

Industry Update

Guides to Implementing the Pension Regulator's Defined Contribution Code of Practice

The Consultation on The Pension Regulator's "How To" Guides on Defined Contribution (DC) Governance which are to be read alongside the revised DC Code of Practice closed on 11 May.

The topics for the draft guides, which are due to come into force in July, are:

- The Trustee Board
- Scheme Management Skills
- Administration
- Investment Governance
- Value for Members, and
- Communicating and Reporting

Content of the Guides

The guides contain practical guidance on how to implement the Trustees' duties set out in the code of practice and apply to all trust based pension schemes with DC savings, including hybrids and Defined Benefit (DB) Schemes with DC Additional Voluntary Contributions (AVCs).

The Regulator recommends that the new DC code is read first and then supplemented with the information and suggestions in the guides. Checklists and summaries are to follow to help trustees access the information they need.

The Scheme Assessment online tool will be adjusted in a way that helps Trustees assess the Scheme against the standards of conduct and practice set out in the new code and to support and develop an effective Chair's Statement. A Chairman's statement is required for all schemes with DC savings, except those where the only DC element is member AVCs.

Aim of the code and Guides

The Regulator's aim is to drive up standards on basic duties, such as record keeping and scheme returns, (which some schemes are not completing) which are extremely important to the Regulator. Ultimately, failure to meet these duties will result in trustees being fined.

The Guides themselves are not intended to be prescriptive, although some points in the guides repeat existing legislation and the regulator’s statements of best practice are clearly intended to be followed.

Often the methods adopted to meet the required standard set by the regulator will depend upon the nature of the scheme and its membership. The guides are not exhaustive in terms of the way the standards are to be met.

The Regulator has recognised that a scheme’s approach to DC governance will depend on the type and amount of DC savings that it holds and that a proportionate approach should be applied.

Many Risks to members of DC schemes apply equally to DC Additional AVCs, whether invested in DC or DB schemes. Although AVCs are likely to make up a smaller proportion of the members’ retirement savings than main scheme benefits, they may still represent significant amounts of money.

If a scheme’s only DC benefits are AVCs the risks to members should be considered in the context of the value of AVCs relative to members overall benefits in the scheme, and a proportionate approach applied.

More General Application of the Principles in the Code and Guidance – “the 21st Century Trustee”

The revised code and guides are a part of the work that the Regulator is developing following its initial research on Trusteeship in the 21st Century.

As this work is continued some of the material in the guides might evolve to form part of an overarching approach to assisting trustee boards of all scheme types to improve their effectiveness.

Further Updates will be issued detailing the individual topics of the Guidance Booklets.

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