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 2021

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Policy developments

Pension Schemes Act 2021

The Pension Schemes Act 2021 received Royal Assent on 11 February 2021. Here are some of the key features:

- The Pensions Regulator (TPR) will now have tougher powers to impose both criminal and civil sanctions for related offences.
- Climate change: schemes will need take account of new climate change governance and disclosure requirements.
- Pensions dashboards: these will be enabled but are not expected to be available until 2023.

Guy Opperman set out the timetable to implement the various provisions in the Act, which included:

- Climate change – regulations will come into force ahead of the UN Climate Change Conference being hosted in November.
- Pension scams – the DWP plans to consult on draft regulations in early summer, with new measures effective from early autumn.
- Collective Defined Contribution Schemes – the DWP plans to consult on draft regulations in early summer.
- Pensions dashboards – the DWP aims to consult on proposed regulations later this year and lay draft regulations before Parliament in 2022, with delivery still on track for 2023 (see 'Pensions Dashboard Programme' below).

We have produced a short summary and a more detailed guide covering the provisions of the Act, as well as a Pension Schemes Act insight hub.

Finance Bill 2021 published

On 11 March 2021 the Government published the Finance Bill. The principal relevant feature is that the Lifetime Allowance has been frozen at its current level (£1,073,100) until 6 April 2026, after which it will attract annual CPI increases.

Government consults on implementing the increase to the normal minimum pension age (NMPA)

In February the Treasury launched a consultation which confirmed its intent to increase the NMPA to 57 (from 55) by 2028, which will increase the age at which benefits from schemes can be accessed (outside the ill-health rules). The consultation (which closed on 22 April 2021) confirms the Government's view that the NMPA should continue to be set around 10 years prior to State Pension Age.

This will enable schemes to determine how and when to accommodate this change (eg schemes could update their rules to move to the new NMPA before 2028). Members born before 6 April 1971 (ie who are now 50 and will be 57 by 2028) are not affected by the increase. Those born after 6 April 1971 may have to wait up to an extra two years before they can access their benefits, unless one or more of their entitlement benefits from protection (such as a protected retirement age).

The Government intends to publish draft legislation in summer 2021. You can read more about it here.

Pensions Dashboard Programme (PDP) looks for confirmation of its digital identity approach from data providers

PDP issued a 'call for input' on digital identity to those who will be releasing data to the dashboard, such as trustees, administrators, schemes and pension providers.

The call sets out the PDP's intended approach to the establishment of an individual's identity "to a standard acceptable to the ecosystem as a whole" before data is made available to that individual through any dashboard. More details can be found here.

TPR warns that cross-border schemes may not be valid auto-enrolment vehicles

TPR has updated its guidance on cross-border schemes (see Pensions Bulletin 2021/07), which now includes a section on using non-UK schemes as auto-enrolment vehicles.

Its original guidance was that if a cross-border scheme met the non-UK qualifying criteria and the additional requirements to be an automatic enrolment scheme during the Brexit transition period, then it could continue to be used as an auto-enrolment vehicle from 1 January 2021. This has now been updated – the latest version indicates that as the rules for using EU/EEA-based schemes to meet auto-enrolment duties changed on 1 January 2021, it may now no longer be possible to use these schemes in this way.

Trustees and employers should check whether they can still use an EU/EEA scheme for auto-enrolment purposes, taking legal advice where appropriate.

TPR releases draft of new single Code of Practice

TPR has been undertaking a review of its 15 existing Codes of Practice, which are now to be consolidated into a new single draft Code. It is consulting on the new 149 page draft Code, which will, initially, replace 10 of the 15 Codes (the remaining 5 Codes will be incorporated in due course).

The consolidated Code introduces modules on several new areas not previously covered, such as climate change, stewardship, and cyber risk. It also requires schemes to produce a number of new documents, including an 'Own Risk Assessment' which is intended to assess "how well governance systems are working, and the way potential risks are managed". You can read more about this here.

Incorporating performance fees within the charge cap

Following its announcement in the Budget, the Government has launched a consultation containing proposed legislation relating to the current charge cap, to make it easier for schemes to invest in illiquid assets, such as venture capital. This is to ensure that schemes are not discouraged from such investments and are able to offer the highest possible returns for savers. You can read more about this here.

DC Trust Scheme return data for 2020/21 – latest annual report published

TPR has published its latest report, which provides a high-level snapshot of the current occupational DC trust-based landscape. Some of the key highlights from the report include:

- There are 28,360 schemes, 79% of which identify themselves as 'relevant small schemes'.
- In the last year the DC market has been subject to further consolidation. There are 38 authorised master trusts, accounting for 18.8m members with over £52.7bn in assets.
- 53% of schemes, and 74% of open schemes, use a default investment strategy.

What's new in Responsible Investment?

A guide to E, S, and G in investment

It is becoming increasingly common for investors to incorporate ESG factors into their investment process. But what are E, S, and G? In this updated guide we look at why they are relevant for investors and provide examples to bring ESG to life.

The "S" within ESG investing comes under scrutiny

The DWP has launched a call for evidence on the extent to which social factors are being taken into account by schemes as part of their investment decision-making.

It explores "trustees' approach to social factors" and seeks "to understand whether Government needs to do anything to ensure trustees are better able to meet their legal obligations". This is part of the Government's wider ESG stimulus; having already introduced significant legislation on climate change, this consultation is the first step in a tilt towards the 'S' and the 'G' within ESG.

The Government is also considering some of the recommendations from the Treasury's Asset Management Taskforce (2020), namely that:

- Schemes should be required to explain how their stewardship policies and activities are in members' best interests. TPR should issue related guidance on how trustees might evidence their stewardship policies and activities in this area.
- A dedicated 'council of UK pension schemes' should be established to promote and facilitate high standards of stewardship of pension assets.

We're stepping up our stewardship efforts, are you?

The global pandemic has provided a sobering example of the importance of investor stewardship, and the role it can play in helping navigate such crises. Clay Lambiotte explains how we're supporting our clients in the area of stewardship.

TPR publishes its climate change strategy

TPR has published a short document setting out its strategic response to, and how it thinks it can help trustees meet the challenges from climate change. You can read more about this here.

Practical guidance

TPR and FCA clarify the dos and don'ts of providing pension support to your members

Following a consultation in 2020, TPR and FCA have issued a guide clarifying what employers and trustees are allowed to say without straying into the territory of regulated advice. The guide applies to both DB and DC schemes. You can read more about this here.

Two thirds of this year's retirees at risk of running their pension pot dry

Research from Standard Life Aberdeen has found that 66% of those retiring in 2021 are at risk of running out of pension savings in their retirement. Respondents to its survey planned to spend around £21,000 in retirement, but many do not have adequate pot values to support this.

Using this figure, a retiree would need about £390,000 in savings on top of their State Pension income to support a 30-year retirement.

But the average value of a 'class of 2021' pot is £366,000 with a third (33%) admitting to having less than £100,000 saved.

MaPS rebrands its advice services

The Money and Pensions Service (MaPS) is to launch 'MoneyHelper' this summer. This will be the single portal providing money and pensions guidance over the phone, online and face-to-face, replacing the previous legacy brands – the Money Advice Service, the Pensions Advisory Service and Pension Wise. However, Pension Wise, which provides guidance for people aged 50 and over about their DC pension options, will continue as a named service under the 'MoneyHelper' umbrella.

The new service is scheduled to start in June 2021, at which point consumers will be automatically redirected from the legacy brands' websites.

Practical guidance

Pension scams update

The Work and Pensions Committee has published its long-awaited report on pension scams. It warns that commonly cited figures of the scale of pension scamming – £30 million between 2017 and August 2020 – are likely to underestimate the scale of the problem substantially. The Pension Scams Industry Group estimates that £10 billion has been lost by 40,000 people since 2015, a situation that is likely to deteriorate before it improves, now that the Covid-19 pandemic offers scammers new opportunities.

Meanwhile:

- TPR has published a call to action for pension schemes, providers and administrators to be on high alert and to report suspected scams to Action Fraud or by calling 101 in Scotland.
- Separately, the Code of Good Practice on combatting pension scams, produced by the Pension Scams Industry Group to assist trustees, scheme administrators and providers, has been updated from 1 April 2021. It now runs to over 130 pages, and although currently voluntary, there is talk of it becoming mandatory.

You can read more about this here.

Chair's statements do not entirely work, admits DWP; mandatory fines may be relaxed.

Trustees will be familiar with the requirements and associated content of Annual Chair's statements, which need to be generated no later than seven months after scheme year-end. The principle underpinning these statements, in terms of bringing members up to date with activity and the overall quality of their scheme, is widely accepted. However, it has become increasingly clear that these statements are not necessarily having the desired effect because of a) the cost of production, b) the volume of detail required to avoid potential fines, and c) that they are not particularly member- friendly, thereby negating their intended purpose.

Following a recent review and on the strength of persistent representations from within the industry, the DWP has concluded that the current template is "extremely technical, too prescriptive and complicated".

We expect that the Government and TPR will now revisit the rules underpinning the content of these statements, in order to "remove collective confusion and ambiguity", in order to provide greater clarity about the information the statement should include – a move that will be welcomed by many in the industry.

On the strength of this, it is possible that there will be greater leeway in terms of TPR imposing potential fines for sub-optimal submissions. Our view is that scheme trustees should continue produce statements using the current guidance in terms of content until such time as a revised template has been issued.

LCP Insights

"Britain's 'accidental savers' – who are they and what are they doing with their windfall?"

The new LCP 'On Point' report finds that those who have benefited from a short-term windfall could make the most of this to improve their personal finances.

An enormous sense of (Financial) Wellbeing – still a blur on the horizon?

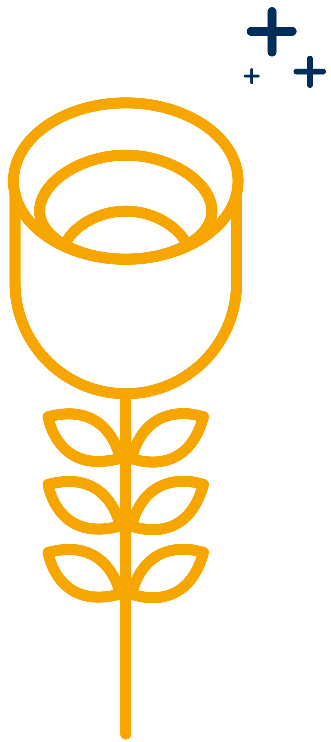
In this blog, in conjunction with Rebecca McKay from Towers & Hamlins, Philip Audaer looks at financial wellbeing in the workplace, why employers should care about it and what they can do.

Getting pension communications right for your employees

George Currie provides insight into the sorts of pension communications that will help engage your employees.

Steve Webb in conversation with Heidi Allan and David Millar - discussing the 'So what?' of our latest financial wellbeing survey

Watch our on-demand webinar as our experts discuss our findings from our latest financial wellbeing report and what the role of the workplace can and should be in supporting employees.



Highlights from our DC and Financial Wellbeing Conference

Last week we held our DC and Financial Wellbeing Conference. Hosted online with over 400 guests attending, the half-day event reflected on the past year and assess the future ahead of us. We explored how we can help employees and members to have a better future, considered what we can take from past experiences to give people a more certain future for their short and long-term savings, so they're protected as far as possible. You can catch-up on the conference on-demand here.

Laura Myers, Head of DC at LCP opened and chaired the Conference. She was joined by Steve Webb and Richard Butcher, Chair of the PLSA as they shared their views on the future of DC pensions. Steve highlighted the total projections for the newly retired while Richard set out a road to redemption in these uncertain times.

As we move towards a 'new normal', Heidi Allan explored the impacts of the personal financial health and the reasons why this is critical today and for the future. For people who are coming up to retirement, Jonathan Camfield looked at the recent trends to help DC retirees make the right choices as they come into retirement.

As markets have been volatile during 2020, Sam Cobley analysed the volatility that manifested itself and considered what could be done to mitigate this in two particular asset classes.

We also heard from communications expert Hayley Williams, on member communications and how you can make the best of interactive technology to make pension scheme communications more engaging.

Climate change continues to be at the forefront of the broader responsible investing agenda. Stephen Budge looked at the fast-evolving world of investing responsibly, including the latest developments in the regulatory landscape and explained why this single factor should fundamentally change how members should invest for the future.

Georgina Smith explained the challenges faced by Master Trusts as a result of continued consolidation in the market, as well as the challenges they face in developing innovative default and post-retirement strategies.

She also explained how schemes with less than £100m under management are going to be forced cope with the new reporting requirements, or potentially be forced to merge or potentially migrate to a Master Trust.

Dan Mikulsis talked about investment pathways and shared insights from our latest research into what the providers have produced so far. Mark Smith shared his experience and examples of how you can engage members in Responsible Investment and showed how technology can help. Ed Dixon's session covered statutory statements - how to best meet the legislative requirements and offered really useful guidance to help make these statements easier to produce and more useful for members.

We concluded the conference with guest speaker Rory Sutherland who provided some interesting and amusing insights on the lessons learned post-lockdown.

Our DC and Financial Wellbeing conference magazine has all the LCP sessions available on-demand to watch at our leisure. We also have new articles including:

- Member communications - is the future interactive? Written by Hayley Williams
- What TPR's new single Code of Practice means for DC schemes Written by George Currie
- Illiquids, to be or not to be? Written by Erica Beltrami
- Horizon scanning: DC (in)adequacy Written by Richard Butcher

Read the conference magazine.

Please do get in touch with any of the LCP speakers or your LCP contact for more information on the topics covered. As we transition out of lockdown, we look forward to what 2021 holds. So rather than just going back to normal, can we go back to better?

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?

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