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PASA Benefit Statements Working Group

'Statement season' – initial administration considerations

September 2021

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Acknowledgments

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1. Introduction

The Minister for Pensions has set up a 'Statement Season Working Group' to explore whether all UK Defined Contribution(DC) schemes used for auto enrolment (AE) could send out their annual benefit statements within a time-limited window. The Pensions Administration Standards Association (PASA) is represented on this body by Girish Menezes – a PASA Board Director – and we've created a Working Group to explore any structural, regulatory or operational issues which would need to be resolved to make this a reality. This paper details our initial analysis.

2. General comments

Consistent messaging around pension savings is imperative and the introduction of an annual benefit statement season could be a useful way of engaging and capturing member interest. Most people will end up with several pension pots over their working life and they're likely to make better pension decisions by having access to core information across these pots at the same time each year. They can compare their pension arrangements and take a holistic view while making saving and retirement choices.

This benefit needs to be weighed against the resourcing and cost challenges involved in producing an annual benefit statement across all schemes within the same short period of time.

There are two potential approaches to an annual benefit statement season:

1. Introducing a common 'publication date' so all benefit statements, no matter what their 'as at' valuation date, are published at the same time; or
2. Introducing a common 'valuation date' so all benefit statements are produced 'as at' the same valuation date

The second approach will be far more complex to implement than the first, for the reasons set out below, and we don't believe it would provide any additional benefit to the member.

3. A common publication date

If the statement season focused on a common publication date, it's likely administrators could manage this across their schemes, but they would need sufficient time to plan and resource such a change. For example, a realistic target date for bringing in the statement season might be 2024 rather than 2023 given the lead in time required.

Administration teams run a tight schedule over the course of a year, particularly third-party administrators which are running many schemes at the same time. As publication dates are currently spread across a 12-month period, there's sufficient capacity in the system to complete the necessary checks, liaise with actuaries to obtain the underlying financial information, deal with any queries, undertake printing and issue the statements to members. A busy month for one scheme might mean a quieter month for another scheme, so the workload tends to balance out.

However, if publication dates fall due at the same time for all schemes, work would need to happen in a very short window across all schemes. It's very likely it would put significant pressure on administration teams and create resource issues. This in turn could put service levels and other commitments at risk, including the rollout of the Pensions Dashboards programme. It could also lead to a downgrade in member experience, particularly for members in smaller schemes which are likely to have lower resourcing and support. This could discourage interest in pensions – the very opposite of what the policy is aiming to achieve.

It would be possible to achieve a common publication date, but it would take time to work out how to do this effectively without disrupting the timetable for other key administration tasks which would need adjusting and without causing unnecessary additional cost, which would be poor value for members. It would be particularly concerning if such costs would ultimately fall to be paid by scheme members by means of increases to the Annual Management Charge.

Large third-party administrators, master trusts and insurers are very concerned sending out the statements within a one-month window is going to create a major resourcing crunch. However, this is an issue embedded within the principle of introducing a statements season and so the price for achieving this, at least in the beginning, might be slightly poorer response rates if the plan goes ahead within a tight timeframe. We would suggest this issue needs discussion amongst a broader group of stakeholders, including the Money and Pensions Service, to understand any wider implications.

The common publication date chosen would need careful thought. For example, some initial considerations are:

- using a September date would tie in well with the deadline for pension saving statements for members who exceed the annual allowance
- it would be easier to use a common publication date other than March/April because more schemes tend to have a March/April year end date which would be too close to the publication date to complete all the relevant administrative checks needed before statements can be published. September may be a good date to choose for this reason too, although alternative months could work better. This should be discussed as part of any formal consultation process

Whichever date is chosen there are likely to be winners and losers amongst the population of scheme administrators, simply because schemes which end up with a publication date close to their other key administration cut-off dates may struggle to get the right information into their process in a timely fashion.

Tying the proposed common publication date into a wider change, for example to introduce a common 'scheme year end date' for all auto-enrolment schemes, would be fraught with difficulties and must be avoided. This is because the scheme year end date is used for several other purposes. For example, the assessment of costs and charges, the production of a scheme's annual report and accounts and Chair's statement. The ripple effect of changing such a significant date in the operation of a scheme could be costly and also damage the effective overall regulation of DC schemes.

4. A common 'valuation date'

If the system for applying a valuation date remains as it is at present, this would help significantly with workload planning for administrators and other parties involved in the production of benefit statements. This is because the change would be less radical than a shift to a single common valuation date for all schemes.

If valuation dates are aligned to a fixed point in time, this will create a serious capacity crunch which could impact on the delivery of services in other areas and additional expense which would ultimately fall upon members in many cases, as the costs would be passed on as an administrative expense.

It's difficult to see what benefit the single valuation date would give to members which would outweigh these disadvantages. All benefit statements are out of date when they're received in any event. It's the receipt of all benefit statements at the same date which creates the statement season, rather than the comparison of benefits across various schemes at the exact same valuation date.

5. Summary

We support the introduction of a statement season, but it's imperative the initiative is undertaken in a measured and timely way and focuses on an appropriate common publication date.

Schemes and administrators may encounter significant difficulties, additional and unnecessary costs and adverse implications in the form of delay and/or obstacles to the achievement of other policy objectives if the proposal focuses on achieving a common valuation date for the benefit statements. Put simply, there are better things to focus on to improve member outcomes at this time instead of seeking to impose a common valuation date – which will inevitably provide out of date information by the time members receive it.

Ideally, a statement season would be developed alongside the Pensions Dashboards Programme, or at least bear in mind the transition to digital by the industry and the likelihood both will need to work together at some stage, so the new publication system is future proofed. We suggest it should be possible to send out the annual benefit statement by post, email or web, as allowed under Regulation 26 of current Disclosure Regulations. In the future, we should ideally end up with a member being able to access up to date valuations of all their DC auto-enrolment benefits together on a single page, although we are a little way off this at the moment. In such a scenario, if all the information is available online throughout the year, the requirement of a statements season falls away and the need may be merely to promote the importance of reviewing the arrangements once a year. The statement season and related legislation should take this into account at the outset. This would result in the best value and most up to date information being received by members.

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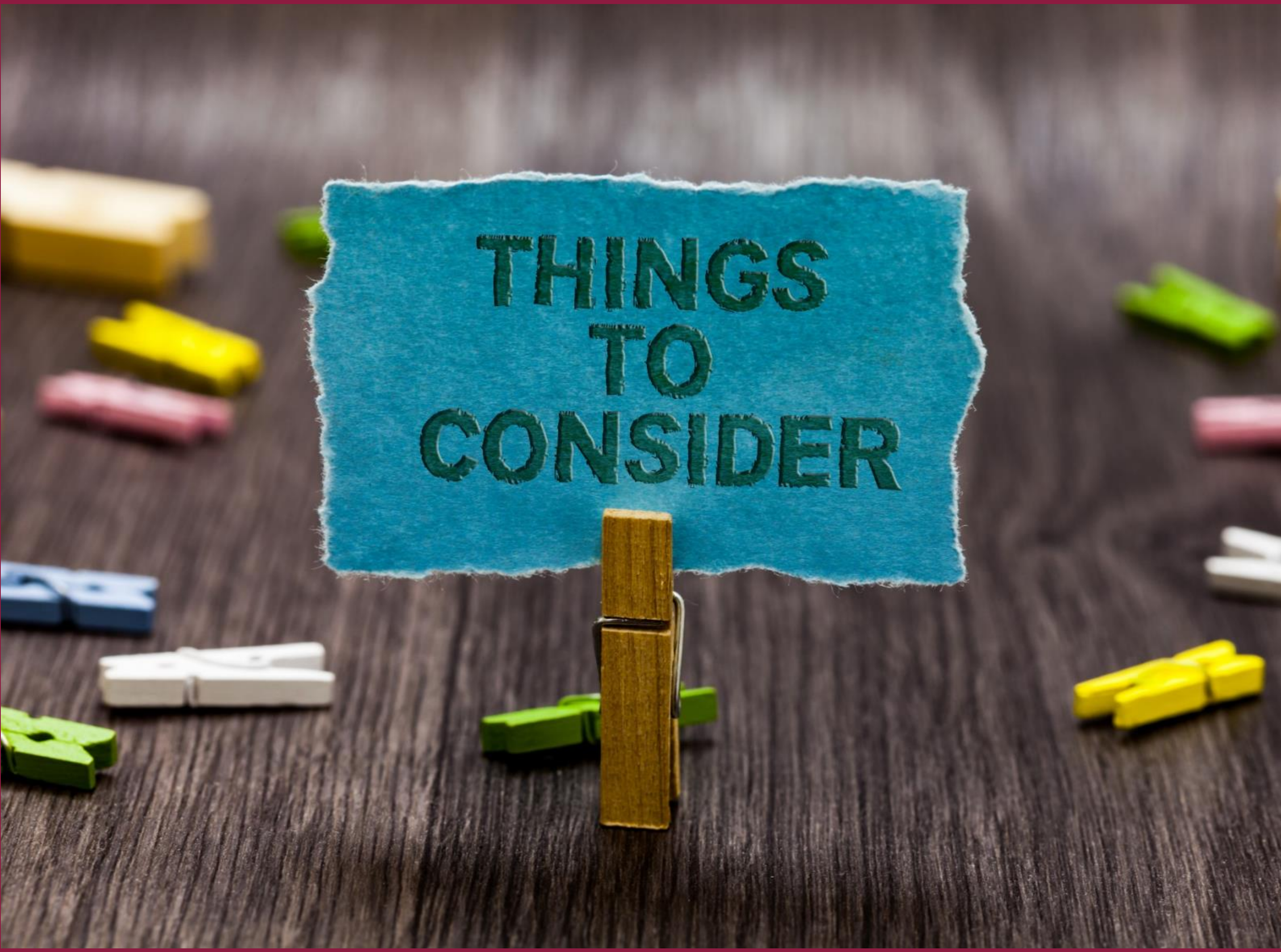

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