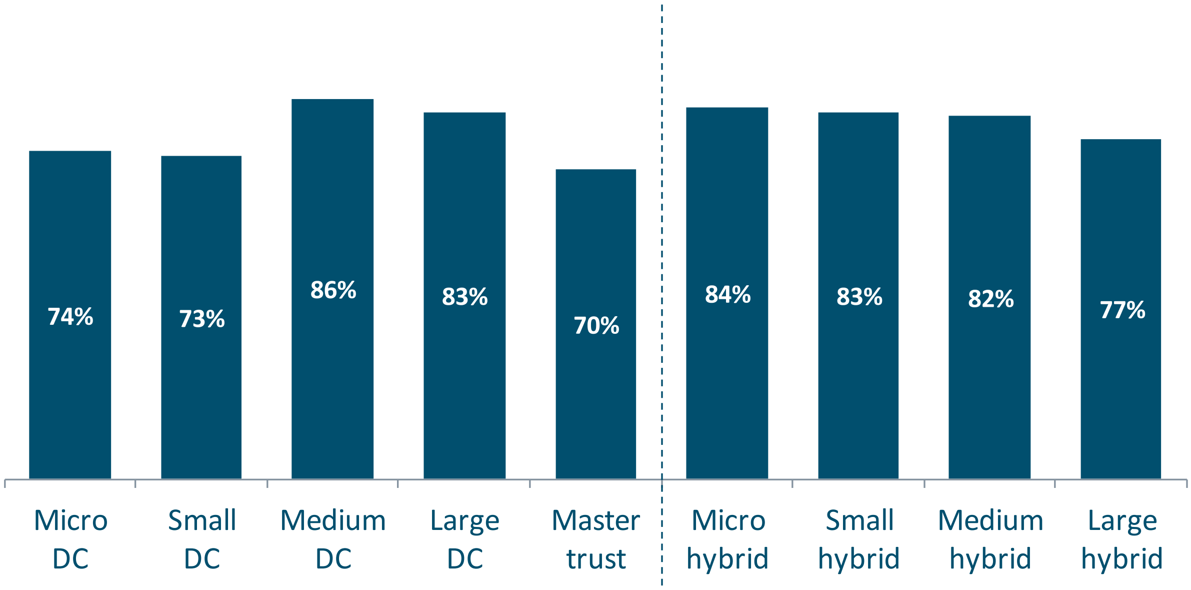


3.3.7 Trustee review of scheme return

Figure 3.3.7.1 shows the proportion of schemes where the trustee board (or nominated board member) reviewed the scheme return prior to submission. Results have been provided separately for different sizes of DC and hybrid schemes.

The majority of schemes indicated that the scheme return was reviewed by a trustee prior to submission, and there were no consistent differences by scheme size or type in this respect.

Figure 3.3.7.1 Proportion of schemes where scheme return reviewed by trustee prior to submission



Base: All schemes (Base, Don't know)
Micro DC (121, 5%), Small DC (136, 5%), Med DC (76, 3%), Large DC (48, 0%), Master (20, 5%), Micro hybrid (19, 0%), Small hybrid (35, 3%), Med hybrid (95, 2%), Large hybrid (89, 4%)

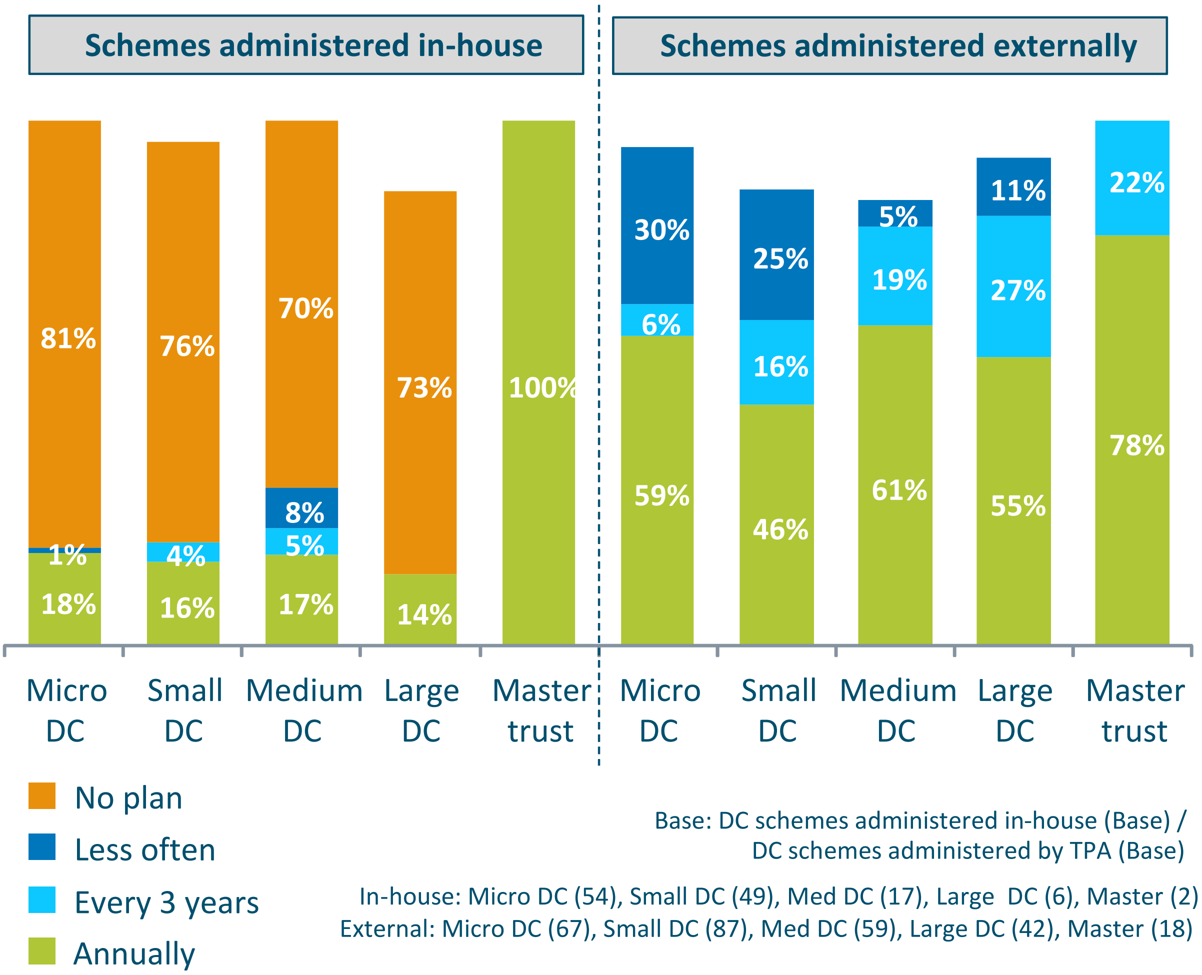
3.3.8 Business continuity plans

Figure 3.3.8.1 shows how frequently schemes reviewed their business continuity plan. Results have been provided separately for different sizes of DC and hybrid schemes.

The majority of DC schemes using a third party administrator reviewed their business continuity plan annually. In contrast, only a minority of schemes that were administered in-house reviewed their business continuity plan on an annual basis. This was primarily because the majority of in-house administered schemes did not have a business continuity plan in place (at least 70% for all sizes of scheme). The exception to this is in-house administered master trusts, all of which had a plan and reviewed it annually.

It is not possible to provide similar analysis for hybrid schemes due to the very low base sizes among those administered in-house.

Figure 3.3.8.1 Frequency of reviewing business continuity plan



3.3.9 Checks and audits of contributions

Figure 3.3.9.1 shows the proportion of schemes that had undertaken periodic checks that member contributions reconciled and full audits of all contributions. Results have been provided separately for different sizes of DC and hybrid schemes.

Schemes were typically less likely to have conducted a full audit of contributions than to have run periodic checks. This was particularly true of large DC schemes (72% had undertaken a full audit and 92% had run periodic checks) and master trusts (65% had undertaken a full audit and 100% had run periodic checks). The likelihood of undertaking either of these processes increased with scheme size, and two-fifths of micro schemes (41% for DC and 39% for hybrid) had done neither.

Figure 3.3.9.1 Checks and audits of contributions