First Briefing, May 2023
Why you should review your DC AVC arrangements

Some regulations can either cap or prohibit early exit charges for members of certain occupational Defined Contribution (DC) schemes.

These regulations also require service providers of those schemes affected to confirm in writing to the trustees that they are complying with the restrictions.

The Pensions Regulator (TPR) seems keen to ensure that DC additional voluntary contribution (AVC) arrangements comply with these restrictions, as demonstrated by a new question in the 2023 scheme returns.

Some further background

An early exit charge is imposed when a member takes their benefits, then either converts them into different benefits or transfers them to another scheme before their normal pension age.

Different requirements apply, depending on whether a member joined a scheme before or after 1 October 2017.

For members joining before 1 October 2017, an existing early exit charge can continue to be imposed. However, it is limited to the lower of:

- 1% of the value of the benefits being taken, converted or transferred, or
- The amount stated in the scheme rules or a relevant contract with a service provider as at 1 October 2017.

For members joining the scheme on or after 1 October 2017, no early exit charges can be imposed.

If a scheme is in breach of the regulations, TPR should be notified in writing as soon as possible with details of the breach, how the effects have been (or will be) assessed, and proposals to remedy any member detriment.

Once in receipt of this information, TPR will consider whether any further action is required.

How First Actuarial can help

We can conduct a review of your DC AVC arrangements to clarify whether they're meeting the exit charge regulations and assess their potential to provide members with positive retirement outcomes. We can also outline options for improving the position for members as appropriate.

We will analyse your current DC AVC arrangements and report on the provider, the investment funds being used, charges that apply and outline options for making improvements.

We can work with you to implement any changes required to comply with the regulations, or any other options that give your members the opportunity for better retirement outcomes.

For further information on any issues raised in this briefing, or to discuss your pension needs, please contact one of our DC specialists below, or your usual First Actuarial consultant.

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