

DEFINED CONTRIBUTION PENSIONS

ESSENTIAL GUIDELINES FOR TRUSTEES



The Trustees

The purpose of this section to provide you, the trustee, with:

- Guidelines to help you fulfil your role and responsibility to engage with members about their DC plan and have appropriate investment arrangements in place
- An overview of the importance in communicating the interaction of contribution levels and investment returns (as well as benefit conversion rates at retirement) on DC retirement outcomes

TRUSTEE GUIDELINES

Trustee Communication Guidelines

- Ensure that Trustees discuss member communications during trustee meetings.
- Meet with the Employer once to year to get an overview of the Plan and get feedback from them. Agree a communication budget and plan with the Employer.
- Consider the profile of the Plan and develop a communication plan with the needs of the population – from those that will engage to those that don't want to engage; from those just starting their savings career to those who are close to retirement. Remember deferred members as well as active members.
- Where appropriate, highlight the adequacy levels of contributions so that members can take action if required.
- Review the standard communications (joining booklet, formal annual benefit statements, leaving service option and retirement options statements) with providers to ensure they are compliant and appropriate. Ensure use of plain language as far as possible and avoid using jargon and technical terminology.
- Ensure that members are kept up-to-date on their investment strategy and make them aware of the default investment strategy. Regularly remind members of the importance of reviewing their investment choices. To help members review and understand the nature of the funds they are invested in, trustees should ensure the names of the funds are clear and the risk profile of the funds is described to make it easy for members to understand.

Trustee Investment Guidelines

- Formally discuss investment matters at least annually (including compliance with these guidelines). Periodically review the performance of the funds.
- Take expert advice in relation to investment issues unless you are satisfied that you already have the necessary skills and information.
- Ensure that you comply with all relevant investment regulations. If necessary seek confirmation from investment advisers.
- Provide a reasonable range of appropriate investment options for members. The range should be formally reviewed at least every three years.
- Consider the likely investment needs of members (including growth, capital protection and income protection) and measure risk in relation to these objectives and to the likely risk tolerance of members. In particular, attention should be paid to the requirements of members within 10 years of normal retirement.
- Ensure that sufficient communication exists to enable members to be aware of the important features of the investment options available to them and should provide for appropriate default strategies for members.
- Retain responsibility for high level strategic decisions in terms of assessing members' investment objectives, options and default strategies. You may delegate implementation to others and should do so where you do not have the necessary skills.

Trustee Communication and Investment Essentials

The trustee is responsible for ensuring that the plan is governed appropriately, and must apply the rules of the pension plan to all beneficiaries and within set guidelines as prescribed by law. Amongst other things, trustees need to regularly liaise with the employer to provide ideas around how the features and benefits of the pension plan can be best offered to members on a cost effective basis. Trustees also have specific duties in legislation regarding information that must be provided to members at particular points in time.

Members should generally be made aware of the degree of responsibility which rests with them in a DC plan. They therefore should have access to the right information and tools that will help them to consider important issues such as the level of retirement savings and the choice of investment.

Typically, such information is available in plan booklets, benefit statements, intranet sites with projection tools and investment manager fund fact sheets. Attending staff presentations on retirement is recommended. The amount of the retirement fund from the DC plan will ultimately determine the overall level of income and cash lump sum which can be made available. This in turn is dependent on:

- The amount of pension contributions being invested, and
- The investment gain during the period of pension investment, until drawdown at retirement, and
- The amount of charges or fees incurred in the management of the fund, and
- The cost of purchasing a pension at retirement (if applicable).

The trustee's role is to help members understand the interaction of these items on their ultimate DC benefits.

The adequacy of pension contributions is ultimately dependent on an individual's pension expectation at retirement. This in itself has to be determined at the outset so that full account can be taken of targeting the desired pension fund and it should be regularly reviewed as an individual's circumstances and needs change.

In terms of investments, trustees should ensure that sufficient communication

exists to enable members be aware of the important features of the investment options available to them and should provide for appropriate default strategies for members.

One of the roles of the Trustee is to determine the most appropriate asset classes to make available to members of the pension plan and to communicate those options to members. Trustees should formally discuss investment matters at least annually. They should take expert advice in relation to investment issues unless they are satisfied that they already have the necessary skills and information.

When reviewing the investment strategy for a DC plan, the trustees must consider the following:

- Are the fund options adequate and appropriate? Is there a reasonable range of appropriate investment options? Is the composition of the fund selections appropriate with adequate benchmarks?
- Are the fund managers 'best in class'?
- Is the default option meeting the needs of members?
- Are the level of fees appropriate for various investment fund choices (e.g. active and passive managed funds)?

When deciding on the investment choices to offer members, or the number

of managers to use, the trustees have an ongoing fiduciary duty to monitor the design of the investment options and the performance delivered to members. Trustees have a statutory duty to monitor and review them on a regular basis and need to be able to explain the reasons for differences in performance and risk between funds and between managers.

Trustees should consider the likely investment needs of members (including growth, capital protection and income protection) and should measure risk in relation to these objectives and the likely risk tolerance of their members. In particular, attention should be paid to the requirements of members within 10 years of normal retirement age/date.

It is important to strike a balance between providing members with a wide range of investment information and overwhelming members who may be less comfortable with investment terminology. One method of helping members who cannot or do not want to make an investment choice is to develop the default investment option by providing a Lifestyle or Target-Dated approach, which more readily caters for individual members needs. Generally speaking a Lifestyle or Target-Dated approach involves automatically switching from riskier to safer investments as a member approaches retirement.

Trustees should be mindful that by offering a default option, they may perpetuate the belief that members do not need to take responsibility for their own pension provision. This issue must be specifically addressed in the member communication programme. Information must be provided to members, with regard to detailed descriptions of the default fund available and the risk and return profiles of the fund relative to the alternatives.

Trustees should retain responsibility for high level strategic decisions in terms of assessing members investment objectives, options and default strategies. Trustees may delegate implementation to others and should do so where they do not have the necessary skills.