Tackling transfers and early exit charges

❯ **The response to the consultation on pension transfers and early exit charges was published in February. Matthew Swynnerton comments on its key proposals and the potential impact for trustees**

In light of concerns that there are barriers preventing people from accessing the new DC flexibilities, the Treasury issued a consultation in July of last year looking at early exit charges and how the transfer process could be streamlined. The government has now published its response and sets out proposals for change; trustees of schemes providing DC benefits should be aware of these proposals as they may face additional requirements as a result.

Transfers

The consultation sought views on how the statutory process for transfers is currently operating for those with 'flexible benefits' - these being essentially DC benefits - and how it might be made smoother and more efficient.

The response states that there are considerable improvements to be made to average transfer times, especially for trust-based schemes, and that in general these improvements need to be made as part of the overall process of increasing the administrative efficiency of these schemes.

Regulator action

The Pensions Regulator's best practice guidance to support its new DC code will cover the actions needed to ensure that core financial transactions, including transfers, are processed promptly and accurately, including considering 'digital by default'

approaches, scheme documentation and improved administration processes. The draft of the new DC code was published for consultation in November 2015 and is expected to come into force in July. The regulator has previously stated that the consultation on supporting guidance will be published in the spring.

A new requirement will be introduced for trust-based schemes to report regularly on their performance in processing transfers, including against possible benchmarks and new transfer targets. The regulator will work with the pensions industry to identify the best way of ensuring that this improves transparency and drives up standards for individuals, whilst being practicable for schemes to implement. It is intended that the new reporting measures will come into force in the summer.

What happens now?

Whilst the government has decided against the options of creating a separate transfer process for those with flexible benefits and reducing the statutory timeframe for pension transfers, which would perhaps have required more far-reaching changes by trustees to transfer processes, the proposed changes could still have a significant impact. The extent of that impact will depend on the detail of these measures and it will be interesting to see exactly what the new guidance sets out as best practice. For now, trustees should note the upcoming changes and may want to start to

consider the efficiency of their scheme's transfer processes.

Early exit charges

On 19 January the government announced that it proposes to place a duty on the FCA to cap excessive early exit charges for those eligible to access the pension freedoms, and that in due course, the FCA will consult fully on setting the level of the cap. The response states that the FCA will be setting out its next steps shortly, with a view to implementing its duty before the end of March 2017.

The response also confirms that the government is committed to ensuring that all pension scheme members are protected against excessive early exit charges. In parallel with the FCA process, the government will consider how existing powers to limit pension charges can be used to implement a comparable cap for trust-based schemes. The regulator will work alongside the FCA to ensure that any relevant concerns in relation to trust-based schemes are appropriately addressed.

Next steps

The overall impact of the change here will depend on whether schemes currently apply such charges and the level at which the cap is set. As an initial step, trustees might want to check whether any early exit charges currently apply in their scheme.

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