Institute
and Faculty
of Actuaries

DC Guides Consultation

IFoA response to The Pensions Regulator

11 May 2016

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

Institute and Faculty of Actuaries

Louise Sivyer
Regulatory Policy Directorate
The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

11 May 2016

Dear Ms Sivyer

IFoA response to the Pensions Regulator's (tPR) consultation on draft DC Guides

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the Pensions Regulator's (tPR) consultation paper on draft DC guides. Members of the IFoA's Pensions Board and its DC Committee have contributed to the drafting of this response.

2. We believe the Guides will be useful to Trustees. We believe there are a number of areas where the Guides could be improved. We have mainly concentrated on those areas in our response.

Q 1: Would the speed of completing a transfer of money purchase benefits be improved if we set a recommended timescale, from the point of a member's initial request, within which a transfer should be completed? Would setting a timescale of this nature effectively address the delays that the government identified in its consultation on Pension Transfers and Early Exit Charges? If so, what timescale do you think should be set? If you do not think that setting a timescale would be effective, please explain why?

3. A statutory deadline for completing a transfer from beginning to end is already in place. The Government has already concluded that it will not be reducing the statutory timeframe. This is partly due to concerns that any change could weaken the due diligence that schemes should undertake before making a transfer payment. It appears inappropriate for tPR to set a recommended timescale that is shorter than the statutory deadline, while still expecting transferring schemes to undertake the expected level of due diligence.

4. There are several parties involved in the transfer of a member's benefits - the member, the transferring arrangement, the receiving arrangement and possibly an IFA. The imposition of a timescale by tPR could presumably only apply to the transferring arrangement, so would only address one part of the whole process.

5. The Government's consultation response identified a number of causes of delay in processing transfer requests, including:
    - Differing processes used by ceding and receiving schemes;
    - Receiving arrangements refusing to accept the transfers of small pots, and/or imposing additional advice requirements beyond the statutory requirements;
    - Individuals were not providing the required information on time; and

- Although not relevant for transfers of DC benefits, difficulties that some individuals are experiencing in finding a financial adviser willing to advise them.

6. Most of these causes fall beyond the control of ceding scheme trustees. It is not clear, therefore, how any recommended timescale proposed by tPR would address any of these causes.

Q 2: Do you have any examples that you think could be usefully included to demonstrate the different approaches that schemes of different sizes, and with varying available resources, might take to comply with any of the standards we have set in the new code? If so, please provide further details.

7. The **Investment Governance Guide** is easy to follow and offers many improvements on existing documentation. Many of the examples are beneficial but the following additions would be welcome.

8. On page 2, there would be benefit to including an example, or examples, on AVCs. There is a risk that Trustees do not give AVCs the attention they need. Trustees would benefit from clarity around what is proportionate. A large AVC scheme may be small in comparison to its associated Defined Benefit Scheme, yet it may be sufficiently large to require significant attention.

9. On page 6, there would be benefit for Trustees to have an example of the “high-level summary of the governance arrangements”. This could include a definition, or ideally an explanation, of governance arrangements. Any such approach should set out the roles and responsibilities of each stakeholder.

10. We suggest on page 20, “assess the effectiveness of your investment decision-making and governance process” would benefit from greater clarity. Trustees, particularly of smaller schemes, would benefit from understanding how they could achieve this.

11. One example for the **Trustee Board** that may be useful in indicating how to carry out Trustee duties is where one Board delegates responsibility for specific tasks to specific Trustees. For example, there is a Trustee with responsibility for accounting issues; one for communication; etc. The advantage of this approach is that it shares the load of the work, allows all Trustees to be involved and creates expertise on the Board.

Q 3: Are there any topics relevant to the standards we have set in the new code on which you believe we have not provided sufficient detail within the guides? If so, please provide details.

12. In the **Investment Governance Guide**, there are two minor changes we would recommend. In paragraph 90, we would support greater clarity about what constitutes a “good working knowledge” of investment matters relating to the scheme. In paragraph 111 regarding the trading of assets, Trustees can obtain information about the trading of assets from their consultant or fund manager if that information is outstanding.

13. In the **Trustee Board**, there would be benefit in including a reference to other tPR documentation on conflicts of interest. Having all links in the one place would be beneficial.

14. Within the diversity section on page 9, there would be some merit in identifying the different types of scheme member and the diversity contained within the membership. This should enable Trustees to consider the interests of all members.

15. In the **Communications** Guide, we would place a high value on what is communicated, rather than just how it is communicated. Management Information around contribution rates and investment choices can offer Trustees, and members, real examples of the consequences of their decision making. Inadequate contributions, or inappropriate investments, may mean members do not have the best outcomes in retirement.

16. We would also encourage tPR to include more information for members who are approaching retirement. While this may be a difficult date for Trustees to assess, we would encourage targeted communications to members within 10 years of retirement. The targeted communications should highlight the decisions that members will have to take in light of recent legislative changes.

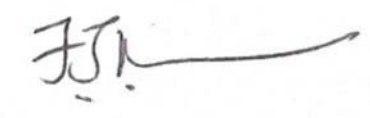
Q 4: Do you agree with our draft business engagement assessment on the impact of the new DC code on business that we have published alongside this document? If not, please provide details. If, having reviewed the new code in light of the draft guides, you believe the standards set out in the code are likely to significantly increase or reduce costs to any parties involved in running a scheme offering money purchase benefits, please quantify the relevant costs or benefits in the Excel template published alongside this document. Significant costs or benefits should be calculated relative to the existing DC code, and over and above costs that might be incurred as a result of complying with the underlying legislation.

17. As most Trustees will use an investment, or DC, consultant, any upfront costs for Code of Practice reviews would be additional. While the exact cost would differ depending on the size of scheme and the nature of any review, Trustees may engage in new activity (e.g. more membership analysis, new communication material) that could increase costs.

18. The **Value for Money** framework should be a valuable tool for Trustees in assessing what value for money means for them and their members. However, this could lead to an increase in consultancy costs, both upfront and annual, to undertake the most appropriate reviews. Again, we recognise the exact increase in costs for employers and/or members will be uncertain, depending on the extent of Trustee activity.

19. Should you wish to discuss any of the points raised in further detail please contact Philip Doggart, Technical Policy Manager (Philip.doggart@actuaries.org.uk / 0131 240 1319) in the first instance.

Yours sincerely



Fiona Morrison
President, Institute and Faculty of Actuaries