

PREMIER PENSIONS MANAGEMENT

LEGISLATION UPDATE : 06/08

Regulator's Guidance on Contract based arrangements

The Pensions Regulator issues its latest guidance on voluntary employer engagement in contract based DC arrangements. This guidance has been drawn up in consultation with the FSA and reflects the Regulator's view that "...voluntary employer engagement improves the protection of members' benefits and promotes good administration."

The purpose of the guidance is to encourage those employers who run contract based schemes to take a proactive role in the management of the arrangement. It gives guidance as to how this might operate and provides some useful Case Studies.

The Regulator is at pains to point out that he has no statutory powers in respect of contract based arrangements but suggests that there are a number of advantages from employers positively engaging with these arrangements such as:

- Better quality arrangements reflecting positively on the employer.
- Prevents problems that will be costly and time consuming to put right if they occur (e.g. issue with the wrong salary being used).
- Improves member understanding and hence appreciation of the scheme
- It enables issues to be foreseen and avoided (e.g. poor investment performance which may reflect badly on the employer).
- Provides a collective voice for members who face service issues.
- Enables matters such as communication and education of members to be reviewed, enhancing the appreciation of the Scheme.

The Regulator has recognised the concern that some employers have with regard to the provision of what might be deemed to be advice in this area and points the reader to the FSA document "Promoting pensions to employees, a guide for employers" and the joint Regulator and FSA paper "A guide on the regulation of work place contract-based pensions".

The Regulator concludes that the advantages are such that a number of companies are now moving towards the creation of some type of governance arrangements with regular reporting from the provider and engagement from stakeholders. The identified stakeholders are:

- Adviser, consultant or IFA,
- Employer representatives, commonly from HR,
- Employees, through a staff forum, union or otherwise.

The paper suggests that a form of Management Committee is increasingly common with some companies using the trustees of the existing Trust based arrangement to fulfil this role. There is a useful Appendix looking at how Management Committees might work. 11 case studies then cover the alternatives in more detail.

Conclusion

The Regulator has few powers with regards to contract based arrangements but has a responsibility to ensure that they are well run. Clearly they hope that the advantages to the employer of ensuring that the arrangements are well run will be sufficient to encourage employers to take on this responsibility.

Premier Pensions Management Limited welcomes this guidance as we believe that there is a place for increased employer involvement in contract based arrangements. We would be happy to work with companies to design the best model for their specific circumstances.

April 2008

This update includes general information and cannot be relied upon for individual schemes issues. You should contact your adviser or Paul Couchman at Premier Pensions Management Ltd, Capital Business Centre, Units 14 & 15, 22 Carlton Road, South Croydon, Surrey, CR2 0BS. DL: 020 8916 2129. Email:

paul.couchman@premierpensions.co.uk,

if you require definitive advice