

BBS briefing note

The Regulator's Guidance on Good Practice under Defined Contribution Schemes

The Pensions Regulator has identified that informed member decisions at retirement and engaged employers are key to members of Defined Contribution (DC) schemes having good retirement outcomes. Building on previous guidance, the Regulator issued a statement titled "*Engaged employers and informed retirement choices*" in July 2009 and has since published various other documents dealing with retirement processes in DC schemes, targeted at employers, members and trustees. This *BBS briefing note* summarises these publications.

EMPLOYERS

In September 2009, a leaflet called "*Guide for employers: Talking to your employees about pensions*" was published jointly by the Regulator and the Financial Services Authority. The leaflet aims to educate employers on what help and advice they can give to their employees about pensions without breaching rules on financial advice. It is hoped that if employers feel more comfortable answering questions on their pension arrangements, they are more likely to engage in, and promote, these schemes.

The Regulator also offers an e-mail alert service covering DC developments and a free online programme to assist employers in understanding their roles and responsibilities in relation to DC schemes called *Pensionwise*.

MEMBERS

The Regulator is conscious that Pension Reform and the introduction of Personal Accounts from 2012 are likely significantly to increase the number of individuals saving through work-based DC pension schemes. The Regulator wants to ensure that members have enough information and support to make informed choices at retirement, as these choices can have a significant impact on their retirement income.

In July 2009, the Regulator published a booklet called "*Making your retirement choices*", which sets out the retirement options available to those with DC benefits. The booklet covers the different types of annuities available and explains the Open Market Option, as well as the alternatives to purchasing an annuity, such as income drawdown, short-term annuities or the possibility of trivial commutation. This straightforward guide should be a useful starting point for those approaching retirement, before seeking advice tailored to their own personal circumstances.

TRUSTEES

In May 2008, the Regulator published guidance on what it believed to be good practice in relation to the options available and the quality and timeliness of information given to members during the retirement process. To review progress against this guidance, the Regulator has conducted a review of the practices of a sample of trust-based DC schemes.



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The long-established Disclosure Regulations require trust-based DC schemes to provide certain information to members at least 6 months before their normal retirement date, including statements that:

- the member is able to select an annuity and an annuity provider;
- different annuities have different features together with some examples, e.g. level/increasing, single/joint life etc; and
- members should consider taking advice.

It is noted that these Disclosure requirements also apply to Additional Voluntary Contribution funds held within DB schemes.

The key findings of the review were set out in the Regulator's October report "*A review of retirement information for DC members*", and noted:

- 98% of the schemes sampled offered the Open Market Option;
- 56% offered access to advice;
- 57% had scope for improvement in the retirement information issued;
- 30% breached disclosure regulations; and
- 6% were materially non-compliant.

The report encourages trustees to go further than merely meeting the Disclosure requirements and includes some examples of good practice identified in the review, such as:

- contacting members 5 years before their normal retirement date to alert them to potential investment risks in the run up to retirement;
- highlighting the impact of different choices on retirement income; and
- highlighting the importance of seeking advice.

It was also considered helpful to refer members to other sources of advice, such as The Pensions Advisory Service (TPAS) Online Annuity Planner and the FSA Annuity Comparison Tables, which compare the annuity rates available from different providers.

A copy of the report will now be issued to trustees of occupational DC schemes. The Regulator is encouraging trustees to review their processes and communications on a regular basis, to ensure that they remain appropriate for members, including active and deferred members, with large or small funds.

The Regulator has also developed its *Trustee toolkit*, which provides online training for trustees, including modules on DC schemes.

BBS VIEW

Members of DC schemes have an increasing range of options at retirement and the choices made will determine their income for the rest of their lives. The effect of the economic downturn on fund values, together with increasing longevity, means that these decisions have become even more crucial in the last few years.

The Regulator's campaign to improve the administration of DC benefits and the level of support available to members is therefore to be welcomed. We would encourage employers and trustees to read the relevant publications and take advantage of the services offered by the Regulator, all of which are available under the "DC schemes" link at

www.thepensionsregulator.gov.uk.

This BBS briefing note is based on BBS's understanding of the law and is provided for information only. It should not be relied upon as a definitive statement of the law and detailed legal and financial advice should be obtained on the specific circumstances before proceeding.

