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Incentive Exercises for Pensions - A Code of Good Practice

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A Code of Practice (produced by a broad industry Working Group - www.incentiveexercises.org.uk) has been released on Pensions Incentive Exercises with the



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support of the Government. Whilst the Code is voluntary in nature the Minister of Pensions, Steve Webb, has stated that he "expects all employers to voluntarily follow the Code" but does not rule out future legislation in this area though it is hoped that this is not necessary.

The Code's scope covers Incentive Exercises: an invitation to members to change the form of accrued defined benefits rights in a pension scheme. These exercises are broadly split into Transfer Exercises (where members are given the opportunity to transfer out to another, usually DC, scheme) and Modification Exercises (where the terms of the pension to be paid are changed).

These exercises are often proposed by the scheme's sponsor in order to reduce the risk or cost to the company and there have been significant concerns raised around the provision of advice to members and the suggestion of an initial presumption that an Incentive Exercise is not in the members' interests.

The Code has seven basic principles:

1. No cash incentives may be offered which are contingent on acceptance of the Incentive proposal
2. Independent Advice must be provided for Transfers. For Modifications, Advice must be provided or, if the overall exercise is money-neutral or better, a lighter touch general Guidance can be offered instead
3. Communications are to be fair, clear, unbiased and straightforward. In particular, a Code compliance statement is required
4. Records should be retained. In particular "Insistent Customers" who decide to proceed despite contrary advice received should be specifically logged
5. Sufficient time should be provided for members to make their decisions
6. Advice procedures should make specific provision for vulnerable members. In particular, pensioners aged 80 or over should initially only receive a short notification letter rather than a full proposal pack
7. All parties: employer, trustees, insurers, advisers etc should be aware of their roles and responsibilities in Incentive Exercises. Compliance with the Code is the responsibility of the employer

This Code is the result of a multidisciplinary task force and has already received the support of many key industry bodies. We believe it to be a good step forward in pensions governance in this area.



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