

The Pensions  
Regulator



# **Defined Contribution trust-based pension scheme quality features**

**A summary report on the 2015 research survey**

**Prepared for The Pensions Regulator  
By OMB Research**

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# 1 Executive summary

## 1.1 Introduction

This report summarises the results from the January – February 2015 research survey carried out by OMB Research, an independent market research agency, on behalf of The Pensions Regulator (the regulator).

The main objective of the research was to determine the extent of the presence of the quality features which are set out in the regulator’s DC Code of practice in DC trust-based schemes.

The survey comprised quantitative interviews with 500 single-employer schemes (in this report schemes defined as single employer schemes may also include associated or non-associated employers<sup>1</sup>) of at least 12 members and with 20 multi-employer non-associated schemes. The 20 multi-employer non-associated 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.

This report is accompanied by a Technical Report<sup>2</sup>, 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).

## 1.2 Executive summary

### 1.2.1 Awareness of the quality features is high across all scheme sizes while understanding of the features is more variable by scheme size

All master trusts and other large DC schemes knew of the features, as did 94% of medium DC schemes. Awareness was lower among small DC schemes, at 78%.

Understanding of the features was more variable. Three-quarters of small DC schemes (74%) and half of medium ones (48%) had little or no knowledge of the features. In contrast, every master trust and 88% of other large schemes knew either ‘quite a lot’ or ‘a lot’ about them.

Reflecting their greater knowledge of the features, most master trusts (90%) and other large (86%) DC schemes had already been reviewed against the quality features. Much smaller proportions of small DC schemes and medium ones had done this (39% and 59% respectively).

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<sup>1</sup> 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).

<sup>2</sup> [www.tpr.gov.uk/data2015](http://www.tpr.gov.uk/data2015)

### **1.2.2 Results indicate that many schemes have some way to go to incorporate all of the 31 quality features into their schemes with variability evident here also by scheme size**

Although the vast majority of DC schemes had at least 10 quality features present, after this point clear differences emerged by scheme size, with master trusts and other large DC schemes significantly more likely to meet at least 24 features (i.e. 75% of them). The mean number of features present was 25 for master trusts and 24 for other large DC schemes, but this fell to 20 for medium schemes and 16 for small schemes.

Feature presence was slightly higher among hybrids<sup>3</sup>, although a similar pattern was seen by size of scheme (an average of 25 features present for large hybrids, 24 for medium and 18 for small).

The lower feature presence for small schemes should be seen in the context of their likelihood of being used for auto-enrolment; a third of small DC schemes are either currently used or intended to be used for AE (compared to all master trusts and 87% of other large DC schemes). However, the majority of medium DC schemes (67%) are used/planned to be used for AE.

The strong results of master trusts should also be considered in light of the number of members involved. While they are low in number, master trusts account for over half (59%) of all members in AE schemes.

### **1.2.3 Areas of greatest weakness related to trustee knowledge, investment strategies and administration systems**

The areas where results showed most scope for improvement relate to:

- trustee knowledge and competence
- the suitability of investment strategies
- ensuring that administration systems can cope with scale and are backed by adequate business/disaster recovery arrangements.

### **1.2.4 Awareness of the governance standards was high and increased with scheme size, while knowledge of them was more variable**

Every master trust (100%) and the vast majority of other large (98%), medium (95%) and small (89%) DC schemes were aware that new governance standards were coming into force from April this year. Hybrid schemes displayed similarly high awareness levels (99% for large, 97% for medium and 90% for small).

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<sup>3</sup> For the purposes of this report, a hybrid scheme means a scheme that has both defined benefit (DB) and defined contribution (DC) members, including any DC additional voluntary contributions (AVCs) members.

However, knowledge of the standards was more variable and although every master trust and 82% of other large DC schemes knew either a lot or quite a lot about them, this proportion fell to 42% of medium DC schemes and 22% of small ones.

Awareness of the specific elements of the new governance requirements and other legislative requirements coming into force from April this year<sup>4</sup> was highest among master trusts, generally high among other large DC schemes and lower among small and medium schemes. In comparison to the other requirements, awareness was lowest for the requirement to produce an annual chair's statement, particularly among small and medium DC schemes (42% and 47% respectively).

### **1.2.5 Presence of the governance standards in schemes (assessed using proxy measures) was highly correlated with scheme size**

In addition to measuring presence of the DC quality features, this research also sought to establish a baseline of the extent to which the schemes were carrying out activities which would enable them to meet the new legislative governance standards. However, as the questions were not specifically designed with the governance standards in mind, they do not in all instances match the specific requirements of each standard. These results should therefore be treated as an initial indicator of the presence of each standard (with a view to developing more tailored and comprehensive questions for future monitoring).

The results reveal a strong correlation between scheme size and the number of governance standards likely to be met. The majority of master trusts (60%) were likely to meet at least 75% of the standards, compared to half of other large DC (48%), a third of medium (36%) and 13% of small DC schemes. Hybrid schemes typically are likely to meet more of the governance standards than DC schemes of an equivalent size.

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<sup>4</sup> Appointment of chair of trustees, annual chair's statement, charge controls, decumulation flexibilities and appointment of independent trustees to multi-employer schemes.

## 2 Introduction and methodology

### 2.1 Introduction and research objectives

In 2013 The Pensions Regulator (the regulator) published its DC Code of Practice which sets out practical guidance on how pension trustees can meet the underlying requirements of pensions legislation.

The Code and accompanying guidance<sup>5</sup> together set out 31 quality features (covering single-employer schemes and master trusts) that the regulator expects to be present in DC trust-based schemes. These relate to the activities, behaviours and control processes of those running DC schemes.

In April 2015 new governance standards for DC schemes were introduced. The regulator worked closely with the Department for Work and Pensions (DWP) to ensure the new regulations complement the work of the code in seeking to raise standards. Following the introduction of the legislative governance standards the regulator will amend the existing DC Code and accompanying guidance.

This report summarises the results from the January – February 2015 research survey carried out by OMB Research, an independent market research agency, on behalf of the regulator.

The main objectives of the research were:

- to determine the extent of the presence of the quality features which are set out in the regulator's DC Code of practice and accompanying guidance in DC trust-based schemes;
- to establish planned action by schemes in relation to the features;
- to measure awareness of the legislative governance standards and other new legislative requirements (appointment of chair of trustees, annual chair's statement, charge controls, decumulation flexibilities and appointment of independent trustees to master trusts);
- to establish a baseline measure of the extent to which the new legislative governance standards are present in schemes.

### 2.2 Methodology

The survey comprised quantitative interviews with 500 single-employer schemes (in this report schemes defined as single employer schemes may also include associated or non-associated employers<sup>6</sup>) of at least 12 members and with 20 multi-

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<sup>5</sup> <http://www.thepensionsregulator.gov.uk/docs/code-13.pdf>; <http://www.thepensionsregulator.gov.uk/docs/guidance-dc-schemes.pdf>

<sup>6</sup> 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).

employer non-associated schemes. The 20 multi-employer non-associated 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. At the analysis stage the data was weighted back to be representative of the overall population of DC schemes.

Interviews lasted approximately 20 minutes. Respondents held a variety of roles (chair of trustees, secretary to the board of trustees, lay or professional trustee, in-house pension administrator, scheme manager) and to qualify for 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 pension schemes and those that run them. The answers to these questions were then used to derive proxy measures indicating the presence of each DC quality feature. These proxy measures were deemed to be the most practical and effective way of determining the presence of the DC quality features through a telephone survey but do not necessarily represent the regulator's complete view of what is required for a feature to be present (as some aspects cannot be adequately captured in this type of research).

The proxy measures used were felt to be the most practical and effective way of determining feature presence through a telephone survey but do not necessarily represent the regulator's complete view of what is required for a feature to be present (as some aspects cannot be adequately captured in this type of research).

Similar proxy measures were used for assessing the presence of each of the legislative governance standards. As mentioned in section 2.1, it is important to note that the survey's focus was on the quality features and the proxy measures used for the presence of the governance standards were developed from questions designed for assessing presence of the features. The findings on the presence of the governance standards in schemes are therefore by definition not as reliable as those on the features and, as the questions were not specifically designed with the governance standards in mind, they do not in all instances match the specific requirements within each standard. These results should therefore be treated as **approximate indicators** of the level of compliance with each standard. Full details of the proxy measure used for each of the 5 new standards can be found in the technical data report.

The study covered 4 distinct sub-groups of DC schemes, namely 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. Please note that hybrid membership size is based only on the number of members with DC benefits and excludes any members exclusively in the defined benefit section of the scheme.

The survey was undertaken by OMB Research, an independent research agency, with interviews conducted between 7 January and 20 February 2015. It should be considered that the new governance standards did not come into force until 6 April 2015. Furthermore, the Pensions Regulator published “The Essential Guide to Governance Standards & Charge Controls” on 11 February 2015, only shortly before the end of the survey fieldwork period.



### 3 Key findings

#### 3.1 Awareness of features and action taken

Awareness of the DC quality features was high, particularly among larger schemes. Every master trust, other large DC scheme, large hybrid and medium hybrid scheme interviewed was aware of the quality features set out in the regulator’s Code of Practice. While awareness was lowest among small DC schemes, over three-quarters of this group (78%) were aware of the features.

Knowledge and understanding of the features varied more widely by size and type of scheme. Most master trusts knew ‘a lot’ about the quality features (70%), and the remainder knew ‘quite a lot’ about them (30%). Similarly, the vast majority of other large DC (88%), large hybrid (90%) and medium hybrid (86%) schemes knew either a lot or quite a lot about the features.

However, less than a third of small DC and hybrid schemes (27% and 31% respectively) and half of medium DC schemes (52%) knew a lot/quite a lot about the quality features.

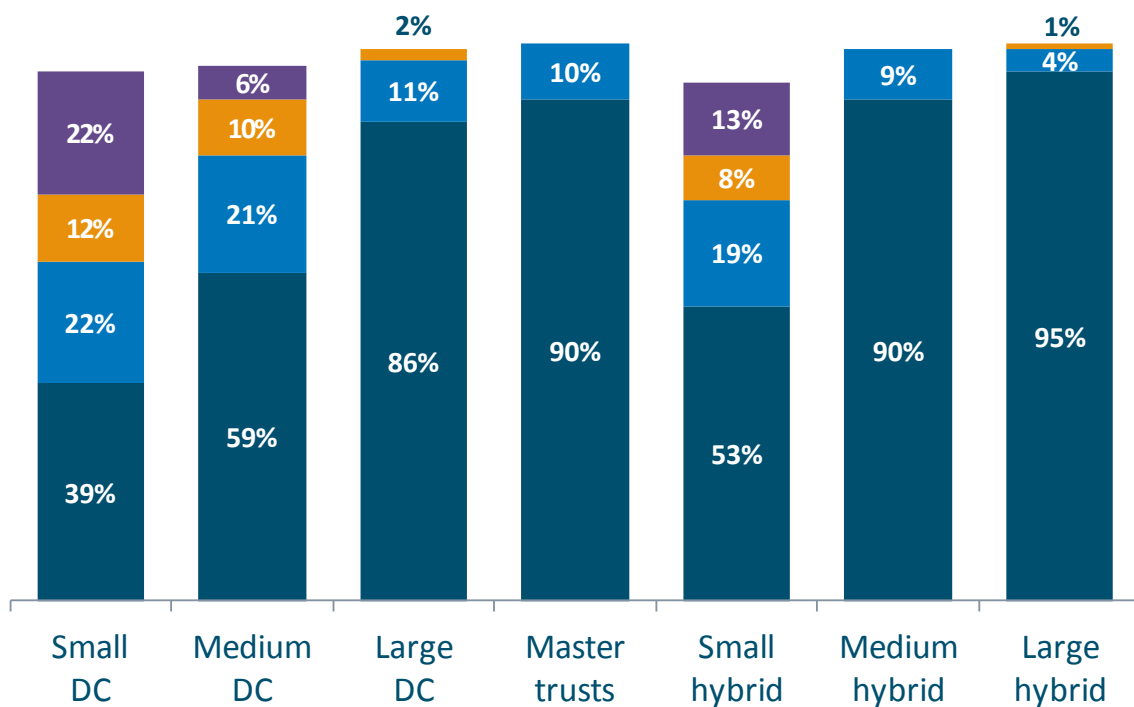
Figure 3.1.1 Awareness & knowledge of DC quality features

	DC schemes				Hybrid schemes		
	Small	Med	Large	Master Trust	Small	Med	Large
<i>Base: All schemes</i>	151	80	60	20	38	91	80
<b>Aware of quality features</b>	<b>78%</b>	<b>94%</b>	<b>100%</b>	<b>100%</b>	<b>87%</b>	<b>100%</b>	<b>100%</b>
- Know a lot about them	5%	11%	45%	70%	7%	33%	34%
- Know quite a lot about them	22%	41%	43%	30%	25%	52%	56%
- Know a little about them	37%	30%	12%	0%	50%	13%	8%
- Know nothing about them	15%	12%	0%	0%	6%	2%	1%
<b>Not aware of quality features</b>	<b>22%</b>	<b>6%</b>	<b>0%</b>	<b>0%</b>	<b>13%</b>	<b>0%</b>	<b>0%</b>

Most master trusts (90%), other large DC schemes (86%), large hybrids (95%) and medium hybrids (90%) had already been reviewed against the DC quality features.

However, this was the case for 39% of small DC schemes, 53% of small hybrids and 59% of medium DC schemes. While around a fifth of these schemes plan to review against the features (typically within the next year), this still leaves a significant proportion that either had no intention of reviewing against the features or were not aware of them.

Figure 3.1.2 Reviewing schemes against the DC quality features



- Not aware of quality features
- No plans to review against features
- Plan to review against features
- Have reviewed against features

Base: All schemes (Base, Don't know)  
 Small DC (151, 5%), Med DC (80, 4%),  
 Large DC (60, 2%), Master (20, 0%),  
 Small hybrid (38, 8%), Med hybrid (91, 1%),  
 Large hybrid(80, 0%)

### 3.2 Automatic enrolment schemes

There is a clear relationship between scheme size and the likelihood of being used for automatic enrolment (AE). All master trusts and the vast majority of other large schemes are either already used for AE or plan to be used for AE in the future. This proportion falls to around two-thirds of medium schemes and a third of small schemes.

It should be noted that even though 34% of small DC schemes are expected to be used for AE, half of these (17%) are not yet used for this purpose. In contrast, almost all medium/large schemes that will ultimately be used for AE are already set up to do this (i.e. it is unlikely that many non-AE schemes of this size will switch to being used for AE in future).

Figure 3.2.1 Schemes used for automatic enrolment

	DC schemes				Hybrid schemes		
	Small	Med	Large	Master Trust	Small	Med	Large
<i>Base: All schemes</i>	151	80	60	20	38	91	80
Currently used for AE	17%	66%	87%	95%	26%	66%	75%
Plan to use for AE	17%	1%	0%	5%	13%	2%	2%
Not used/planned for AE	62%	33%	13%	0%	52%	30%	22%
Don't know	3%	0%	0%	0%	9%	2%	0%
<b>Net: Used/planned for AE</b>	<b>34%</b>	<b>67%</b>	<b>87%</b>	<b>100%</b>	<b>39%</b>	<b>68%</b>	<b>78%</b>

The research included schemes closed to new members (where existing members continue to contribute) and the above analysis includes both open and closed schemes. However, as detailed in Figure 3.2.2 below, open schemes were much more likely to be used for AE. Those closed schemes used/planning to be used for AE will not necessarily reopen to enrol eligible jobholders and may instead continue to be used for existing active members.

Figure 3.2.2 Schemes used for automatic enrolment – by status

	DC schemes		Hybrid schemes	
	Open	Closed	Open	Closed
<i>Base: All schemes</i>	232	79	162	47
<b>Net: Used/planned for AE</b>	<b>72%</b>	<b>6%</b>	<b>83%</b>	<b>24%</b>

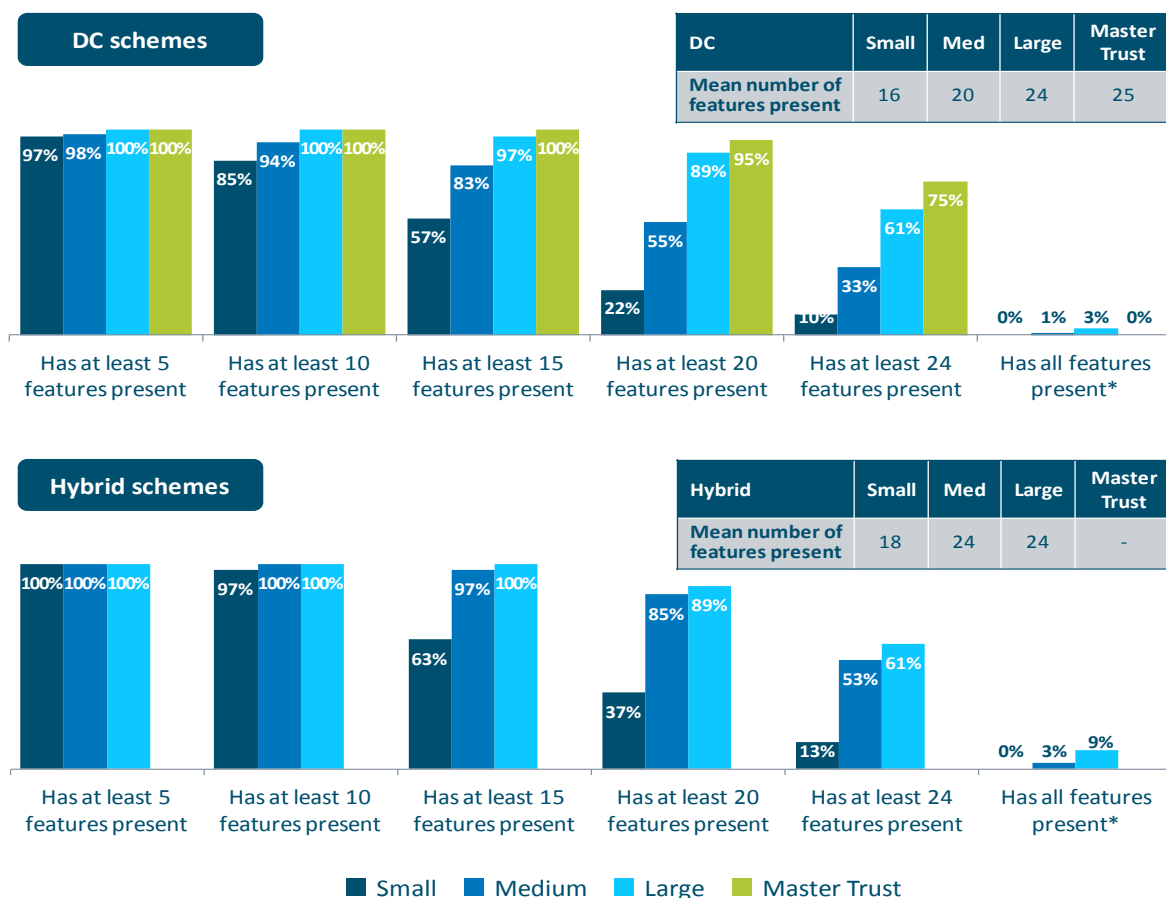
### 3.3 Presence of quality features

The survey data was used to derive proxy measures indicating the presence of each DC quality feature. The complexity of the measures used for each feature varied with some features being based on a single question while others were derived from responses to multiple questions. Full details of how each feature was calculated can be found in the technical data report.

Based on these proxy measures, the vast majority of DC schemes had at least 10 quality features present. However, after this point clear differences emerged by scheme size, with master trusts and other large DC schemes having a significantly higher number of features present.

The mean number of features present ranged from 25 for master trusts down to 16 for small DC schemes. Feature presence was slightly higher among hybrids, although a similar pattern was seen by size of scheme with larger schemes having more features present (a mean of 24 for large and medium hybrids compared to 18 for small ones).

Figure 3.3.1 DC quality feature presence



Base: All schemes  
 Small DC (151), Medium DC (80), Large DC (60), Master (20),  
 Small hybrid (38), Medium hybrid (91), Large hybrid(80)

\*30 for single employer schemes &  
 29 for master trusts

Results are also reported by auto-enrolment (AE) status in Figure 3.3.2 below. Please note that AE schemes include those that are intended to be used for AE, as well as those currently used for AE.

There is some indication that schemes that were used (or planned to be used) for automatic enrolment had slightly higher feature presence than non-AE schemes of the same size/type. However, base sizes are low for some groups when analysing the data at this level and these apparent differences are not statistically significant.

Figure 3.3.2 DC quality feature presence – by automatic enrolment status

	DC schemes				Hybrid schemes		
	Small	Med	Large	Master Trust	Small	Med	Large
<i>Base: AE /Non-AE schemes</i>	53/93	59/21	53/7	20/0	15/20	67/23	63/17
<b>AE schemes:</b> Mean number of features present	16	20	24	25	19	24	25
<b>Non-AE schemes:</b> Mean number of features present	15	19	23	-	17	23	23

### 3.4 Individual feature presence

Given the use of proxy measures, the highest and lowest performing features outlined in this section are indicative only.

Figure 3.4.1 below shows the three **highest** performing features, in terms of the proportion of DC schemes meeting each one. Presence of these features was consistently high across all types and sizes of scheme where the feature applied (some features were only applicable to master trusts and others were only applicable to other schemes).

Figure 3.4.1 Highest ranking features

	DC schemes				Hybrid schemes		
	Small	Med	Large	Master Trust	Small	Med	Large
<i>Base: All schemes</i>	151	80	60	20	38	91	80
Trustees will ensure that all costs and charges borne by members are transparent and communicated clearly at point of selection to the employer <i>(Multi-employer schemes only)</i>	-	-	-	95%	-	-	-
Trustees will ensure that a process is provided which helps members to optimise their income at retirement	97%	92%	92%	100%	98%	97%	96%
Trustees will act in the best interests of all beneficiaries <i>(Single employer schemes only)</i>	90%	88%	100%	-	94%	99%	99%

Figure 3.4.2 shows the three **lowest** performing features, in terms of the proportion of DC schemes meeting each one.

The areas where the feature presence results showed the most scope for improvement relate to trustee knowledge and competence, ensuring that administration systems can cope with scale and are backed by adequate business continuity arrangements, and the suitability of default investment strategies. Presence of these features was lowest among small DC schemes.

Figure 3.4.2 Lowest ranking features

	DC schemes				Hybrid schemes		
	Small	Med	Large	Master Trust	Small	Med	Large
<i>Base: All schemes</i>	151	80	60	20	38	91	80
Trustees will ensure that a default strategy is provided which is suitable for the needs of the membership	22%	46%	72%	60%	37%	75%	70%
Trustees will ensure that administration systems are able to cope with scale and are underpinned by adequate business and disaster recovery arrangements	16%	41%	49%	95%	29%	46%	50%
Trustees will understand their duties and be fit and proper to carry them out	11%	26%	39%	70%	12%	33%	41%

The following sections of this report provide more details of the three lowest performing features outlined above.

## Trustees will ensure that a default strategy is provided which is suitable for the needs of the membership

This feature refers to the DC code (Investment, paragraphs 79–102).

The proxy for this feature was based on a scheme having undertaken analysis of the profile of its members **and** stating that this member analysis had contributed to the design of the scheme’s default investment strategy. Schemes without a default strategy did not meet this feature.

This feature was ranked **29/31**. When looking at results for DC schemes, there was a broad pattern of the presence of this feature increasing in line with scheme size (22% for small, 42% for medium and 72% for large schemes). However, although the difference is not statistically significant, master trusts were slightly *less* likely than other large DC schemes to meet this feature (60%). For hybrids, small schemes (37%) were also significantly less likely to meet this feature than medium (75%) and large (70%) schemes.

Analysis of the constituent elements of the proxy measure (in Figure 3.4.3) indicates that one reason for the low presence among small DC schemes is that less than two-thirds of this group (63%) have a default investment strategy. In contrast, the primary reason for the lower presence among master trusts is that a third of this group (30%) have not undertaken an analysis of the profile of their members.

Figure 3.4.3 Response to questions included in feature calculation

	DC schemes				Hybrid schemes		
	Small	Med	Large	Master Trust	Small	Med	Large
<i>Base: All schemes</i>	151	80	60	20	38	91	80
Scheme has a default investment strategy	63%	87%	100%	100%	79%	98%	92%
Scheme has undertaken an analysis of the profile of its members	56%	75%	92%	70%	78%	94%	92%
<i>Base: All with default strategy</i>	95	72	60	20	31	89	75
Member analysis has contributed to design of default strategy	35%	52%	72%	60%	46%	77%	76%



## Trustees will ensure that administration systems are able to cope with scale and are underpinned by adequate business and disaster recovery arrangements

This feature refers to the DC code (Administration, paragraphs 206–225).

The proxy for this feature was based on a scheme having a documented business continuity plan in place **and** having reviewed the administrators’ business continuity plan (if administration was outsourced) **and** being confident that the scheme’s administration could cope with the potential increase of new members due to auto-enrolment (if the scheme was used/planned to be used for AE).

This feature was ranked **30/31**. Among DC schemes there were marked differences in feature presence by size, ranging from 16% of small schemes up to 95% of master trusts. Presence was also lower for small hybrids (29%). Other than master trusts, no more than 50% of any type/size of scheme met this feature.

As set out in Figure 3.4.4, almost all AE schemes are confident that the administration can cope with the potential influx of new members. However, there is evidence that this confidence is not backed by adequate processes to ensure that this is the case. Aside from master trusts, many schemes do not have a business continuity plan and/or have not reviewed their administrator’s business continuity plan (where applicable). This lack of adequate business and disaster recovery arrangements is a particular issue for small schemes.

Figure 3.4.4 Response to questions included in feature calculation

	DC schemes				Hybrid schemes		
	Small	Med	Large	Master Trust	Small	Med	Large
<i>Base: All schemes</i>	151	80	60	20	38	91	80
Scheme has a documented business continuity plan in place	24%	58%	58%	95%	32%	61%	60%
<i>Base: All using a TPA</i>	107	68	51	9	34	85	68
Board of trustees has reviewed the administrator’s business continuity plan	29%	51%	70%	100%	40%	71%	77%
<i>Base: All open schemes used/planned for AE</i>	49	58	53	20	12	62	61
Scheme is very/fairly confident that that administration can cope with the potential increase in new members due to AE	100%	100%	98%	100%	100%	100%	100%

## Trustees will understand their duties and be fit and proper to carry them out

This feature refers to the DC code (Know your scheme, paragraphs 27–47 & Investment, paragraphs 131–132)

The proxy for this feature was based on a scheme having a documented policy to assess the fitness and properness of trustees on appointment **and** requiring trustees to complete the Trustee Toolkit or equivalent within 6 months of appointment **and** having a process to identify whether the scheme has access to all the knowledge necessary to run the scheme **and** having a process to identify which trustees have particular expertise or specialist knowledge.

Feature 3.1 was the least prevalent of all the DC quality features, ranked **31/31**. Few small schemes met this feature (11% of small DC and 12% of small hybrids), and it was also present in well under half of medium and large schemes. While presence of this feature was higher for master trusts, it was comparatively low at 70%.

In terms of the constituent elements of this feature, the majority of schemes (of all types/sizes) have processes to identify whether they have sufficient knowledge to run the scheme. However, the primary weakness lies in the lack of policies to assess the fitness and properness of new trustees. Many small schemes also did not require trustees to complete the Trustee Toolkit within 6 months of appointment.

Figure 3.4.5 Response to questions included in feature calculation

	DC schemes				Hybrid schemes		
	Small	Med	Large	Master Trust	Small	Med	Large
<i>Base: All schemes</i>	151	80	60	20	38	91	80
Scheme has documented policy to assess fitness and properness of new trustees	32%	51%	57%	80%	41%	59%	53%
Trustees required to complete Trustee toolkit or equivalent within 6 months of appointment	30%	56%	79%	85%	41%	73%	74%
Scheme has process to identify whether it has access to all knowledge necessary to run the scheme	75%	88%	96%	100%	88%	95%	99%
Scheme has process to identify which trustees have particular expertise or specialist knowledge	42%	60%	73%	90%	60%	73%	90%

### 3.5 Governance standards and other new legislative requirements

In addition to measuring the presence of the DC quality features, the survey also sought to measure awareness of the new governance standards and other new legislative requirements, and to establish a baseline of the extent to which the standards are present in schemes. These new governance standards can be summarised as follows:

- **Standard 1:** Trustee board must have or have access to the knowledge and competencies necessary to properly run the scheme.
- **Standard 2:** Trustees 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.
- **Standard 4:** Independence requirements for master trusts
- **Standard 5:** Investment obligations in default strategies

Proxy measures were developed for these five standards, drawing on the pre-existing questions used to measure the presence of the DC features. However, as the questions were not specifically designed with the governance standards in mind, they do not always perfectly match the requirements within each standard. These results should therefore be treated as an **approximate indicator** of the likely level of compliance with each standard. Full details of the proxy measures used for each of the 5 new standards can be found in the technical data report.

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 shown in this section of the report takes account of the number applicable to each scheme.

#### 3.5.1 Awareness and knowledge of new governance standards and other new legislative requirements

As set out in Figure 3.5.1.1, awareness of the governance standards was high. Every master trust (100%) and the vast majority of other large (98%), medium (95%) and small (89%) DC schemes knew that new governance standards were coming into force from April 2015. Hybrid schemes displayed similarly high awareness levels (99% for large, 97% for medium and 90% for small).

However, level of knowledge of the new governance standards varied more widely and increased with scheme size. Every master trust and 82% of large DC schemes knew either a lot or quite a lot about them, whereas this proportion fell to 42% of medium DC schemes and 22% of small ones.

Figure 3.5.1.1 Awareness and knowledge of the new governance standards

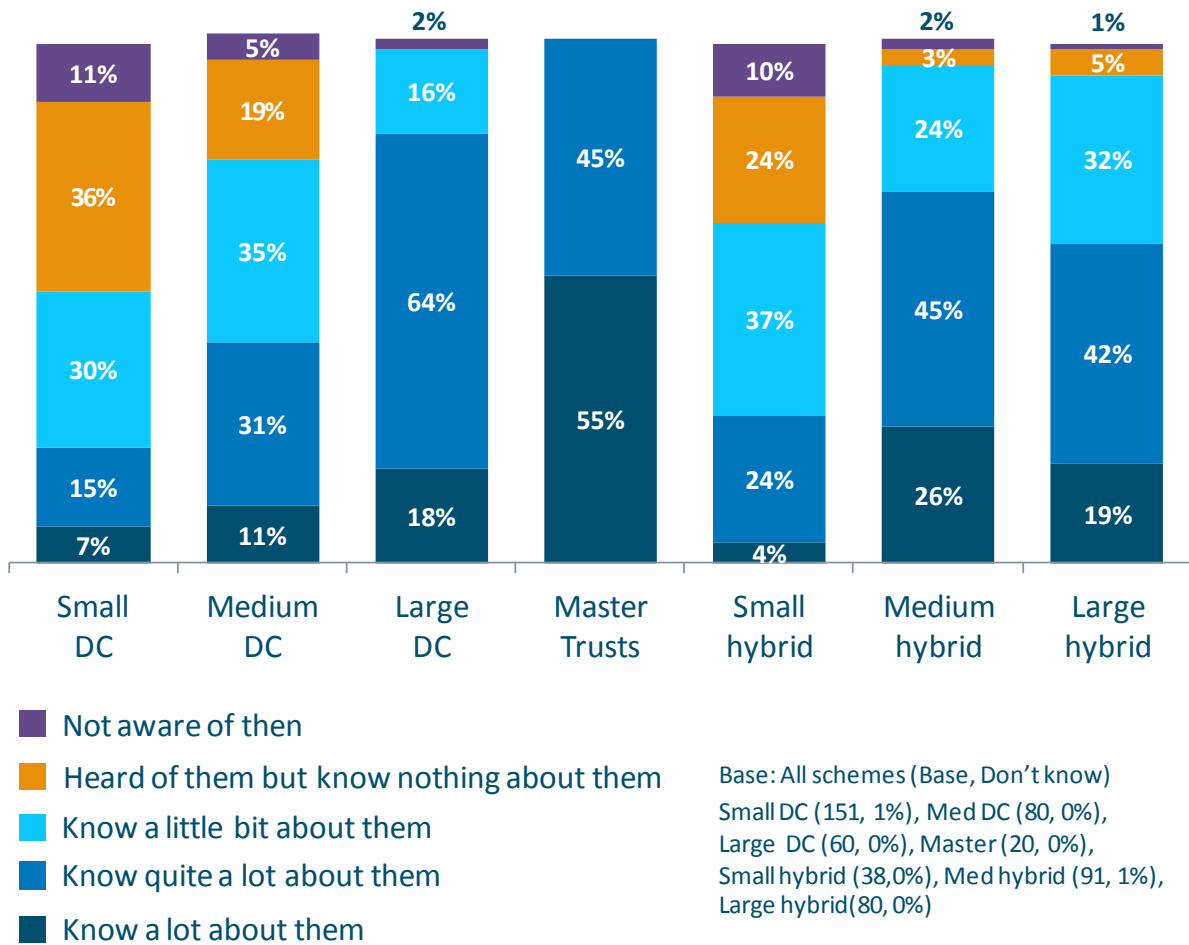
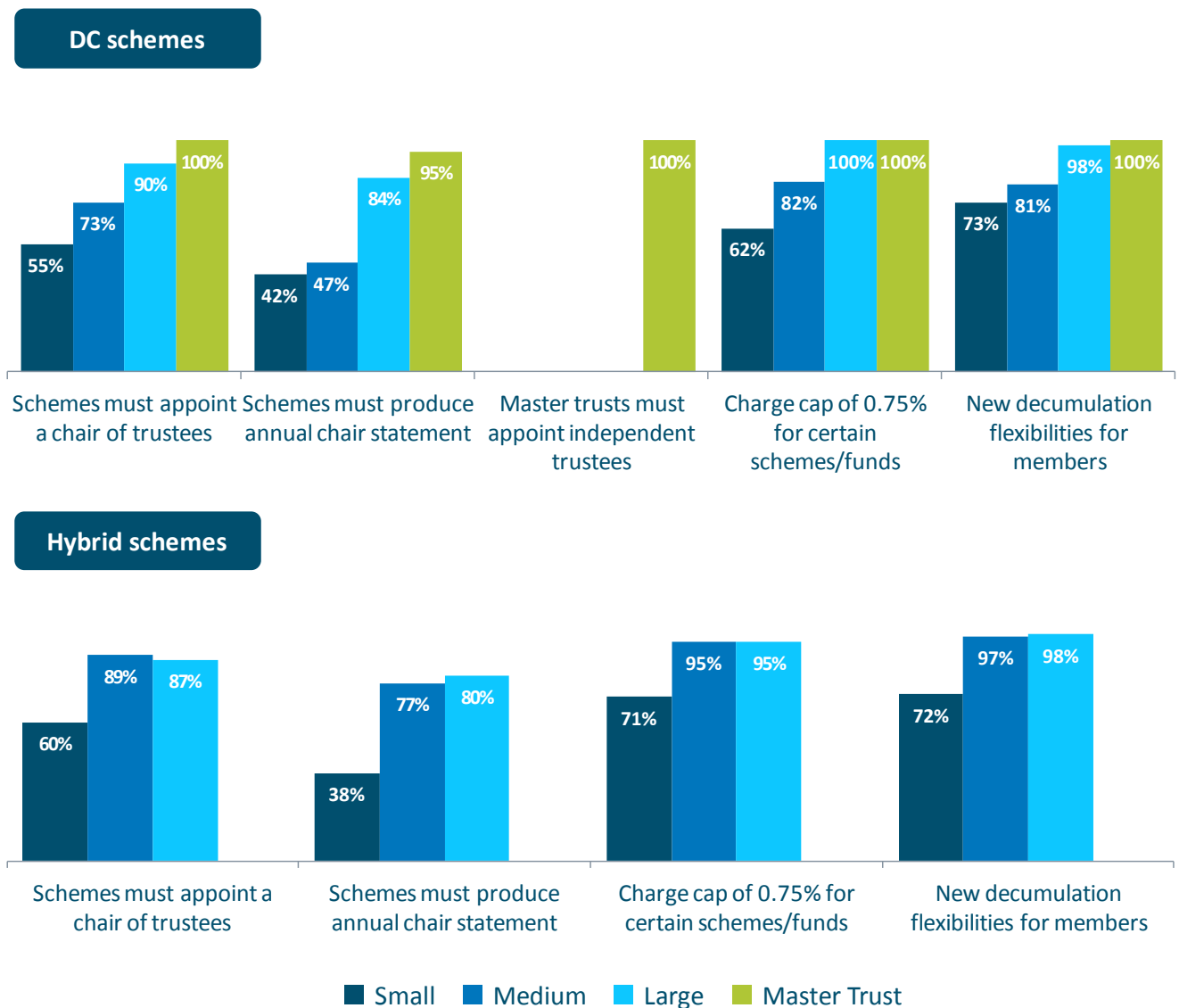


Figure 3.5.1.2 shows that awareness of key changes and requirements introduced in April 2015 was highest among master trusts and generally high among other large DC schemes, large hybrids and medium hybrids. Awareness levels were lower among small DC, medium DC and small hybrid schemes.

Awareness of the new decumulation flexibilities is high, but there is more limited knowledge of the requirements to appoint a chair and produce a chair statement. For small DC, medium DC and small hybrid schemes, awareness of the requirement to produce an annual chair's statement was lower compared to the other three requirements that apply to them (42%, 47% and 38% respectively).

Figure 3.5.1.2 Awareness of key changes and requirements introduced in April 2015



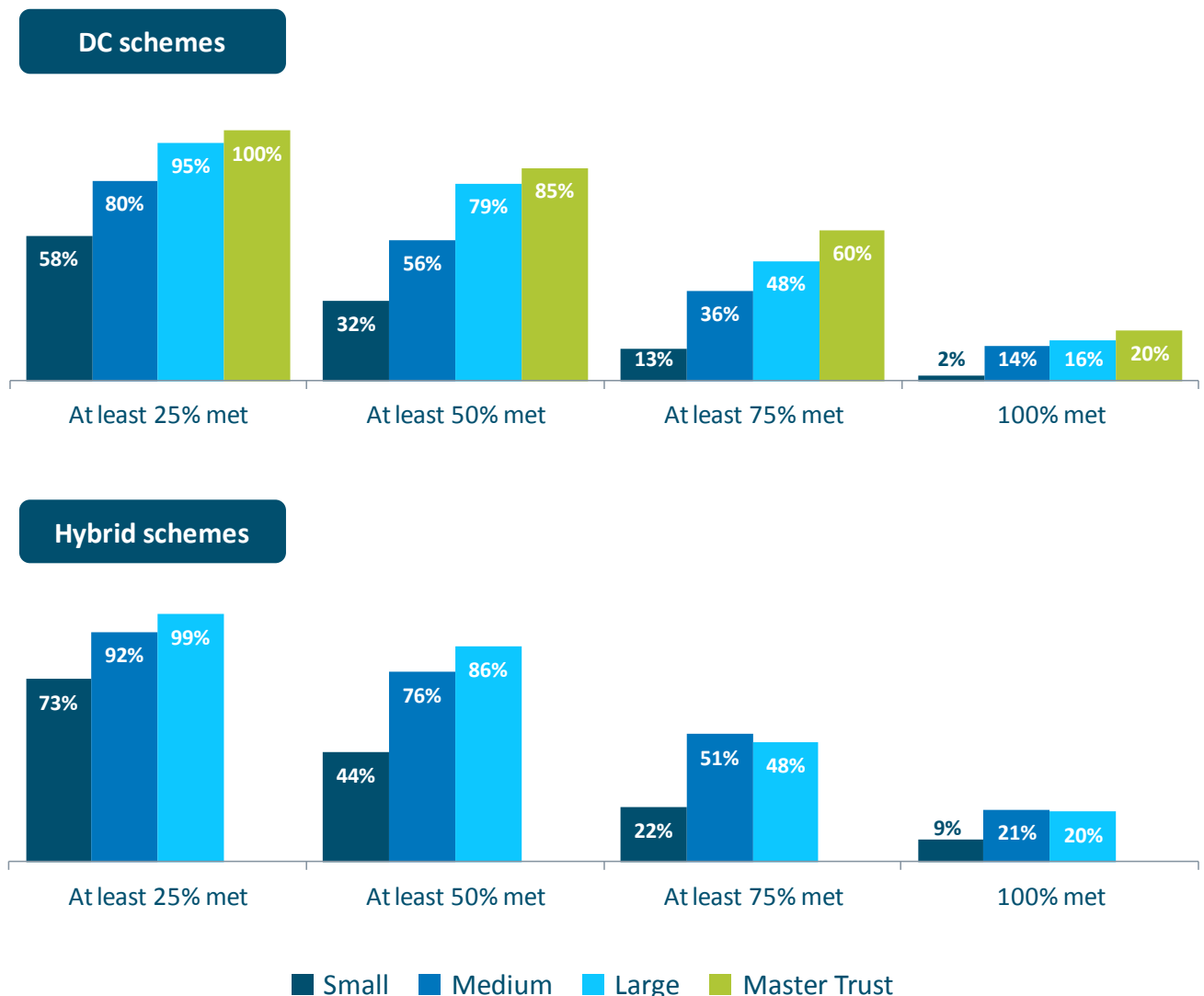
Base: All schemes  
 Small DC (151), Medium DC (80), Large DC (60), Master (20),  
 Small hybrid (38), Medium hybrid (91), Large hybrid(80)

### 3.5.2 Indicators of compliance with governance standards

Based on the proxy measures used to assess compliance with the governance standards, as set out in Figure 3.5.2.1, a minority of schemes (of any size) are likely to be compliant with all of the governance standards applicable to them. This was the case for 20% of master trusts, 16% of other large DC, 14% of medium DC, 2% of small DC, 20% of large hybrids, 21% of medium hybrids and 9% of small hybrids.

However, it should be considered that the research was conducted between 7 January and 20 February 2015, whereas the new standards did not come into force until 6 April 2015. Furthermore, the Pensions Regulator only published “The Essential Guide to Governance Standards & Charge Controls” on 11 February 2015.

Figure 3.5.2.1 Proportion of applicable governance standards met



Base: All schemes  
 Small DC (151), Medium DC (80), Large DC (60), Master (20),  
 Small hybrid (38), Medium hybrid (91), Large hybrid (80)

As shown in Figure 3.5.2.1 above, there is a strong correlation between scheme size and the number of governance standards likely to be met. The majority of master trusts (60%) are likely to be meeting at least 75% of the standards, compared to half of other large (48%), a third of medium (36%) and 13% of small DC schemes. Overall, 42% of small DC schemes are likely to not meet any of the new governance standards.

Hybrid schemes were slightly more likely to meet the new standards than pure DC schemes, but there was a similar (though less pronounced) pattern of variation by scheme size.

Figure 3.5.2.2 below shows the proportion of schemes that are likely to meet each of the 5 new governance standards.

Figure 3.5.2.2 Proportion of schemes likely to be meeting each Governance Standard

	DC schemes				Hybrid schemes		
	Small	Med	Large	Master Trust	Small	Med	Large
<i>Base: All schemes</i>	151	80	60	20	38	91	80
<b>Standard 1</b> Trustee board must have or have access to the knowledge and competencies necessary to properly run the scheme	9%	34%	53%	75%	24%	43%	61%
<b>Standard 2</b> Trustees must assess the extent to which charges / transaction costs provide good value for members	42%	49%	51%	65%	43%	60%	54%
<b>Standard 3</b> Core scheme financial transactions must be processed promptly and accurately	35%	55%	65%	65%	51%	71%	72%
<b>Standard 4</b> Independence requirements for non-associated multi-employer schemes ( <i>Master trusts only</i> )	-	-	-	100%	-	-	-
<b>Standard 5</b> Investment obligations in default strategies ( <i>Schemes with a default strategy only</i> )	28%	48%	68%	60%	38%	68%	72%

All 20 of the master trusts interviewed were aware that, as of April 2015, they were required to appoint independent trustees and therefore are likely to meet Standard 4 (which was only asked of master trusts).

Overall, Standard 1 was least likely to be met by schemes. Less than 1 in 10 small DC schemes (9%) were judged to have sufficient knowledge and competence within the trustee board to properly run the scheme. This was also the lowest ranked of the standards for medium DC schemes (34%), small hybrids (24%) and medium hybrids (43%).

Results were broadly similar for Standards 2, 3 and 5. However, large DC and hybrid schemes were least likely to meet Standard 2 of all the Governance Standards. There was also less differentiation between large schemes and small/medium ones for Standard 2. This suggests that trustee boards of larger schemes may find it comparatively more challenging to assess the extent to which the charges and transaction costs provide value to their members.