

# 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.

February 2022



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## Policy developments

### *Net pay resolution outlined – but only from 2024/25*

The Government has [responded](#) to its July 2020 [call for evidence](#) on the two main methods for administering tax relief on pensions – (net pay and relief at source). Under the current system, lower earners under net pay arrangements (ie those with taxable incomes below the personal allowance) can be disadvantaged, compared to lower earners under the relief at source system.

The solution being introduced is a system of top-up payments made directly to low-earning individuals saving in pension schemes using net pay arrangements. The top-up, which will be notified to the individual by HMRC, will reflect the basic rate of tax applicable, broadly 20% currently (19% in Scotland). Due to significant changes required to HMRC's IT systems to allow the PAYE reconciliation process to take place, the system will be introduced in respect of contributions made from 2024/25. You can find out more [here](#).

### *The Health and Social Care Levy Act 2021*

The new Health and Social Care Levy and the temporary increase in National Insurance contributions makes salary sacrifice arrangements more attractive, compared to other means of administering pensions tax relief (ie net pay or relief at source). Under salary sacrifice arrangements, employees don't contribute directly to the scheme, but instead give up part of their salary equivalent to their contribution which the employer makes on their behalf. In return, they make both Income Tax and NI contribution savings, and employers make NI contribution savings. You can read more [here](#).

## Policy developments continued

### Statutory right to transfer curtailed

The long-standing statutory right of members to transfer their benefits to another pension scheme has been curtailed as a result of regulations laid before Parliament on 8 November 2021.

The Regulations came into force on 30 November 2021 and will apply to all transfer requests made on or after this date – whether from occupational pension schemes (of any type) or personal pension arrangements. The policy intention behind the regulations is to make it much more difficult for pension scams to be facilitated through individual transfers. You can find out more [here](#).

This is a significant development in pensions law, requiring trustees and other pension providers to urgently revisit their transfer processes. For a summary and commentary on these regulations please see our [News Alert](#).

### CDC regulations laid before Parliament

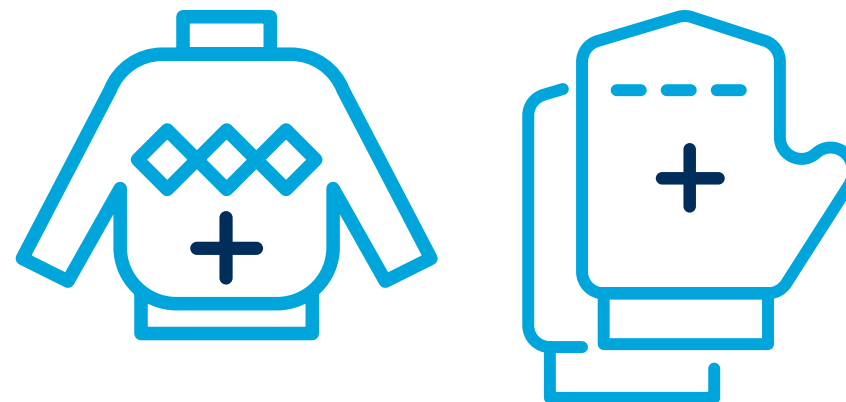
The Department of Work and Pensions (“DWP”) has finalised two sets of regulations that fill in the necessary detail to enable certain employers to set up the UK’s first Collective Defined Contribution (“CDC”) schemes. The main set of regulations are intended to come into force on 1 August 2022. As a reminder, a CDC scheme is a form of money purchase arrangements (ie DC), which offers greater risk pooling benefits than individual DC arrangements. You can read about what was included within the DWP’s regulations [here](#).

### Long term investments

#### FCA finalises long-term asset fund rules

The FCA has finalised the rules and guidance that will govern how a new category of authorised open-ended fund, focused on higher risk and illiquid in nature assets that need to be held for the long term, will operate. The new rules create a Long-Term Asset Fund (“LTAF”) regime – a new FCA-regulated fund that is designed specifically to help investment in assets including venture capital, private equity, private debt, real estate and infrastructure.

The LTAF is aimed at DC pension schemes which may be interested in investing in such assets as part of their default fund offering. In order to reflect potential difficulties in selling the underlying investments LTAFs cannot permit redemptions more frequently than monthly, with a notice period of at least 90 days. You can find out more [here](#).



## Policy developments continued

### Long term investments

#### *DWP proposes removal of performance-based fees from DC charge cap*

The DWP has launched a consultation on proposed changes to the charge cap that applies to the default arrangements of occupational DC schemes used for auto-enrolment.

The purpose of the DWP's latest policy proposals is to "remove any barriers, real or perceived, to investments in any asset classes that could bring benefits to pension savers". The DWP says that performance fees have been consistently raised as a key barrier in this context. The Pensions Minister says that green infrastructure, private equity and venture capital are investments that fit "well with the long-term horizons of DC schemes", and it is clearly these sort of asset classes that the DWP has in mind.

The DWP's proposal is simple in concept, namely, to add "well-designed performance fees that are paid when an asset manager exceeds pre-determined performance targets" to the list of charges exempt from the charge cap. You can find out more [here](#).



#### *Regulations made to implement minima for DC flat fee charges*

Regulations introducing a £100 threshold for default DC funds used for auto-enrolment, below which flat fees cannot be charged, have now been made and come into effect from 6 April 2022. This follows the consultation outcome [published last November](#). The final regulations differ slightly from the draft exposed in the consultation, following feedback that the DWP received, but there are no technically material changes.

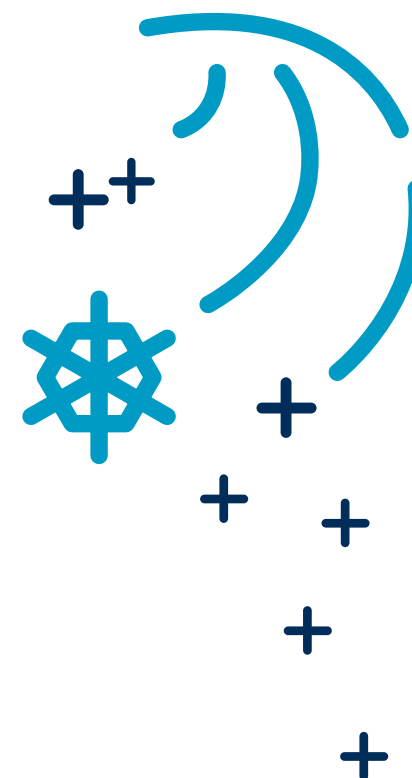
#### *Finance Bill sets out three changes to pensions tax law*

The Finance Bill was published on 4 November 2021 and, as expected, contains three changes to pensions tax law, including an increase to the Normal Minimum Pension Age ("NMPA") from 55 to 57 from 2028, along with associated protections. Find out more [here](#).

#### *Private member's Bill proposes extension to auto-enrolment law*

A backbench Conservative MP has introduced a private member's Bill that in effect seeks to legislate for the Government's stated ambition to extend the scope of and contributions required under the current auto-enrolment law.

You can find out what changes Richard Holden, MP for Northwest Durham, is proposing [here](#).



# Responsible investment and climate change – what's new?

## LCP Responsible Investment Survey 2022 – 'Raising the bar'

We have launched our Responsible Investment Survey 2022 – Raising the bar, which reviews investment managers' approaches to environmental, social and governance (ESG) issues and their stewardship practices, such as exercising voting rights and engaging with company management. [You can view the report here](#) and find out more about our findings in our [webinar](#).

### Mandatory RI training is lacking at board level



69%

of managers have mandatory training for staff

23%

of managers have mandatory training for board members

22% of managers adjust third party data a little or not at all

despite well-known concerns about the quality of ESG data



36% of managers have already published a TCFD<sup>2</sup> report

### Use of climate scenario analysis is encouraging

Broadly 70% of managers are using climate scenario analysis to some extent in investment decision making, although typically not for all their strategies



## Net zero targets are gaining traction

42% of managers are working towards net zero for all assets under management, although their plans to achieve this are at an early stage



### Climate change and board effectiveness dominate engagement agendas

66% and 71%

of managers frequently engaged on climate change and board effectiveness respectively

### Engagement is a key priority for managers, but practices could be strengthened

42% of managers do not have a formal escalation policy to help them more quickly achieve their engagement objectives

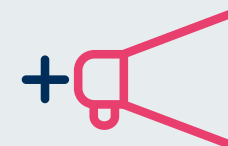


## Systemic change is required to meet ambitious goals

90% of managers stated that they engage with policymakers or regulators on industry-wide topics



### Managers are making their voices heard



On average, listed equity managers:

exercise 97% of votes

and vote against management or abstain at least once at

36% of AGMs

## Responsible investment and climate change – what’s new? continued

### Government responds to MPs’ recommendations on pensions and climate change

The Government’s response to [Parliament’s inquiry](#) on pensions stewardship and the COP26 climate change conference has been published, suggesting that the Government is satisfied with the actions it is taking and is unlikely to do much more in response to the MPs’ recommendations. You can read more about the recommendations that were turned down by the Government [here](#).

### FCA finalises climate-related disclosure rules

The FCA has [finalised](#) two sets of climate-related disclosure rules which are relevant for asset managers, life insurers, FCA-regulated pension providers and issuers of standard UK-listed equity shares. You can find out more about the new rules [here](#).

### Climate risk – Pensions Regulator settles its trustee guidance

The Pensions Regulator has [published](#) the final version of its guidance for schemes subject to DWP’s legislation and statutory guidance on the governance and reporting of climate-related risks and opportunities. It has also published the final version of its monetary penalties policy applicable where trustees fail to comply with aspects of this legislation. Read more [here](#).

### DWP consults on portfolio alignment metrics and stewardship guidance

The DWP has published a consultation that proposes the addition of a fourth metric to the climate-related disclosure requirements for larger schemes, as well as new guidance about reporting on stewardship and other topics, with such guidance being applicable to all occupational pension schemes.

The proposed stewardship guidance is a mixture of non-statutory guidance relating to Statements of Investment Principles (“SIP”) and statutory guidance relating to Implementation Statements (“IS”).

The DWP’s stated aims include improving the quality of SIP policies and developing best practice for IS reporting. The guidance highlights that trustees should take responsibility for both documents and much of it seems aimed at discouraging boilerplate wording and a tick-box approach. Read more about this [here](#).

### New standards for sustainability reporting

HM Treasury, along with the DWP and the Department for Business, Energy and Industrial Strategy, has published a roadmap to sustainable investment setting out details of new Sustainability Disclosure Requirements (“SDR”) that, in addition to applying to certain large businesses, will also apply to pension schemes (both occupational and personal), investment products and asset managers, and other asset owners.

What is SDR? First [announced](#) by the Chancellor in July 2021, SDR is intended to bring together and streamline existing UK sustainability reporting requirements – such as those aligned with the Task Force on Climate-related Financial Disclosures (“TCFD”) – and go further.

You can find out more about the Government’s plan for greening the financial system and what types of disclosure will be required, [here](#).



# Practical guidance

## *September's CPI sets the scene for next year's pension benefits and limits*

The announcement on 20 October 2021 that the Consumer Prices Index rose by 3.1% over the twelve months to September 2021 sets the scene for the calculation of a number of pension benefits and limits for the next tax year, affecting both state pensions and lifetime allowance for pension tax purposes. Find out more [here](#).

## *Investment Association issues updated executive pensions guidance*

In its latest [pay guidelines](#) the Investment Association says that ensuring the alignment of executive pensions with the wider workforce (when expressed as a percentage of pay) will continue to be a priority for investment managers. It notes, in its separate letter sent to FTSE 350 companies, that over 90% of FTSE 100 companies analysed have already met its expectations. You can find out what the Association is planning to do to support its desire for pensions to be aligned by 2022 [here](#).

## *No change to Statutory Money Purchase Illustrations (SMPI) assumptions once more*

Once more the Financial Reporting Council has [concluded](#), after carrying out a review, that it does not need to make any changes to the assumptions used in the benefit projections required to be provided on an annual basis to members of occupational, personal and stakeholder pension schemes with rights to money purchase benefits. Read more about this [here](#).



# Member engagement and support

## *Simpler DC annual benefit statements from October 2022*

The DWP has published its [consultation outcome](#) on simpler annual benefit statements for schemes providing money purchase benefits only that are qualifying for auto-enrolment purposes, together along with final [statutory guidance](#) and [regulations](#). As a brief reminder, the Government's view is that shorter, simpler statements (albeit containing the same information as is required under the current disclosure regulations) will improve scheme communication with members and members' understanding and engagement. The principle that the simpler statement should not exceed one double-sided sheet of A4 paper has been retained.

The implementation date for these requirements has been pushed back six months to 1 October 2022 – any benefit statements within scope issued from 1 October 2022 onwards must comply with the new requirements. You can read more [here](#).



## *FCA and DWP agree on DC 'stronger nudge' rules*

The FCA has finalised new rules that require DC pension providers to 'nudge' their consumers to Pension Wise so that they can benefit from guidance before they access their DC pension savings. The new rules apply from 1 June 2022.

The rules apply to providers of personal and stakeholder pension schemes, including those who run self-invested personal pensions. They require that when a consumer has decided, in principle, how to access their savings, a provider must:

1. Refer the consumer to Pension Wise guidance
2. Explain the nature and purpose of Pension Wise guidance
3. Offer to book an appointment, and where the consumer accepts the offer, book the appointment or provide the consumer with sufficient information to book their own appointment. Providers will also be required to confirm and record whether the consumer opted out of receiving this guidance. You can read more [here](#).

The DWP has also [responded](#) to its [consultation](#) on similar regulations that will require trustees of DC schemes to ensure that members are referred to 'appropriate pensions guidance' (delivered by Pension Wise) and have either received or opted out of receiving it, where they are proposing to access or transfer their DC benefits. This comes into force on 1 June 2022 – the same day as the new FCA rules.

Occupational pension schemes providing flexible benefits now need to revisit their processes urgently for when members request access to or ask to transfer benefits in order to incorporate this 'stronger nudge'.



## *Member engagement and support continued*

### *Pensions Ombudsman talks about best practice for communicating with scheme members*

The Pensions Ombudsman has published its [thoughts](#) on best practice for communicating with pension scheme members, based on the experience and expertise it has built up over the years. This is the latest in a series of guidance documents in response to stakeholders asking for more guidance materials to be provided on its website.

Amongst other things, this handy two-pager directs readers to “[How to avoid the Ombudsman](#)” – a new section on the Ombudsman’s website which contains guidance on some common complaint areas with links to relevant publications, determinations, and case studies. The guidance also sets out some “Top tips on how to avoid the Ombudsman” which are largely based around effective communication and listening skills, along with meeting customer service expectations.

### *Money and Pensions Service (“MaPS”) under the microscope*

A [review of MaPS](#), undertaken by its sponsoring department, the DWP, reveals the significant challenges it has faced since being established in October 2018. Stating that its development is a “work in progress”, the review identifies areas where MaPS has failed to live up to expectations to date, although it acknowledges that it “could not have had a more challenging start” but is now making “good progress”. You can read more about this [here](#).

### *Pensions dashboards team provides latest progress report and a summary of responses to staging timetable consultation*

Nearly six months on from its last report the Pensions Dashboards Programme (“PDP”) sets out what has been achieved over this period and what is to come.

In its October 2021 [progress update report](#) the PDP highlights the bringing on board of a supplier to build its central digital architecture and says that its main focus over the next six months is “the build of the digital architecture, procurement and integration of the identity service and the onboarding of alpha test participants and further testing of the ecosystem”.

The PDP has also published a summary of responses to its [May 2021 consultation](#) on how pension providers will be onboarded to its data exchange.

The summary reveals broad support for the PDP’s proposals, but with concerns as to whether the timescales will prove to be too ambitious, given a number of areas where significant uncertainty about the operation of the dashboard continue to exist. These include, but are not limited to, data protection and liability, connection requirements, response times, the identity verification and assurance process and matching protocols. Read more about this [here](#).

### *PASA launches data matching conventions for pensions dashboards*

The Pensions Administration Standards Association (“PASA”) has [published](#) initial [guidance](#) on data

matching conventions (“DMC”) that every pension scheme will need to reach a landing on in order to respond to “find requests” from pensions dashboard users. The guidance document is accompanied by a useful [call to action](#).

In addition, PASA has also launched new [guidance](#) which considers the ongoing data management and controls of pension scheme records. The guidance recognises that data only remains accurate for a finite period, becoming obsolete if not properly maintained, and looks to support administrators in deciding what data controls to set around both new and existing data, benchmarking and testing.

### *‘Easy read’ guides to the new State Pension published*

The DWP has [published](#) three ‘easy read’ guides to the ‘new’ State Pension – ie the pension potentially available to those reaching State Pension Age since 6 April 2016. The first guide sets out what the new State Pension is and who can get it: the second looks at how to apply for the pension and the third sets out how the DWP pays the pension. Given the very accessible nature of these documents, trustees and employers may wish to link to these guides in their member communications.



# LCP Insight

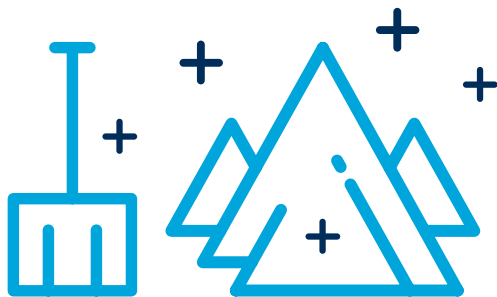
## *Business planning for DC pensions*

With so much on the agenda for 2022, it can be difficult to know where to start, but we all know that inertia is not an option. So we've put together some resources to help you plan your year effectively, make sure you cover the key topics at the right time and ask the right questions.

These resources include a business plan for 2022, including a checklist of key actions to cover at meetings and short video summaries explaining why each topic is important for your scheme. You can view it [here](#).

## *What do you want to come to mind when your members think of pensions?*

David Millar, head of communications at LCP, [discusses](#) the importance of communicating a clear, key message if we are to want people to think of pension schemes in terms of a key benefit.



## *Post-pandemic workplace exodus – myth or reality and what can employers do to retain their talent pool?*

Heidi Allen discusses how the findings from LCP's 2021 research highlights the enormous toll that the pandemic has taken on mental, physical, and financial wellbeing.

Almost 1 in 4 said that they were unhappy with their financial health (24%), and their mental health (23%). Covid has created a stark divide between those that have coped well and have had their finances positively impacted and those who have found themselves in severe difficulty. You can read more [here](#).

## *Don't be on the 'road to nowhere'*

Like the old Talking Heads song, without direction DC schemes risk being less effective.

LCP's latest DC survey highlights that overall, only around half of respondents have some kind of metrics or objectives in place for measuring the effectiveness of their DC scheme. John Reid talks us through how to change this [here](#).

## *Relax, but do do it*

In this [blog](#), Rachel Crowther discusses the extent with which companies have been proactive in reviewing the pension they offer to employees.

## *Understanding the Single Code of Practice: Guide to the ESG*

Schemes with more than 100 members are required to establish and operate an effective system of governance, otherwise known as an ESG. An ESG is essentially a collection of processes and policies that a scheme should have in place in order to operate effectively and efficiently.

We have created a guide which provides a high-level summary of the new ESG requirements being introduced by The Pensions Regulator's (TPR) single Code of Practice (the 'Code'). You can read the guide [here](#). Look out for details our upcoming webinar on the ESG guide later this month.

## *'Ain't no mountain high enough'*

Contributions are the single most important factor in defining scheme members' outcomes, but are people doing enough? In this [blog](#), George Currie looks at the data and discusses what employers and trustees can do to help members achieve good outcomes at retirement.

## *Save the date – LCP's DC & Financial Wellbeing conference*

LCP's hybrid DC & Financial Wellbeing conference will be held on **11 May 2022**, where you will hear from our experts, who will share topical issues in the DC arena as well as practical advice to get the best outcomes for your members and employees. Save the date in your calendar, and look out for your invitation in the coming weeks.

## *Do you enjoy hearing from our experts?*

It's important to us that we deliver what you want, and don't clog up your inbox with things you don't.

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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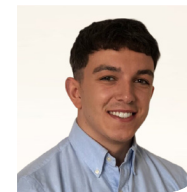
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