

TPR explains “how to” implement new DC code

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Introduction

On 13 April 2016, TPR launched a [consultation](#) on a series of new guides aimed at helping trustees know “how to” implement the draft revised DC code which is due to come into force in July 2016.

Key points

- The guides have been designed to support the new DC code for occupational trust-based schemes which provide money purchase benefits, and set out ways in which trustees can show that they are complying with the law.
- There are six separate guides, one for each section of the code.
- TPR expects a proportionate approach to be applied to AVCs where these are a scheme’s only money purchase benefits.
- Whilst the new shorter code and accompanying guides represent a change in approach, TPR notes that processes schemes have put in place, based on the 31 DC quality features set out in the current code will, while no longer a requirement, remain relevant.
- Consultation on the draft guides closes on 11 May 2016.

Catering to the 21st century trustee

The draft DC code sets out standards of conduct and practice that TPR expects trustee boards to meet in complying with their legal duties. It is deliberately much shorter than the current DC code, focusing primarily on the key legal duties and TPR’s expectations as to how these will be implemented – see our [Alert](#) for details.

The accompanying guides are not intended to be prescriptive, but rather to provide practical information and examples of approaches that trustees can take and factors to consider. It is also intended that the guides will be more fluid because, unlike codes of practice, the guides do not need to be approved by Parliament. This means that they can be updated more quickly and adapted in line with best practice and developments.

Both the draft code and the guides have been inspired by TPR’s recent research on what a 21st century trustee should look like. As such, the guides are primarily designed to be used as an online tool, with easy cross-references to the code and additional tools (such as checklists and summaries) where appropriate.

The trustee board

The [first draft guide](#) looks at the role of the trustee, from appointment through to succession planning and the overall composition of the trustee board. In particular, it suggests ways to:

- decide on the appropriate number of trustees for each scheme type, and outlines the special considerations on the appointment of independent and member-nominated trustees, as well as “non-affiliated” trustees of master trusts
- make use of sub-committees, to ensure that trustee time is used effectively, with knowledge and skills appropriately targeted
- help the chair of trustees lead the board effectively, and manage the additional responsibilities that come with the role, such as signing the chair’s annual governance statement (see our [Alert](#) for details).

Scheme management skills

As TPR notes, running a pension scheme effectively “requires particular knowledge, understanding and skills both within the trustee board and through external experts”.

The draft guide to [scheme management skills](#) provides practical tips on understanding the trustee role and responsibilities, including how to go about acquiring the necessary knowledge and skills, how to work with third parties (such as advisers, providers and employers), and how to deal with conflicts of interest. It also includes:

- an example checklist of things to take into account when reviewing contracts for services
- a sample risk register.

Administration

[Scheme administration](#) is “crucial to the successful running” of a DC scheme and covers a wide range of activities. Supported by illustrative examples and case studies, the third draft guide helps to explain:

- ways of working with the scheme administrator to ensure the scheme is being administered in accordance with the scheme rules and trustees’ legal obligations and that the administration service provides “value for money” for members
- the type of arrangements which can be used for managing the risks that can affect scheme administration and member data (ie disaster recovery and business continuity planning)
- how to ensure core financial transactions are processed promptly
- ways to achieve a balance in the processing of transfer requests, to ensure that appropriate due diligence is carried out to guard against the risk of transferring members’ funds to a scam arrangement whilst ensuring that statutory time limits are met
- steps to make sure that member records are accurate and up-to-date and held securely.

Investment governance

Whilst trustees delegate much of the day-to-day business involving the management of their investments, they remain ultimately responsible for those investments. TPR's draft guide on [DC investment governance](#) explains:

- how to choose an appropriate delegation structure, including use of investment sub-committees
- the importance of setting out clear terms of reference for all parties involved in investment decision-making
- how trustees can get involved in stewardship activities, such as exercising voting rights on shares, or influencing their managers' policies where pooled funds are used
- options for designing fund choices, including default arrangements, that are suitable for the scheme's members, as well as things to weigh up when considering changes
- examples of matters to take into account in reviewing the SIP, default strategy and performance of the default arrangement
- how to assess security of the scheme's assets (see our February 2016 "[DC hot topic](#)" for more on this subject).

Value for members

In April 2015, a new minimum quality standard was introduced which requires trustees to assess the extent to which the charges and transaction costs borne by members in an occupational DC scheme represent good value. As there is no statutory definition of value for money, it is up to trustees to develop their own assessment process. TPR's new draft guide on [value for members](#) is designed to help with this by setting out an "illustrative approach" to assessing value. TPR's approach comprises three key steps:

- gather information on what the scheme provides for members and at what cost
- assess the scope and quality of scheme services to members, and
- evaluate the scope and quality of those services relative to costs.

Each step is broken down into key questions for trustees to consider in making their assessment and supported by guidance on measuring transaction costs, suggestions for conducting ongoing monitoring and evaluation, and information on restrictions on costs and charges.

Communicating and reporting

The draft guide to [communicating and reporting](#) explains how getting to know members and engaging with them can help them get the most out of their pension arrangement. The guide suggests different approaches to the various types of communication that trustees will need to issue and ways of dealing with member enquiries. It also sets out an example of a good practice process on providing information at retirement, and explains what should be in the [chair's annual statement](#), as well as the scheme's SIP.

The draft guide also includes example text for:

- generic risk warnings, to tell members about the risks associated with the options on offer in the

scheme

- member declarations, allowing members to indicate whether or not they have received guidance from Pension Wise or advice from an FCA-regulated adviser, and whether they have read the risk warnings provided to them and are happy to proceed.

Next steps

TPR may include further examples of good practice in the guides, based on responses received as part of the consultation process. The final guides are expected to be published by July 2016, when the new DC code comes into force.

Meanwhile, to help trustees access all the information they need and to use the new guides effectively, TPR plans to publish additional tools, including checklists and summaries. It also plans to review its existing DC guidance and to remove from its website any content which is no longer relevant.

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