

**MOVE CLOSER**

Some employers may have missed or overlooked the issue of covenants with all the major pension headlines recently trumpeting the radical budget changes and the prospect of CDC arriving! Issues in the new defined benefit code of practice may have got lost.

Small and medium-sized employers' pension schemes are finding greater access to pared-down, lower-cost covenant assessments following the Pensions Regulator's revised defined benefit code of practice, which has increased focus on employer strength.

The code urges trustees and employers to consider the impact of scheme funding on sustainable business growth for the employer. It said trustees should consider the risks associated with employer covenants, investment and funding, and define acceptable parameters for each. Schemes are expected to have this in place by their 2014 valuations.

It is clear schemes can do a lot of these themselves on a self-assessment basis with peer review, as many trustee boards are made up of senior people who are financially astute or are very familiar with the overall make-up of the business. In this instance, advisers may provide them with a suite of materials that gives them all the details of questions they should ask, materials they should gather and probably some help or assistance producing an executive summary.

The code gives greater prominence to covenants and it contains some mixed messages on 'balanced outcomes and proportionality', which could inform how SME schemes approach covenant reviews. The regulator is quite clear in its response that trustees need not commission independent covenant advice if they can perform the assessment appropriately themselves, and a full review may not be necessary for a relatively small scheme or if the covenant is unchanged from the previous valuation. It would seem self-assessment should be a relatively simple process in cases where an employer covenant was either very weak or very strong. The real issue is looking at the more technical aspects. If trustees are comfortable in assuming accountability for addressing each of these, via a suite of tools or not, they can of course do so.

If help is required, then in the market there is help. In the past covenant advice has previously been out of the reach of smaller schemes, due to disproportionately high costs, however there are now SME-specific services offering schemes and employers covenant assessments for fixed rates from £5,000, but are carried out in the context of a wider programme rather than being an off-the-peg service.

According to the regulator's [Defined Benefit Scheme Running Cost](#) research paper, published in April this

year, the average annual covenant cost for medium-sized schemes (those with 100-999 members) was £6,161, amounting to an average yearly cost of £28 per member, compared with £6 for large schemes.

Advisers and employers should not miss this pension development amidst all the other current pensions' headlines.

**SIMPLE THINGS**

The TISA D2C NASA project group breathed a collective sigh as at last the long awaited Thematic Review on simplified advice - TR 14.10 - was made public. However, clarity over the way new world advice and non-advice distribution will work leaves the group with further clarity and understanding to bring to its members and the wider market.

It appears that firms offering a simplified advice service cannot call themselves independent as advice falls into the category of restricted advice. Therefore, a firm providing simplified advice and independent advice must label its firm restricted as a whole. This means it would be inappropriate for such a firm to include the word independent in its name.

The paper sets out a range of sales options, for each one, and the regulator sets out qualifications that are required and whether suitability requirements apply. It says for simplified advice and for limited or focused advice consumers have access to the Financial Ombudsman Service in a way that "recognises the nature of the service".

The "duty of care" remains, so if an adviser delivering focused advice realises the customer has a family and no protection policy, the adviser would be expected to highlight that need to the customer.

The FCA says it has also been asked by firms whether a customer's perception of whether they have received advice or not would be used by the FCA and FOS to judge if the firm has given a personal recommendation or not. The regulator says that while the customer's perception of the service "is very important", it is feasible that the customer will not always be correct in their understanding.

This has been one of the key areas the TISA project group has been working with the regulatory team to clarify. The group will shortly issue a fuller clarification and understanding of the implications of TR14.10 and what best practice firms should adopt.

The FCA has created a 'distribution' table outlining how it defines each advice model. A copy of the TR 14.10 report can be found at the following link -

<http://www.fca.org.uk/static/documents/thematic-reviews/tr14-10.pdf>

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