

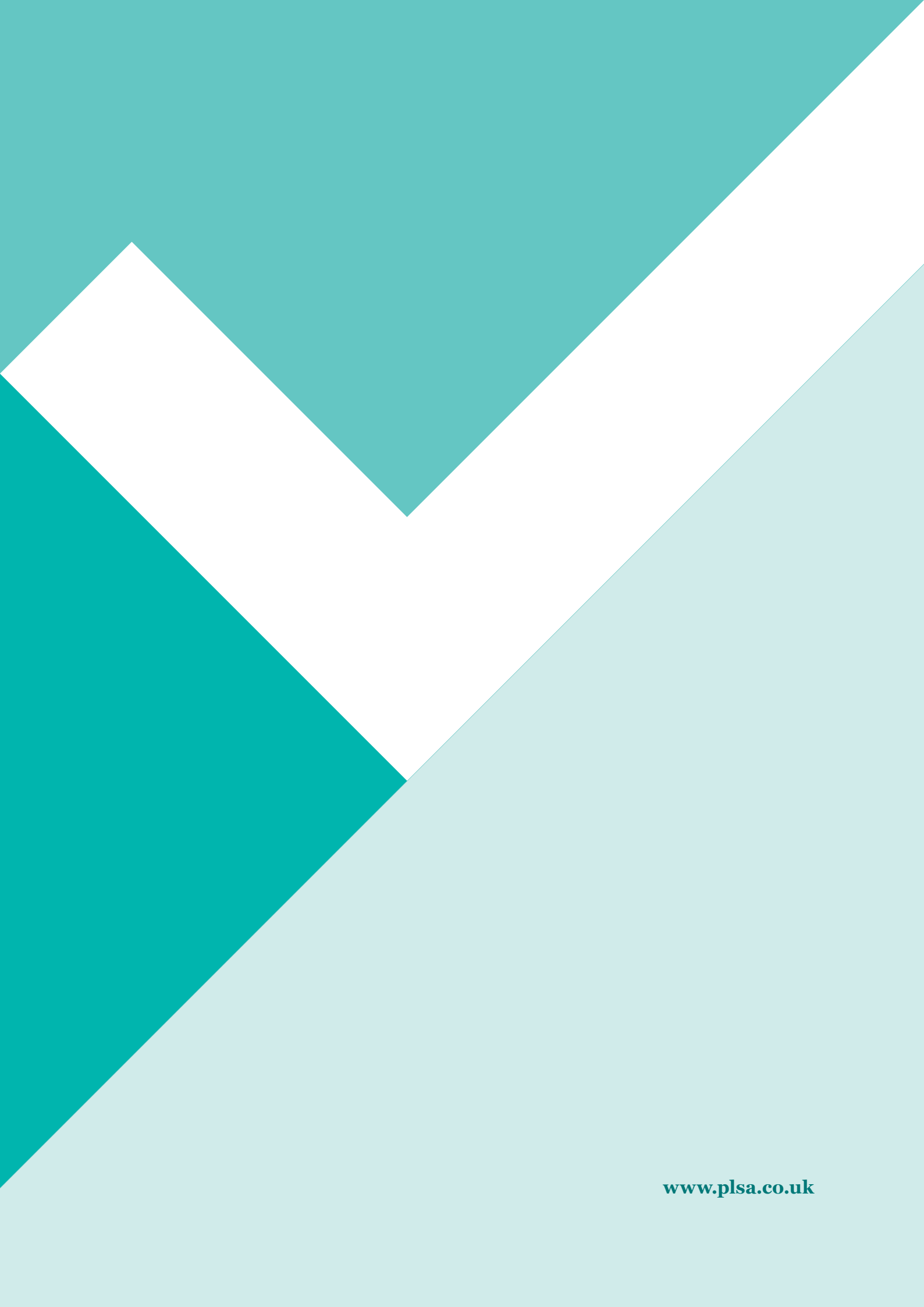


**PENSION  
QUALITY  
MARK**

# **PQM STANDARDS**

*January 2019*

**PENSIONS AND  
LIFETIME SAVINGS  
ASSOCIATION**



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# INTRODUCTION

## THIS DOCUMENT SETS OUT THE NEW STANDARDS WHICH WE EXPECT PENSION SCHEMES TO MEET IN ORDER TO OBTAIN PENSION QUALITY MARK (PQM) ACCREDITATION.

The Pensions and Lifetime Savings Association (PLSA) brings together pensions schemes and other parties to raise standards. Our mission is to help everyone to achieve a better income in retirement. We work to get more people and money into retirement savings and raising standards is an important way to achieve this.

PQM was developed in 2009 and is an accreditation scheme designed to increase confidence in workplace pensions by helping employers demonstrate the quality of their schemes. It is available to DC pension schemes offered by employers to their employees.

The new PQM Standards replace the existing rules and procedures that have been in place, and updated periodically, from the inception of PQM. At their heart, they are outcome-focused, and set out best practice principles which must be applied by PQM Schemes, trustee boards or committees, and by sponsoring employers. They cover the following themes:

- ▶ Commitments from employers to their scheme
- ▶ Membership understanding and knowledge
- ▶ Key responsibilities for the board or committee
- ▶ The investment strategy taken by the board or committee
- ▶ The scheme members' experience

In particular, the Standards are intended to raise the bar, by setting new default contribution levels of pensionable pay for both employees and employers. These are:

- ▶ 12% for PQM with at least 6% from the employer
- ▶ 15% for PQM Plus with at least 10% from the employer

We intend there to be some flexibility in how schemes can achieve the Standards, however the best practice guidelines set out in further detail the approach we expect schemes to 'comply or explain' against in order to achieve the PQM accreditation.

We have set out the evidence which we expect PQM schemes to show us, in order to demonstrate that they have met each of the standards. However, we recognise that each scheme is unique, with its own history, complexity and structures and we will consider relevant explanatory evidence that demonstrates reaching the levels set out in the Standards. We will provide applicants with further specific guidance about the evidence we require, as part of the application process.

While the PQM is intended to be a mark of an especially high quality scheme, we encourage all pension schemes to be guided by, and to aim to achieve, the Standards. Aspiring to meet best practice provisions will help ensure that all schemes are effectively managed and are able to meet the needs and expectations of their members, in delivering better retirement incomes.

**PQM Standards Committee, PLSA**

# THE EMPLOYER COMMITMENT

## THE STANDARD

### This is what we expect of a PQM scheme

To obtain PQM accreditation, sponsoring employers must:

- ▶ Set default contributions designed to deliver an adequate retirement income<sup>1</sup>
- ▶ Enrol employees at minimum combined contribution rates of pensionable pay<sup>2</sup> which are:
  - ▶ 12% for PQM with at least 6% from the employer
  - ▶ 15% for PQM Plus with at least 10% from the employer
- ▶ Provide the trustee board or pension committee with adequate support and resources to operate effectively
- ▶ Encourage participation in the pension scheme and, where appropriate, higher contribution rates than the PQM minimum
- ▶ Support retiring members of the scheme in making pension decisions.

## BEST PRACTICE GUIDELINES

### This is how we expect PQM schemes to deliver the standards – on a comply or explain basis

Employers with a PQM accredited scheme will generate confidence in the scheme and pensions in general. In particular, the employer should:

- ▶ Work with the trustee board or pension committee in meeting its responsibilities to encourage employees to participate in the scheme; make additional contributions where appropriate to their circumstances; and review the effectiveness of these actions
- ▶ Provide appropriate resources to the trustee board or pension committee to ensure that they are able to meet the PQM Standards. In particular, employers should commit to strengthen member understanding, member communications and engagement
- ▶ Support the trustee board or pension committee in assessing that the pension delivers value for money to members
- ▶ Work with the trustee board or pension committee to ensure that retiring employees are provided with appropriate support, such as additional supportive documentation, guidance or access to advice, and signposting to quality drawdown.

<sup>1</sup> All PQM holders will be expected to make a commitment to have met this standard by 31 December 2021

<sup>2</sup> Employers must define pensionable pay clearly and it must be described in an employer commitment

## EVIDENCE

**This is how we expect PQM schemes to show us that they have met the standard**

A signed commitment from the employer must be submitted with the initial application for PQM and with each renewal. The document should specify the planned support and resources for the trustee board or pension committee.

Documents made available to eligible and new members that demonstrate the commitment to minimum PQM contribution levels.

Information made available to retiring employees that demonstrates appropriate support, such as additional supportive documentation, guidance or access to advice, and signposting to quality drawdown.

Evidence on renewal of:

- ▶ The percentage of eligible members that have joined the scheme since last renewal (or similar period), which may be included in evidence of understanding the membership (see below)
- ▶ The percentage of members who are making and receiving the PQM rate of contribution
- ▶ The percentage of members who are making and receiving contributions below the PQM rate
- ▶ The percentage of members who are making and receiving contributions above the PQM rate (including regular Additional Voluntary Contributions (AVCs)).

# UNDERSTANDING THE MEMBERSHIP

## THE STANDARD

### **This is what we expect of a PQM scheme**

The trustee board or pension committee will use its understanding of the membership to:

- ▶ Design a default investment fund or strategy and other fund or strategy options with appropriate levels of risk for the membership
- ▶ Design options available at retirement (including in-scheme options and the support made available to the membership)
- ▶ Develop the form and content of scheme communications.

## BEST PRACTICE GUIDELINES

### **This is how we expect PQM schemes to deliver the standards – on a comply or explain basis**

In order to deliver a scheme that meets the needs of members, a PQM scheme should demonstrate that its board or committee understands the membership through regular reviews of:

- ▶ Who is in the scheme, in particular focusing on the diversity of the membership and identifying any particularly vulnerable groups of members
- ▶ The profile of scheme members’ tenure, contributions, fund size, transfers and at-retirement behaviour
- ▶ Members’ capacity for risk and their investment requirements
- ▶ What members need and the priority placed on different aspects of the scheme
- ▶ The behaviour, expectations and needs of the scheme’s membership

In addition, the board or committee should regularly review appropriate primary or secondary research which indicates:

- ▶ The attitudes, expectations and behaviours of its members towards pensions and retirement
- ▶ The retirement needs and plans of its membership
- ▶ How membership of the scheme fits within members’ broader financial profile

The board or committee should use this information to help to inform (and support decisions made on) the default fund, retirement options and member engagement. It may also help to inform its review of value for members (VfM).

## EVIDENCE

**This is how we expect PQM schemes to show us that they have met the standard**

Demographic and financial profile of scheme membership – a regular report (at least annual), including:

- ▶ Numbers of members who are: active, deferred, in decumulation
- ▶ Significant changes in membership
- ▶ Member movements including numbers of new joiners, new deferred and transfers in or out
- ▶ Age profile
- ▶ Number of years to retirement/age 55/State Pension Age (SPA)
- ▶ Proportion of the members who can be contacted
- ▶ Current contribution levels among active members, for example:
  - ▶ Average percentage of income (split by employer and employee)
  - ▶ Percentage contributing at different levels (e.g. percentage contributing minimum, percentage contributing above minimum but below PQM level, percentage contributing PQM level, percentage contributing above PQM level)
- ▶ Percentage of members in the default fund or making an active fund choice or switching
- ▶ At retirement behaviour, and choices made by scheme members

The scheme should also demonstrate an understanding of members’ attitudes, expectations and needs, for example:

- ▶ Member expectations of how their pension will help them in retirement
- ▶ Member understanding of the options available to them at retirement
- ▶ How members make decisions at retirement about how to use their defined contribution (DC) pots
- ▶ How members would prefer the scheme to deliver both at retirement support and in retirement features
- ▶ What members think is important to them in considering value for money
- ▶ Evidence that schemes track the behaviour of members at retirement and any changing expectations or needs, where they have significant numbers of members approaching retirement.



# BOARD RESPONSIBILITIES

## THE STANDARD

**This is what we expect of a PQM scheme**

A PQM scheme will have a well-run trustee board or pension committee which will:

- ▶ Have the right mix of people with diverse and appropriate experience, skills, understanding and knowledge
- ▶ Employ tools for board planning and reviews that ensure that the board examines the things that really matter for delivering better DC pensions
- ▶ Understand and interact with members (both active and deferred).

## BEST PRACTICE GUIDELINES

**This is how we expect PQM schemes to deliver the standards – on a comply or explain basis**

A PQM trustee board or pension committee should demonstrate that:

- ▶ It has considered and documented the diversity of the board or committee in terms of demographics, skills, knowledge, experience and understanding and that the board regularly considers ways in which the diversity of the board or committee can be improved
- ▶ A plan is put in place and implemented to fill those gaps through training and/or recruitment
- ▶ In a pension committee, the employer ensures members are represented on the committee in a similar way to how member-nominated trustees are in trust based schemes
- ▶ The effectiveness of the board or committee is subject to an annual internal review
- ▶ Where members are represented on the board or committee, the appointment process is designed to facilitate diversity and encourage applications from all types of member
- ▶ The board must have a documented process or forum for gathering and analysing all members' views.

A PQM trustee board or pension committee should demonstrate that:

- ▶ The objectives of the board or committee are documented, reviewed and a plan is put in place to achieve the objectives
- ▶ The board plan is reviewed on a regular basis (at least yearly) and adjustments made for the subsequent year. Actions required by the board are documented and managed. Post-implementation reviews of any substantive project should be conducted by the board
- ▶ The board or committee has reviewed whether the governance of the scheme is delivering value for members (where funded by members) or the employer (where funded by the employer) and that ways of improving the value for members of the scheme’s governance have been considered as part of the value for money review.

Member understanding and engagement: a PQM scheme should demonstrate that:

- ▶ The board or committee has in-depth and up-to-date understanding of its members and their needs from the scheme<sup>3</sup>
- ▶ The board or committee takes appropriate account of the needs of any vulnerable members of the scheme
- ▶ The board or committee communicates what it is achieving for scheme members through external communication, including an annual chair’s statement aimed at the members (or a summary aimed at the members)
- ▶ The board encourages and reviews feedback from scheme members (both active and deferred).

## EVIDENCE

**This is how we expect PQM schemes to show us that they have met the standard**

General:

- ▶ Scheme rules and details of trustee appointments and removal
- ▶ For pension committees: terms of reference, membership, objectives and frequency of meeting
- ▶ A record of an annual skills audit and review of effectiveness
- ▶ Training and recruitment plans that address any gaps in skills identified in the audit
- ▶ An analysis of the diversity of the board or committee
- ▶ A document setting out the board objectives for the year and an annual board planner that shows how the objectives will be met
- ▶ Agenda and minutes that demonstrate that the plan has been managed
- ▶ An end of year board review document
- ▶ A Chair’s statement or summary (written in a style designed for members)
- ▶ Evidence of board members reviewing feedback from scheme members (including complaints).

<sup>3</sup> See ‘Understanding the membership’ standard

# INVESTMENT STRATEGY

## THE STANDARD

**This is what we expect of a PQM scheme**

A PQM scheme must:

- ▶ Ensure it is investing members' funds appropriately
- ▶ Set a default investment strategy which suits its membership
- ▶ Have in place a process for regular review, including a review of default arrangements when significant changes take place within the scheme membership, or the wider policy, investment or economic environment.

## BEST PRACTICE GUIDELINES

**This is how we expect PQM schemes to deliver the standards – on a comply or explain basis**

- ▶ The board or committee should identify the set of actions required to address any investment issues arising and put in place and ensure the execution of plans to complete these actions.
- ▶ The scheme should monitor internal or external events that trigger a review of their default funds or strategy
- ▶ Where trigger events occur, undertake a review of:
  - ▶ The design and management of the default accumulation strategies and any other key investment funds or strategies
  - ▶ The design and management of any decumulation arrangements designed to meet the retirement income or drawdown needs of members in retirement.
- ▶ The PQM scheme's review of default arrangements should include:
  - ▶ The segmentation and profiling of the reasonable investment expectations and risk tolerance of members in the current and expected future economic environments (see understanding the membership standard)
  - ▶ The investment objectives of the default accumulation and decumulation strategies to ensure that they are aligned with members' needs and expectations
  - ▶ The performance of the default accumulation and decumulation strategies (and any other key investment funds) and the investment managers responsible, to ensure that they are delivering and can be expected to continue to deliver against the fund objectives
  - ▶ The value that the default arrangements and other funds deliver to members and, where appropriate a plan for improving value for members (for example, by adapting the strategy or reviewing providers)
- ▶ The scheme should conduct due diligence on the manager, including consideration of:
  - ▶ Skills and competence
  - ▶ Investment objectives
  - ▶ Sustainability
  - ▶ Fees and charges
  - ▶ Operations and administration
  - ▶ Structure of funds
  - ▶ Protection for members.

## EVIDENCE

**This is how we expect PQM schemes to show us that they have met the standard**

- ▶ Evidence that the board or committee reviews the scheme's default investment strategy on a regular basis, and when triggered by particular circumstances
- ▶ The review should demonstrate the following issues have been considered:
  - ▶ Member risk tolerance and reasonable investment expectations and whether the investment objective of the default strategies match these
  - ▶ The default fund performance against benchmark and competition
  - ▶ An assessment of the investment manager's competence to deliver investment performance against the objective and competition
  - ▶ Analysis of value for members
- ▶ The review should also evaluate actions taken in the last year to address any issues identified with the investment strategy, and that previous planned changes have been implemented and are effective
- ▶ The review should document its findings and include a plan of actions to address any issues identified.

# MEMBER EXPERIENCE

## THE STANDARD

**This is what we expect of a PQM scheme**

A PQM scheme must ensure that members:

- ▶ Get the right information at the right time to make appropriate decisions
- ▶ Are informed about their membership of the scheme, how the scheme works, the benefits of membership and the progress of their savings
- ▶ Understand how their own actions, as well of those of the scheme, can influence their outcomes
- ▶ Are encouraged and helped to take action to secure better outcomes.

## BEST PRACTICE GUIDELINES

**This is how we expect PQM schemes to deliver the standards – on a comply or explain basis**

A PQM scheme will design, implement and monitor an inclusive process of engagement for all members.

The trustee board or pension committee should put in place, and keep under constant review, a member engagement strategy and design of its member journey. These will set out how the scheme engages with members, the resources it will devote to this and what outcomes it seeks for members through engagement.

In particular, schemes should:

- ▶ Review annually to ensure the engagement strategy delivers value for members, and implement improvements if necessary
- ▶ Assess the risks to members’ outcomes through lack of engagement
- ▶ Understand their members’ needs and preferences for communication and engagement and how these segment across the membership
- ▶ Consider and define what needs to be communicated, why, by what medium and in what voice
- ▶ Document the member journey, setting out interactions for the year between the scheme and member, the resources required and outcomes sought
- ▶ Plan for dealing with unexpected events during the year that require communication with members
- ▶ Monitor the impact of interactions with members through the year and obtain feedback on their effectiveness
- ▶ Review the effectiveness of the year’s activity, and implement plans to address issues arising and to secure the outcomes sought
- ▶ Be inclusive in their thinking and activities to ensure they address diversity across the membership and engage with all members, both active and deferred and those with different needs, with a particular focus on vulnerable members.

## EVIDENCE

**This is how we expect PQM schemes to show us that they have met the standard**

- ▶ An analysis of risks to members from lack of engagement and how this may be addressed
- ▶ An engagement strategy and member journey plan that is inclusive and appropriate to the membership, particularly any vulnerable members
- ▶ An analysis of engagement activity and its effectiveness and shortcomings, including a plan of actions for the coming year with their intended outcomes.

# ABOUT THE PLSA

We're the Pensions and Lifetime Savings Association; we bring together the pensions industry and other parties to raise standards, share best practice, and support our members. We represent over 1,300 pension schemes with 20 million members and £1 trillion in assets, across master trusts and defined benefit, defined contribution, and local government schemes. Our members also include some 400 businesses which provide essential services and advice to UK pensions providers.

Our mission is to help everyone to achieve a better income in retirement. We work to get more people and money into retirement savings, to get more value out of those savings, and to build the confidence and understanding of savers.

## FEEDBACK

The Standards will be the responsibility of the PLSA's PQM Standards Committee and will be kept under periodic review. We are keen to help foster a culture of continual improvement and we welcome any feedback you may have.

You can contact us at the following email address:

**[info@pensionqualitymark.org.uk](mailto:info@pensionqualitymark.org.uk)**

The logo for the Pension Quality Mark features a stylized white checkmark on a teal background. The background is split into two shades of teal: a darker shade at the top and a lighter shade at the bottom.

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LIFETIME SAVINGS  
ASSOCIATION**

**Pensions and Lifetime  
Savings Association**

24 Chiswell Street  
London  
EC1Y 4TY

T: 020 7601 1700  
E: [enquiries@plsa.co.uk](mailto:enquiries@plsa.co.uk)

[www.plsa.co.uk](http://www.plsa.co.uk)