The value of switching

After DWP research suggests employers are sticking with their pension provider because of the perceived costs and difficulties of switching, Andy Knaggs asks how member benefits can be kept at the forefront of considerations

Summary
• DWP research reveals employer reluctance to switch pension provider due to perceived costs and difficulty.
• VfM framework in development from the government and regulators seeks to provide clarity on pension scheme value for money.
• Employers should be engaged and knowledgeable about their scheme, helping them get the best out of existing or new providers for employees.

The UK's DC pensions market is large, complex, and competitive, and within it, the needs of scheme members should always be paramount. Is that the reality though? Are there situations where those needs might be swept aside for reasons of convenience?

This might be a conclusion to reach from the results of recently announced research from the Department for Work and Pensions (DWP), which suggested that employers were at times reluctant to switch pension provider due to resource, administration and time burdens. It added that the scheme's value for members was the second most considered factor.

The complexity of the DC pensions market makes any kind of generalisation around this subject problematic. There are several types of DC pension scheme, such as single-trust-based schemes, where administrative responsibilities and costs are very tangible for the sponsors and trustees; master trusts, which consolidate administration and costs; and contract-based schemes, where a switch of provider require members to transfer their existing pension assets to the new provider.

Engaged employers

Employers should ensure the pension scheme they provide to employees is delivering good value, but the process of switching is often time-consuming and should only be undertaken when the right degree of research has been conducted.

Fidelity International head of workplace distribution, Dan Smith, comments: "The UK workplace arena is changing rapidly. It's therefore important that employers periodically look at the market to make sure their arrangements are providing good value and are meeting their needs now and in the future.

"In terms of moving schemes, it is a large undertaking but the risk of remaining with a supplier who is not meeting the needs of your employees is even larger. Providers have increasingly sophisticated tools, which can minimise risk to employers and employees."

It requires employers to be engaged, however, and there can be a deficit in this regard, according to Dalriada professional trustee, Paul Tinslay, who identifies an important point in the DWP research – employer pension engagement is often influenced by the amount of knowledge or resource the employer has. "Low levels of knowledge are typically translated into a perception that a switch is a bigger burden than it probably is in reality."

Zedra client director, Sam Burden, feels that switching provider is somewhat of a nuclear option, and that employers should first focus on getting more from their existing provider. "As a general principle, it makes sense to be reviewing your scheme to make sure charges are competitive and that your provider is investing in the proposition and developing investment options.

"With most employers it will cost them money to switch, rather than saving them money. The cost of communicating to members, bringing in advisers, changes to internal payroll – these will be the same whether for master trusts or contract-based schemes. If it's not working well, the employer might want to put pressure on the existing provider to make things improve, and if they don't, then that might mean a decision to move."

Burden adds that employers can be proactive in this regard by establishing a governance committee: "It's about getting the best you can from your existing provider, rather than pressing the nuclear button of switching."

Competing priorities

There might also be other factors employers consider to be more demanding of urgent attention, according to ITS associate director, Jennifer Adams, who says: "From an employee perspective, they could be dissatisfied with the current provider's service and platform functionality but if the costs are low, the employer may not take on board the desire to change, particularly if there are too many competing priorities of business focus to be able to devote the time to making a change."

The implications of staying with a provider when better deals might be on offer are more about whether the employer has access to their provider's latest and best thinking, according to Standard Life workplace director, Gail Izat.

"If employers are not regularly upgraded to more modern technology they may be missing out on products and features that would enhance the member experience and result in better retirement outcomes. This is where regular value for money (VfM) assessments conducted by either an adviser, independent governance committee (IGC) or trustee board can help by evaluating the overall member experience and establishing whether this constitutes VfM when compared with other providers," Izat states.

Providers have also been aiming to make switching a simpler process. People's Partnership, provider of The People's Pension (TPP), head of business development, Dave Lunt, says that to ensure a smooth transition, TPP has an experienced implementation team that works with employers and intermediaries.

"However, just switching providers for staff doesn't have to be complicated – we have a simple online process and support for the employer setting up the scheme, along with providing employees with information and guidance on how to transfer their existing funds into TPP," he notes.

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Developing framework

VfM is at the nub of the issue, and the DWP, The Pensions Regulator (TPR) and the Financial Conduct Authority are working to develop a VfM framework and regulatory regime for DC schemes. This framework aims to provide a "standardised understanding of value via clear metrics, allowing more transparent comparisons to be made between pension schemes", says a TPR spokesperson.

They add: "At this stage, the framework is aimed at the professional audience and decision makers including trustees, IGCs, providers, and other industry professionals. However, while there are no proposed requirements for employers, we would be supportive of employers using VfM assessment results in due course when deciding which scheme to automatically enrol their members into, or when considering whether the pension scheme their employees are in continues to provide value for money to their employees."

Currently, the VfM measurements published by pension providers are not consistent. "Everyone does it in a slightly different way, so they are not directly comparable," says Aegon head of pensions, Kate Smith. "Consistent measurement will enable a lot of the groundwork to be done, and it will make it easier for employers and advisers to look at other providers' schemes, compare them, and say 'this is a good reason to do something different'."

Potentially important

There are some concerns about how this VfM framework will be implemented. PLSA head of master trusts and lifetime savings, Alyshia Harrington-Clark, says it is "potentially important but also potentially a massive red herring".

She explained: "It could be helpful in that it could provide some common understanding of points of comparison of value. As we understand it at this time though, there are some strange things in their proposals that could act as massive red herrings in what value is. We are concerned that some crude metrics and some strange proxies of value might be put into the mix, and we are particularly concerned with the possibility of league tables."

Harrington-Clark claims that a similar approach in Australia served to disincentive risk-taking. Neat league tables are not possible across a subject as complicated as this, she maintains.

"We are doing all we can to make sure that the value-assessing framework works in the best interests of members," she continues. "The regulators and the government are making the right noises about listening and there have been some discussions.

Written by Andy Knaggs, a freelance journalist