



## **DEFINED CONTRIBUTION PENSION PROVISION**

### **TRUST OR CONTRACT – IS IT TIME FOR A REVIEW?**



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# Trust or Contract

## Company pension provision – where have we come from?

Workplace pension provision has existed for many years, with legislation governing how companies can provide for their employees' retirement dating back as far as 1908.

The use of Defined Benefit (DB) pension schemes, which provide a pension linked to salary and service, and where the employer meets the bulk of the cost, was common. Schemes are written under trust and managed by a board of trustees.

Recent years have seen an increase in the use of Defined Contribution (DC) schemes, where both employer and employee pay a fixed rate of contributions to build up a pension fund. Until the end of the 1980's these were also all written under trust.

Personal pension plans, introduced in 1988, offered an alternative way to provide DC pensions for employees, and pension providers and employers began to set up grouped arrangements (GPPs). Essentially these are DC schemes where the employee enters into a direct contract with the pension plan provider. The trust is operated centrally by the provider and there is no need for a board of trustees at a local level.

However, whilst GPPs offer a simpler method of DC provision, without the need for trustees, differences in legislation and perception meant that many employers still used a trust-based DC arrangement.

## So what has changed?

The Pension Reforms, much of which came into effect from April 2006, removed most of the taxation differences between trust and contract based DC pensions, and applied retrospectively.

At the same time, trustee knowledge and understanding requirements were formalised, with reporting and monitoring requirements strengthened. Whilst trustees are not expected to become experts, many find the increased knowledge levels onerous and difficult to maintain. The increased monitoring has also led to an increase in advisory costs.

This change in legislation, together with a vast improvement in the GPP market, charges, communication and service levels, mean that on a like for like basis, GPPs offer a viable, and often more suitable, alternative to trust based schemes for DC pension provision.

## Trust or contract – the choice

The table outlines some of the key comparisons between trust and contract based DC pension arrangements.

	Trust based	Contract-based
Tax-efficient contributions up to the Annual Allowance? *	✓	✓
Tax-efficient 'benefit limits' based on Lifetime Allowance?	✓	✓
Requirement for local trustees, with associated liabilities?	✓	✗
Liability for investment fund range / choice?	✓	✗
Ability for 25% of fund to be taken as cash?	✓	✓
Requirement for annual trustee report and accounts	✓	✗
Options for self-investment, flexible retirement & drawdown?	✗ (dependent on scheme rules)	✓
Online access for employees?	Possibly	✓
Liability for ex-employees?	✓	✗
Return of contributions on early leaving?	✓	✗

\* 'unless total 'earnings' exceed £150,000

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## What can you do?

If you currently provide a DC pension arrangement, or are seeking to introduce one in place of a DB scheme, you should fully consider the options that are open to you.

If the scheme operates under a local trust, it is likely that many of the arguments for implementing the scheme on this basis have been negated, and that a contract-based alternative may offer a viable and significantly more cost efficient solution. This is not always the case however, and it is important to independently assess your options. We recognise that trust based schemes can be perceived by employees as more secure, better managed and demonstrate a more paternalistic approach than contract based alternatives.

## How can we help?

It is important that any arrangement meets the objectives and requirements of the employer and their employees.

We work with our clients to assess the different options available and the suitability of each, and can manage any change and transition project. Typically, we will:

- Undertake an initial review and feasibility exercise to assess the options available and the suitability of any current DC arrangement
- Project manage any change and transition project
- Provide employee communications and consultation documents
- Work with the employer to design and implement any replacement DC arrangement
- Work with the trustees as required to close and potentially wind-up any existing arrangement.

We can survey employees to better understand what features they would value from their pension arrangement, to help to design the most appropriate solution.

## What does it cost?

Our services are tailored to each client, and our costs reflect the level of support that is required. Please contact us to discuss your particular requirements in more detail.

### Contact information:

If you would like to discuss this further, please get in touch with your usual contact at Cartwright, or call **Martin Ralph** on 01483 860 201 or 07789 986 161 (email: [martin.ralph@cartwrightgroup.co.uk](mailto:martin.ralph@cartwrightgroup.co.uk)).

### **Cartwright Group Ltd**

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# About Cartwrights

## Profile

Cartwright Group Ltd is an independent pension and benefits consultancy with offices in Godalming, Surrey and Farnborough, Hampshire.

With a history dating back to 1986 under our original name of I S Cartwright & Co, we specialise in the provision of high quality actuarial, consulting and administration services for company pension schemes and employee benefit programmes.

Through our highly qualified and experienced team of actuaries, consultants and administration staff, we adopt an integrated team-based approach to client management, working in partnership and proactively focusing on the key issues affecting our clients.

## Services

We provide the full range of actuarial, consulting and administration services to our clients to allow them to effectively and efficiently manage their pension and employee benefit arrangements.

We also provide actuarial advice in non-pension areas including: loss assessments, valuing life interests, cash flow models for retirement villages and reversionary property portfolios.

Our team will focus on anticipating and identifying concerns and needs before they develop into problems, and will suggest appropriate action plans.

We have the skills, experience and resources to help businesses, trustees and employees face the challenges ahead –

***our clients' responsibilities are our responsibilities***

## Take a step in the right direction...

The decisions you make today about the future of your pension and employee benefit arrangements have never been more crucial. Make the right decisions for your business with Cartwright Group by your side providing all the services and advice you need...in plain English.



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