

# FYI<sup>®</sup>

## For Your Information<sup>®</sup>

### **Two-page DC benefit statements - a reality from October 2022**

The DWP's response to their second consultation on this matter confirms that from 1 October 2022, two-page annual benefit statements will be required for defined contribution (DC) schemes used for automatic enrolment.

The response also confirms that it remains the Government's "ambition to improve consistency across all categories of schemes through short, simple, statements". The first periodic review of the effectiveness of the simpler annual benefit statement requirements, due before 1 October 2027, will consider extending the approach to schemes not currently in scope.

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#### **Background**

Our FYI (Two-page annual benefit statements), published in May this year, explained the background to the second consultation, the draft regulations and statutory guidance that was intended to take effect from 6 April 2022.

Essentially, it would be a requirement for all DC schemes used for automatic enrolment to produce a two-page annual benefit statement that would contain three pieces of information:

- how much money the member has in their pension scheme and what has been saved in the statement year;
- how much money they could have when they retire; and
- what they could do to give themselves more money at retirement.

This information should be presented in a way that is easy for the member to understand.

#### **Outcome of the consultation**

Regulations were laid on 19 October 2021. These amend existing regulations covering the disclosure of information to members in the form of an annual benefit statement and a pension illustration (known as a statutory money purchase illustration, guidance on which is currently given by the Financial Reporting

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Council (FRC)). The change takes effect from 1 October 2022, meaning that any statement **issued** after this date must “not exceed one double-sided sheet of A4-sized paper when printed” and that “the trustees or managers of the scheme must have regard to [statutory guidance] concerning content and layout”.

The statutory guidance was also published on 19 October and includes a downloadable draft illustrative template as well as a plain text version.

It should be noted that there are exemptions in the regulations to the requirement to provide benefit statements and pension illustrations, meaning that not all members must be given an annual benefit statement. These have not changed but the statutory guidance does not cover these.

## The statutory guidance

The guidance explains how the two-page statement is structured and how information should be presented.

### **Section 1: Member and pension scheme details**

This is likely to be verification information in respect of the member, the employer and the pension scheme. The guidance doesn't cover data protection matters but the verification information should be limited where possible.

### **Section 2: How much you already have in your pension scheme**

This section should cover key details on how much a member has in their pension scheme, covering as a minimum: contributions credited to the member during the scheme year, the total amount saved to date and any monies transferred into the scheme during the scheme year. These are details required under the regulations.

The regulations also require the statement to contain website links (and how to obtain a hard copy) to:

- information about charges and transaction costs;
- other information in the annual chair's statement;
- the statement of investment principles and the implementation statement; and
- the scheme's most recently published climate change report (Taskforce on Climate-related Financial Disclosures), where applicable.

Details of how the member can obtain information about the pooled funds, where relevant, must also be included.

Where the information about costs and charges is included in the statement (and this is encouraged) the statutory guidance says that this information would need to fit within the two pages and use jargon-free language. The guidance states that where this is not provided in the statement (i.e. at a member level), the statement should explain “that costs and charges have been deducted but are unavailable, and that information regarding costs and charges for [the pension] scheme is available via the web links”.

**Section 3: How much money you could have when you retire**

The regulations require an illustration to be provided, of the amount of pension that the member is likely to receive at their anticipated, or agreed, retirement date, calculated by reference to guidance from the FRC and various assumptions set out there and in the regulations.

The regulations already allow signposting, or additional documentation, to be given to cover some of the requirements and this has not changed. The statutory guidance, however, makes clear that information – whether in the statement or elsewhere – should be written using simple, jargon-free language.

**Section 4: What you could do to give yourself more money**

This section is a new one covered by the statutory guidance; not by regulatory requirements. The aim of the section is to encourage members to think about their retirement income and lifestyle, including potential other sources of income (i.e. from a State Pension).

The guidance states “Trustees are encouraged to provide information in a simpler annual benefit statement around actions that may enable members to plan and save more for their retirement, including a) an illustration showing how saving more into their pension plan may generate an increased pension pot at retirement (using the same assumptions behind the illustration provided in Section 3), and b) changing the age at which they plan to retire”.

The guidance lists a “range of additional information that may be provided in this section” such as signposts to balanced and objective tools (like those provided by MoneyHelper), signposts to sources of additional help and information (including the pension scheme’s own website, MoneyHelper’s website and Pension Wise), plus reminders for the member about using the Pension Tracing Service to find pensions where they have lost contact details, and to be alert to pension scams.

**Section 5: Find out more about your pension scheme and how you can use your money**

This part of the statement provides space for the pension scheme’s contact details to enable the member to seek further information or to update their details.

**Design**

The statutory guidance allows the use of branding, including colour schemes and the use of colour coding of sections to aid navigation within the statement.

**Layering**

According to the statutory guidance, layering is about the use of other documents provided to the member in addition to the simpler annual benefit statement. It can be sent with the statement “but must be separate to the statement itself and in any pack of material the statement should be the first substantive document provided”. A covering letter is permitted, provided the two-page statement is the next document and any accompanying documents follow after the statement. Any additional documents should also be “short, simple and accessible”.

**Online and digital formats**

The regulations allow statements to be given by email or online (subject to exceptions). When printed (and members must be able to print and store the online statement) they must be no more than one double-sided sheet of size A4 paper.

## Comment

Whilst this move to a two-page benefit statement has been known for some time, the postponement of the date for when this is to apply from 6 April 2022 to 1 October 2022 provides affected schemes with more time to consider their approach to benefit statements and (any) supplementary documents to be produced. Furthermore, the statutory guidance provides greater clarity over the specific details to be included within the two-page benefit statement.

The DWP reminds schemes that The Pensions Regulator “may take enforcement action which includes the possibility of a financial penalty” where there is a failure to “have regard to [the statutory guidance] and template”. This is the usual maximum of £5,000 for an individual and £50,000 for a corporate trustee.

Although the first periodic review is not due before 2027, schemes that are not affected by the requirements may also want to consider the guidance when producing the next annual benefit statement for members or any other member communications.

It should also be noted that Guy Opperman, Minister for Pensions and Financial Inclusion, has made it clear that he intends to legislate for a statement season (i.e. with a common publication date or valuation date) and a cross-sector working group led by the DWP has been formed to identify workable options.

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