

Invitation to Tender (ITT):

Research on UK Defined Contribution Pension Scheme Default Investment Strategies

Provision of Research Services

Reference	FRC2024-007 Research on UK Defined Contribution Pension Scheme Default Investment Strategies
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1 Background

The Financial Reporting Council (FRC) regulates auditors, accountants and actuaries and sets the UK's Corporate Governance and Stewardship Codes. We seek to promote transparency and integrity in business; our work is aimed at investors and others who rely on company accounts, audit, and high-quality risk management.

The FRC sets and regularly reviews Actuarial Standard Technical Memorandum 1: Statutory Money Purchase Illustrations ("AS TM1"). AS TM1 specifies the assumptions and methods to be used in the calculation of statutory illustrations of retirement income from 'money purchase' pensions, also known as 'defined contribution' (DC) pensions. AS TM1 requires these illustrations to use assumptions that differ depending on the volatility of the funds in which the DC pension is invested.

For a UK Defined Contribution ('DC') pension scheme the selection of the default investment strategy that is offered to scheme members is one of the most important decisions for pension scheme decision-makers. This is because many/most scheme members will follow the default strategy, particularly individuals without the financial knowledge and/or confidence to make an active choice.

UK DC schemes typically use a form of 'lifestyle' strategy for the default fund, whereby the investment strategy for an individual changes over time depending on how far away they are from retirement age. We understand there are a wide range of different types of 'lifestyle' strategy used by UK pension funds. We have commissioned this research in order to better understand the strategies used, to inform our policy-making activities in relation to the assumptions and methods as set out in AS TM1.

This research project is separate from the current review of the accumulation rate assumptions in AS TM1 v5.0 which was consulted on in November 2023; rather it is intended to inform and support the FRC's longer term strategy and decision-making in relation to AS TM1.

2 Project description

2.1 Context and objectives

This research project will involve data collection and analysis to provide information on the default investment strategies currently offered by UK DC pension schemes, noting that common practice for default DC investment strategies has evolved, particularly since 'pension freedoms' were introduced in 2015. This data and analysis will support the FRC in setting actuarial standards that are appropriate for the current environment of UK DC pension schemes.

- The project's core objective is to understand the nature of the various default investment strategies provided to UK scheme members and provide the FRC with statistically significant data on this.
- As a second objective, we are also seeking an understanding of why those strategies are provided to scheme members.

2.2 Purpose and Scope

The purpose of this research is to learn which investment strategies are most commonly provided as the defaults and to understand some of the rationale and modelling assumptions that have led to a provider's choice. In particular, since 'pensions freedoms' were introduced in 2015, there are now more options as to how an individual can receive their DC pension when they begin to access it¹. We wish to know how the default strategies have changed to reflect member needs in respect of this.

To meet its objectives, the research project will address the following areas of enquiry:

a) *Structure of default investment strategies:*

- Is the default strategy based on 'lifestyling', target date funds, or some other structure?
- What is the asset mix (within broad asset classes, such as 'UK equities', 'overseas equities', gilts, bonds, cash etc) in the 'growth phase'?
- What asset mix are members' pension investments transitioned to at the expected retirement date?
- Over what period does transition from 'growth' to 'at retirement' investment strategy occur?

b) *Implementation of 'lifestyle' strategies:* Where a DC scheme has a 'lifestyle' strategy as the default, what assumed retirement age is used and how has that been determined?

c) *Rationale for default strategy:* In setting the default strategy, what was the underlying assumption about the form in which DC benefits would be taken, why was this assumption used and how does this lead to the default strategy offered?

d) *Data on form in which DC benefit is taken at retirement:* What has been the experience of UK DC schemes in terms of the form that DC benefits have been taken (e.g. lump sum, drawdown, annuity) and what are the trends over time?

We expect the research project to investigate these areas across a wide section of the UK DC pensions industry, with primary focus on larger pension providers. This should cover the whole pensions market, including large trust-based schemes, master trusts, contract-based occupational pensions (such as group personal pensions and stakeholder pensions), and other personal pensions including SIPPs (to the extent that they have default investment strategies). We envisage the research could be carried out via questionnaire (which could be conducted online in written form or verbally over the phone). However, we welcome alternative suggestions or variations on this; your proposal should please include details on how you propose to collect the required data in an effective way with minimal burdens on participants.

If you consider that in order to achieve the objectives in 2.1, the project should include other areas of enquiry besides (a) to (d) listed above, then these should also please be included in your proposal.

2.3 Outputs and deliverables

Two outputs will be delivered to the FRC during the course of the project:

- i. A dataset (in electronic format, with supporting documentation) of UK DC schemes, with figures to indicate their size, and details of the default investment strategy. This

¹ Prior to 2015, an individual could take up to 25% of their pension benefit as a pension commencement lump sum and the rest had to be taken as an annuity.

data may be anonymised and aggregated as required. Supporting documentation should include a description of the quality assurance processes adopted to ensure the accuracy of the data collection and analysis. This data may be drawn upon by the FRC in preparing any related publications. The appointed contractor would be credited with providing this input in such cases.

- ii. An analytical report that pulls together the results and presents them in a format suitable for publication and including the analysis that achieves the project objectives of detailing the distribution of default investment strategies in UK DC pension schemes and explanations of why given default investment strategies are used. The analysis should explain the distribution in terms of pension-provider characteristics such as (but not necessarily limited to) the number of individual scheme members and size of funds invested in each default investment strategy. The explanations of why given default investment strategies are selected by providers will necessarily comprise more qualitative analysis and narrative than quantitative/statistical mechanics. The report should highlight and illustrate key insights from analysing the dataset, using graphs and other visual representations where useful. It should include an executive summary (2-3 pages in length) as well as a main body that presents the full detail of the findings. If the FRC publishes findings from the report, the successful contractor will be cited as the author of the underlying research.

2.4 Suggested approach

In order to provide the required outputs and deliverables, we consider there to be two possible approaches; you may wish to use a combination of these in your proposal:

1. Draw on existing research, which could comprise publicly available information (e.g. as published by pensions industry bodies) as well as privately conducted research, and tailor this information to our specific requirements. The amount of information already available, and how up to date it is, will determine the extent to which additional information is required e.g. through a questionnaire-based survey.
2. Conduct research, through a questionnaire to market participants, and/or another approach. This will include the answering of high-level questions by a suitable research population covering the areas of enquiry noted in paragraph 2.2 above. Your proposal should explain how your approach would enable grouping of similar answers (for statistical analysis) but also allow sufficient flexibility where necessary for respondents to provide detail of specific circumstances.

As stated in Section 2.2 above, we welcome alternative suggestions or variations on these; your proposal should please include details on how you propose to collect the required data in an effective way with minimal burdens on participants.

It will be important for the successful contractors to identify the population of companies/organisations to be covered by the research. This should include all the larger UK DC pension schemes (assessed primarily by number of scheme members). In the Appendix (at the end of this document) we set out an example list of some of the (larger) UK DC pension scheme providers we would expect to be included in the project output dataset.

We expect the pension schemes covered by the research will be a mixture of different types of DC pension, including:

- Master trusts
- Other trust-based occupational pension schemes;

- Contract-based occupational pension schemes (such as group personal pension schemes and stakeholder pension schemes); and
- Other personal pension schemes, including self-invested personal pensions.

Your proposal should also explain how you would recruit a suitable sample from this population and ensure a sufficient response rate from that sample. Please specify what your expected response rate is, *and on what basis* you have estimated this. Please also specify how this rate will translate into a percentage coverage of the market (in terms of the proportion of UK DC scheme active/deferred² members represented in the output dataset).

2.5 Liaison arrangements

The FRC team should be updated on project progress and consulted on key decisions in the research design and its implementation. This will include regular progress updates made via conference call and email.

In particular, if a questionnaire is used, the FRC team will wish to discuss, review, and subsequently sign-off the survey questions before that phase begins. We will also review and sign-off the population to be surveyed. If requested, the FRC team will be willing to help draft the survey questions, particularly in terms of providing technical actuarial input.

2.6 Indicative high-level timeline

<i>Date</i>	<i>Deliverable / milestone</i>
Mid March 2024	Kick-off meeting to discuss intended approach to data collection.
Mid-April 2024	Sign-off by FRC of survey questions and population to be surveyed
End-July 2024	Receipt by FRC of draft analytical report and dataset for comment/review.
End-August 2024	Receipt by FRC of final version of the report and dataset.

Cost and financials

Tenderers should provide a fixed fee for the work, exclusive of VAT, inclusive of all expenses. Tenderers should detail their costs in the Tender Response Documents in the format specified. No other costs should be charged on top of the fixed fee, unless the scope has materially changed from what is set out / agreed. Changes to the scope / cost of the project must be mutually agreed.

The FRC does not anticipate bids exceeding £54,000 incl. VAT.

2.7 Your tender response

The proposal should be no more than 7 pages in total, excluding annexes, and include:

² Deferred refers to scheme members who have not yet begun drawing their pension benefits.

- A succinct summary of the proposal, including an estimated timeline of project processes and milestones. Please indicate if you foresee the project needing longer than the six-months we have estimated.
- Details of the proposed approach. This should include:
 - an overview of your methods, sources, and analytical approach
 - your population sampling and participant recruitment strategy, and your expected response rate (broken down by segment as needed). You should also explain on what basis you have estimated this rate, and how it will translate into a percentage coverage of the market (in terms of the proportion of UK DC scheme active/deferred members represented in the output dataset).
- Details of personnel to be involved, including their role for this project and their relevant experience.
- Your organization's experience of similar projects and relevant research capability.
- The arrangements to be put in place for managing this work and quality assuring outputs.
- A budget, including a breakdown of time and costs per activity, in line with the principal project objectives outlined above. If your proposal includes options, these should be costed separately.
- CVs for the project team should be included in an annex, along with any additional information about your organization that you consider relevant.
- Bids should identify any real or perceived conflicts of interest.

2.8 Tender evaluation

Bids will be assessed against the following principal criteria:

- (25%) Understanding of our requirement (supported by relevant experience, track record and / or transferrable knowledge).
- (25%) The suitability of the approach (including methodology and management). In particular. For Part 2 we will pay particular attention to:
 - the proposed sample size
 - the methods/approaches proposed for the qualitative aspects.
- (25%) Experience / relevant experience of the proposed personnel.
- (25%) Pricing / cost of your proposal.

3. References

The FRC reserves the right to take up references. You will be required to provide references in the Tender Response Document. References must be relevant to the FRC requirement and in the last five years.

4. Use of ITT & publication

Tenderers **must not** undertake any publicity activity regarding the procurement within any section of the media.

5. Questions & Clarifications

5.1.1. Tenderers may raise questions or seek clarification regarding any aspect of this further competition at any time prior to the tender clarification deadline.

5.1.2. Tenderers may raise questions or seek clarification within the timeframe by sending questions to procurement@frc.org.uk in the following format.

Nature of query / clarification	Query / Clarification

5.1.3. FRC will not enter into exclusive discussions regarding the requirements of this ITT with tenderers.

5.1.4. To ensure that all tenderers have equal access to information regarding this tender opportunity, FRC will publish all its responses to questions raised by Tenderers on an anonymous basis.

5.1.5. Responses will be published in a questions and answers document to all Tenderers who have indicated that they wish to participate.

6. Tender process timeline

DATE/TIME	ACTIVITY
07/02/2024	Publication of the Invitation to Tender
14/02/2024 by 12.00noon	Supplier's deadline to submit clarification questions
19/02/2024 by close of play	FRC's deadline for publication of responses to clarification questions FRC will endeavour to meet this deadline
26/02/2024 by 12.00noon	Deadline for supplier submission of tender to the FRC.
14/03/2024	Tender outcome / If required: Shortlisted suppliers advised
18/03/2024	If required: Supplier tender clarification session(s)
19/03/2024	Contract execution
21/03/2024	Contract commencement / kick off meeting

7. Conduct

- 7.1.1. The tenderer must not communicate to any person the tender price, even approximately, before the date of the contract award other than to obtain, in strict confidence, a price for insurance required to submit the tender.
- 7.1.2. The tenderer must not try to obtain any information about any other person's tender or proposed tender before the date of the contract award.
- 7.1.3. The tenderer must not make any arrangements with any other person about whether or not they should tender, or about their tender price.
- 7.1.4. The tenderer must not offer any incentive to any member of FRC's staff for doing or refraining from doing any act in relation to the tender.
- 7.1.5. If the tenderer engages in any of the activities set out in this paragraph or if FRC considers the tenderer's behaviour is in any way unethical FRC reserves the right to disqualify the tenderer from the procurement.
- 7.1.6. The tenderer represents and warrants that a conflicts of interest check has been carried out, and that check revealed no conflicts of interest.
- 7.1.7. Where a conflict of interest exists or arises or may exist or arise during the procurement process or following contract award the tenderer must inform the FRC and submit proposals to avoid such conflicts.
- 7.1.8. Tenderers must obtain for themselves at their own responsibility and expense all information necessary for the preparation of tenders. The FRC is not liable for any costs incurred by the tenderer as a result of the tendering procedure. Any work undertaken by the tenderer prior to the award of contract is a matter solely for the tenderer's own commercial judgement.

8. Due Diligence

- 8.1.1. While reasonable care has been taken in preparing the information in this ITT and any supporting documents, the information within the documents does not purport to be exhaustive nor has it been independently verified.
- 8.1.2. Neither FRC, nor its representatives, employees, agents or advisers:
 - makes any representation or warranty, express or implied, as to the accuracy,

- reasonableness or completeness of the ITT and supporting documents; or
- Accepts any responsibility for the adequacy, accuracy or completeness of the information contained in the ITT and supporting documents nor shall any of them be liable for any loss or damage, other than in respect of fraudulent misrepresentation, arising as a result of reliance on such information or any subsequent communication.

8.1.3. It is the tenderer's sole responsibility to undertake such investigations and take such advice, including professional advice, as it considers appropriate in order to make decisions regarding the content of its tenders and in order to verify any information provided to it during the procurement process and to query any ambiguity, whether actual or potential.

8.1.4. It is a requirement that the successful supplier (i) comply with all applicable laws and regulations including, without limitation, the Bribery Act 2010, the Equality Act 2010 and the Modern Slavery Act 2015; and (ii) in addition to any contractual requirement(s), inform the FRC immediately upon becoming aware of any event (including actual or threatened court proceedings) which may impact upon the reputation of the FRC, whether or not connected with the Supplies and/or Services.

9. Submitting a Tender

9.1.1. Tenderers must submit their tender response within the deadline to procurement@frc.org.uk.

9.1.2. Where a Tender Response Template is provided, potential providers must align their tender response with that format.

9.1.3. A Tender must remain valid and capable of acceptance by the Authority for a period of 90 days following the Tender Submission Deadline. A Tender with a shorter validity period may be rejected.

10. Evaluation

10.1.1. FRC will award the contract on the basis of the tender which best meets the evaluation criteria aligned to the requirements.

11. Acceptance of Tender & Notification of Award

11.1.1. FRC reserves the right to amend, add to or withdraw all or any part of this ITT at any time during the procurement.

11.1.2. FRC shall not be under any obligation to accept the lowest price tender or any tender and reserves the right to accept such portion or portions as it may decide, unless the tenderer includes a formal statement to the contrary in the tender. FRC also reserves the right to award more than one contract to fulfil the requirement.

11.1.3. The tenderer will be notified of the outcome of the tender submission at the earliest possible time.

11.1.4. Where the procurement process is subject to EU public procurement directives, a minimum standstill period of 10 calendar days will apply between communicating the award decision electronically to tenderers and awarding the contract.

11.1.5. Nothing in the documentation provided by FRC to the tenderer during this procurement or any communication between the tenderer and FRC or FRC's representatives, employees, agents or advisers shall be taken as constituting an offer to contract or a contract. No tender will be deemed to have been formally accepted until the successful tenderer has received a formal contract award letter from FRC.

12. Additional Information

12.1.1. Please use the attached Tender Response Document for your reply.

12.1.2. The Terms and Conditions that will apply to this proposed Agreement are attached. **Suppliers should accept the T&C's with no material changes.**

Appendix – UK DC Schemes Information

Number of UK DC Schemes

The UK DC pension market consists of different types of DC pension, including:

- a) 35 authorised Master trusts – listed here <https://www.thepensionsregulator.gov.uk/en/master-trust-pension-schemes/list-of-authorised-master-trusts>
- b) Other trust-based occupational pension schemes
- c) Contract-based pensions (such as ‘Group Personal Pensions’ and ‘Group Stakeholder Pensions’)
- d) Individual personal pensions (including ‘Self-Invested Personal Pensions’)

We would expect the research project to include responses from the majority of these 25 major organisations within the UK DC pensions market and as many of the smaller organisations as possible:

- Aegon
- AJ Bell
- Aon
- Aviva
- Cushon (including Workers Pension Trust and Creative Pension Trust)
- Fidelity
- Hargreaves Lansdown
- Legal & General
- LifeSight
- M&G
- Mercer
- National Pension Trust
- Nest
- NOW: Pensions
- Options
- Royal London
- Scottish Widows
- SEI
- Smart Pension
- Standard Life
- St.James’s Place
- The Pensions Trust (TPT)
- The Peoples Pension
- Willis Towers Watson
- Zurich

For each of these major organisations, we also want to know very approximate figures for:

- the total number of active/deferred members covered; and
- the total value of DC assets within the scheme(s)

Some of these organisations may operate multiple DC schemes, which may have different approaches in respect of the default investment strategy – these should be split out in the research accordingly.