



Pensions Regulator addresses risk to members in defined contribution schemes

The Pensions Regulator intends to publish a Good Practice Guide setting out the standards expected of well run trust-based and contract-based DC schemes. The Guide will provide examples of good practice and suggest steps to help employers, trustees, providers and administrators understand the risks inherent in DC schemes, especially in relation to administration, member awareness and investment.

The Pensions Regulator has identified five key risk areas in DC schemes:

- **Poor administrative practices** - It is expected that service level agreements will be put in place between trustees, managers, pension providers and their service providers and that robust internal controls are in place to support these services.
- **Poor investment practices** - The Regulator will want DC schemes to have “rigorous processes” in place to select and review the performance of investment managers and funds. DC schemes should also ensure that members are suitably equipped to make appropriate investment decisions.
- **Unduly high charges** - Providers, trustees and managers will be expected to issue information to members on the impact of costs on the pension scheme.
- **Poor decisions on retirement choices** - Trustees will need to make sure that members understand how annuities work and the range of annuities available to them. Members should also be made aware of the retirement options open to them.
- **Lack of member understanding** - Trustees, providers and employers will have to provide clear, balanced and timely information to members with the aim of enabling them to make well informed decisions.

The Pensions Regulator intends to “name and shame” firms which persistently demonstrate poor practices and will issue third party notices or improvement notices to those running DC schemes as appropriate. The Pensions Regulator will also review the appointment of trustees where they fail to ensure that good practice is achieved or fail to put in place procedures to improve poor practice.

Mayer, Brown, Rowe & Maw pensions partner Anna Rogers comments:

“We welcome any effort to bring poorly run DC schemes into line with the best but we hope that well run DC schemes will not be over burdened with excessive regulation.

We look forward to seeing what the Pensions Regulator expects as regards raising members’ awareness of retirement planning issues.”

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