

Incentive Exercises: the Role of Trustees

TUC Member Trustee Network
Annual Conference
27 November 2012

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What is an Incentive exercise?

- An invitation or inducement (offer) to a member to change their existing defined benefits in a UK registered pension scheme, which meets both of the following tests:
 - The offer is intended to reduce risk or cost for the pension scheme or sponsor(s); and
 - The offer is not ordinarily available to members of the pension scheme.
- Either
 - **Transfer Exercises** involving transfers out of a defined benefit scheme (eg ETV exercises); or
 - **Modification Exercises** within the DB scheme. (eg PIE exercises)
- A legitimate tool for managing DB scheme liabilities

Why a Code of Practice?

- Widespread political and consumer concerns about past practice
- Some very good practice.....but for many:
 - Offers made to too many members where it is unlikely to be in their interests.
 - Cash as inducement leads to irrational behaviour
 - No free independent financial advice
 - Offers misleading and confusing to members
- Pension Increase Exchange (PIE) unregulated - no protection for members, particularly elderly
- Lack of clarity and accountability
- Industry solution to an industry issue

What should the Code do?

- Avoid a ban or legislation by encouraging responsible approaches to incentive exercises
- Enable members to make informed decisions and better choices, with exercises that:
 - Are fair, transparent, balanced and understandable
 - Have appropriate Advice or Guidance paid for by the employer
 - Have good member engagement
- Principles based
- Clarify roles and responsibilities
- Protect against misselling
- Increase advice and guidance on retirement planning
- Be supported and followed by the industry

The Industry Working Group

- Set up by the Minister of State for Pensions, Steve Webb in October 2011 to produce a Code by end May 2012
- 29 Key industry representatives and specialists
- Steering Group to provide guidance
- Government advisory group to consider regulatory impact
- Input from:
 - Wider Industry Forum and individuals
 - DWP/GAD discussions
 - FSA policy on Transfer Value Analysis (TVAS)
 - BAS on technical standards
 - the Actuarial Profession on ethics

Scope of the Code

In scope

- Enhanced Transfer Values
- Pension Increase Exchange
- Other bulk transfer or modification options
- Variations on these, e.g.
- ETV to occupational scheme
- Standard CETVs but with similar comms / advice
- Transfer to immediately vesting policy
- TPIE
- Enhanced ER

Out of scope

- DC benefits
- Unregistered schemes
- Benefit changes for future service
- Commutation at retirement
- Member initiated “normal” transfers
- New BAU options, e.g. PIE at retirement
- Benefit changes impacting past service (i.e. salary capping)

The 7 Principles

1. No cash incentives contingent on accepting the offer
2. (a) Advice required for transfers
(b) Guidance required for Modification Exercises (or Advice if a Value Requirement is not met)
3. Communications with members should be fair, clear, unbiased and straightforward.
4. Records should be retained by the various parties involved. Insistent Customers should be reported to the other parties.
5. Exercises should allow sufficient time for members to make up their mind with no undue pressure applied.
6. Exclude over age 80 on an “opt-in” basis – subject to adviser Vulnerable Client policy.
7. All to be aware of their roles and responsibilities and act in good faith.

The Code - highlights

- Voluntary
- Additional Practitioner Notes to help advisers
- Largely replaces existing tPR guidance
- Code creates balance between protection, flexibility and freedom of choice
- Differentiate between “at retirement “and “after retirement” member thinking
- 2 weeks cooling off period for PIE
- Targeted exercises permitted
- Reporting on insistent customers
- A well run exercise can have benefit for all parties – better decisions, less risk of mis-selling

The role of the trustee

- Advisers to **advise** on Code
- Employer is **responsible** for Code adherence
- Employer should **engage** with trustees early
- Trustee normal duties are not impacted by the Code
- Trustees may wish to validate the employer's calculation of the balanced deal for PIE
- BAU exercises (eg at retirement PIE)
- Trustees should be satisfied that the communications are clear and not misleading
- Trustees provide member data, consider conflicts
- tPR, Pensions Ombudsman and FOS

The future is in our hands

- Industry Monitoring Board
- Data gathering
 - Anecdotal/Self reporting
 - Reaching the bad guys
 - Formal
 - Analysis
- Wider industry forum
 - Consultation and information sharing
 - Membership
- Communications
- Guidance - Qualifications & experience
- The Code v2 or legislation?

The future is in our hands

Monitoring Board for Incentive Exercises:

Member	Representing	Member	Representing
Margaret Snowden (Chairman)	PASA		
Jon-Paul Brett	DWP	Jonathan Hazlett	APL/Osborne Clark
Mike LeBrun	DWP	Roger Mattingley	SPC/JLT
Tim Harries	IEWG/PSBTIE/Aviva	Alan Howard	I & F of A/Aon Hewitt
Simon Chrystal	IEWG/Oval	Marta Phillips	TPAS
Mike Smedley	IEWG/KPMG	Robert Inglis	FRC
Jonathan Camfield	IEWG/LCP	Mario Lopez-Areu	CBI
Stephen Gay	ABI	Craig Berry	TUC
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Helen Forrest	NAPF	Judith Hogarth	EEF
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