

Selecting and Managing the Correct Investment Strategy



Under auto-enrolment rules, eligible jobholders cannot be required to make an active choice. There must be a default option in place.

The ongoing responsibility for the default option can be shared between the provider, adviser, fund manager, employer and governance committee. The roles and responsibilities should be clearly defined with all parties being accountable.

Designing the default option

Objective

- The name should reflect what the default option aims to do
- The strategy it will use in order to achieve this aim
- How risk will be managed

Suitability

- The likely characteristics and needs of employees should be taken into account

Affordability

- It must be appropriately and competitively priced for active and deferred members
- Charges should not be excessive in relation to the services provided
- A breakdown of the overall charges should be clearly disclosed
- The effect that these charges will have on members' outcomes must be clear

Managing Risk

- Through the appropriate and diversified allocation of assets
- The balance between risk and the potential for growth
- The retirement profile of members
- Pension scheme members have the right to select other pension funds

Communicating the default option

- Should be in a clear manner via media easily accessible for pension scheme members
- A description of the default option, what it aims to achieve and how it manages risk, particularly as a pension scheme member nears retirement
- A statement of the overall objective of the default option, how this is going to be achieved and an indication of the risk profile
- Charging structure must be disclosed
- The roles and responsibilities of decision makers in relation to the default option
- How to request further information

Reviewing the default option

- Always consider the pension scheme membership profile when conducting a review
- The performance should be checked informally at regular intervals throughout the year
- Every three years consider:
 1. ongoing suitability of the default option, including governance arrangements and objectives;
 2. ongoing suitability of the charge level;
 3. the investment strategy of the option;
 4. the performance of individual fund components
- Document that the review has been undertaken and record any required action

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