

Hot topic

June 2022

DC AVCs – DB schemes beware!



DB schemes that provide DC AVCs must comply with certain DC requirements.

Disclosure



Trustees of schemes with “flexible benefits” (which are broadly DC, and include DC AVCs) are required to provide members who are considering accessing these benefits with:

- a statement that free and impartial pensions guidance is available, that members should access this and consider taking independent advice, and
- details as to how they may access pensions guidance.

Subject to certain exceptions, trustees will also be required to deliver a **stronger nudge to guidance** in relation to applications (or communications in relation to applications) to transfer or start receiving “flexible benefits” which are received on or after 1 June 2022.

Governance



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.

However, trustees should consider whether it is appropriate for them to take similar action voluntarily, for the purposes of good governance.

When meeting the generally applicable standards of its **DC Code**, TPR encourages trustees of schemes whose only DC benefits are AVCs to:

- consider the risks to members in the context of the significance of the value of AVCs relative to members’ overall benefits in the scheme, and
- apply a proportionate approach.

Charges



If the scheme is being used to satisfy an employer’s auto-enrolment obligations (as a qualifying scheme) the AVC arrangements are subject to:

- the ban on member-borne commission arrangements, and
- in respect of any member who contributed on or after 6 April 2016, the ban on active member discounts.

