AVCs and TPR’s DC Code

TPR has amended its Code of practice for occupational trust-based schemes providing money purchase benefits and published new guidance in the form of “how to” guides. The revised DC Code came into force on 28 July 2016. This note highlights the potential impact of the DC Code on DB schemes whose only DC benefits are additional voluntary contributions (AVCs).

Does the Code apply where a scheme’s only DC benefits are AVCs?
Yes it does. However, where the only DC benefits are AVCs, trustees are encouraged to apply a proportionate approach, taking into account the significance of the value of the AVCs relative to the members’ overall benefits in the scheme. This means the outcome could be different for each scheme.

Which parts of the Code don’t apply?
The statutory minimum governance standards and default fund charge cap do not apply where a scheme’s only DC benefits are AVCs. This means there is no legal duty for those schemes to:
- appoint a chair
- produce an annual governance statement, or
- undertake a value assessment.
For this reason, the corresponding parts of the Code will not apply. However, trustees should consider whether it is appropriate for them to take similar action voluntarily, for the purposes of good governance.
What about the other charges measures?

A DB scheme which is open to receive new DC AVCs from 6 April 2016 will be subject to:

- the ban on new member-borne commission arrangements and
- the ban on active member discounts

if the scheme is being used to satisfy an employer’s automatic enrolment obligations (as a qualifying scheme).

Action points

Trustees of DB schemes with DC AVCs should:

- ensure they understand their legal duties in respect of AVCs
- ensure they have appropriate governance structures in place for AVCs
- consider assessing their AVC arrangements against the requirements of TPR’s revised DC Code and guidance.

For further information, training and assistance with meeting your legal requirements please speak to your usual contact at Sackers or visit www.sackers.com/dc-schemes.