



**PENSION
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READY**

PQM READY STANDARDS FOR MULTI EMPLOYER SCHEMES & MASTER TRUSTS

April 2017



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Applying for PQM?

define the scheme type first

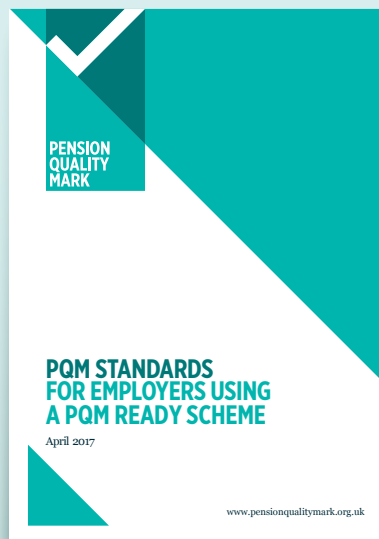
- ▶ Single-employer scheme?
- ▶ Using a master trust or a multi-employer scheme without PQM READY?

See **THE STANDARDS**



- ▶ Using a PQM READY master trust or multi employer scheme?

See **PQM STANDARDS FOR EMPLOYERS USING A PQM READY SCHEME**



- ▶ Master Trust?
- ▶ Multi-employer scheme?

See **PQM READY STANDARDS**



Does the scheme meet the standards?

yes

no/not sure

Register online:
www.pensionqualitymark.org.uk

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INTRODUCTION

Thank you for your interest in the Pension Quality Mark.

This standards document is applicable to multi-employer schemes and master trusts.

If you are an employer using a PQM READY master trust or multi-employer scheme please refer to PQM standards for employers using a PQM READY scheme. If you are running your own occupational or contract based single-employer scheme, or are using a multi-employer scheme or a master trust that does not have PQM READY, please refer to PQM standards. Both documents are available to download from <http://www.pensionqualitymark.org.uk/publications.php>.

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B: THE GOVERNANCE STANDARDS

THE GOVERNANCE STANDARD SETS OUT THE OBJECTIVE, STRUCTURES AND ISSUES THAT MUST BE SATISFIED TO ACHIEVE AN ADEQUATE GOVERNANCE ARRANGEMENT.

To meet the standards, the scheme must:

- ▶ ensure that adequate governance arrangements are in place and that the pension scheme is well run and meets the needs of scheme members (B1); and
- There is an independent trustee body (B2); and
- meet BOTH the standards on key governance issues: default investment strategy (B5) and charges (B6).

STANDARD B1: HEADLINE GOVERNANCE STANDARD – GOVERNANCE ARRANGEMENTS

The scheme must ensure that adequate governance arrangements are in place to ensure the pension scheme is well run and meets the needs of scheme members.

STANDARD B2: TRUSTEES

A pension scheme overseen by a trustee body can meet the headline governance standard provided that EACH of the following four requirements are met:

B2(i) trustees regularly discuss the DC pension scheme at their meetings; and

B2(ii) EACH of the following three requirements are met:

- ▶ independent trustees must be in the majority or an independent trustee company must have a casting vote, and
- ▶ the trustees must have the power to make all investment decisions and to make, break or vary arrangements with all the scheme's investment fund managers, and with any administration service providers, and
- ▶ the chair of the main trustee body must be an independent trustee

B2(iii) trustees undertake training or learning that meets the relevant DC sections of the Pensions Regulators code on Trustee Knowledge and Understanding; and

B2(iv) the trustees review key issues relating to how well the scheme is run and whether it is meeting employees' needs. A list of good practice issues the scheme may review throughout the year are set out in Box 1 below. We also require a copy of the Chair's Statement.

Notes:

- ▶ *Independent trustee means a trustee who has no link, other than being a trustee, member, or a participating employer of the scheme, to any organisations with a commercial interest in the scheme.*
- ▶ *Where the trustee board consists of one trustee company, references to trustees and independent trustees in this Standard B2 should be read as references to trustee directors and independent trustee directors of that trustee company.*

BOX 1: GOOD PRACTICE LIST OF ISSUES TO BE REGULARLY REVIEWED IN A DC SCHEME

- ▶ The effectiveness, accuracy and cost of the administration (whether in-house, third party or by a pension provider), including internal control mechanisms.
- ▶ The performance and charges of the fund managers.
- ▶ The appropriateness and range of the investment choices offered.
- ▶ The performance and suitability of the default investment strategy (see Standard B5)
- ▶ The effectiveness and accuracy of member communications and information.
- ▶ The level of employee engagement, including the level of take-up and the level of employee contributions (particularly where these are voluntary or flexible).
- ▶ The adequacy of the processes and support for members approaching retirement.
- ▶ The overall level and structure of the charges, both for current and former employees, and how well these charges are communicated to employees
- ▶ Relevant changes to legislation, regulation or tax rules.
- ▶ The value for money obtained by the scheme

EXAMPLE

Master trust A has a scheme where the trustees are appointed by a principal employer, who is also the scheme's administrator. The scheme will meet this standard as long as the trustees have the power to make, break and vary all agreements with the scheme administrator, and are able to exercise that power.

Master trust B was established by a professional trustee company, who also act as the scheme's trustee. In order to meet this standard, the scheme must prove that neither the trustees nor the parent company have any commercial interest in the scheme.

STANDARD B5: DEFAULT INVESTMENT STRATEGY

The scheme must offer a default investment strategy for members that is regularly monitored and reviewed by the scheme's governance arrangements (trustees, governance committee or annual scheme review). To meet this standard the scheme must ensure ALL of the following three requirements are met:

- B5(i)** The default investment strategy must be documented in writing, and must set out the investment objectives and how the default investment strategy addresses the following areas:
- ▶ The suitability of the investment objectives and strategy for the scheme's members;
 - ▶ The suitability and transparency of the charges; and
 - ▶ The appropriateness of the balance between investment risk and return for all members, and for different groups of members such as those approaching retirement.
- B5(ii)** The scheme's governance arrangements should regularly monitor (at least annually) the performance of the default investments against their investment objectives, and initiate a formal review if necessary due to the investment performance or other developments

- B5(iii)** The scheme's governance arrangements must formally review the default investment strategy at least every three years, and initiate changes to the strategy where necessary. The review should be documented and must:
- ▶ Review how the strategy has delivered against the suitability, transparency and appropriateness measures set out in B5(i); and
 - ▶ Examine the performance of the investments against their objectives since they were last reviewed; and
 - ▶ Consider whether any changes are required to the ongoing strategy

Note: Schemes that do not have a default fund and attained or started their application for PQM or PQM PLUS before April 2014 will have until their first renewal after April 2016 to implement a default investment strategy.

STANDARD B6: CHARGES

The scheme's current default fund must meet either Standard B6(i) OR B6(ii) on total charges (including fund management charges, administration charges and charges for advice). Any historic default funds must also meet Standard B6(i) OR B6(ii) if any active scheme members who remain in the fund have not been given the opportunity to move into the current default fund. Any scheme that has differential charges for active (contributing) and non-active (deferred) members must also meet Standard B6(iii).

- B6(i)** All employers who use the scheme must be offered access to a default fund where charges for both active and non-active members are no more than a 0.75% annual total charge (including an Annual Management Charge); or
- B6(ii)** Where charges are more complex than just a percentage annual charge, the scheme must demonstrate that all employers who use the scheme are offered access to a default fund where charges are no more than if there was a 0.75% annual charge, using the example of a notional scheme member who is paid half average earnings, and is an active member for 5 years and then a non-active member for 20 years. Earnings growth and inflation should both be assumed to be 2.5% a year, with real investment growth of 2.5% above inflation.

Schemes with charges that are different for active and nonactive members must also meet standard B6(iii):

B6(iii) Schemes with differential charges for active and non-active members must communicate the change clearly, both when the member joins and on ceasing contributions or employment.

Notes:

- ▶ *The definition of total charges follows the Occupational Pension Schemes (Charges and Governance) Regulations 2015, which describes the charge cap as covering all costs and charges relating to general scheme administration and investment administration, with transaction costs excluded. Charges for additional non-core services such as individual advice that are entered into only with the agreement of each member are not included in the definition of total charges.*
- ▶ *Average earnings means the most recent figure for median gross annual earnings for full time employees from the ONS's Annual Survey of Hours and Earnings (ASHE). The 2015 survey figure was £27,600, so half average earnings is £13,800.*
- ▶ *Where multi-employer schemes have differential charges for different employer sections, employers should be able to access the scheme at a price that meets the PQM charges standard where members in the default fund are charged no more than 0.75% total annual charge. Employers may choose to use a more expensive default fund. The scheme must provide a list of the charges paid in each participating employer's default fund, with an explanation where charges are higher than the cap.*

EXAMPLES

Master trust C has a default investment fund which is 'lifestyled', so that members' savings are moved into lower risk assets as they approach retirement. This means that members in the de-risking phase pay lower charges. The scheme can pass PQM Standard B6 if average charges paid by all members in all lifestyle phases of the default fund are below the charge cap.

Master trust D has two separate types of charges which are paid by members and covered by the PQM definition of total charges. There is a percentage annual management charge for fund management costs and a separate flat-rate charge to pay for scheme administration and governance. The scheme will pass PQM Standard B6 if a notional scheme member in the default fund who is an active member for 5 years and non-active member for 20 years would pay no more charges than if there was just a 0.75% AMC.

Master trust E has different levels of charges for different employers. The scheme will pass PQM Standard B6 if all employers can access the scheme at a price that meets the Standard. The scheme must only serve an employer if it is able to offer an annual charge of 0.75% or less. While, the scheme may offer employers access to default funds with member charges that are over 0.75%, it should make clear to the employer that this default fund charge does not meet PQM standards. It must have been the employer's choice to pick a default option for its employees with member charges over 0.75%.

C: THE COMMUNICATIONS STANDARDS

THE COMMUNICATION STANDARD SETS OUT THE WAY IN WHICH SCHEMES MUST COMMUNICATE WITH THEIR MEMBERS IN ORDER TO MEET THE STANDARD.

To meet the standards, the schemes must:

- ▶ provide scheme members with initial, on-going and at retirement communications that are clear and engaging so as to enable members to take decisions about their pension and retirement (C1);
- ▶ meet ALL the three standards on initial (C2), ongoing (C3), and at retirement communications (C4); and
- ▶ ensure that all written communications also pass a standard on the quality of written communications (C5).

STANDARD C1: HEADLINE COMMUNICATIONS STANDARD – CLEAR AND ENGAGING COMMUNICATIONS

Scheme members must be provided with initial, ongoing and at retirement communications that are clear and engaging, and provide the information necessary for members to take decisions about their pension and retirement.

STANDARD C2: INITIAL COMMUNICATIONS

All new scheme members must be provided with helpful and engaging information at the induction/joining stage. The information must explain the benefits of the scheme.

STANDARD C3: ONGOING COMMUNICATIONS

The scheme must ensure that ongoing communications are provided to scheme members to maintain their engagement and help them consider any action relating to retirement saving that they might need to take.

The ongoing communications must meet at least one of the following requirements:

- C3(i)** face-to-face or telephone communications to scheme members, for example through group seminars, one-to-one meetings or a telephone helpline; or
- C3(ii)** tailored individual information is provided to scheme members, for example by providing online access to the individuals pension account or to a pension calculator; or

C3(iii) generic information for scheme members, for instance through a newsletter or written update or through a regularly updated internet or intranet site.

C3(iv) a means for scheme members to give feedback to the scheme.

STANDARD C4: AT RETIREMENT COMMUNICATIONS

The employer or scheme must demonstrate that scheme members approaching retirement age receive information and support to help them think about all their options. This must include telling members about the retirement options available under the scheme, encouragement to use the Pension Wise service and suitable generic risk warnings.

STANDARD C5: QUALITY OF WRITTEN COMMUNICATIONS

All written communications that are provided to demonstrate the scheme meets standards C2, C3 and C4 must be clear and engaging. Box 2 lists good practice suggestions for making written communications clear and engaging. The written communications provided must demonstrate some of these good practice points.

BOX 2: GOOD PRACTICE SUGGESTIONS FOR MAKING WRITTEN COMMUNICATIONS CLEAR AND ENGAGING

- ▶ The communication should avoid jargon or technical language that will not be understood by the average employee.
- ▶ Documents should be short (1-2 sides), or have the most important key messages highlighted in a short summary section or covering letter.
- ▶ Choices must be set out in a clear and simple format that allows employees to compare options and make decisions.
- ▶ Communications should encourage scheme members to make decisions and take action where appropriate, such as by reviewing their contribution level or fund choice, or considering their options on retirement.
- ▶ Bullet points, pictures, charts or diagrams should be used where appropriate to make the information easier to visualise and understand.



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The PQM is an initiative brought to you by the Pensions and Lifetime Savings Association.