

# DC hot topic

July 2016

## Moving DC funds



Trustees sometimes need to move their DC funds without member consent, for example, when:

- one or more of a scheme's current investment options are no longer available or suitable eg due to the 0.75% charge cap on default arrangements
- trustees decide to change their investment provider or platform
- schemes transfer or merge into a different arrangement, such as a master trust
- trustees wish to consolidate their DC AVC arrangements.

Although this can be worrying if the new investment decision will override a member's previous investment choice, trustees can minimise the legal risks involved, provided that the right process is followed.

There are four key stages which are usually involved in this kind of exercise: review, advice, decision and action.

1

### Review

- The trustees agree the objective of the investment review.
- It is important to consider the context of that review. For example, is this prompted by charge cap concerns, investment performance, or wider changes such as the introduction of pension flexibility options or alterations to the scheme's structure?
- It may also be helpful to seek the employer's support at this stage, as there could be costs and communication issues generated from any resulting change.

2

### Advice

- The trustees seek investment advice on their options (and obtain a formal advice letter from their investment adviser).
- The trustees consider legal advice on the trust deed and rule provisions. In particular, do they have power to make the change without member consent and, if so, would it be in members' best interests to exercise such a power?
- The trustees consider the impact on the statement of investment principles (if this needs to be amended, they must first consult with the employer).

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3

### Decision

- The trustees consider the advice received.
- The trustees weigh up whether the proposed change is in the best interests of members. For example, would there be any transition costs for members, what would happen to any members who are part way through a lifestyle process?
- The trustees document their decision and reasoning appropriately (as required by the April 2015 governance legislation).

4

### Action

- The trustees issue member communications.
- The trustees issue the instructions to investment managers and administrators.
- The trustees update the statement of investment principles.

We anticipate that this kind of exercise is likely to take place more often in the future given the legal requirement to review default arrangements every three years. Trustees should not feel constrained by previous investment choices if they receive advice which suggests that changes are required. What is important is to make sure of the legal position early on in this process and to approach such an exercise in a sensible and measured way.



For more information, please contact *Helen Ball, Paul Phillips, Jacqui Reid and Emma Martin* or visit [www.sackers.com/dc-schemes](http://www.sackers.com/dc-schemes).