Closing Defined Contribution Schemes

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Context

A charitable housing trust operated a small, legacy DC scheme with £2m, invested in a traditional with-profit insurance policy. The scheme had only one employee making contributions. The charity's auto-enrolment contributions were invested in a separate, more modern scheme.

The Challenge

The Trustee's legal adviser identified several areas of urgent attention in the scheme's governance, including the absence of member-nominated trustees, insufficient trustee training and areas of potential compliance breach of the DC Code. The cost of compliance and governance needs estimated by the newly appointed Finance Director were considerable, and disproportionate for a scheme that was no longer fit for purpose. It was important to the employer, however, that any new arrangements were good for members, being a mix of current and former staff.

Our Approach

We met with the Finance Director, the incumbent Chair of Trustees and legal advisers, and quickly identified both short- and medium-term action plans. In the short term, the charity appointed ITS as sole trustee, resolving several of the immediate compliance and governance issues such as the need for member-nominated trustees. The remaining active member was offered alternative arrangements in the lead up to his retirement, and then the scheme was closed to future contributions. In the medium term, the charity used its powers under the trust deed and rules to instruct ITS to wind up the Scheme.

The Outcomes

Within 9 months of being appointed, ITS wound up the scheme completely. This was done at no cost to members, whose pension arrangements were assigned to individual insurance policies at the same ongoing fees, terms and conditions. Members were kept fully informed along the way, so they understood their options. The windup compliance tasks were completed, including notifying various regulatory bodies, final audited accounts signed off and then the scheme was terminated by deed.

Rather than a substantial increase in annual scheme running costs, the charity was able to wind up the scheme for a once-off project cost and with good member outcomes.