



Pensions briefing

Chair's statement – new disclosure responsibilities for DC schemes

Briefing

March 2018

Background

Since April 2015, the trustees of occupational pension schemes providing defined contribution (DC) benefits have been required to prepare an annual governance statement signed by their Chair. The Pensions Regulator (TPR) expects the Chair's statement to "... provide a meaningful narrative of how, and the extent to which, the governance requirements have been complied with."

When the requirement first came into force, the Chair's statement was required to be published within seven months of the end of the scheme year falling after *July 6, 2015*, and it continues to form part of the scheme's annual report and accounts. Trustees must confirm to TPR on their annual scheme return whether the Chair's statement has been produced. Trustees not producing a statement are liable to receive a penalty from TPR of between £500 and £2,000 (the maximum fine for this non-compliance).

New regulations coming into force on *April 6, 2018*, require additional information in relation to investment charges and core transaction costs to be made available online to members via the Chair's statement. The information must be provided free of charge on a publicly accessible website.

The requirements to produce a Chair's statement do not apply to defined benefit schemes where the only DC benefits provided are those in relation to additional voluntary contributions. Executive pension schemes and small self-administered schemes are also exempted. The same exemptions apply in respect of the additional costs and charges information.

When does the information need to be provided?

The Chair's statement must include the additional costs and charges information within seven months of the scheme's first year-end date falling on or after *April 6, 2018*.

This means that at some point after *November 6, 2018*, the majority of DC schemes will need to publish on websites more detailed information about charges incurred by members in relation to their pension investments. The final schemes (with a scheme year end-date of *April 5*) will not be required to publish this information until *November 5, 2019*.

What information does the Chair’s statement currently include?

In setting out how the scheme meets the statutory governance requirements, the Chair’s statement must currently include detail on

- The default fund arrangement, including a related statement of investment principles (SIP) setting out the investment strategy, the results of any triennial review of that strategy, or the date of the last review.
- Confirmation of whether core financial transactions (such as investment of contributions, transfers of assets into and out of the scheme and payments from the scheme to members) have been processed promptly and accurately.
- Information about the level of charges and transaction costs applying to the default arrangement and other investment funds available to members and how those charges represent value for members.
- Confirmation that the requirements relating to the trustees’ knowledge and understanding have been met.

Master trusts must also include additional information in relation to the requirement for the majority of trustees to be non-affiliated and details of how member feedback on the scheme is encouraged.

TPR has produced a [quick guide](#) to the Chair’s statement which should be read in conjunction with the [DC governance code of practice](#). The guide includes a checklist to help trustees to establish whether they are meeting the information provision requirements in their Chair’s statement.

How do schemes comply with the new requirements?

In addition to the information summarised above, the new regulations require occupational schemes providing DC benefits to

- Provide an illustrative example, as part of the Chair’s statement, of the cumulative effect on pension savings of costs and charges incurred by the member.
- Publish that information, and certain other parts of the Chair’s statement, on a website for public consumption.

Trustees must have regard to the statutory [guidance](#) published by the Department for Work and Pensions (DWP) on meeting these legislative requirements, and certain information must be included in members’ annual benefit statements.

What additional information must be provided to members?

The member's annual benefit statement must include a web address and details on how they can locate the relevant costs and charges information. The information must be available free of charge and accessible via a public website, without password restriction.

Members must also be told when they can request the information in hard copy form, which is when the trustees are satisfied that it would be unreasonable for that member to access the information from a website.

There is also a requirement to disclose pooled fund investment information to members, although this does not come into force until *April 6, 2019*. After that date, trustees will need to ensure the pooled fund information provided is no more than six months out of date at any time, and members will be able to request the information only once in a six month period. Again, the members' annual benefit statements must explain how to obtain this information.

How should the costs and charges information be provided?

While there is no prescribed form in which the new information should be provided, the [statutory guidance](#) provides a sample illustration in the form of a table using assumptions which are based on those used by the Financial Conduct Authority (FCA).

The information for the illustration includes such elements as

- One or more typical pot sizes to illustrate the long-term effect of charges.
- The effect of further contributions.
- Where the product is used for flexi-access drawdown, expected representative future withdrawal rates.
- Real-term contribution growth taking into account projected salary increases.
- Expected investment returns.
- The effect of charges and transaction costs based on a 5-year average (or the period for which data are available).
- The cumulative effect of charges and transaction costs over time.

Optional information which may be provided includes

- Historic performance data.
- Percentage of gross investment returns lost over time.
- Percentage of the pot lost to costs and charges.
- A breakdown of charges into investment and administration costs.

The FCA is preparing to consult on parallel disclosure rules for workplace personal pension schemes in the second quarter of 2018.

Comment

Although schemes will not have to provide this information until *November 5, 2018*, (and possibly later, depending on their scheme end-date), trustees should not underestimate the work involved in complying with the new requirements. Preparing the new illustration information may well be time-consuming and should be considered as early as possible.

In a modern pensions environment where the majority of savers are now members of DC schemes, TPR is stepping up its vigilance of such arrangements. Trustees should bear in mind that, in the final quarter of 2017, TPR fined several schemes for failing to meet the DC governance requirements and one of the largest areas of non-compliance was the failure to produce a Chair's statement.

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