Quattro Pensions
CONSULTING ACTUARIES
news bulletin

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DC Governance & Charges

What needs to be done to comply?

Background
The DWP has recently consulted on minimum governance standards and charges restrictions that will apply to Defined Contribution (DC) occupational pension schemes from April 2015 (subject to parliamentary approval). These requirements overlap with the Pension Regulator's (TPR's) requirements on DC governance, which is due to be updated to reflect the new regime.

This increased focus on DC schemes has been propelled by the introduction of auto-enrolment and the increase in savers contributing towards a retirement income.

Default Investment Arrangements
Schemes will be required to have a default investment arrangement for those members who do not wish to select their investment funds. The Trustees will need to regularly review the default funds to ensure they are in the members' interests. The review needs to be at least every 3 years and without delay after any significant change in investment policy or in the demographics of the scheme.

Administration
Trustees will be required to ensure transactions are processed promptly and accurately and appropriate records are kept.

Charges
Trustees will be required to assess the value of costs and charges borne by scheme members, both in the default fund and across other funds in the scheme.

Do the new requirements apply to your scheme?

The new DWP governance requirements will apply to most occupational DC (money purchase) schemes, irrespective of whether the scheme is being used as a qualifying scheme for the purposes of auto-enrolment. However, they do not apply to the following:

- DC AVCs that are linked to a DB scheme where no other DC benefits are provided;
- Certain SSAS's with fewer than 12 members;
- Certain Executive Pension Schemes
- Public Sector Schemes

Master trusts
There will be additional requirements to strengthen oversight of master trusts, which will now need a minimum of three trustees, the majority of whom must be independent of the provider or anyone else who provides services to the scheme.

Cap on Charges

For DC occupational schemes that are being used for auto-enrolment there will be a cap of 0.75% p.a. on the charges applying to the default fund. The cap will also apply to a default DC AVC fund in a DB scheme (if the scheme is a qualifying scheme being used for auto-enrolment). The aim of the charge cap is to protect members who have not made an active choice about their pension investments. The charge cap applies to all member-borne deductions paid to the pension provider or another third party, excluding transaction charges.

Active member discounts and member-borne advisor commission and consultancy charges will be banned from qualifying schemes from April 2016. The government will also consider whether regulation for additional transparency on costs in DB schemes is required. The level of the charge cap is scheduled to be reviewed in 2017.

Chair of Trustees

DC schemes will be required to have a Chair of trustees who would have particular responsibility to issue an annual statement about how the scheme has met minimum governance standards. Where the trustees of an existing scheme do not already have a chairperson on 6 April 2015, there will be a three-month transitional period for one to be appointed. Similarly, there will be a three month period in which to appoint a new chairperson if the existing one leaves.

Chair's Annual Statement

DC schemes will be required to prepare an annual Chair's statement which will need to include the following:

- the level of charges and transaction costs for the default investment arrangements
- the range of the levels of charges and transaction costs applicable to the non-default fund(s) that members are investing in
- a statement of investment principles for the default and details of the investment performance
- whether there has been any review of the default strategy including details of any changes arising from the review
- a description of how trustees have assured themselves that financial transactions are processed accurately and promptly
- information about transaction costs which the trustees have been unable to obtain and an explanation of the steps being taken to obtain the information
- the trustees' assessment of the extent to which the charges and transaction costs represent good value for money
- a description of how the requirements for trustee knowledge and understanding have been met during the year
- an explanation of how the combined knowledge and understanding of the trustees, together with the advice which is available to them, enables them properly to exercise their role and responsibilities.

There will be a new item on the Regulator's annual scheme return to confirm whether the chair's annual statement requirements have been complied with.

Fines for non-compliance

Fines are to be imposed (£500 - £2,000) for failure to comply with the chair's statement requirements.

Higher fines apply for other noncompliance of up to £5,000 for an individual or £50,000 for a corporate trustee.

Action for Trustees of schemes where the new requirements apply:

- Review the design of default investment funds and ensure they comply with the cost caps.
- Assess costs and charges across the scheme to ensure that members are receiving good value for money.
- Ensure that a chair of the trustees is in place and draft the chair's statement.
- Ensure the administration is appropriate and compliant.
- Prepare the chair's annual statement.

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