

Consultation outcome - Improving disclosure of costs, charges and investments

Alert | 28 February 2018



Introduction

On 26 February 2018, the DWP published the [response](#) to its consultation on the disclosure of costs, charges and investments in DC occupational schemes, together with a link to the [final regulations](#).

Key points

- The contents of the chair's statement will be extended to include more detailed information on costs and charges, including an illustration of the compounding effect they have on members' pension savings. These changes will affect statements prepared for a scheme year which ends on or after 6 April 2018.
- Trustees will be required to make certain information on costs and charges publicly available on the internet, free of charge, within seven months of the first scheme year end date to fall on or after 6 April 2018. Scheme members must be provided with the web address in their annual benefit statements.
- Measures relating to the disclosure of information on a scheme's pooled funds will come into force on 6 April 2019.

Background

The Government has a legal duty to make regulations which ensure that information on costs and charges is provided. "It also considers that members have the right to know where their money is invested, where it is proportionate for trustees... to tell them".

The [DWP's October 2017 consultation](#) (see our [Alert](#)) explored how it could help savers inform themselves about their pension savings in two areas:

- transparency and disclosure of the costs and charges they are paying
- where their money is invested.

The Government's "key objective in requiring disclosure and publication of charges and transaction costs is to assist the function of a healthy market in an area which is perceived as being opaque. Publication of the information is aimed at enabling trustees and others to compare the value for money they are receiving with

their peers, thereby driving better market outcomes. By giving wider industry participants and commentators access to the data, this could also assist in the development of benchmarking services”.

Costs and charges information

Application

The proposed new measures will apply to those schemes which are required to produce a [chair's statement](#). This means most occupational schemes which provide DC benefits but not, for example, those whose only DC benefits are AVCs.

Extension of the chair's statement

Currently, the chair's statement must include the level (or range) of charges and transaction costs in the default arrangement(s) and the range of costs and charges in other funds. Statements prepared for a scheme year ending on / after 6 April 2018 will be required to set out the costs and charges for each default arrangement, as well as each alternative fund option which the member can select.

In addition, trustees will be required to provide an illustrative example (including a pounds and pence figure) of the compounding effect of the costs and charges affecting members' pension savings. When preparing the illustration, trustees must have regard to [statutory guidance](#). The guidance is not intended to be “wholly prescriptive”, as it allows schemes a degree of flexibility based on the characteristics of their scheme membership, the fund offering and the scheme's own resources”.

Publication

The following information from the chair's statement must be published, free of charge, on a website and be available for general, public consumption:

- content relating to the default investment strategy
- costs and charges information
- the trustees' assessment of the extent to which the charges and transaction costs represent good value for members.

As a minimum, this information should be made available on a similar annual cycle to the chair's statement (which must be produced within seven months of a scheme's year end). This means that the first schemes affected (those whose scheme year runs from 7 April 2017 to 6 April 2018) will have until 6 November 2018 to publish, with schemes at the furthest end of the spectrum (those whose scheme year runs from 6 April 2017 to 5 April 2018) having until 5 November 2019. However, the DWP states that “schemes should... consider publishing cost and charge information more frequently if they have capacity to do so and believe it would be in their members' interests”.

Once the requirement to publish the information applies, the web address, together with an explanation of the circumstances in which the information will be provided in hard copy on request, must be included in members' annual benefit statements. Broadly, information must be provided in hard copy where the trustees are satisfied it would be unreasonable for the person to access it online.

Investment disclosure: pooled funds

The Government's proposals are "designed to provide information to help give members access to further material such as the funds' top holdings, how the asset managers select investments on trustees' behalf; and how they engage with the companies in which they invest". It envisages engaged members using this information to bring trustees', or the employer's, attention to relevant aspects of the scheme's investment practices. Again, the changes will apply to those schemes (or sections of schemes) which are required to produce a chair's statement.

On request, a member must be provided with specified information corresponding to the investment options in which the member was invested at the time of his or her request. Trustees may provide information on the funds in which the member was invested as at the date of the request or, if there has been no change to the member's investment options, on another date from up to six months earlier. This means that, for the most part, trustees will be permitted to update pooled fund information on a six month cycle.

To allow trustees time to organise and update this information, this requirement will not come into force until 6 April 2019. At the same time, trustees will be required to explain to members, in their annual benefit statement, that information about the funds in which they are directly invested is available on request. Members will be limited to one request every six months.

Next steps

Trustees should ensure the above changes are factored in to their preparations for the chair's statement.

The FCA has confirmed that it intends to consult on consistent disclosure rules for workplace personal pension schemes in the second quarter of 2018.

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