

The Trustee toolkit downloadable

How a DC scheme works 2014

Scenario one

In this scenario you will meet George, your new secretary to the board. You and your fellow trustees will prioritise discussing the defined contribution (DC) scheme considering its contribution structure and how transactions are processed in light of a complaint from Mrs Ivans.

As you work through this scenario you will be tested on your knowledge at decision points. Here you will have the option to work through a related technical tutorial before returning to the scenario or you can skip the tutorial. You can always work through the tutorial separately later if you would prefer. This scenario includes three tutorials:

- ▶ Good member outcomes
- ▶ Contributions
- ▶ Transaction processing

Glossary

A detailed glossary of technical terms can be downloaded from the Resources tab when you log in at www.trusteetoolkit.com

The Pensions
Regulator

Introductions

It's time for the next trustee meeting and one of the first items on the agenda is the new secretary to the trustees.



Further information about the scheme and trustee board

If you are a trustee of a DC scheme only and have not completed the modules for trustees of DB schemes, you will have not met John. The company was in financial difficulties which were made worse when, Mr Davies, the owner became unwell. The company had been struggling for some time and had recently lost a major contract. After trying different ways of releasing money from the company, Mr Davies decided to sell the whole company.

Edmund, alongside other directors, secured a large loan and bought the company in a management buy-out. Edmund became the managing director and as such was too conflicted to be able to remain as a trustee. John joined the company in Edmund's previous role of financial director and joined the board as an employer-nominated trustee (ENT). John has also taken over Edmund's role on the investment sub-committee.

Charlotte says: "As you all know, Tony has left the company to go travelling and I'm pleased to introduce George Simmons who, alongside his role as company secretary, will take over from Tony as secretary to the trustees. Welcome to you George!"

George replies: "Thank you Charlotte. Tony was able to give me a week's handover so I've got a good understanding of the items on today's agenda. I'm looking forward to supporting you."

John says: "It's good to have you on board George."

Charlotte says: "As you all know, we agreed at a previous meeting that we would assess the DC scheme against the standards in The Pension Regulator's (TPR) DC code, including the legislative governance standards. We need to remember that in the DC scheme most of the risks are borne by the members, so we need to spend more time making sure we minimise those risks."

"We also need to report in our annual chair's statement how the governance standards set out in law are being met. We also have two complaints to discuss today which could be indicators that we need to address some aspects of the scheme."



Decision point: Good member outcomes

The trustees talk about the DC scheme before moving on to the complaints. The following statements are made during the conversation, which two are correct?

1. Delays or errors in transferring member funds can result in money remaining out of the market too long and reduce the value of the member's funds. We need to monitor this
2. There is nothing we can do as trustees to minimise risks to good member outcomes, it's all about how much money is paid in and performance of the investments
3. We are responsible for monitoring the payment arrangements for member and employer contributions, to make sure they are paid over to the scheme promptly and accurately

Answers at the back



Need help with this question? Read the [Tutorial 'Good member outcomes'](#)

Item three: Mrs Ivans' complaint

George takes the trustees through the first of two complaints. He says: "Mrs Ivans has only been a member of the scheme for a year. She received her first statement and was concerned that there had been no contributions paid into her pension pot since the start. She has included copies of her payslips which shows that contributions have been deducted."

Charlotte says: "This is very worrying if contributions have been deducted but not paid across to the scheme. We have a legal responsibility to make sure core scheme transactions are processed promptly and accurately."



Decision point: Contribution structures

Whilst the trustees are reading the complaint from Mrs Ivans, you look at the contribution structure for the scheme. Which two statements below are correct?

1. In a DC scheme, employers are required to match the contributions of their employees
2. In a salary sacrifice arrangement, members can elect to give up part of their salary for increased employer contributions
3. It's illegal for members to make one-off lump sum contributions
4. Pensionable salary may or may not include overtime, bonuses and other additions to basic salary
5. Some DC schemes may offer an auto-escalation arrangement where the employer commits to increasing contributions each year

[Answers at the back](#)



Need help with this question? Read the [Tutorial 'Contributions'](#)

The discussion continues

The trustees continue to discuss Mrs Ivans' complaint. George says: "I've checked the payment schedule for Mrs Ivans and it shows her own contributions and that of the employer. The amount on the payment schedule does match the payslips and we can see from our reconciliations that the correct amount was paid over to the scheme."

Charlotte comments: "We certainly need to investigate Mrs Ivans' case, and if mistakes have been made, we need to consider the wider implications and address the reason for the error. Has this affected other members too?"

Rodney interjects: "Where exactly is the problem George? If the payment schedule is right and the employer has paid the right amount over to the scheme, who has made the mistake here?"

Alicia wonders: "Should we also notify The Pensions Regulator that this has happened?"



Decision point: Transaction processing

The board continues to discuss the issues with Mrs Ivans' contributions. Which one of the following statements made are correct?

1. As the administrator allocates the contributions, we should ask them to review Mrs Ivans' case and also sample other members to identify if this issue has wider implications for the scheme
2. It's the employer's responsibility to check that the contributions are allocated to the correct member once they have been paid over to the scheme, so we should start there
3. This is a red breach so we should notify The Pensions Regulator of this straight away
4. We should ask the scheme auditor to conduct an interim audit of the entire DC scheme

Answers at the back



Need help with this question? Read the [Tutorial 'Transaction processing'](#)

Rounding up

The board decide to ask the administrator to review Mrs Ivans' case and confirm whether there is a mistake and what led to the error in the first instance. Depending on the outcome of this, they may ask for a sample of members to be checked to understand if there are wider implications.

As the trustees have a legal duty to make sure that core financial transactions are processed promptly and accurately, the board decides to review the information they receive from their administrator to ensure it includes the necessary information to allow this to occur. The meeting continues in Scenario two.

Now that you have completed this scenario we would recommend that you begin to work through the 'Check your scheme' worksheet for this module.

Answers

Decision point: Good member outcomes

The first and third answers are correct and are just two examples where trustees can have an impact in reducing risks to good member outcomes.

The trustees should have internal controls in place to monitor the contribution payment arrangements as far as they are able and to generally monitor the administration of the scheme. There is a specific legal requirement for trustees to make sure that core financial transactions are processed promptly and accurately, and to explain in an annual chair's statement how they have done this. Errors made in scheme administration can have a very significant effect on the size of a members pot and could cost thousands of pounds to rectify.

Decision point: Contribution structures

The second and fourth answers are correct. Employers are not required to match the contributions of their employees but many schemes do offer this up to a cap. In most schemes members are allowed to make one-off lump sum payments, it is certainly not illegal. In auto-escalation arrangements it is usually the member that commits to increasing their percentage contribution automatically rather than the employer.

The definition given for salary sacrifice is correct. The definition of pensionable salary will vary from scheme to scheme, but it can include bonuses, overtime and other additions to basic salary and it may be limited to a maximum amount.

Decision point: Transaction processing

The first answer is correct. In this case the problem is where the administrator allocates the contributions to the member's funds so they should start with them. They will need to investigate Mrs Ivans' case and identify the problem source. To support the trustees further they could sample other members to see whether this case has wider implications for the scheme.

It is not the employer's responsibility to allocate contributions, so this is not right. Although the auditor could conduct an interim review of the DC scheme, this is more likely to be a later step if wider implications are found.

The complaint is not a red breach at this stage as the trustees are taking steps to put matters right and it doesn't currently have wider implications.