

Benchmarking your DC arrangement: Are your members getting value for money?

Defined Contribution (DC) provision has changed materially in recent years. Higher regulatory requirements, innovation and increasingly competitive offerings in the market may mean the strength of your DC scheme offering has drifted relative to the wider market.

The difference between some of the best and worst provider default strategies to 31 December 2024 (over a five-year period) was as much as 7.7% p.a. For an average member, this could lead to a difference in savings of c.£20,000 over a 10-year period.

Source: Corporate Advisor.

Based on a £30,000 p.a. (increasing at 2.5% p.a.) with a contribution rate of 8.8% p.a. (based on the average from our DC fund research).

Employers in the UK are required by law to provide a DC workplace pension scheme through auto-enrolment, a government initiative introduced in 2012 to boost retirement savings. This has been a huge success in increasing pension participation, but we are concerned that in some cases the selection of an auto-enrolment pension scheme was made a long time ago and hasn't been re-visited since.

All employees rely on their employer to provide a pension scheme that's capable of delivering them security in retirement. To do this, the pension scheme must deliver on many levels such as a strong investment strategy, quality administration and clear and engaging communications. Regular reviews can quickly and easily provide valuable insight on what a pension scheme is delivering to its members and how that compares with alternatives.

We identify reasons why your pension provider should be regularly reviewed and actions you can take to maintain the quality of your offering.

Reasons to review your pension arrangements

- ▲ **The landscape has changed considerably** - In recent years, DC provision is increasingly via Master Trusts, and competition between providers of all DC arrangements is fierce. This leads to reduced pricing and has led to an increase in technology and member engagement. Moreover, new retirement options were introduced as part of the 2015 Pension Freedoms and there's likely to be another step change following the upcoming Pensions Bill. Your pension provision could therefore be materially out of line with what your employees will want or need in retirement.
- ▲ **No strategy outperforms all the time** - Market conditions are inherently dynamic. What may be a top-performing pension scheme today may not remain so in the future. This is normal, but regular reviews allow employers to adapt to changes in the market, ensuring that their employees' pension savings are not persistently underperforming alternative better performing arrangements.
- ▲ **Employees don't make the choice** - Employers have carried out the due diligence and procurement of their employees' pensions and the decision to retain the pension scheme remains with the employer - like any other procurement decision, it should be periodically reviewed. It is critical to employees' future financial wellbeing that employers select and maintain a pension scheme that offers good value for money. This involves ensuring that the scheme provides adequate retirement benefits, that it is managed efficiently and offers competitive investment returns.

▲ **Ensuring your strategy attracts and retains your workforce** - Market conditions, technologies and regulatory requirements evolve continuously. In the context of DC pensions, regular reviews will help employers ensure that their chosen scheme remains competitive and aligned with the evolving needs of their workforce.

▲ **To increase value in pension provision** - Regular reviews of auto-enrolment pension schemes can drive competition and innovation in the pension market. Regular assessment will help create an environment where pension providers must innovate and improve their offerings to retain clients. This competition benefits employees by leading to better services, more competitive fees and improved investment options. It may also lead to consolidation as the better performing arrangements attract more assets, helping the government's agenda to drive UK growth through scale.

▲ **Reviews could become mandatory** - It was raised in the recent consultation following the government's 'Pension Investment Review' whether a formal employer duty should come into force to legally require such oversight. Whether this comes in or not, regular reviews help employers stay on top of the risks associated with pension provision.

Actions you can take

Legal obligations, such as auto-enrolling members and making sure payments are made on time, are mandatory. As such, many businesses are currently focused on compliance and meeting the auto-enrolment requirements, but it's important to ensure that members are getting value for their money.

Other forms of benefits offered to employees, such as cash back arrangements or life insurance, undergo regular review due to competitive or paternal pressures, as opposed to regulatory requirements, and we think this should apply to pensions too.

We believe now is the right time for employers (and trustees) to review their DC scheme offering.

Employers should:

- 1 Review the current DC arrangement**, taking a view on the provider, the contributions and investment performance relative to peers and investment positioning.
- 2 Assess the range of options available to members** such as investment choice or how they might take their benefits in retirement.
- 3 Assess the quality** of the administration and member experience.
- 4 Stay up to date with regulations** and information on what's coming down the track.

We can provide you with a comprehensive report that covers all the actions outlined above.

Our DC strategic oversight service is designed to help employers better understand their DC benefit provision, benchmark the arrangement against others and help you optimise the value from your DC arrangement.

Find out more

For further information, please get in touch with Christopher Barnes, Mark Searle or speak to your usual XPS Group contact.



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