

November 2010

A good practice guide for employers

Looking after your DC plan

As major contributors to employees' pensions, many employers deliver quality pension provision that ensures a stable post-retirement income for their workforce. From 2012, the number of employers contributing to employees' pension pots is set to increase dramatically with the implementation of the reforms introduced by Adair Turner's Pensions Commission.

While there already some existing legal responsibilities for employers in work-based defined contribution schemes, you may wish to do more to ensure your employees get more from the contributions you both make to the scheme. Greater employer engagement in the governance of schemes has been shown to improve outcomes for employees, while enhancing employers' reputation as a good place to work.

This guide is designed to help employers who want to go the extra mile and engage with scheme providers and members to improve results. The steps we outline are designed to complement existing rules and give employers of all sizes ideas on practical measures they can take. They are not founded in law, but offer suggestions for voluntary action. For further information, employers may wish to consult independent advisers or the pensions provider for more comprehensive guidance.

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The 3 steps to good investment governance

Good governance is at the heart of a well-run scheme. There are many times when employers may wish to get involved or ensure their scheme provider acts:

- initiation;
- set up and design;
- ongoing monitoring;
- communications to members;
- the nature of the scheme; and
- the performance of investments.

There is no 'one size fits all' approach of course: you will want to act in a way that suits your size and resources.

Step 1

Roles and responsibilities in relation to investment decision making and governance should be clearly defined and communicated to stakeholders

It is good practice for schemes to have defined and documented roles and responsibilities on investment governance to ensure that each party – including members – is clear about their part in the process. Employers may wish to ensure that contract-based scheme members are fully aware that they must take on responsibility for their own pension planning, including the choice of investment options.

Alternatively, you may wish to do more, or ask your scheme provider and adviser, if you use one, to do so. If you choose to become more engaged to create an appropriate choice of investment funds, employees may become more responsive and engaged in their own investment choices. You can find a template for a simple 'governance plan' to document roles and responsibilities here: www.thepensionsregulator.gov.uk/about-us/investment-governance-group.aspx

Step 2

Informed choice is at the heart of effective decision making – monitoring and communicating investment performance can help members get better returns

Scheme members have the power to shape their own investment plan – employers can also choose to play a role in helping members to make informed choices. Working with the provider and/or adviser, employers may wish to offer clear information about investment options and signpost tools and seminars to help members understand investment strategy and the interaction between risk and return.

Employers may wish to help members monitor the performance of investment options, including the default. Sound decision-making is based on quality and timely information – in this area, employers can adopt a proactive approach and support employees with information to help them find the right investment strategy for their circumstances.

Step 3

Appropriate investment options are available to suit members' diverse profiles and needs – even where members choose to remain inactive

Employers may choose to work with scheme providers and advisers to ensure that an appropriate range of investment options is available to members. Where a workplace has a diverse employee profile – especially in terms of age – employers may want to ensure a scheme offers a suitable number of funds to fit different risk profiles and requirements of members.

An employer may also want to check the scheme default fund for those members who choose not to take an active investment decision, ensuring that investments are appropriate and risk is reduced as the member approaches retirement. For those seeking further information on choosing a suitable default fund, guidance will be available from the Department for Work and Pensions in 2011.

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This guide has been developed in association with the Investment Governance Group (IGG). The IGG have developed a set of 6 Principles for Investment Governance for DC schemes which outline 'best practice' in this area. Those wanting further information on investment governance can find these principles here: www.thepensionsregulator.gov.uk/about-us/principles-igg-dc.aspx

Further guidance for employers on DC scheme governance

Here are some links which will provide employers with further useful guidance and instruction on setting up good governance and protecting your members' interests:

The basics of providing – and running – a work-based pension for your employees

<http://www.thepensionsregulator.gov.uk/employers/essentials-employers.aspx#s2746>

Specific information on running a Group Personal Pension (or contract-based) scheme:

<http://www.thepensionsregulator.gov.uk/guidance/guidance-employer-engagement.aspx>

Specific information on running a trust-based pension scheme:

<http://www.thepensionsregulator.gov.uk/guidance/guidance-employer-engagement.aspx>

Moneymadeclear™ – pensions and retirement

http://www.moneymadeclear.org.uk/hubs/home_Pensions.html

A guide to pensions terminology, setting up schemes, information for members, etc

<http://www.pensions.co.uk/>

Business Link guide to running a pension scheme

<http://www.businesslink.gov.uk/bdotg/action/layer?topicId=1074453627>