

First Briefing, May 2018

DC Disclosure Regulations – Costs & Charges

Introduction

In October 2017, the DWP launched a consultation on proposed regulations setting out how cost and charge information relating to occupational money purchase benefits should be published and made available to members. The consultation also sought views on introducing requirements for occupational money purchase schemes to provide members, on request, with information about the pooled funds in which their money is invested.

Alongside its response to the consultation, the government has now issued regulations and guidance to trustees.

Publication of the charges information should enable trustees and others to compare the value for money of their scheme with those of their peers, thereby driving better outcomes for members.

Application

The new requirements will apply to schemes which are already required to produce a Chair's Statement. This includes most occupational schemes which provide money purchase benefits other than those where the only money purchase benefits arise from Additional Voluntary Contributions.

For scheme years ending on or after 6 April 2018, the Chair's statement will need to include the following additional information:

- The level of charges and transaction costs applying to each default arrangement.
- The level of charges and transaction costs applying to each fund the member can select.
- An illustrative example of the cumulative effect of costs and charges over time on the value of a member's money purchase benefits. The regulations do not prescribe the form of this illustration but there is guidance for trustees to follow.

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The following information included in the Chair's statement is to be publicly available for free via a website and be provided in hard copy format within 2 months of a request by a member:

- The default strategy.
- The level(s) of charges and (as far as the trustees are able) transaction costs paid for each default arrangement and fund which members can select.
- Where applicable, a statement on the unavailable transaction costs details and future steps to obtain these.
- A statement on value for money.
- An illustration of the compounding effect of costs and charges.

Members' annual benefit statements must signpost members to where they can obtain this information.

Investment reporting requirements

From 6 April 2019, trustees will also need to meet new investment reporting requirements:

- For the pooled funds in which members' money purchase benefits are invested, a statement identifying:
 - the International Securities Identification Number (ISIN) for each collective investment scheme in which assets are directly invested or indirectly invested if via a unit-linked contract; and
 - the name of each of the collective investment schemes.
- This information is to be made available to scheme members and union representatives of members within two months of request. Members are limited to one request every six months.

Fund mapping: potential problems

On a related issue, the level of charges could be a concern for trustees where they have mapped their members' investments to a new fund without obtaining members' explicit consent. The DWP has inserted a clause into the Charges and Governance Regulations 2015 to ensure that any members who made investment choices more than five years ago and who are transferred to a new fund without consent, must only be transferred to a charge capped default fund (i.e. the fund they are moved to will become another default fund within the scheme).

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The way the regulations are worded is as if the policy intention was always that the funds into which members monies were transferred without consent were to be treated as default funds, with the ensuing governance requirements applying. However, it is not entirely clear that this is the intention. Therefore, if you have a scheme where fund mapping has been undertaken since 6 April 2015, we recommend you speak with your legal advisors to seek their view on what, if any, action you may need to take.

What do you need to do?

Trustees who are required to prepare a Chair's statement will need to take account of the new requirements when preparing their Chair's statement for the first scheme year which ends on or after 6 April 2018. Trustees should consider where the required information is to be put online. Possibilities for this include an existing scheme website, the employer's website or perhaps a website hosted by one of the scheme's advisers.

Who can you contact for further information?

Please contact your usual First Actuarial consultant or any of the First Actuarial DC team if you would like to discuss anything contained in this Briefing or to do with the governance requirements for occupational schemes.

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