LCP DC update

Welcome to LCP's latest quarterly DC update, in which you will find our views on key developments in the DC arena over the last three months, together with any actions and issues heading your way.

May 2022

In this edition:

Policy developments

Royal Assent for the Finance Bill

The Finance Act 2022 contains three changes to pensions tax law, including an increase to the age at which pension accounts can normally be first accessed (the 'Normal Minimum Pension Age') – from 55 to 57 on 6 April 2028, along with certain protections against this increase for some individuals. Although the increase doesn't happen for some time, the law has now been set.

Everyone born after 5 April 1973 is potentially affected, with most having to wait an extra two years before the earliest point at which they can start to access their DC accounts. For more information, including the actions you can take now to prepare for the changes, see our flyer here.

Auto-enrolment parameters for 2022/23 settled

The earnings trigger and qualifying earnings bands for 2022/23:

- AE earnings trigger: £10,000 pa
- Lower limit: £6,240 pa
- Upper limit: £50,270 pa

New DWP consultations

On 30 March 2022 the Department for Work and Pensions ("DWP") launched a consultation on the following matters relevant to DC occupational pension schemes:

- Removing performance-based fees from the DC charge cap
- Introducing 'disclose and explain' requirements
- Adjusting employer-related investment restrictions
- Facilitating greater consolidation of DC schemes

You can read more in greater detail here.

TPR issues guidance to trustees on Ukraine conflict

TPR has issued a short guidance note that covers a number of issues, that have come into focus as a result of Russia's invasion of Ukraine.

TPR expects trustees to be vigilant and talk to their advisers about any action that may need to be taken, depending on the scheme's investment profile and risk management framework. TPR also says that trustees should take steps to consider any action that may need to be taken, including in relation to investments, to align with sanctions announced by the Government.

There then follows a list of six areas TPR expects trustees to consider – including heightened risks of cyber-attacks and financial crime (including scams) – before the guidance wraps up with warnings of the importance of having regard to the longer term when making trustee decisions and to consider whether to let members know what the trustees are doing and to urge members not to rush their own decisions. You can read TPR's guidance here.

When should a transfer involving an overseas investment be amber-flagged?

The regulations which set down conditions that must be met before a member can exercise their statutory right to transfer their pension benefits, have been facing scrutiny by a Parliamentary Committee.

The Committee has raised two issues with the DWP on these regulations, as a recent report makes clear. The second of these concerns whether an 'amber flag' has to be raised if the intended receiving scheme contains any overseas investments, as opposed to those overseas investments that may constitute a scam risk. The DWP, in response to the Committee, says that only scam risk investments are intended to be caught, but in the light of potentially too many transfers being subject to this flag and unnecessary referrals being made to MaPS for guidance sessions, it is "actively engaging" with the pensions industry and will consider amending the regulations if necessary.

Pensions dashboards – we're getting closer!

DWP launches dashboard consultation for occupational schemes

The Pensions Dashboard has taken a significant step to being turned into reality with the publication of extensive draft regulations for consultation.

These will, amongst other things, lay down what occupational pension schemes must do to connect with and supply information to the dashboard and by when. There is much more to come, making 2022 a year of pensions dashboard action for nearly all mainstream UK pension schemes.

You can find out all of the key details, including actions required by trustees and scheme administrators, and LCP's viewpoint, here.

FCA consults on pensions dashboard rules for contract-based pension providers

In February 2022 the Financial Conduct Authority ("FCA") launched its proposed rules for contract-based pension providers to interact with pensions dashboards. The FCA consultation closed on 8 April 2022: it intends to publish finalised rules in Autumn 2022, to come into force on 31 March 2023.

Under the FCA's proposed rules, by 30 June 2023, pension providers must:

- Connect their personal and stakeholder pension schemes (including SIPPs) to MaPS' digital architecture in line with MaPS connection, security and technical standards, having regard to its guidance on connection;
- Be ready to receive requests to find pensions that have not crystallised, and search records for data matches; and
- Be ready to return data to pensions dashboards.

Find out more here.

Sir Steve Webb in conversation with Chris Curry

This on-demand webinar is an hour of conversation between Sir Steve Webb and Chris Curry, Principal of the Pensions Dashboards Programme and Director of the Pensions Policy Institute ("PPI").

The conversation covered both of Chris' areas of responsibility:

- On pensions dashboards, we find out how plans are developing, what this means for pension schemes and providers and when we can expect to see the first dashboards go live.
- On the PPI, there is an update on its research programme, including the ongoing work to establish a framework for evaluating reforms to the UK pension system.

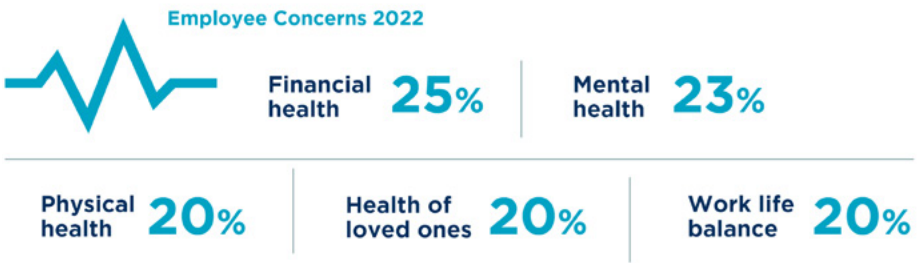
Spotlight on our 2022 finanical wellbeing report

Employee wellbeing – Why good financial health is a win win

We recently launched our Financial Wellbeing report which examines the impacts of financial pressures on employees and highlights how employers can best support their workforce. Below is a snapshot of some of the findings. You can explore the full report here.

The past couple of years have been really tough on the nation's wellbeing and with the cost of living crisis escalating, many are really feeling the financial pinch, which is having a significant impact on employees and consequently employers.

Our third annual wellbeing report surveyed 10,000 UK employees and 500 organisations highlighting the synergies and disconnects between these groups. This report dissects the impacts of financial pressures on employees and focuses on areas where employers can add value and best support their workforce.



Our research highlights just how vulnerable many people's financial health is:

- More than 1 in 5 would class themselves as vulnerable or in crisis with their everyday money management which is a significant increase on what we saw in 2021.
- More than half said they have struggled to cope with daily life over the last year, again another significant increase on what we saw last year.

With 3 in 4 having little or no emergency savings, any increases in their everyday spending or unexpected expenses can lead them into a downward borrowing cycle. There is a clear link between financial vulnerability, mental health concerns and negative behaviours, which in turn can impact workplace absence and productivity. Helping employees will not only improve the bottom line for organisations, it will also impact recruitment and retention and be seen as the supportive thing to do. Many organisations are now recognising the value these strategies can add to their employees and the business.

The report provides insight into many areas including everyday money management, happiness and biggest worries, right through to communication, the value of workplace benefits, and workplace confidence. By including the employer perspective, we highlight business priorities and quantify the scale of impact from poor employee wellbeing on the organisation.

Around half of employees feel unsupported by their workplace, financial health lagging well behind the support offered for physical and mental health. We all know employee wellbeing effects productivity, absenteeism and retention - so what can employers do to help? Read our survey to help understand these challenging issues.

Over the last few years, we have helped many companies to understand the needs of their employees, provide financial education and support the development of financial wellbeing strategies which pay for themselves many times over.

Access the report here.

Responsible investment and climate change – what's new?

Climate risk – TPR publishes step-by-step guide to compliance

TPR has published an example of the sort of process that trustees of a pension scheme might undertake where they are subject to the DWP's legislation and statutory guidance on the governance and reporting of climate-related risks and opportunities. This follows calls for TPR to provide more information and examples during consultation on its own guidance that it finalised in December 2021. The example itself forms a new appendix to the December guidance.

The example relates to a fictitious pension scheme and shows how the trustees, after some initial considerations, go about meeting the various requirements – on governance, strategy and scenario analysis, risk management, metrics and targets – and then go on to document their approach and complete and publish their report.

Importantly, this is just an example – there being no suggestion that its content will guide TPR in assessing whether a scheme is in compliance with its climate risk and reporting duties. What with the regulations and statutory guidance, this is fast becoming a crowded area of written official material, making the role of the climate adviser ever more vital to guide trustees through what they need to do.

What you need to know about TCFD reporting

The deadlines for all large schemes (over £1bn in assets under management) to start reporting on climate-related risks and opportunities, in line with TCFD recommendations, are quickly approaching.

It can be difficult to know where to begin, or to make sure you've covered everything required. In this on-demand webinar our experts Dan Mikulskis, Emma Adair and Nigel Dunn share key learnings from helping our larger clients of £5bn+ through this process over the past year. They share clear, practical tips to help you get started in addressing this new requirement in the most efficient and proportionate way possible. This will ultimately save you time and money.

Nature-related risks – draft TNFD framework launched

Nature-related risks and opportunities are increasingly coming under scrutiny by investors. Noting that USD44 trillion, or more than half of the world's economic output, is highly or moderately dependent on nature, the Taskforce on Nature-related Financial Disclosures ("TNFD") has released a beta version of its Nature-Related Risk & Opportunity Management and Disclosure Framework for consultation (registration required).

The draft Framework includes three core components:

- An outline of fundamental concepts and definitions;
- Disclosure recommendations; and
- Guidance for corporates and financial institutions on incorporating nature-related risk and opportunity assessment in their risk management processes.

The disclosure recommendations have been designed to be aligned with and in addition to the TCFD disclosures. As with the TCFD disclosures, the TNFD disclosures have four pillars – governance, strategy, risk management and metrics & targets.

Despite having the endorsement of the Prime Minister and the G7 finance ministers there is currently no suggestion that the TNFD disclosures will become mandatory for pension schemes in the UK in the same way as the TCFD disclosures, although some elements may eventually find their way into the Sustainability Disclosure Requirements.

Member engagement and support

Stronger nudge – Regulator updates its guidance as MPs debate the issue

TPR has updated one of its six guides to support DC trustees in meeting TPR's Code of Practice 13. The main driver for this update is to reflect the 'stronger nudge' to take guidance from Pension Wise, regulations for which come into force on 1 June 2022 for both contract- and trust-based schemes.

Communicating and reporting: DC schemes has had its "at retirement communications" section updated in two areas. It now contains the new stronger nudge requirements (see the section headed "Directing members to Pension Wise guidance" and the subsections that follow). It also now contains pension flexibilities information migrated from a guide that had been issued in April 2015 and which now appears to have been withdrawn.

In respect of the stronger nudge requirements, the guidance builds on the regulations, suggesting, amongst other things, the following:

- It is good practice to offer to book a Pension Wise appointment as early as possible in the process; and
- The telephone number for Pension Wise (yet to be confirmed) and web address should be provided so the affected member can contact them directly for an appointment if they prefer.

There is also mention of the Pension Wise booking tool, which will be available soon.

Coincidentally, on 1 March 2022, MPs debated pensions guidance and advice, with calls from some for a trial of automatic (as opposed to nudged) Pension Wise appointments, amidst concern that very few of those about to make DC decumulation decisions are receiving assistance from Pension Wise and the stronger nudge requirements are likely to make only a small difference. You can read more about this here.

This updated guidance delivers on the promise made by TPR at the time the regulations were settled in January. DC schemes will be making urgent changes to their retirement processes in the light of these regulations and the early delivery of this guidance may assist.

As to whether the stronger nudge will result in significantly more DC savers receiving guidance or advice before they decide how to access their retirement savings, this remains to be seen, but the estimates referenced in Parliament are not encouraging.

Pensions Ombudsman sets up Dishonesty Unit

In a welcome development the Pensions Ombudsman has established a dedicated 'Pensions Dishonesty Unit' to investigate allegations of serious breaches of trust, misappropriation of pension funds and dishonest or fraudulent behaviour by pension trustees.

This initiative follows a number of recent high profile Ombudsman Determinations where wrongdoers have been held personally liable for millions of pounds. The Ombudsman hopes that piloting this dedicated unit will enable quicker redress and recovery of funds directly from the guilty parties.

We wish the Ombudsman well with this. Even if fraudsters and thieves end up successfully prosecuted, it is daunting for victimised members to go about obtaining redress. Having the Ombudsman battling for them could make a real difference.

Engagement push by pension providers and schemes

The Association of British Insurers and the Pensions and Lifetime Savings Association have announced a new industry-wide campaign to run this Autumn/Winter intended “to boost people’s understanding and engagement with their pensions”. This “engagement season” campaign has been driven by research that shows that only 20% of people are confident that they are saving enough for retirement, engagement with pensions remains too low and over half of the public struggle to find their pension information.

Fifteen providers and schemes (listed on the press release and representing approximately 41.5 million savers) have committed to support the campaign with at least £1m being pledged for it over the next three years. You can find out more here.

Shariah pension provision

The App Drivers and Couriers Union (“ADCU”) has taken legal action against Uber for not offering a Shariah-compliant investment option as part of its occupational pension arrangement. Legal representatives for the union previously wrote to Uber to demand that the pension provision be made Shariah compliant. However, Uber failed to respond to the correspondence and therefore the ADCU has now resorted to legal action.

Offering a Shariah compliant investment option to members as part of occupational pension schemes is topical within the industry at present. We believe this is an area in which all schemes should be seeking guidance from their advisers.

LCP Insights

DC and Financial Wellbeing conference 2022

"Walking in their shoes" – there is still time for you to join us in person or online at our first DC and Financial Wellbeing conference on Tuesday 10 May where we'll be taking a look at the saving journey from your members' and employees' perspectives.

Sessions from LCP experts highlight some of the key concerns and questions employees and DC scheme members are asking, including: "Will inflation impact my pension savings?"; "How can I think about tomorrow when I'm struggling now?"; Will my pension savings impact the planet?" and we explore the answer to a popular question - "What happens when I retire?"

The conference will be chaired by Laura Myers, Head of DC and Financial Wellbeing at LCP, who welcomes you to join us in person. If you're unable to attend in person, the conference will also be available to watch online. For further information and to register click here.

LCP's DC Strategic Portfolio

This quarter we are pleased to welcome our first DC Strategic Portfolio release. This is the first instalment of a series we are running, as a way for us to showcase the latest thinking from our investment strategy team and asset class researchers, which apply specifically to DC.

The DC investment market is developing fast across all aspects of strategy design but the DC environment still requires strategies to meet specific requirements across administration, platforms, regulation and most importantly, members. As such, our strategic portfolios will aim to provide you with insight into strategies, ideas and ultimately a portfolio that we believe showcases the best of what DC can offer. However, as this is designed to explore different areas at the forefront of DC, it may contain ideas that are not necessarily implementable on every client's platform/set-up and therefore should not be used as a benchmark to compare your scheme's portfolio against.

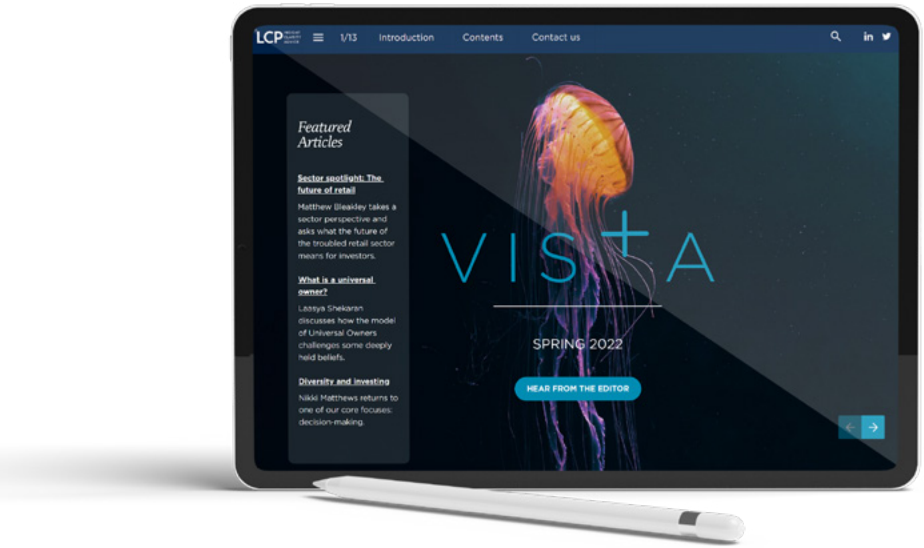
Our first update, 'Mapping the Journey', sets out the context of our overall strategy before we get into specific portfolio allocations in future issues, given the vast range of approaches available to trustees and sponsors. It covers important starting points such as identifying key objectives, setting a target benefit outcome, and discusses the importance of phasing. Stay tuned for upcoming editions which will focus on areas such as growing member savings, reducing risk and preparing for the future, and supporting members' income in retirement.

Please ask your main LCP contact if you would like to request a copy of the report.

LCP Vista Spring 2022: Turning points & uncharted territory

War, climate change, pandemics, inflation, rising interest rates. The job of investing involves reckoning with a huge amount of uncertainty and intersecting trends while making good decisions, screening out 'noise' and resisting the temptation to overreact. That is, of course, easier said than done. 2022 might just be one of the most difficult and testing environments that investors have faced in their careers.

In [this edition of Vista](), we bring you 9 articles that explore the idea of turning points while staying focused on core investment practices. We delve into staying open and curious about new ideas, whilst always questioning deeply held assumptions. This has never been more important than in the changing times in which we find ourselves in.



Sam Cobley promoted to Partner

We are pleased to announce that [Sam Cobley]() has been promoted to Partner. Sam joined LCP's DC team 5 years ago bringing with him experience working within a fiduciary DC house as well as a member of the in-house pensions team for the largest DC Scheme. Since joining, Sam has been an integral part of servicing many of our largest Trust and Contract-based, DC clients as well as an integral part of our private wealth and DC strategy and research teams. Congratulations Sam.

The Single Code of Practice: ESOG's Fables

With the long-awaited Single Code of Practice due out later this year – the year of governance is finally upon us. So, whether you are a speedy hare or a slow and steady tortoise, now is the time to embrace the Single Code and ensure that your scheme is well-prepared for the upcoming changes.

In conjunction with the launch of our "[Guide to the ESOG]()", our webinar focuses on simplifying the new "Effective System of Governance" requirements and provides practical top tips on how governing bodies can start planning for and addressing these changes. Our experts also share their experience so far through case studies. You can watch on-demand [here]().

Do you enjoy hearing from our experts?

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Please take a moment to let us know your preferences; in return we will try our best to only send you the things that matter to you.

For further details, visit our preference centre.

Any questions?

If you would like any assistance or further information on the contents of this Update, please contact one of the team below.

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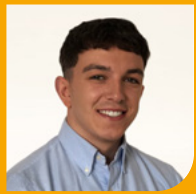

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