



Cost and charge reporting: guidance for trustees and managers of occupational schemes

Consultation version

October 2017

DRAFT STATUTORY GUIDANCE ISSUED PURSUANT TO SECTION 113(2A) OF THE PENSION SCHEMES ACT 1993

This Guidance is produced for the purposes of consultation.

It does not have any effect unless the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018, which are currently the subject of consultation, come into force.

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Background

About this Guidance

1. From 6 April 2018 the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 (“the 2018 Regulations”) introduce requirements relating to the disclosure and publication of the level of charges and transaction costs by the trustees or managers of the relevant scheme. The 2018 Regulations amend the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (“the Administration Regulations”) and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (“the Disclosure Regulations”) to reflect these new requirements.
2. The amendments made by the 2018 Regulations also require trustees or managers to have regard to guidance issued from time to time by the Secretary of State in complying with these requirements.
3. Apart from the elements described in this Guidance it is up to trustees and managers of occupational pension schemes to decide how, consistently with their legal obligations, to implement the requirements of the legislation based on the needs of their scheme’s membership.

Expiry or review date

4. This Guidance will be reviewed as a minimum every 3 years, from the date of first publication, and updated when necessary.
5. This document makes reference to a range of assumptions used in Actuarial Standards Technical Memorandum 1 (AS TM1) issued by the Financial Reporting Council (FRC), and used by the Financial Conduct Authority (FCA) in the Conduct of Business Sourcebook (CoBS).
6. In broad terms, the intention is to allow schemes to use the current assumptions set out for the production of illustrations in CoBS¹ as at 6 April 2017, and version 4.2 of AS TM1, published in October 2016². Subsequent references to CoBS and AS TM1 in this guidance should be taken to refer to these versions.
7. When relevant assumptions in AS TM1 or in CoBS are updated, our intention is to consult in good time to ensure that, where appropriate, alignment between this Guidance, AS TM 1 and CoBS is maintained³.

¹ [CoBS 13 Annex 2 Projections](#)

² [Actuarial Standard Technical Memorandum: AS TM1 Current Versions](#)

³ We are aware of the FCA’s consultation CP17/32 which proposes a number of updates to FCA rules on the production of Key Features Illustrations. Subject to the consultation process, these will come

8. When we review the Guidance, we will also consider, for possible inclusion, lessons from established and emerging best practice and user testing of the way in which cost and charge information is presented⁴.

Audience

9. This Guidance is for trustees and managers of occupational pension schemes (schemes which offer money purchase benefits in respect of those benefits, in both accumulation and decumulation phases).
10. Neither the 2018 Regulations nor the Guidance apply to:
 - Schemes where the only money purchase benefits offered arise from Additional Voluntary Contributions (AVCs);
 - Relevant small schemes;
 - Executive pension schemes;
 - Schemes that do not fall within paragraph 1 of Schedule 1 (description of schemes) to the Disclosure Regulations – most commonly single member schemes, schemes which are not tax registered and schemes which provide only death benefits; and
 - Public service pension schemes, as defined by section 318 of the Pensions Act 2004.

When this Guidance should be followed

11. The amendments made by the 2018 Regulations require occupational schemes which offer money purchase benefits (subject to the small number of exceptions above) to - amongst other things, provide an illustrative example of the cumulative effect of costs and charges incurred by the member as part of the Chair's Statement, and to publish that and other parts of the Chair's Statement (or all, if a scheme wishes to do so) on a website for public consumption.
12. Trustees and managers of relevant occupational pension schemes must have regard to this Guidance, where applicable, on meeting these legislative requirements.

into force from August 2018. If necessary to maintain alignment, we will consult again on any proposed amendments to this Guidance.

⁴ This includes the current behavioural testing commissioned by the FCA following the asset management market study, which includes ways to raise investors' awareness of the impact of charges on their investments over time through warning statements and charts, and effective price comparisons through the use of comparator charts.

Legal status of this Guidance

13. This statutory Guidance is produced under Section 113 (2A) of the Pension Schemes Act 1993.

Compliance with this Guidance

14. Where the trustees or managers do not comply with a relevant legislative requirement by virtue of a failure to have regard, or to have proper regard, to this Guidance, the Pensions Regulator will consider taking enforcement action which includes the possibility of a financial penalty.

15. For occupational pension schemes, The Pensions Regulator (TPR) is responsible for helping employers to understand how to comply with the law. The Department for Work and Pensions (“DWP”) is responsible for answering questions relating to the policy intentions behind the legislation. Neither DWP nor TPR can provide a definitive interpretation of the legislation which is a matter for the courts. Trustees and managers and service providers should consider the Regulations to determine whether the new requirements apply to them, taking further advice where necessary.

Production of an illustration

16. This section of the Guidance explains how to satisfy regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations.

17. Trustees or managers should present the costs and charges typically paid by a member as a “pounds and pence figure” for a realistic and representative range of combinations of pot size, contribution rates, real terms investment returns, time and rate of charges and costs. It is not necessary to do this for every combination.

18. The illustration should be produced following this Guidance, taking into account the following elements:

- savings pot size;
- contributions;
- real terms investment return gross of charges;
- adjustment for the effect of costs and charges; and
- time.

19. The Guidance below does not seek to be wholly prescriptive. It allows schemes a degree of flexibility based on the characteristics and diversity of their scheme membership, the fund offerings and the scheme’s own resources.

20. How a scheme wishes to present the illustration is up to the scheme to decide. An example of how an illustration can be prepared which is consistent with this

Guidance is shown below.

Projected pension pot in today's money								
Fund choice								
Years	Default fund		Fund A		Fund B		Fund C	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1								
3								
5								
10								
15								
20								
25								
30								
35								
40								

Notes

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. The starting pot size is assumed to be £10,000.
3. Inflation is assumed to be 2.5% each year.
4. Contributions are assumed from age 22 to 68 and increase in line with assumed earnings inflation of 2.5% or 4% each year
5. Values shown are estimates and are not guaranteed
6. The projected growth rate for each fund are as follows:
 - Default fund: 2.5% above inflation
 - Fund A: 2% above inflation
 - Fund B: 1% above inflation
 - Fund C: 1% below inflation

21. When trustees are deciding how best to present this data, they should consider the needs and preferences of their membership. Schemes are free to use a variety of different approaches which they believe to be more suitable for particular groups of members.

Required elements

Savings pot size

22. Schemes should use one or more typical savings pot sizes to illustrate the long term effects of charges. These sizes should be broadly representative of the actual pot sizes of members of the scheme. For example, if trustees and managers chose to use just one pot size, the median pot size within the scheme might be a useful benchmark by which to set the value of the savings pot used in the illustration.

23. The pot size assumption should be clearly stated.

Contributions

24. In reality, many members will be contributing to the pension scheme, and it is, therefore, often most meaningful for the illustration to show the effect of further contributions to the scheme. Where the scheme levies a charge of any kind on contributions, at least one illustration including contributions should be shown.

25. Where trustees or managers include further contributions to the scheme, the assumed initial future contribution level should be broadly representative of the overall level of contributions (including employer and employee contributions, and tax relief) and should be stated.

26. Where the product is being used for flexi-access drawdown, one or more expected representative future withdrawal rates should be assumed.

27. Future contribution level increases may currently be assumed to be zero in real (inflation-adjusted) terms, unless statute, scheme provisions or recognised practice requires otherwise.

28. Real-terms contribution growth of 1.5% or more, taking into account expected real terms salary increases, may alternatively be assumed.

29. Where it is both disproportionately burdensome for schemes to show the effect of future contributions, *and* the scheme features no charges levied on contributions, trustees and managers may assume that no further contributions to the scheme will be made. This assumption should also be stated.

Real terms investment return gross of charges

30. In line with AS TM1, we expect the real terms investment return to take account of the expected returns from the current and anticipated future investment strategy of each fund over the period to the retirement date.

31. Alternatively, trustees or managers may, if they wish, use the intermediate rate real terms investment return assumption currently permitted by CoBS of a maximum of 2.5%.

32. An unrealistic expected rate of return should not be presented to the member, which could distort the compounding effect of costs/charges. Schemes therefore should not use assumed rates of real terms investment returns which are higher than both those set out in COBS or for AS TM1.

33. Where trustees or managers use a range of funds with different assumed levels of growth, the illustration should show a representative range of investment returns, including the lowest, the highest and the most popular (by members, not assets). If there are a wide range of different real terms investment returns for the various funds offered by the scheme, and providing an illustration for all of them would be confusing for members, it is permissible to present a selection which show a range of real terms returns.

34. The real terms investment return assumption should be shown for each fund for which an illustration is provided.

Adjustment for the effect of costs and charges

35. The effect of charges should be determined by an adjustment inclusive of all of the charges, expenses and deductions, *including* transaction costs, which will have been taken from a member's pot should be used. The transaction costs should be based on the previous year's reported costs. The remainder of charges, expenses and deductions should be forward- looking, and take into account all of those a client will, or may, expect to be taken after investment into the product. The percentage rate (or pound amount, in the case of flat fees) used should be stated.
36. Where the scheme offers funds set at a range of different charges/total charge and cost levels, trustees and managers should again use a representative range of charges and costs, including the lowest and the highest. Where most members (rather than most assets) are invested in a small number of funds, those levels should also be used in the illustration. It is not necessary to include every individual fund offered by the scheme in the illustration.

Time

37. The illustration should show the cumulative effect of the charges and transaction costs on the value of a typical member's savings pot over time. This should reflect the duration that the youngest scheme member enrolled has saving until they reach the scheme's Normal Pension Age set out in scheme rules. A scheme may also choose to present additional starting points depending on the generational demographic of the scheme membership, if the presentation method allows for this to be easily understood.

Publication of cost and charge information

38. This section of the Guidance explains how to satisfy regulation 29 (4A) of the Disclosure Regulations, as inserted by the 2018 Regulations.

Required elements

39. The relevant sections of the Chair's statement, inclusive of charges and transaction cost information, must be published on a website and should be published in a manner which recognises accepted web accessibility standards and which allows for the content to be:

- downloadable; and
- published in such a way that search engines can index it. This means that:
 - i. If published on the scheme's or employer's website, it should not include text which prevents the page from being indexed, and it should be linked to other pages which are found by web search engines;
 - ii. If published via another website - for example GoogleDrive or Facebook – appropriate boxes should be checked to ensure that the document is public and can be indexed.

40. Persons wishing to view the information should not be required to do so by:

- entering a specific user name and/or a specific password;
- providing any other personal information about themselves.

41. The Disclosure Regulations require that a specific web address for the location of the published materials on the internet must be included in a member's Annual Benefit Statement. The web address should be appropriately titled so that members can readily re-type it into a web browser, and should clearly sign post the nature of the information to be found at the location.