

DC Governance: achieving the right outcomes

Recently, The Pensions Regulator (TPR) has identified scheme governance, or the lack of it, as one of the biggest threats to defined contribution (DC) pension provision in the UK. Indeed, TPR's fifth governance survey, carried out with nearly 600 schemes, highlighted that only 40% of occupational DC schemes think their overall governance is very effective, compared with around 65% of defined benefit schemes.

TPR has published a number of papers outlining what it believes to be best practice in DC governance. Most recently, in its three year Corporate Plan, it confirmed the six key areas it intends to focus on as:

1. appropriate contribution decisions
2. appropriate investment decisions
3. efficient and effective administration
4. protection of assets
5. value for money
6. appropriate decumulation decisions

So what does DC governance tend to look like?

Within occupational schemes, governance falls under the remit of the scheme trustees who will receive and consider administration reports and other management information (MI) at their regular meetings. Whilst there is currently no legal requirement for employers running contract-based schemes to operate a formal governance structure, the same principles apply.

We see many employers choosing to establish pension committees to carry out formal governance activities in the world of contract-based schemes.

What is good DC governance and how do you achieve the right outcomes for your scheme members?

Good governance is not simply about reviewing the range of funds in your scheme or complying with statutory requirements. It should be focused on 'what is the effect?' rather than merely 'we have done something'. Thought needs to be given to issues such as:

- how you monitor whether your employees are making appropriate contribution and investment decisions;
- how you assess whether your scheme offers value for money; and
- whether your member communications are effective.

A sudden spike in the number of members contacting your HR team or your adviser's member helpline would highlight that there could be a specific issue members are facing. This might warrant a more focused communication campaign to ensure your members are being helped in the right way. Waiting to see this spike six months after it happened when your trustees or committee members finally see a MI report will not enable you to help your members achieve the right outcome from the scheme.

“Governance should be focused on ‘what is the effect?’”

Schemes with modern governance structures and online administration systems can now benefit from access to real-time MI. Such systems can be extremely flexible, enabling the user to select things such as time periods, locations and categories of scheme member in order to analyse each piece of MI to whatever degree required. Amongst other things, this is ideal for monitoring the success of communication exercises such as new joiner programmes, investment seminars, individual retirement planning meetings, pre-retirement courses or broader financial education programmes.

Similarly, being able to see whether members are (or are not) making changes to their investment choices, increasing their pension contributions or even simply joining the scheme can help employers/trustees see if their pension strategy and communications are proving to be effective. This will be extremely important in the new auto-enrolment world when employers will need to monitor the level of opt-outs as well as their adherence to new, strict administration and processing timescales.

If you would like to find out more about how you can improve governance in your DC scheme, please download a copy of **Johnson Fleming’s Guide to DC Scheme Governance**.

This interesting and informative guide covers a variety of issues in depth, including:

- different approaches to scheme reviews and governance
- how to establish and run pension committees
- the type of issues that should be considered under a governance process
- effective monitoring, reporting and use of MI

If, after reading the guide, you would like some help understanding how you can apply some of the principles and processes suggested to your own scheme, please do not hesitate to contact me directly.



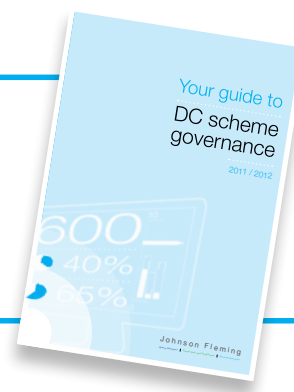
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Click [here](#) to download a copy of Johnson Fleming’s Guide to DC Governance



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