



# Cost, charge and related information reporting: guidance for trustees and managers of occupational schemes

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June 2018 [Consultation version]

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

**This Guidance does not have any effect unless the Occupational Pension Schemes (Investment 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 and managers of a relevant scheme. The 2018 Regulations amend the Occupational Pension Schemes (Scheme Administration) Regulations 1996<sup>1</sup> (“the Administration Regulations”) and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013<sup>2</sup> (“the Disclosure Regulations”) to reflect these new requirements.
2. [From 1 October 2019 the Occupational Pension Schemes \(Investment and Disclosure\)\(Amendment\) Regulations 2018 \(“the Amending Regulations”\) introduce requirements relating to the disclosure and publication of the Statement of Investment Principles, alongside other related material. The Amending Regulations amend the Disclosure Regulations and the Occupational Pension Schemes \(Investment\) Regulations 2005<sup>3</sup>.](#)
3. The amendments made by [both](#) the 2018 Regulations [and Amending Regulations](#) require trustees and managers to have regard to guidance issued from time to time by the Secretary of State in complying with the [relevant requirements of those Regulations](#).
4. 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

5. This Guidance will be reviewed as a minimum every 3 years, from the date of first publication, and updated when necessary.
6. 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).
7. In broad terms, the intention is to allow schemes to use the current assumptions set out for the production of illustrations in:

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<sup>1</sup> <http://www.legislation.gov.uk/uksi/1996/1715>

<sup>2</sup> <http://www.legislation.gov.uk/uksi/2013/2734>

<sup>3</sup> <http://www.legislation.gov.uk/uksi/2005/3378>

- CoBS<sup>4</sup> as at 6 April 2017, until 5 April 2019, and from 6 April 2019, CoBS as amended by FCA Handbook Notice 51<sup>5</sup>; and
  - version 4.2 of AS TM1, published in October 2016<sup>6</sup>. Subsequent references to CoBS and AS TM1 in this Guidance should be taken to refer to these versions.
8. 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 TM1 and CoBS is maintained.
  9. The Guidance does not take precedence over, or try to direct, CoBS or AS TM1 in relation to the production of other projections.
  10. 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 presented.

## Audience

11. This Guidance is for trustees and managers of **relevant** occupational pension schemes (schemes which offer money purchase benefits in respect of those benefits, in both accumulation and decumulation phases).
12. **None of** the 2018 Regulations, **Amending regulations, and** the Guidance apply to:
  - Schemes where the only money purchase benefits offered arise from Additional Voluntary Contributions (AVCs);
  - Relevant small schemes<sup>7</sup>;
  - Executive pension schemes<sup>8</sup>;
  - 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

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<sup>4</sup> [CoBS 13 Annex 2 Projections](#)

<sup>5</sup> [FCA Handbook Notice 51](#) confirmed that the FCA Board had approved revised assumptions for projections following consultation in [Quarterly Consultation Paper No 18 \(CP 17/32\)](#). These changes, which are listed in pages 113-115 of the CP17/32, will come into effect from 6 April 2019.

<sup>6</sup> [Actuarial Standard Technical Memorandum: AS TM1 Current Versions](#)

<sup>7</sup> Also known as ‘Small Self-Administered Schemes (SSASs)’, a relevant small scheme is an occupational scheme with fewer than 12 members where all the members are trustees of the scheme or all the members are directors of a company which is the sole trustee of the scheme

<sup>8</sup> Executive Pension Scheme means an occupational scheme in relation to which a company is the only employer and the sole trustee; and the members of which are either current or former directors of the company and include at least one third of the current directors

- Public service pension schemes, as defined by section 318 of the Pensions Act 2004<sup>9</sup>.

## When this Guidance should be followed

13. The amendments made by the 2018 Regulations require occupational pension 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<sup>10</sup> incurred by the member as part of the Chair's Statement; and
- publish that and certain other parts of the Chair's Statement (or all, if a scheme wishes to do so) on a website for public consumption.

14. The amendments made by the Amending Regulations require the same schemes to – amongst other things:

- from 1 October 2019, publish the Statement of Investment Principles (“SIP”) and the statement on how members’ views are taken into account as part of the Annual Report.
- from 1 October 2020, publish an implementation report on how they acted on the SIP as part of the Annual Report.

15. Trustees and managers of relevant occupational pension schemes must have regard to this Guidance, where applicable, on meeting these legislative requirements.

## Legal status of this Guidance

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

17. This Guidance replaces the previous Cost and charge reporting: guidance for trustees and managers of occupational pension schemes statutory Guidance which was published in February 2018, and was issued under section 113(2A) of the 1993 Act.

## Compliance with this Guidance

18. For occupational pension schemes, The Pensions Regulator (TPR) monitors compliance with the legislation and provides guidance about what employers and

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<sup>9</sup> In practice, we are aware of no such schemes which meet this definition and offer money purchase benefits other than those attributable to AVCs.

<sup>10</sup> ‘Transaction costs’ and ‘charges’ are defined in the Occupational Pension Schemes (Charges and Governance) Regulations 2015 - <http://www.legislation.gov.uk/uksi/2015/879>

people running schemes need to do. 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.

19. Trustees and managers and service providers should consider the Regulations to determine whether the new requirements apply to them, taking further advice where necessary.
20. Where the trustees or managers do not comply with a relevant legislative requirement of the Administration Regulations or the Disclosure Regulations by virtue of a failure to have regard, or to have proper regard, to this Guidance, the Pensions Regulator may take enforcement action which includes the possibility of a financial penalty.
21. Enforcement of Part V of the Administration Regulations, including the production and content of the Chair’s Statement, is currently provided for in Part 4 of the Occupational Pension Schemes (Charges and Governance) Regulations 2015<sup>11</sup>. Regulation 5 of the Disclosure Regulations sets out the penalties for failure to comply with any other requirement under those Regulations, including any failure to publish costs, charges and other relevant information in accordance with regulation 29A of those Regulations.

## Production of an illustration

22. This section of the Guidance sets out the matters to which trustees and managers of relevant schemes must have regard when producing an illustration in accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations.
23. Trustees and managers should present the costs and charges typically paid by a member as a “pounds and pence figure”. This should use 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 an illustration for every combination.
24. The illustration should be produced using this Guidance, taking into account the following elements:
  - savings pot size;
  - contributions;
  - real terms investment return gross of costs and charges;
  - adjustment for the effect of costs and charges; and
  - time.

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<sup>11</sup> <http://www.legislation.gov.uk/uksi/2015/879>

25. The Guidance below does not seek to be wholly exhaustive. 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. How a scheme wishes to present the illustration is up to the scheme to decide.
26. When trustees and managers 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.

## Example

27. An example of how an illustration can be prepared which is consistent with this Guidance is shown below. This example uses assumptions which are based on CoBS as at 6 April 2018.

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

## Required elements

### Savings pot size

28. 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.
29. The pot size assumption should be clearly stated.

### Contributions

30. 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. Contributions will generally increase in nominal terms, as they are typically a percentage of salary. Where salaries increase faster than inflation, there will be real-terms growth in contribution levels.
31. Where trustees and 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.
32. Where the product is being used for flexi-access drawdown, one or more expected representative future withdrawal rates should be assumed.
33. Future contribution level increases may currently be assumed to be zero in real (inflation-adjusted) terms, unless statute, scheme provisions or recognised practice require otherwise.
34. Real-terms contribution growth of 1.5% or more, taking into account expected real terms salary increases, may alternatively be assumed. This figure will not change with the updating of CoBS in 6 April 2019.
35. 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. Where the scheme levies a charge of any kind on contributions, at least one illustration including contributions should be shown.

### Real terms investment return gross of costs and charges

36. 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.



37. Alternatively, trustees and managers may, if they wish, use as a basis the intermediate rate real terms investment return assumption currently permitted by CoBS.
38. An unrealistic expected rate of return should not be presented to the member, as this could distort the compounding effect of costs/charges. Schemes therefore should not use assumed rates of real terms investment returns gross of costs and charges which are higher than both those set out in CoBS or for AS TM1.
39. Both AS TM1 and CoBS refer to a category of costs named 'dealing costs'. The CoBS investment return assumption is gross of charges, but the charges deducted do not include dealing costs<sup>12</sup>. For schemes not subject to FCA rules on projections, the AS TM1 nominal investment return assumption is the 'accumulation rate' – the expected returns before the deduction of charges and other expenses – but again those charges and expenses exclude any dealing costs<sup>13</sup>.
40. Neither the FRC nor the FCA define dealing costs, but for the purposes of producing these illustrations this Guidance treats them as equivalent.
41. Therefore if the current CoBS investment return assumption is used, a maximum gross real terms return of 2.5% *plus* the level of transaction costs is permitted until 5 April 2019. From 6 April 2019 onward, a maximum gross real terms return of 3% plus the transaction costs is permitted.
42. If AS TM1 is used, a maximum gross investment return of the 'accumulation rate' plus the level of transaction costs but minus the 'inflation rate' is permitted.
43. For the assumed level of transaction costs, see paragraph 47.
44. Where trustees and 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.
45. 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**

46. The effect of charges should be determined by an adjustment inclusive of all of the charges, *and* transaction costs, which will have been taken from a member's pot.
47. The transaction costs, as defined in regulation 2(1) of the Occupational Pension Schemes (Charges and Governance) Regulations 2015, should be based on an

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<sup>12</sup> CoBS 13 Annex 2 paragraph 2.6 (1) and (2)

<sup>13</sup> C2.4 and C2.9 of Actuarial Standard Technical Memorandum 1

average of the previous 5 years' transaction costs or, where data is available for fewer than 5 years, an average of transactions costs over the years for which data is available.

48. The charges (similarly defined in regulation 2(1) of the Charges and Governance Regulations) 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.
49. Similarly any change in flat fee in future should be taken into account. Where this is set to increase in line with inflation a figure of 2.5% should be assumed for inflation until 5 April 2019 inclusive. Thereafter a figure of 2.0% (for Consumer Prices Index) or 3.0% (for Retail Prices Index) can alternatively be used.
50. Where trustees and managers choose to report the transaction costs associated with entering, exiting and switching between funds, they should also show these effects in the illustration.
51. 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**

52. 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 approximate duration that the youngest scheme member enrolled has saving until they reach the scheme's Normal Pension Age set out in scheme rules.
53. If the presentation method allows for this to be easily understood, a scheme may also choose to present additional starting points depending on the generational demographic of the scheme membership. Trustees and managers should give presentation of alternate start points serious consideration if the level of costs and charges varies significantly by age – for example if younger members' contributions are invested in a low cost allocation of assets, but those members pay significantly more closer to retirement.

## **Optional elements**

54. Trustees and managers may choose to add extra information to the illustration and to present data in a more disaggregated format.
55. Examples of additional information trustees and managers may provide include:

- historic performance data about the investment options or underlying funds in which members are invested;
- provision of percentage of gross investment returns lost over time;
- percentage of the pot lost to costs and charges compared with a situation where no costs and charges were incurred.

56. Examples of greater disaggregation which may be provided include:

- a breakdown of charges into investment and administration costs;
- a breakdown of transaction costs – for example into explicit costs (such as broker commission, settlement fees, and custody ticket fees) and implicit costs (slippage).

57. Where this additional or disaggregated information is provided, trustees and managers should carefully consider whether they believe that members would benefit from the information and whether it would prove distracting.

58. Provision of data in a more disaggregated form does not remove the requirement to also display it in aggregated form.

# Publication of cost and charge information

59. This section of the Guidance sets out the matters to which trustees and managers of relevant schemes must have regard when publishing information under regulation 29A of the Disclosure Regulations, as inserted by the 2018 Regulations.

## Required elements

### Finding and accessing the information

60. The relevant sections of the Chair's Statement (inclusive of charges and transaction cost information) and the Annual Report (inclusive of the SIP and implementation report), must be published on a publically available website. The information should be published in a manner which allows for the content to be indexed by search engines:

- 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;
- If published via another website - for example, via a social media site, a blogging tool or a repository offered by a search engine provider – appropriate boxes should be selected to ensure that the document is public and can be indexed.

61. 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.

62. The Disclosure Regulations also 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.

### Needs of disabled people

63. Trustees and managers should satisfy themselves that they have adequately taken account of the needs of disabled people in publishing the relevant sections of the Chair's Statement and the Annual Report.

64. Examples of factors they should take into account include, but are not limited to:

- whether screen reading software used by visually-impaired and blind people can read the content and in a logical sequence;
- whether the text can be enlarged, and whether the contrast in the pages is adequate so it can read by visually impaired people;
- whether the text is simply and clearly written for the benefit of cognitively-impaired users.

65. Standards which trustees and managers may wish to take account of, in verifying that the content takes account of the requirements of disabled people are:

- The web content accessibility guidelines (WCAG) 2.0<sup>14</sup>, published by the Web Accessibility Initiative<sup>15</sup>, established by the World Wide Web Consortium (W3C);
- BS 8878:2010 Web accessibility. Code of practice, published by the BSI Group.

66. Section 29 of the [Equality Act 2010](#)<sup>16</sup> makes it unlawful for service providers to discriminate against people with disabilities. The “Services, public functions and associations: statutory code”<sup>17</sup> published by the [Equality and Human Rights Commission](#) to accompany the Act highlights that websites may in themselves constitute a service covered by the Act, for example, where they are delivering information to the public.

67. Although this section of the Guidance is about publishing information, the attention of trustees and managers is drawn to new regulation 29A(4) of the Disclosure Regulations concerning the provision of information in hard copy. Where the person has a disability which means that they are less able to access information on a website, this should be a key factor in deciding to provide that information in a different format.

## Storage or printing of the information

68. All the relevant sections of the Chair’s Statement [and the Annual Report](#), whether published on a single page or across more than one page, should be published on a webpage in a way which enables the information displayed to be printed by the reader using widely used web browsers using the menus available via the browser, or functionality on the page itself.

69. In addition, the webpage on which the information is displayed should be such that any [relevant](#) part of the Chair’s Statement [and the Annual Report](#) should be

<sup>14</sup> <http://www.w3.org/TR/WCAG20/>

<sup>15</sup> <http://www.w3.org/WAI/>

<sup>16</sup> <https://www.legislation.gov.uk/ukpga/2010/15/section/29>

<sup>17</sup> [https://www.equalityhumanrights.com/sites/default/files/servicescode\\_0.pdf](https://www.equalityhumanrights.com/sites/default/files/servicescode_0.pdf)

capable of being downloaded and stored using a modern web browser, again either via the browser menus or the page's functionality.

## Optional elements

70. Pension schemes may additionally wish to publish the relevant sections of the Chair's Statement [and the Annual Report](#) in other locations, such as on the password-protected online servicing sections of their website. However, this does not remove the requirement to publish the information online in such a way that all can find the information without registration or entering any personal details.