

The Trustee toolkit downloadable

How a DC scheme works 2014

Scenario three

In this scenario Graham from the administrators attends the trustee meeting to discuss the complaints from Mrs Ivans and Mr Pegg. The trustees look at the communications for members in the DC scheme and the service they are receiving from their key service providers.

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 two tutorials:

- ▶ Member communications
- ▶ Managing advisers and service providers

Glossary

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



The next trustee meeting

Since the last meeting George organised for Graham, from the administration company, to review the complaints from Mrs Ivans and Mr Pegg.



Charlotte says: “Moving on to our next item, the complaints from Mrs Ivans and Mr Pegg, we welcome Graham to the meeting to give us the outcome of the investigation.”

George says: “As a reminder, no contributions had been paid to Mrs Ivans’ pension pot since she joined the scheme, despite her payslips showing the correct deductions and the reconciliations showing the correct amount was paid over to the scheme from the employer. In Mr Pegg’s case we needed to make sure the correct charges had been applied. In both cases, Graham was going to look at whether any issues found were isolated to one member or whether there were wider implications for the scheme. Can you start by explaining the steps the administrator has taken to investigate both complaints?”

Graham says: “The administrator has conducted a thorough review of both the charges for Mr Pegg and the allocation of contributions for a large sample of members including those affected. The output from the reviews has been checked by a senior administrator and peer reviewed by a technical specialist. The good news is that the scheme charges have been applied correctly in the case of Mr Pegg so you can be assured that members are not being overcharged.

However, the outcome is not so good in relation to Mrs Ivans. We went back through the transactions and found that contributions in the name of Mrs Ivans have been allocated to the wrong member, Mrs Evans. Mrs Evans is a deferred member of the scheme and will have received a statement recently showing that contributions had been paid in over the last year.

So there has been an overpayment in respect of Mrs Evans’ pension pot and an underpayment in respect of Mrs Ivans’ pension pot. We have checked pension pots for all other scheme members with the same employer and found no others impacted by this issue.”

Next steps

Charlotte directs the conversation on to what the trustees can do about these issues. She begins with Mr Pegg. She says: “So it seems we have two separate issues here. It’s good news that the charges are being applied correctly but whilst we were reviewing the pension age communications I also took a look at the information we provide to members about charges as this was one of the areas of concern from the last meeting.

I’m not convinced they are as clear and transparent as they could be, or that we are disclosing the right charges to members, so we may be creating a risk to good member outcomes here. Mr Pegg might not have complained if he had clearer information.

The member booklet explains what the annual management charge (AMC) is but not the total expense ratio (TER). I think we should update the information we give to members so that it includes both the AMC and TER for each fund, and make clear which funds may be subject to the legislative charge controls.”



Decision point: Member communications

The board discusses possible ways to improve communications with members of the DC section. The following statements are made in the conversation. Which two are correct?

1. We could review all of the member communications to make sure they are accurate, clear, relevant and in plain English
2. We must provide members with basic information about the pension scheme within six weeks (if automatically enrolled) or two months (if not automatically enrolled)
3. We need to review the pension age communications to make sure we inform members at least three months before their expected pension age
4. We should put all our scheme information on the company intranet to help all members plan for their retirement

[Answers at the back](#)



Need help with this question? Read the Tutorial ‘Member communications’

The contribution issue

The board agree to prioritise a review of the scheme booklet provided to all members on joining and the pension age communications to make sure they are accurate, clear, relevant and in plain English, plus meet the relevant legislative requirements. They move on to discuss the issue of Mrs Ivans' contributions. Charlotte says: "In terms of Mrs Ivans and her missing contributions and Mrs Evans and her overpayment, this is a serious issue and could be very difficult to unpick. It is good news that this appears to be an issue only affecting Mrs Ivans and Mrs Evans as the names are so similar."



Decision point: Managing service providers

The trustees discuss what to do next in the case of Mrs Ivans and Mrs Evans. Which one of these options do you think is the most sensible and appropriate decision?

1. After putting both members back in the position they would have been, we should terminate the administrators' contract and award it to a company who won't make these mistakes
2. It's the administrators' fault so they need to sort this out. We're not responsible for the actions they take
3. We need to investigate exactly where the problem arose and make sure that, as well as putting both members back in the position they would have been, we strengthen the internal controls we have with the administrator to minimise the risk of this happening again

[Answers at the back](#)



Need help with this question? Read the Tutorial 'Managing advisers and service providers'

Rounding up

The trustees agree on the next steps for Mrs Ivans and Mrs Evans and have prioritised some actions regarding legislative governance standards.

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: Member communications

The first and second answers are correct. The trustees must provide members with basic information within six weeks or two months depending on whether they were automatically enrolled or not.

They could also take this opportunity to review the member communications to make sure they are accurate, clear, relevant and in plain English, but they may need to prioritise which communications to look at first. This would include making sure they are informing members of their pension options at least four months before their pension date and not three months.

However putting more information on the company intranet would not support all members, in particular deferred members would not have access to this.

Decision point: Managing service providers

The correct answer is three. Work may be delegated to the administrator but the trustees are still responsible for their actions. It may be an overreaction to immediately terminate the contract and it would be impossible to guarantee another company won't make similar mistakes. Trustees should review appointments from time to time to make sure performance standards meet expectations and the service provides good value for members.

It would be sensible, after putting both members back in the position they would have been in, to review the controls in place with the administrator and strengthen them where appropriate to minimise the risk of this issue from reoccurring. Trustees have a legal obligation to make sure that core financial transactions are processed promptly and accurately, so need to be sure that the controls they have in place, and the information they receive from their administrator, gives them the right level of assurance.