

# 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

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## *Policy developments*

*Financial Conduct Authority (FCA) consults for stronger incentives to encourage more people to seek guidance from Pension Wise*

At present, DC providers are only required to signpost the availability of guidance from Pension Wise for members over 50 to help them understand their flexible retirement options.

Whilst satisfaction rates remain high, the number of members using this free service remains stubbornly low. Although this can be explained in part by the difficulties associated with arranging face-to-face meetings during the pandemic, the FCA believes that more needs to be done, in recognition of which it has proposed new rules to require providers to 'nudge' members towards Pension Wise, including the requirement to arrange an appointment, if the member wishes.

The consultation regarding the proposals closed on 29 June 2021 and the FCA intends to publish a final Policy Statement in Q4 2021. Further details can be found [here](#).

# Policy developments continued

## *The Department for Work and Pensions (DWP) consults on restricting the right to transfer*

The DWP has published a significant consultation about the rules designed to restrict online pension scams.

Proposals include the introduction of new 'red' and 'amber' flags to be included within the current process that trustees and DC providers will have to consider when processing a proposed transfer to another scheme (including overseas). For a transfer to be authorised, no red flags can be present: if any amber flags are present, the member must have taken pension transfer scams guidance from the Money & Pensions Service.

*We believe the [proposals included in the consultation](#) should go some way to preventing pension scams and whole-heartedly welcome this important initiative in terms of better member protection.*

The consultation closed on 9 June 2021 but it is not yet clear when the regulations will come into force. Daniel Jacobson, Senior Consultant at LCP, wrote [this blog](#) in which he explains what this means in more detail.

## *Horizon scanning – DC (in)adequacy*

[In this guest blog](#), Richard Butcher, Chair of the PLSA considers DC adequacy - a near horizon.

## *DWP legislates for simpler annual benefit statements*

The DWP launched a consultation (which closed on 29 June 2021) on the regulations and associated guidance that will require DC schemes that are qualifying for auto-enrolment (AE) purposes to issue their obligatory annual benefit statements in a simpler format.

Under the proposals, with effect from 6 April 2022, the format of annual benefit statements should not exceed one double-sided sheet of A4. The information on this statement is exactly the same as that required under the current disclosure regulations, with the ability for more to be added – space permitting. You can find out more [here](#).



## *DWP consults on DC charging structures (again)*

The DWP has published its latest proposals on the default fund charging structures permitted in DC schemes used for AE. This follows the decision made earlier in the year [to abolish flat fees on AE pension pots worth £100 or less](#), which the DWP intends to enforce in April 2022.

The consultation, which closed on 16 July 2021, seeks views on a proposal to move away from the current three permitted charging structures for a default fund, to a more 'universal' charging structure, based on a single percentage annual management charge. If this proposal goes ahead, it will mean that charging structures used by providers such as NEST, (which comprises a monthly fee and annual management charge), would no longer be permitted. It is not clear what timescale the DWP has for introducing this, should it decide to go ahead.

*While this may appear quite a low-key consultation, it could have significant long-term implications for how providers can charge for managing DC schemes. There may be little sympathy from the general public if pension providers cannot profit from running very small pots, but if they cannot, then they may leave the market, which might impact overall choice and competition. You can read more [here](#).*

# Policy developments continued

## *Pensions Dashboard – staging timetable proposed*

The Pensions Dashboard Programme has published a [call for input](#) (which closed on 9 July 2021) on its proposals concerning the order and timing by which providers will be required to connect into the Pensions Dashboard data exchange to make pension information available. This call for input is accompanied by a [blog](#) provides background on the development of the proposals.

The proposal is that this data transfer should take place in three waves starting in April 2023, with the largest schemes going first (1,000+ members), medium schemes (100 to 999 members) and finally the small and micro schemes (99 or fewer members). More details can be found [here](#).

Steve Webb, Partner at LCP, wrote [this blog](#) in which he provides insight to the potential challenges when it comes to ‘matching’ data for the Pensions Dashboard.

## *DWP targets consolidation of larger DC schemes “up to £5bn”*

On 21 June 2021, the DWP published a [call for evidence](#) on further DC consolidation, intended to understand the barriers to further consolidation within the occupational trust-based DC market in the £100m to £5bn segment.

The DWP asked various questions such as how the Government can incentivise schemes with assets

between £100m and £5bn to consolidate and how important consolidation is in driving better member outcomes. Consultation closed on 29 July 2021.

If you are running a scheme larger than £100m with DC assets you may have thought you were ‘safe’ from the Government’s intention to consolidate the DC market. However, this call for evidence makes it very clear that the Government’s ambitions are not over yet, with the Pensions Minister Guy Opperman, stating that “there is no doubt in my mind” that there must be further consolidation and that “further action will follow”.

He has stated that “it is not my intention to stop at £5 billion”: we think there is a debate to be had about what is an appropriate upper level to force scheme consolidation, since a £5bn threshold would catch all but the very largest of DC schemes.

You can find out more [here](#).

## *FCA consults on new long-term asset fund class aimed at DC defaults*

The FCA [launched](#) a consultation, which closed on 25 June 2021, on a new category of fund that will be able to invest in long-term illiquid assets, such as venture capital, private equity, private debt, real estate and infrastructure. This follows the Chancellor committing to launch the first long-term asset fund (LTAF) within a year (see the [statement](#) here).

As well as offering an alternative investment opportunity to experienced retail investors, the LTAF

is also aimed at DC schemes, depending on their investment horizons and risk appetite. You can find out more [here](#).

*We believe that the creation of such funds has the potential to amalgamate several topics which have been discussed in recent years, such as improving returns for DC members and unlocking pension scheme assets to invest in projects which benefit wider society, such as housing and infrastructure. As such, we welcome this development.*



# Governance updates

## *DWP finalises its latest rules on DC scheme governance, including value for members and consolidation*

On 21 June 2021 the DWP published a joint response to two separate consultations – the September 2020 consultation concerned improving outcomes for members of DC pension schemes, as well as costs and charges disclosure (see [here](#)). Its March 2021 consultation covered incorporating performance fees within the charge cap (see [here](#)).

### Improving member outcomes

In summary, the proposals are to go ahead, but with some important changes in relation to the ‘value assessment’. These include:



- Pushing back the implementation date from October 2021 to the first scheme year ending after 31 December 2021
- Clarification that hybrid schemes (i.e. those with combined DB and DC assets) are below £100m are in scope, but only the DC element is subject to the assessment.

Schemes in the process of winding up will be exempt if they have informed the Pensions Regulator (TPR) at any time before the next Chair’s Statement is due. You can find the finalised statutory guidance for trustees on completing the annual value for members’ assessment [here](#).

### Incorporating performance fees

The proposals in the March 2021 consultation on smoothing the performance fee element of the charges regime over five years are to go ahead as proposed, subject to changes to the regulations.



On the call for evidence on ‘look-through’ costs for close-ended funds and pooled vehicles’ contained within the March 2021 consultation, the response says that, as a minimum, the current requirement needs to be clarified and may need to change. These occur when a fund invests in another fund and reflect the costs incurred in the management of the underlying fund(s).

You can read more about the DWP responses [here](#).

### Costs and charges disclosure and illustration

The September 2020 consultation also proposed amendments to the statutory guidance for trustees on reporting costs, charges and other information. These are to go ahead, but with a number of adjustments. The updated statutory guidance has now been [finalised](#).



## *TPR’s single Code of Practice: Spotlight on good governance*

TPR’s new single Code of Practice (the ‘Code’) is expected to be implemented at the end of 2021. It will consolidate 10 of the 15 existing Codes into 51 new web-based modules. As a result of the single Code, new governance responsibilities for trustees of DC pension schemes will be introduced: **we have put together [this summary](#) to highlight the key features.**

# Climate change – what’s new?

## *MPs press the Government to ‘green’ pension provision and launch inquiry on climate change and pensions*

The Treasury Committee of MPs has published a [report](#) entitled ‘Net Zero and the Future of Green Finance’ which includes specific reference to DC default funds.

Most notably, the report highlights the adverse impact that inertia among DC scheme members (with the majority staying in ‘default’ funds), combined with the lack of compulsion for such funds to move to ‘greener’ alternatives, can have on sustainable investment. Amongst the evidence that the Committee heard was the view that that the charge cap of 0.75% in AE schemes is a potential barrier to offering sustainable funds, as charges for nearly all ESG funds are higher, as they need to be actively managed.

The Committee called for the Government to resolve the contradiction between the Treasury’s view that default funds should not be required to move to more green alternatives, while also maintaining that consumers should not have to switch out of the default fund to invest sustainably. The Committee also suggested that the Treasury should report regularly on the proportion of members who remain in the default fund, and the extent to which these are aligned with a path to Net Zero. You can read more about this [here](#).

Additionally, the Work and Pensions Committee has launched an inquiry into the Government’s approach to ensuring schemes consider the risks posed by climate change and the role they can play in meeting emission reduction targets.

The Committee asked [six questions](#): we expect the Committee to report on its findings after the summer recess.

**Stewardship: What is it and why should asset owners care? Watch our [on-demand webinar](#) to hear our panel’s perspectives on why stewardship matters and what it looks like in practice.**

## *Climate change governance and reporting – action now required*

On 8 June 2021, the DWP published its [response](#) to the January consultation ([see Pensions Bulletin 2021/04](#)) on regulations and statutory guidance that provide the mechanism through which, initially, certain large occupational pension schemes (ie schemes whose relevant assets are £5bn or more at the end of their first scheme year ending on or after 1 March 2020) will be required to address climate change risk and opportunities through a new governance and annual reporting requirement. The final versions of the [regulations](#) and [statutory guidance](#) were also published.

Although a number of changes have been made to the regulations, particularly the statutory guidance, many of these are simply by way of clarification or to tighten up the drafting. You can find details on the most significant changes [here](#).

The response document also makes clear that whilst the largest of pension schemes will be leading the UK (and elsewhere) in making disclosures aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), this is part of a much wider programme under which the Government intends to make TCFD-aligned disclosures mandatory across the UK economy by 2025, with a significant proportion of mandatory requirements in place by 2023 ([see Pensions Bulletin 2020/46](#)).

Trustees of schemes affected now need to start the move from planning to implementation urgently, with approximately 100 needing to set up the new governance requirements by 1 October 2021, with the first of these likely to need to report on their endeavours by 31 July 2022.



# Climate change – what’s new? continued

## *Climate risk – TPR consults on guidance and enforcement*

On 5 July 2021 TPR [launched](#) a [consultation](#) on two documents linked to the DWP’s regulations and statutory guidance on the governance and reporting of climate-related risks and opportunities, as noted above. The first document provides some [guidance](#) for schemes subject to these new requirements. The second sets out the [Regulator’s policy](#) on levying penalties for non-compliance. The consultation closes on 31 August 2021.

## *FCA consults on further climate-related disclosure rules*

The FCA has published two sets of proposals on TCFD disclosure rules for certain regulated firms and listed companies, listed below:

- [1. Asset managers, life insurers, and FCA-regulated pension providers](#)
- [2. Standard listed equity shares](#)

The FCA is inviting feedback to both consultations by 10 September 2021 and intends to confirm its final policy on climate-related disclosures before the end of 2021. You can read more about this [here](#).

We welcome the proposals that UK-regulated asset managers will be required to report greenhouse gas emissions and other useful climate-related information to their clients. This will be extremely useful for trustees seeking to understand the climate-related exposures of their assets, especially those within scope of the DWP’s new climate requirements.



# Practical guidance

## *Covid-19 auto-enrolment guidance adjusted again*

TPR has [updated](#) its Covid-19-related AE and DC pension contributions guidance to reflect the further extension of the Coronavirus Job Retention Scheme (CJRS) and other Government support.

The extension is to the end of September 2021 and while the CJRS remains at 80% of salary for hours not worked, the Government grant falls to 60% in August and September (all subject to a monthly cap): and employers are expected to make up the difference to 80%. You can read more about this [here](#).

## *PASA issues counter-fraud guidance*

The Pensions Administration Standards Association (PASA) has published [guidance](#) for UK pension schemes, trustees and providers on the many types of fraud affecting the sector at present and the range of tactics that need to be deployed to counter this.

The fraud types discussed include identity fraud, opportunistic pension fraud, internal fraud, fraud against beneficiaries and investment and misappropriation risks.

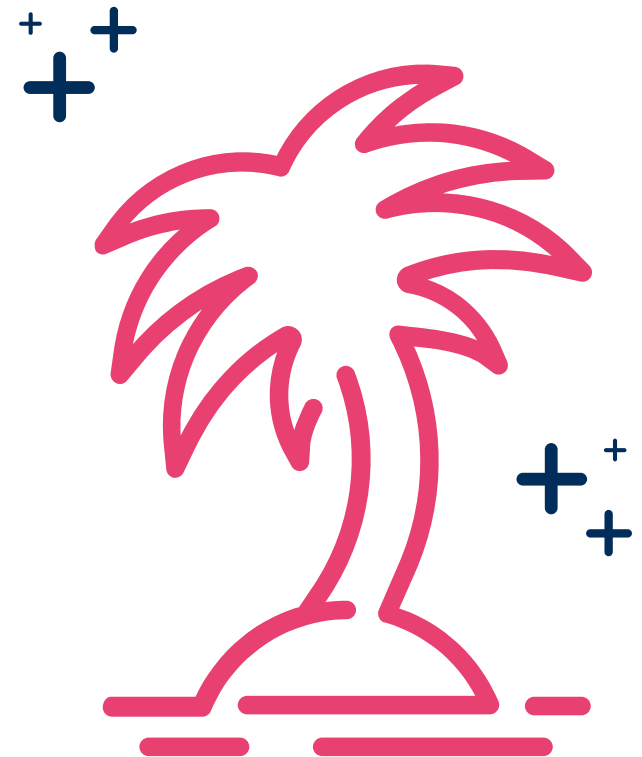
## *MoneyHelper website officially launched*

After a period of 'beta' operation since March 2021, the Money and Pensions Service (MaPS) has launched its [MoneyHelper website](#) provides a range of information and guidance for individuals across the various areas for which MaPS is responsible.

'MoneyHelper' [replaces](#) the Money Advice Service, The Pensions Advisory Service and Pension Wise legacy brands, although Pension Wise is to continue under the MoneyHelper umbrella.

The 'Pensions & retirement' tab of the website covers a number of topics including dealing with pension problems and booking Pension Wise appointments when deciding how to access a DC pot.

Schemes that have been directing their members to the legacy websites in member communications may wish to revisit precisely how they are doing this as they have been taken down, with automatic redirects put in place to the MoneyHelper site.



# LCP Insights

## *Annual Conference 2021 – save the date*

LCP's Annual conference will be held on Thursday 25 November, where you can hear from our experts on topical issues. Look out for your invitation: we'll share further details and updates over the coming weeks.

## *LCP DC Survey 2021*

The DC market is ever-changing. In recognition of which we launched a survey to assess not only what types of scheme and contributions are offered, but also, more importantly, the aspirations and motivations for the benefits provided. Thank you to everyone who took part in the survey. We look forward to sharing our findings with you later this year.

## *New behavioural insights hub*

We recently launched our new [behavioural insights hub](#) which explores issues such as group decision making, behavioural finance, diversity and understanding member behaviour.

We are launching this now for two reasons. Firstly, Covid-19 has brought with it unprecedented changes to communications and the group decision-making process.

Secondly, the decision-making processes of pension trustees is increasingly in the spotlight, as seen in the increasing focus on governance

in regulation including the anticipated TPR 'Supercode', with increased sanctions and TPR powers in the Pension Schemes Act 2021.

## *How to ensure you have a well-rounded employee wellbeing and benefit strategy*

[In this blog](#), Josh Hayes discusses the benefits of operating a well-rounded employee wellbeing and benefit strategy and the five steps necessary to create it.

## *Have pension freedoms cost savers £2bn in lost returns?*

Our latest research suggests that savers cashing out pension pots to take advantage of 'pension freedoms' since 2015 are set to lose £2bn as a result. Read more [here](#).

## *On point paper: Is 12% the new 8%?*

Since 2012, millions of people have been enrolled into a workplace pension, but have little idea how their investment pot will grow, members are guided by projections according to rules set by TPR. These projections should represent a realistic estimate of how their pot may grow, taking into account the mix of assets in which is invested. However, the last few reviews have shown steadily declining real returns.

[This paper](#), produced by Dan Mikulskis (Investment

Partner) and Sir Steve Webb of LCP (Former Minister for Pensions) of LCP in conjunction with Becky O'Connor of Interactive Investor, looks at what these falling future returns mean for pension investors. It makes a series of recommendations for individual investors, employers and policymakers, to address urgently the looming shortfall that could occur if declining growth rate forecasts turn out to be accurate.





## Our latest thinking

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## *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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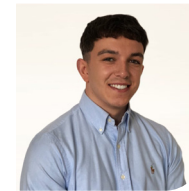
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