Leaders in pensions

DC Governance - what trustees need to know

CMS Pensions team
Table of contents

Introduction 3
Principles and quality features 5
Know your scheme 6
Risk Management 8
Investment 10
Governance 12
Administration 14
Communications 16
Appendix – DC quality features 18
Introduction

As a result of auto-enrolment, millions of workers will join a pension scheme for the first time. However, in many cases this will not be an active decision and the members will rely on someone else to look after their interests and deliver good outcomes. As a result, the Pensions Regulator has become increasingly concerned to ensure that defined contribution members are in schemes that are effectively governed, durable and offer value for money.

In January 2013 the Regulator began consultation on a suite of DC Governance documents to achieve this aim: a Code of Practice, Guidance and an outline of its proposed regulatory approach. Final versions of the Code and Guidance have now been issued and they apply to all occupational pension schemes that offer defined contribution benefits (including DC AVCs) with effect from 21 November 2013.

How the DC governance documents fit together

The Regulator has identified six elements which it believes are important for achieving good outcomes for members of DC schemes. These elements are:

— appropriate decisions with regards to pension contributions
— appropriate investment decisions
— efficient and effective administration of DC schemes
— protection of scheme assets
— value for money
— appropriate decisions on converting private pension savings into a retirement income.
To help deliver these outcomes, the Regulator developed six principles for the good design and governance of workplace DC arrangements. Schemes that meet these principles are, in its view, more likely to deliver good outcomes for members. Underpinning these principles are ‘31 DC quality features that encapsulate those activities, behaviours and control processes that are more likely to deliver good member outcomes.’

The DC Code of Practice and Guidance provide practical guidance for trustees on how to comply with the DC quality features. Those quality features that are based on a legal obligation are dealt with in the Code of Practice and those that are not, are dealt with in the Guidance.

The Code and Guidance must be read together.

What this guide covers

This guide looks at what trustees need to be doing to ensure that the DC elements of their scheme meet the new governance standards. Each section highlights relevant quality features and then summarises the key things that the Regulator thinks that schemes could do to demonstrate compliance with that feature.

Much of what is in the DC Code and Guidance is summarising guidance from other Regulator publications (such as the Codes of Practice on trustee knowledge and understanding and internal controls). Therefore, trustees should find many aspects of it familiar.
Principles and quality features

Before looking at the content of the Code of Practice and Guidance, trustees need to understand what the DC principles and quality features are.

What do they say?

The six principles for good quality DC schemes span the lifecycle of a DC scheme from the design and set-up phases through to the ongoing management. The principles are intended to be high level and the Regulator expects all schemes offering DC benefits to encompass them.

The principles are underpinned by 31 quality features which set out in further detail the activities, behaviours and control processes which the Regulator expect to see in DC schemes that are more likely to deliver good member outcomes. These quality features form the basis of the DC Code of Practice and Guidance.

The six principles and the DC quality features that relate to each are summarised in the Table below. The quality features are set out in more detail in the Appendix.

<table>
<thead>
<tr>
<th>Governance principle</th>
<th>Related quality features</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Essential characteristics:</strong> Schemes should be durable, fair and deliver good outcomes for members.</td>
<td>Members receive value for money and charges are transparent. Commercial risks are mitigated. Flexible contributions and default strategy. Appropriate investment options with objectives.</td>
</tr>
<tr>
<td><strong>Governance:</strong> A governance framework should be established with clear accountabilities, and agreed, transparent responsibilities.</td>
<td>Sufficient time and resources available for running the scheme, responsibilities clearly understood, adequate internal controls, effectiveness of providers monitored, investment options reviewed.</td>
</tr>
<tr>
<td><strong>People:</strong> Those accountable for decisions and activity should understand their duties and be fit and proper to carry them out</td>
<td>Act in best interests of scheme beneficiaries, effectively demonstrate how conflicts are managed.</td>
</tr>
<tr>
<td><strong>Ongoing governance and monitoring:</strong> Schemes have effective governance and monitoring through their full lifecycle.</td>
<td>Be open with the Regulator and address guidance in a timely manner, review skills and competencies, monitor ongoing activity to ensure continued compliance with the first two principles.</td>
</tr>
<tr>
<td><strong>Administration:</strong> Schemes are well-administered with timely, accurate and comprehensive processes and records.</td>
<td>Ensure records are accurate, core financial transactions are prompt and accurate and administration systems are adequate.</td>
</tr>
<tr>
<td><strong>Communications to members:</strong> Communication ensures members can make informed decisions about their pensions.</td>
<td>Costs and charges are disclosed and members are aware that the level of contributions affects their benefits and communications are accurate and clear.</td>
</tr>
</tbody>
</table>

Showing compliance

The Regulator is asking trustees to produce a governance statement explaining the extent to which their scheme has embedded the 31 DC quality features. The governance statement should be made available to members and employers and the Regulator will provide a template that trustees can use. It is also intended that there will be ongoing assessment of the scheme against the quality features to enable trustees to ‘review and refresh systems and controls, monitor risks and prioritise actions’ and the Regulator is intending to produce further guidance for trustees on how to do this.
Know your scheme

Trustees should know the key features of their scheme, the benefits provided and what their powers are. This section looks at the quality features that relate to knowing about your own scheme. Trustees should note that much of what is included in this section should be familiar as it is repeated in the Knowledge and Understanding Code of Practice.

Understand duties and be fit and proper to carry them out

— Read and understand scheme documents (including scheme rules and key member communications) in enough detail to know where to look for answers if problems arise. In particular, understand key powers under the scheme rules such as the investment and amendment powers, how decisions are made and who can appoint and remove trustees.
— Understand statement of investment principles and any constraints on investment decision making.
— Know enough to understand and challenge advice.
— Understand benefits provided, be clear on which benefits are defined contribution benefits (in line with the revised statutory definition1).
— In a hybrid scheme, understand the difference between DB and DC benefits and how DC assets are held compared to DB assets.
— Know whether the scheme is being used for auto-enrolment.
— Understand key powers such as investment, amendment, appointment and removal of trustees and advisers, transfer provisions, triggering a wind-up and how decisions are made.
— Trustees are not expected to review employment contracts but may want to ask employers if scheme benefits are consistent with contractual terms.
— Newly appointed trustees have six months to gain the required understanding. This does not apply to professional trustees who should have a Pensions Management Institute qualification or similar before appointment.

1 The Pensions Act 2011 provides that a money purchase benefit is one which is ‘calculated solely by reference to assets which (because of the nature of the calculation) must necessarily suffice for the purposes of its provision’. This provision is not yet in force but is due to come into force on 6 April 2014.
— Be aware that delegation to a sub-committee does not relieve individual trustees from a duty to understand what is going on.

**Ensure sufficient time and resources are identified and made available for governance**

— Make sure there is sufficient time at trustee meetings to discuss key DC issues. Consider whether investment monitoring, risks, administration, communications and a legal update should be regular items at trustee meetings.

— In a hybrid scheme don’t tag on important DC discussions to the end of a meeting, set aside enough time to address DC issues in detail.

— Keep proper records of meetings.

**Review skills and competencies to demonstrate understanding of duties and that you are fit and proper to carry them out**

— Training should be a regular subject for discussion at meetings.

— Trustees should be suitably prepared to discuss changes affecting the scheme.

— Identify gaps in knowledge and make time to attend training courses.

— Trustees should review their levels of knowledge at least annually.

— Complete the trustee toolkit unless it is possible to show that the knowledge and understanding requirements have been complied with another way.

— Whether an individual is a fit and proper person to be a trustee should be considered as part of the recruitment process for new trustees.

— Employers should review the fitness and propriety of trustees on an ongoing basis (although no guidance is given as to what they should do where there is a problem).

**Ensure accountability and delegated responsibilities are identified, documented and understood**

— A training programme should include the balance of powers between trustees and employer and how scheme administration is carried out.
Risk Management

Risk management is about ensuring that there are adequate internal controls. The DC Governance documents focus on the additional internal controls that might be required in a DC environment. They supplement the existing guidance and code of practice on internal controls.

Establish and maintain adequate internal controls and ensure sufficient resources are available for governance

Stage 1 - identify risks
— Identify risks critical to the scheme using information from a number of sources.
— Particular risks in DC schemes include: fraud; investment; management of costs; communications; corporate activity relevant to the scheme; and retirement and members’ decumulation options.
— Record identified risks in a risk register.

Stage 2 – evaluate risks
— Look at which risks scheme can absorb and which require internal controls.
— There should be a process to evaluate risk. This should help trustees direct resources to priority areas, starting with those which will have the greatest impact on the scheme.

Stage 3 – managing risks
— Controls should be suitably designed and implemented and a number of issues, including those set out in the Table below need to be considered.
<table>
<thead>
<tr>
<th>Issue</th>
<th>Consideration</th>
</tr>
</thead>
<tbody>
<tr>
<td>How the control is performed and the skills of the person performing the control.</td>
<td>Master trusts may have a large number of employers with limited experience of pension scheme administration. Trustees of master trust schemes should ensure employers receive clear instructions addressing information requirements and support to help manage risk of transmitting poor quality data.</td>
</tr>
<tr>
<td>The level of reliance that can be placed on information technology solutions if processes are automated.</td>
<td>If administration services are provided using an automated system, external auditors could audit the system on an annual basis on behalf of the trustees and should audit if any issues are identified.</td>
</tr>
<tr>
<td>Whether or not a control would stop something from happening or merely detect something that has already happened.</td>
<td>It is not possible to prevent a significant fall in global markets. However, an investment subcommittee should ensure that the main trustee board is informed enough to make a particular decision or recommendation to the main board for quick approval (subject to taking appropriate investment advice).</td>
</tr>
<tr>
<td>The frequency and timeliness of a control process.</td>
<td>Trustees who find their data is incomplete should undertake data-cleansing or member-tracing exercises and review this on a regular basis (at least annually).</td>
</tr>
<tr>
<td>The process for reporting mechanism for flagging errors or control failures.</td>
<td>If trustees identify that member communications are poor quality, they should ensure that they are reviewed and, if necessary, redrafted.</td>
</tr>
</tbody>
</table>

*Stage 4 – monitoring risk management controls*

— Review the risk register in detail at least annually.

— Evaluate risk assessment arrangements, procedures and systems for material changes.
Investment

Because members bear the investment risk in a DC context and the lack of other regulatory guidance on the subject, the sections on investment are particularly detailed.

Ensure objectives for each investment option are identified and documented in order for them to be regularly monitored

— Understand the objective of each investment, in particular the asset classes being invested in, the level of risk and the objective and style of the investment manager.
— Obtain sufficient information from their investment managers to be able to demonstrate that they have understood all relevant matters.

Ensure the number and risk profile of investment options offered reflects the needs of the membership

— Investment options offered to members should be suitably labelled and the risk profile clearly described.
— Understand the basis upon which the total level of costs and charges is calculated and levied on the fund. This information should be documented so that it can be used to assess the performance of the funds in line with objectives and whether they remain suitable for members.

Ensure that a default strategy is provided and is suitable for the needs of the membership

— Trustees are responsible for setting a default strategy and monitoring the long term suitability of any funds selected.
— With the exception of AVC arrangements, there should be a suitable default strategy (even if the scheme is not being used for auto-enrolment).
— Allow suitable time to design a default strategy and ensure that the member data it is based on is accurate.

— Member costs associated with a default strategy should be monitored and trustees should seek to achieve equity between costs borne by active and deferred members.
— Where aspects of a default strategy are delegated to a third party, they should be appropriately qualified and competent.

Ensure there are arrangements to review ongoing appropriateness of investment options (including default strategy)

— If a decision is made to change available options, consider the transition process, whether any favourable treatment might be lost and if there are any penalties which will be triggered.
— Members should be informed in advance of any transfer so they can switch investments if they want to.

Ensure that the performance of each investment option is regularly assessed against investment objectives

— The size and value of a fund is a factor in the frequency and nature of any review. More attention should be paid to funds which hold a significant proportion of the assets.
— Mechanical triggers can be set based on performance against benchmarks but these should be suitable to the type of fund (e.g. looser triggers may be appropriate in an actively managed fund holding volatile assets).
— A review can take different forms but should consider performance against stated objectives, industry benchmarks and the impact of fees on returns.
— The procedure for review should be documented.
Understand the levels of financial protection available and carefully consider situations where compensation is not available and understand arrangements to mitigate impact to members of business and/or commercial risks

— Understand what would happen in the event of a problem, including any protections available in respect of overseas assets.
— Ensure level of protection or compensation is communicated to members.
— Consider whether products are covered by the Financial Services Compensation Scheme.
— If adequate protection does not exist, consider whether it is appropriate to hold the asset.
— Check whether contractual arrangements with investment providers contain an indemnity provision in the event of any default.

Ensure members are regularly informed about the importance of reviewing investment choices

— Communications should emphasise the need to regularly review the suitability of choices and that choices may not remain suitable for the whole of their membership.
— When new funds are added, there are changes to the scheme or circumstances change members should be encouraged to review choices and be given appropriate information.
— The risk profile and charges of funds offered should be clearly set out for members.
— Members should be given up to date information on objectives and performance of funds offered.
— Consider whether members can be provided with access to guidance, advice and on-line tools to help them make investment choices.
— Recommend members consider taking financial advice when making investment decisions.
— Ensure communications make it clear to members that they may incur a loss by being out of the market when switching funds.

Act in best interests of all beneficiaries and understand duties and establish and maintain procedures and controls to ensure effectiveness and performance of services provided to the scheme

— Understand investment powers in scheme rules.
— Consider setting up investment sub-committee and document any delegation in an investment governance plan or as part of the statement of investment principles.
— Ensure that members have information to make decisions but be careful not to give advice.
— Understand characteristics of complex investments and consider counterparty risk.
— Understand the characteristics of the asset classes, the key differences between them, their volatility and risks.
— Understand the nature of the investment products through which the scheme gains exposure to assets.
Governance

This section considers the quality features applicable to governance. Under the Code, these relate to conflicts of interest, and the appointment of, and managing relationships with, advisers. Under the Guidance, the quality features concern value for money, charges and contributions.

Effectively demonstrate how conflicts are managed

— Have a process in place to identify and manage conflicts of those involved in running the scheme. Trustees should already have addressed this in line with the existing Regulator guidance on conflicts of interest.

— Where there is a provider-appointed representative on the trustee board (e.g. insurer-established schemes or master trusts), be prepared to consider situations in which that representative’s role may become untenable, e.g. strategic decisions which might result in termination of that provider’s services.

Mitigate the impact to members of business and commercial risks

— Evaluate the nature of any financial or commercial benefit gained by advisers or service providers who refer scheme work to other parties.

— Be aware of, and monitor, circumstances in which a trustee adviser or service provider also provides services to the employer.

Establish and maintain procedures to ensure effective performance of advisers and service providers, and ensure that all involved understand accountability and delegated responsibilities for running the scheme

— Evaluate provider suitability before appointment including checking professional indemnity cover, expertise and experience.

— Put clear and comprehensive contract in place.

— Maintain a robust professional relationship going forward, evaluating performance on a regular basis.

— Encourage engagement from the employer, and from member-nominated trustees.

Ensure that all members receive value for money

— Review value for money on an ongoing basis (and add ‘failure to achieve value for money’ to scheme’s risk register).

— Carry out in-depth strategic reviews of costs, charges and benefits periodically (e.g. every three years). A model process for review is set out in the DC Guidance which includes collecting information, determining the criteria for assessing value for money, comparing the criteria with other schemes and evaluating and acting upon the outcome.

— Action on the outcome can include: requiring improved service levels; negotiating lower costs; removing unused services; and changing provider. In some cases the outcome may indicate that the appropriate course of action is to wind-up the existing scheme and transfer members’ assets to a larger, more competitive arrangement.

Ensure that all costs and charges borne by members are disclosed to them

— Present members with costs and charges information on joining, annually, on request, on leaving and before available funds or charges change.

— Information should set out all costs and charges (including those which only apply in certain circumstances) which could affect a member’s fund and explain them (especially where they are above average). Members should not be overwhelmed with extensive technical information.
Communications should be clear, fair and balanced to enable members to make a value for money judgement on costs and charges.

Ensure that costs and charges borne by members are transparent and communicated to the employer to allow value for money comparisons to be made.

- If an employer is considering whether to offer membership of a scheme, trustees should ensure the employer has clear and accurate information about costs and charges.
- Employers can then compare the scheme with the market to help choose an appropriate scheme for their workforce.

Offer flexible contribution structures to members and employers, and ensure members know that their contribution level is key to determining the size of their fund.

- Ensure that any contribution flexibility offered by the employer can be accommodated by the scheme rules and is supported by effective processes and communications to members.
- Encourage members to obtain financial advice and, where appropriate, take advantage of arrangements that result in higher contribution levels.
- Ensure any flexible contribution arrangements are communicated to members and review the take-up of such options. If take-up is low, consider why. Trustees should also monitor how well the process for changing contribution rates is working.
- Ensure communications to members clearly outline that the levels of contributions they make will have a significant impact on their eventual pension income and explain that increasing contributions earlier may increase growth potential.
Administration

This section looks at scheme record-keeping, maintaining contributions and processing core scheme financial transactions. It also contains the administration quality features from the Guidance about providing a clearly-communicated process to help members optimise their income at retirement.

Ensure that member data is complete, accurate and regularly evaluated

— Have processes and systems in place to ensure that member data from employers is accurate, comprehensive and timely.
— In line with the Regulator’s record-keeping guidance, hold all common data items and consider the make-up of the scheme’s conditional data, with particular emphasis on lifestyling and payment and investment of contributions.
— Monitor all data on an ongoing basis, have a data improvement plan to address poor quality data, and conduct a data review exercise annually or at other appropriate intervals.
— If changing administrator, check completeness and accuracy of scheme data (consider independent advice in doing so).

Support employers in understanding their responsibility to provide accurate information

— Support employer in complying with its statutory obligation to disclose information reasonably required by the trustees, and establish processes with employers to enable transmission of complete and accurate data.
— Understand the key principles of data protection.

Monitor contributions and resolve those not paid in line with payment schedule

— Prepare, maintain and revise a scheme payment schedule, check whether contributions to it are met and recover any outstanding payments and debts to the scheme.
— Comply with the requirements of the Regulator’s Code of Practice on reporting late payment of contributions to occupational pension schemes.
Process core scheme financial transactions promptly and accurately

— Core scheme financial transactions include bulk transfers, member fund switches, receipt and investment of contributions, investment and disinvestment of scheme assets, individual transfers and quotes, death benefits, annuity purchase and payment of lump sums.

— Put specific controls in place to ensure prompt and accurate processing (including checks for pension liberation fraud).

— Special considerations apply where services are outsourced.

Ensure administration systems can cope with scale, and have adequate business and disaster recovery arrangements

— Have a disaster recovery plan to preserve data and ensure that core scheme financial transactions can be processed.

— Review the plan at least annually, and test it periodically.

Understand the financial protection available to members

— If outsourcing, ensure that providers have suitable capital adequacy arrangements.

Make arrangements to mitigate the impact of business and commercial risks on members

— Consider insuring against risk of significant problems which could affect members’ benefits.

— If scheme risks are covered by the employer’s insurance policy, review that policy and consider whether sufficient.

Provide process which helps members optimise their income at retirement, and clearly communicate at retirement to allow them to choose the most appropriate option

— Have a documented retirement process setting out key activities, timeframes and responsibilities and design the process to meet needs of all types of members.

— Ensure members are made aware of the full range of options available to them, including commutation for small pots and deferring pension where income is not currently required. Members should also be made aware of the open market option.

— Support members’ retirement decisions either by facilitating access to independent financial advice or an annuity broking service (paid for by the scheme or the employer) or, if this is not possible, by providing members with sufficient information to make the decisions themselves. Where trustees do not provide a ‘facilitated process’ and only provide information about a specific provider to the member, they should review the competitiveness of the provider. The Guidance provides considerable detail on the ‘facilitated process’ and how to choose a financial adviser or annuity broker.

— Adopt a model 5-stage retirement process which covers member communications (stages 1-3), setting up the retirement income produce (stage 4) and reviewing the retirement process (stage 5).
Communications

The Regulator’s material on communications is set out in the Guidance, rather than the Code. It reflects the Regulator’s DC governance principle that communication to members must be designed and delivered to ensure members are able to make informed decisions about their retirement savings.

Ensure members are regularly informed about the importance of reviewing investment choices

— See Investment, above.

— Ensure that standard communications (for example the joining pack, annual benefit statement and pre-retirement communications) contain relevant messages about investments.

— Where there is a significant change (for example to a fund’s investment objectives) provide an explanation of the changes to members.

Ensure members know that their contribution level is key to determining the size of their fund

— See Governance, above.

— Ensure members know they should regularly review their level of contributions to ensure they are on track to meet their retirement income expectations.

— Ensure members know that there are sources of information such as the Pensions Advisory Service which may be able to help them determine the right level of contributions for them.

— Consider with employers whether event driven communications may be worthwhile, for example when employees receive pay rises, bonuses or promotions or when they take redundancy.

Ensure all costs and charges borne by members are disclosed to them

— See Governance, above.

Clearly communicate to members at retirement to allow them to choose the most appropriate option

— See Administration, above.

— Where the scheme insurer provides retirement literature for trustees to issue, obtain written assurance that it is compliant with the ABI code of conduct on retirement choices.

— Ensure that members evaluate annuity options from providers other than the provider with whom they have saved. This should include assessing the costs.

Ensure that scheme communication is accurate, clear, understandable and engaging and addresses the needs of members from joining to retirement

— This overarching quality feature applies to all aspects of scheme communication.

— Consider the message to be conveyed and the action a member may need to take on receipt.

— Information must be comprehensible and trustees must understand their audience (including members’ financial awareness and access to technology).
— Engaging communications are those which provide ‘the right information at the right time using the right channel’. Achieving this may involve personalising information, timing communications to maximise their effect and using paper-based, electronic or telephone communication as appropriate, as well as roadshows and presentations.

— Ensure ‘member communication quality’ is an item in the scheme’s risk register. As part of a regular assessment of scheme risk, review standard communications to members, for example once a year or when legislation changes, to assess their effectiveness.

— Communications throughout the period of scheme membership should stress how important it is that members remain in contact with the scheme.

### When to provide information

— The Guidance contains the following table setting out when the Regulator thinks that information should be provided to members.

<table>
<thead>
<tr>
<th>Time before retirement</th>
<th>Trustee actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Throughout period of scheme membership</td>
<td>Start education and warm-up process to enable members to take effective decisions at retirement. For example, include messages in annual benefit statements with links to tools, resources and information. Also remind members how lifestyling works and the importance of advising the scheme of any change in their expected retirement date.</td>
</tr>
<tr>
<td>Between five and 15 years before the members’ retirement date</td>
<td>Explain lifestyling and its advantages and disadvantages and when it is likely to be adopted. This allows members to consider whether this is still appropriate to their circumstances and consistent with their planned retirement date.</td>
</tr>
<tr>
<td>Between two and five years before planned retirement</td>
<td>Start communicating with members about their retirement options; encourage them to begin considering these and introduce them to the decisions that they need to make and the importance of shopping around. Explain to members who are in volatile or illiquid funds that they have the option to switch into funds that are less volatile or illiquid as they approach retirement, and the potential impact of such a switch, where the option to switch is available.</td>
</tr>
<tr>
<td>At least six months before retirement</td>
<td>Send a ‘wake-up’ letter containing the required information about the OMO to members including information about the retirement process and annuities. The ABI code includes a template letter that is a good starting point for a helpful covering letter, and can be used as a sense check for reviewing existing scheme communications. Trustees must include prescribed information, for example by including the Money Advice Service booklet: Your pension: it’s time to choose, available at <a href="http://www.moneyadviceservice.org.uk/en/articles/free-printedguides#pensions">www.moneyadviceservice.org.uk/en/articles/free-printedguides#pensions</a>.</td>
</tr>
<tr>
<td>At least six weeks before retirement</td>
<td>Send a follow-up letter giving instructions on how to draw benefits and the different options available and to give a strong message that members need to make a decision in a timely manner.</td>
</tr>
</tbody>
</table>
Appendix – DC quality features

The DC quality features are set out in full in the Code of Practice and are as described below.

<table>
<thead>
<tr>
<th>DC quality feature</th>
<th>Key issues</th>
<th>Key trustee tasks</th>
</tr>
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<tbody>
<tr>
<td><strong>Know your scheme</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trustees will understand their duties and be fit and proper to carry them out.</td>
<td>All trustees must have and maintain appropriate DC-specific knowledge. Trustees must have a working knowledge of scheme documents.</td>
<td>Complete online Trustee toolkit or equivalent to gain trustee knowledge and understanding. Professional trustees should have a Pensions Management Institute qualification or equivalent.</td>
</tr>
<tr>
<td>Trustees will ensure that sufficient time and resources are identified and made available for maintaining the ongoing governance of the scheme.</td>
<td>Professional trustees must have a higher level of knowledge. All trustees need to ensure that they continue to review and update their skills and knowledge.</td>
<td></td>
</tr>
<tr>
<td>Trustees will regularly review their skills and competencies to demonstrate they understand their duties and are fit and proper to carry them out.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trustees will ensure that accountability and delegated responsibilities for all elements of running the scheme are identified, documented and understood by those involved.</td>
<td>All trustees must be fit and proper.</td>
<td>Make time to consider any risks that may impact your scheme.</td>
</tr>
</tbody>
</table>

| **Risk Management** | | |
| Trustees will establish and maintain adequate internal controls which mitigate significant operational, financial, regulatory and compliance risks. | Trustees must embed risk management procedures which identify, evaluate, monitor and manage key DC risks. Trustees must establish and operate adequate internal controls to manage risks. | Create and maintain a risk register and review it in detail at least annually. Develop a process to evaluate risks. Design and implement controls that manage the risks. |
| Trustees will ensure that sufficient time and resources are identified and made available for maintaining the ongoing governance of the scheme. | | |

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<td><strong>Investment</strong></td>
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</tr>
<tr>
<td>Trustees will ensure that investment objectives for each investment option are identified and documented in order for them to be regularly monitored.</td>
<td>Trustees must have a good working knowledge of investment matters.</td>
<td>Establish whether a statement of investment principles is required and if so, draw it up and review it regularly.</td>
</tr>
<tr>
<td>Trustees will ensure that the number and risk profile of investment options offered reflects the needs of the membership.</td>
<td>Trustees must be familiar with the scope of their investment power under their scheme rules.</td>
<td>Decide whether to delegate investment matters to a sub-committee.</td>
</tr>
<tr>
<td>Trustees will ensure that a default strategy is provided which is suitable for the needs of the membership.</td>
<td>All DC automatic enrolment schemes must have a default strategy. Trustees of other schemes should also offer a default strategy where appropriate.</td>
<td>Obtain sufficient information regarding the profile of the membership.</td>
</tr>
<tr>
<td>Trustees will act in the best interests of all beneficiaries.</td>
<td>Trustees should allow sufficient time to design, monitor and review the suitability of the default strategy.</td>
<td>Create and maintain a default strategy for members who do not choose their own investment strategy.</td>
</tr>
<tr>
<td>Trustees will predominantly invest in assets admitted to trading on regulated markets. Where unregulated investment options are offered, it must be demonstrable why it was appropriate to offer those investment options.</td>
<td>Trustees must set an investment strategy appropriate to the membership profile and then monitor and review it.</td>
<td>Select and maintain appropriate investment fund options for members who choose their own investment strategy.</td>
</tr>
<tr>
<td>Trustees will understand the levels of financial protection available to members and carefully consider situations where compensation is not available.</td>
<td>Trustees need to select a suitable range of investment fund options for members who wish to set their own strategy.</td>
<td>Review the performance (including costs and charges) of all investment funds and make changes if necessary, taking into account the long term nature of pension schemes.</td>
</tr>
<tr>
<td>Trustees will understand and put arrangements in place to mitigate the impact to members of business and/or commercial risks.</td>
<td>Trustees must give due consideration to asset protection and compensation arrangements.</td>
<td>Communicate to members and employers the levels and nature of financial protection or compensation available to members.</td>
</tr>
<tr>
<td>Trustees will monitor the ongoing suitability of the default strategy for the membership.</td>
<td>Trustees must consider the liquidity of assets held in the funds underpinning the default strategy and other investment funds offered to members.</td>
<td>Formally review the suitability of all investment options at regular intervals.</td>
</tr>
<tr>
<td>Trustees will ensure that arrangements are established to review the ongoing appropriateness of investment options.</td>
<td>Trustees must review fund performance (including costs and charges) for all investment fund options especially the default strategy.</td>
<td></td>
</tr>
<tr>
<td>Trustees will ensure that the performance of each investment option, including the default strategy, is regularly assessed against stated investment objectives.</td>
<td>Trustees should consider stewardship issues such as their approach to social, environmental and ethical issues.</td>
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</tr>
<tr>
<td>Trustees will understand their duties and be fit and proper to carry them out.</td>
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<tr>
<td>Trustees will establish and maintain procedures and controls to ensure the effectiveness and performance of the services offered by scheme advisers and service providers.</td>
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<tr>
<td>Trustees will ensure that members are regularly made aware of their current investment strategy and what this means for them.</td>
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</tr>
<tr>
<td>DC quality feature</td>
<td>Key issues</td>
<td>Key trustee tasks</td>
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<tr>
<td><strong>Governance</strong></td>
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<tr>
<td>Trustees will be able to effectively demonstrate how they manage conflicts of interest.</td>
<td>Trustees must understand and develop procedures to address the implications of actual, potential and perceived conflicts of interest.</td>
<td>Create and implement a process to identify and manage conflicts of interest. This should include a conflicts policy, a register of interests and how to declare a conflict.</td>
</tr>
<tr>
<td>Trustees will understand and put arrangements in place to mitigate the impact to members of business and/or commercial risks.</td>
<td>Any commercial conflicts within master trusts should be identified and managed.</td>
<td>Document who is responsible for all elements of the scheme, including advisers and service providers.</td>
</tr>
<tr>
<td>Trustees will establish and maintain procedures and controls to ensure the effectiveness and performance of the services offered by scheme advisers and service providers.</td>
<td>Trustees should develop a formal process for appointing all advisers and service providers.</td>
<td>Conduct due diligence on the appointment of advisers and service providers and ensure that robust contractual arrangements are put in place.</td>
</tr>
<tr>
<td>Trustees will ensure that accountability and delegated responsibilities for all elements of running the scheme are identified, documented and understood by those involved.</td>
<td>Trustees must monitor adviser/service provider performance (including addressing business failure or disaster recovery risk).</td>
<td>Regularly review the performance of advisers and service providers.</td>
</tr>
<tr>
<td>Trustees will ensure that all members receive value for money.</td>
<td></td>
<td>Require all advisers and service providers to disclose any conflicts once identified.</td>
</tr>
<tr>
<td>Trustees will ensure that all costs and charges borne by members are clearly disclosed to members.</td>
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</tr>
<tr>
<td>Trustees will ensure that all costs and charges borne by members are transparent and communicated clearly at point of selection to the employer to enable value for money comparisons to be made and to assess the fairness to members of the costs and charges.</td>
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<tr>
<td>Trustees will ensure that schemes offer flexible contribution structures that give members the option to pay more.</td>
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</tr>
<tr>
<td>DC quality feature</td>
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<tr>
<td><strong>Administration</strong></td>
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<tr>
<td>Trustees will ensure that member data across all membership categories is complete and accurate and is subject to regular data evaluation.</td>
<td>Accurate record-keeping is crucial</td>
<td>Keep scheme records (including data for both active and deferred members) for a minimum of six years. However, some records will need to be kept for much longer</td>
</tr>
<tr>
<td>Trustees will support employers in understanding their responsibilities for providing accurate information, on a timely basis, to scheme advisers and service providers.</td>
<td>Core scheme financial transactions must be accurate, timely and complete</td>
<td>Take action to obtain any missing member data</td>
</tr>
<tr>
<td>Trustees will take appropriate steps to monitor contributions and resolve contributions which have not been paid in accordance with the payment schedule in full or before the due date.</td>
<td>Trustees must understand the basis of any outsourcing and ensure the integrity of administration platforms and business continuity arrangements</td>
<td>Prepare and maintain a payment schedule and act to obtain any outstanding contributions</td>
</tr>
<tr>
<td>Trustees will ensure that core scheme financial transactions are processed promptly and accurately.</td>
<td>Trustees should be satisfied that adequate protection arrangements are in place in the event of a business failure, eg of a scheme service provider</td>
<td>Provide members with an annual statutory money purchase illustration</td>
</tr>
<tr>
<td>Trustees will ensure that administration systems are able to cope with scale and are underpinned by adequate business and disaster recovery arrangements.</td>
<td>Trustees should ensure that there are effective processes and good communication between the scheme and employer.</td>
<td>Ensure disaster recovery procedures are in place</td>
</tr>
<tr>
<td>Trustees will understand the levels of financial protection available to members and carefully consider situations where compensation is not available.</td>
<td></td>
<td>Ensure that a data review exercise is conducted annually</td>
</tr>
<tr>
<td>Trustees will understand and put arrangements in place to mitigate the impact to members of business and/or commercial risks.</td>
<td></td>
<td>Ensure that employers understand the key events which require member information to be passed to the scheme.</td>
</tr>
<tr>
<td>Trustees will ensure that a process is provided which helps members to optimise their income at retirement.</td>
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<tr>
<td>Trustees will clearly communicate to members the options available at retirement in a way which supports them in choosing the option most appropriate to their circumstances.</td>
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<tr>
<td><strong>Communications</strong></td>
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<tr>
<td>Trustees will ensure that scheme communication is accurate, clear, understandable and engaging and it addresses the needs of members from joining to retirement.</td>
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</tr>
</tbody>
</table>