

## Disclosure of Investment Costs and Charges

Following consultation, the government has [confirmed](#) that it will introduce new measures to improve the transparency of investment charges and transaction costs in most pension schemes providing money purchase benefits. Trustees will be required to provide more details about this in the annual Chair's statement and make certain information available online for members to access. These changes are effective from scheme years ending on or after 6 April 2018.

Separately, new disclosure of information requirements will come into force from April 2019 on a pension scheme's pooled fund investments.

In this issue: [Background](#) | [Disclosure of Charges and Transaction Cost Information](#) | [Disclosure of Information on Pooled Fund Investment](#) | [Which pension schemes are subject to these requirements?](#) | [When do these requirements come into force?](#) | [Comment](#)

### Background

Since the start of 2018, asset managers have been required by the Financial Conduct Authority to provide information about transaction costs and charges to pension scheme trustees. This obligation in itself does not achieve anything, if trustees do not then pass the information on to members and other interested parties.

To achieve this, the government has recently consulted on new regulations to ensure members can easily access the information.

### Transaction Costs

These are the costs and charges incurred as a result of the buying, selling, lending or borrowing of investments.

### Charges

These are generally considered to be all costs and charges which are borne by members other than transaction costs and those incurred as a result of the holding or maintenance of property, as well as a small number of other exemptions, including the costs of complying with court orders, pension sharing costs, winding-up costs and costs solely associated with the provision of death benefits.

### Disclosure of Charges and Transaction Cost Information

Trustees will be expected to automatically provide this information in two ways – via their Chair's statement and on a website.

## Chair's Statement

Trustees are already required to report on the level of charges, and as far as they are able, transaction costs, borne by members invested in the pension scheme's default arrangement. Where schemes have more than one default arrangement, or more than one fund which is not part of the default arrangement, they are currently required to report only the range of costs and charges.

Under new regulations, Chair's statements will need to set out the costs and charges for each default arrangement, irrespective of the number of funds, and each alternative fund option which the member is able to select. In addition, an illustration should be included of the compounding effect of the costs and charges on the members' pension savings. This illustration should be prepared in accordance with [statutory guidance](#).

Trustees should present the costs and charges typically paid by a member as a "pounds and pence figure". This should use a realistic and representative range of combinations of pot size, contribution rates, real terms investment returns, time and rate of charges and costs. It is not necessary to do an illustration for every combination.

The illustration should be produced using the statutory guidance, taking into account the size of the member's pension savings, contributions, real terms investment return gross of costs and charges, an adjustment for the effect of costs and charges, and time.

The statutory guidance does not seek to be wholly exhaustive. It allows trustees a degree of flexibility based on the characteristics and diversity of their scheme membership, the fund offerings and the scheme's own resources. It is for trustees to decide how to present the illustration.

## Websites

Trustees must ensure that charge and transaction cost information is also published free of charge on a publically available website, along with the illustration of the impact of the costs and charges on the members' pension savings. The information should be made available on a similar basis to the Chair's statement (i.e. within 7 months of the end of each scheme year).

The government is not looking to be prescriptive as to where costs and charges information is published as long as it is published online for public consumption. This may prove problematic, as many pension schemes do not have their own website, although it could be published on the employer's website.

Going forward, annual benefit statements provided to members must include the web address and details of where members can find the costs and charges for their scheme. Where trustees are satisfied that members cannot access the information online (i.e. 'it would be unreasonable for that person to obtain it from the website on which it is published'), it must be provided in hard copy on request, and members must be made aware of this.

## Disclosure of Information on Pooled Fund Investment

The second part of the government's consultation concerned proposals to introduce new requirements to disclose information about a pension scheme's pooled fund investments on request from members and trade unions.

Trustees will have to provide information about each pooled fund that a member's pension savings are directly invested in (i.e. the name of the fund and its international securities identification number) within two months of a request. Members will be able to make such a request once every six months and trustees must provide the

information relating to the funds the member was invested in at the date of the request or, if there have been no recent changes to the member's funds, within the last six months.

Members' annual benefit statements will have to signpost the availability of this information.

## **Which pension schemes are subject to these requirements?**

All pension schemes that are required to prepare a Chair's statement are subject to the requirements on both investment charge and transaction costs and pooled fund information, which are all occupational pension schemes that provide money purchase benefits, with the exception of:

- Schemes which provide no money purchase benefits other than those attributable to additional voluntary contributions.
- Executive pension schemes where the employer is also the sole trustee, and all members are directors/former directors of the employer.
- Small self-administered pension schemes, with no more than 12 members who are all trustees of the scheme.
- Schemes which are not tax-registered, or have only one member, or only provide life assurance benefits, or are not established in the UK.

## **When do these requirements come into force?**

Trustees will be required to publish costs and charges in the Chair's statement within 7 months of the first scheme year-end date to fall on or after 6 April 2018.

This means that schemes with a year-end of 6 April 2018 will have to publish the information by 6 November 2018, with the last schemes to become subject to the requirements being those with scheme years aligned with the tax year, which will be required to provide the information by 5 November 2019.

The government has rejected calls to defer these requirements for 12 months, stating that schemes should still have enough time to implement the changes, particularly as there is no prescription on exactly how schemes should present the information.

Trustees will be required to disclose details of members' pooled funds on request from members and trade unions from 6 April 2019.

## **Comment**

Highlighting the availability of the charge and transaction cost information in annual benefits statements is a sensible step forward, but the need to have to publish the information both in the Chair's statement and on a publically available website is going to take some time to arrange.

While any steps to ensure greater transparency for members are to be welcomed, it will be a while before trustees get to grips with how to explain the information in a meaningful way.

**Authors**

John Dunkley, Senior Technical Consultant  
Nikki Williams, Senior Technical Consultant

**Produced by the Knowledge Resource Centre**

The Knowledge Resource Centre is responsible for national multi-practice compliance consulting, analysis and publications, government relations, research, surveys, training, and knowledge management. For more information, please contact your consultant or call us on 0800 066 5433.

This publication is for information only and does not constitute legal advice; consult with legal, tax and other advisors before applying this information to your specific situation.

Conduent HR Services is a trading name in the UK for Buck Consultants Limited (registered number 1615055), Buck Consultants (Administration & Investment) Limited (registered number 1034719), and Buck Consultants (Healthcare) Limited (registered number 172919), which are private limited liability companies registered in England and Wales. All have their registered office at 160 Queen Victoria Street, London EC4V 4AN. Buck Consultants (Administration & Investment) Limited and Buck Consultants (Healthcare) Limited are authorised and regulated by the Financial Conduct Authority.

©2018 Conduent Business Services, LLC. All rights reserved. Conduent, Conduent Agile Star, FYI® and For Your Information® are trademarks of Conduent Business Services, LLC in the United States and/or other countries.