Core Unit 2 – Regulation of Retirement Provision

Assignment 4 Notes

*(Part 5 – Governance Requirements and Part 6 – Current Issues)*

*Recommended Time: 1 Hour*

# Outline the structure of a Defined Contribution bundled arrangement, including some of its advantages and disadvantages.

**10 marks**

Answer should cover:

* Bundled DC arrangement (include 3 from the following):
	+ Can be used for trust-based or contract-based workplace pension schemes;
	+ The services provided to the scheme are all provided by a single provider;
	+ Includes administration, investment advice and scheme communications;
	+ Typically, all provider charges are borne by the members through an annual management charge.
* Advantages (include 5 from the following):
	+ One point of contact for the employer to manage;
	+ Cross-team relationships already exist, for example between administration, investment and communication teams;
	+ With one provider, online access is made easier for members who have only one system/website to refer to;
	+ Easier to facilitate a negotiation of terms;
	+ Use of the provider’s standard communications to members;
	+ Providers can produce management information reports on a quarterly/annual basis;
	+ No cost to the employer as costs borne by the members through the annual management charge.
* Disadvantages (include 2 from the following):
	+ It may be more expensive to members in the longer term than unbundling – the AMC is higher for the use of more services;
	+ A bundled arrangement may require compromise, as the provider may be best-of-breed in one area and not in another (for example, a provider may show strength in administration, but may not have a strong communications capability);
	+ There can be limitations on tailoring the scheme (i.e., communication materials).

(Relevant section of the manual is Part 5 Chapter 1.2.5)

# From 1 June 2013, trustees and advisers of pension schemes entering the PPF are expected to implement the PPF methodology for equalising scheme benefits for the effect of GMPs. Briefly outline some of the implementation issues that will need to be addressed.

**5 marks**

Answer should cover:

* Missing members - many members who are affected by this have already died, retired, transferred out, divorced or been bought out;
* As a minimum that means going back over records for many years and often actively tracking down members with whom they have lost contact;
* Unknown GMPs - many schemes do not know the exact GMPs they have. Before schemes can equalise benefits, they need accurate records;
* Cost - regardless of the exact method of equalization used, adviser fees will arise at a time when many schemes are trying to reduce fees;
* Communication - explaining equalisation and any amendments to scheme benefits will require communication with members.

(Relevant section of the manual is Part 6 Chapter 1.2.7)

# List the categories of data contained in TPR’s guidance on record keeping and explain the meaning of each category.

**5 marks**

Answer should cover:

* Common Data:
	+ data that is necessary and applicable to all members of all scheme;
	+ absence of common data is likely to mean that the member cannot be identified or traced, or their benefits calculated with any degree of certainty; (for example name, date of birth, sex, address, membership status).
* Conditional Data:
	+ the nature of this data will vary from scheme to scheme;
	+ will depend on factors including scheme type and design, a member’s status in the scheme, system design and events that have occurred during their membership of the scheme;
* Numerical Data — numerical information regarding members’ records that will help put the results of other measures into perspective.

 (Relevant section of the manual is Part 5 Chapter 1.8.1)

# List 5 elements that must be included in a defined contribution scheme’s annual Chair’s Statement in relation to the monitoring of investments.

**5 marks**

Answer should include 5 from the following:

* latest statement of default investment strategy;
* details of any review of the default strategy and resulting changes (or if no review, date the last review took place);
* description of how the requirements in relation to core scheme financial transactions have been met;
* report on charge levels in default funds and the range of charges in other funds and whether they deliver value to members;
* report on transaction costs, or an explanation of why they have not been able to obtain them and an assessment of the value they represent;
* assessment of how the combined knowledge and understanding of the trustees, together with advice available, enables them properly to exercise their functions.

(Relevant section of the manual is Part 5 Chapter 1.1.5)

# Describe why internal controls are required as part of a scheme governance framework and how the internal controls can be managed.

**5 marks**

Answer should cover:

* Crucial that trustees have a framework of internal controls to manage risk;
* Internal controls are processes and procedures to be followed for the effective administration and management of the scheme;
* Enables trustees to identify, evaluate, control, and monitor the risks to the scheme;
* Risks to a scheme include operational, financial, funding, regulatory and compliance risks;
* Risk register should document the risks and show the controls in place to manage them;
* Risk register should be updated on a regular basis at each trustee meeting and used to identify and monitor any weaknesses in the scheme’s internal controls.

(Relevant section of the manual is Part 5 Chapter 1.1.1)

# In relation to defined contribution trust-based schemes, how is “value for members” (VFM) described in the DC Code? Outline briefly what TPR expects the trustees to consider in relation to VFM, the minimum 4 key areas TPR expects DC trustee boards to consider when assessing VFM, and the stages in TPR’s VFM assessment model.

**10 marks**

Answer should cover:

* VFM described as : “…where the combination of costs to which members’ funds are subject and what is provided for the costs is appropriate for the scheme membership as a whole, and when compared to other options available in the market”;
* VFM does not necessarily mean low cost, provided higher costs can be justified by improved benefits;
* Trustees encouraged to consider which areas members place most value on, which includes taking into account scheme demographics and, where possible, the membership’s salary profile;
* The areas that constitute VFM and the weightings of importance vary from scheme to scheme;
* Minimum four key areas:
	+ scheme management and governance
	+ administration
	+ investment governance
	+ communications
* Stages of TPR’s model process for a VFM assessment:
	+ Step 1 – Collect information on what the scheme provides for members and at what cost
	+ Step 2 – Assess the scope of the service provided and the quality
	+ Step 3 – Evaluate the scope and quality of the service provided against costs
	+ Step 4 – Report on the findings and, if necessary, take action to address poor value

(Relevant section of the manual is Part 5 Chapter 1.2.3)

# Describe the key consideration for trustees or employers when selecting and appointing professional advisers and service providers to manage the needs of a DC workplace pension scheme.

**10 marks**

Answer should cover:

* Advisers should provide scope of services, remuneration basis and demonstrate good service;
* Advisers can assist in selection of a service provider;
* Trustee/employer should identify the criteria the service provider must meet;
* For advisers and service providers, a clear and comprehensive contract should be executed setting out:
	+ the terms of the appointment;
	+ Service level agreements and standard of service;
	+ Extend of trustee/employer access to key personnel/dedicated teams;
	+ The data protection and security arrangents in place;
	+ Limitations of liability;
	+ Fees (including agreed fees, the basis for calculating fees, additional charges);
	+ Agreement on the delegation of functions;
	+ Agreement on terminating the appointment, including notice period and exit fees.

(Relevant section of the manual is Part 5 Chapter 1.2.7)