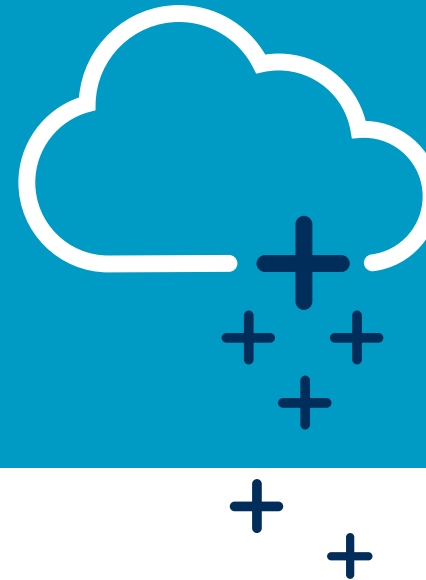


# LCP DC update

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 2021



## What's inside:

- 1 Policy developments
- 2 Practical guidance
- 3 LCP Insight

## Policy Developments

### *Pension Schemes Bill clears Lords*

The Pension Schemes Bill returned to the House of Lords on 16 November 2020 but was only debated on 19 January 2021. It has now completed its Parliamentary stages and is awaiting Royal Assent, which we believe to be imminent.

### *SIP registry to go ahead*

In a speech given to the Association of Member-Nominated Trustees, Parliamentary Under-Secretary of State for Pensions and Financial Inclusion Guy Opperman said that he was taking forward the recommendation of the UK Sustainable Investment and Finance Association in its 'Changing Course' report ([issued](#) in February) that there should be a central directory of Statements of Investment Principles (SIPs). This will be supported by The Pensions Regulator (TPR) and the DWP and suggests that the web addresses of SIPs might be collected by TPR through the scheme return and then published online. LCP will monitor developments in this area and provide an update in due course.

### *State Pension rates confirmed for 2021/22*

The DWP has [published](#) its list of benefit and pension rates. Amongst other things this list confirms that the new State Pension increases to £179.60 per week whilst the Basic State Pension (called the old State Pension in the publication) increases to £137.60 per week with the married addition increasing to £82.45 per week.

## How Brexit will affect GPP members living in France?

The UK formally exited the European Single Market and Customs Union on 31 December 2020, following a transition period from European Union (EU) membership to third country status. During the transition period, the UK retained the rights and obligations associated with membership of the Single Market and Customs Union.

The UK also remained subject to EU rules during the transition period. This meant that UK financial services providers were still able to benefit from 'passporting' rights to conduct cross-border business in the European Economic Area (EEA). Passporting rights enable firms that are authorised in any EU or EEA state to trade freely in any other with minimal additional authorisation.

On 1 January 2021, new arrangements came into force, based on the EU-UK Trade and Cooperation Agreement. Although the provisions of this agreement provide a basis for trade between the EU and the UK, very few provisions relate to financial services, which means that UK financial services firms no longer benefit from passporting rights.

As a result, states in the EEA are now able to apply rules pertaining to UK-based financial services providers to their residents, based on local law. As providers of pensions and other financial services, group personal pension (GPP) providers are affected by these changes.

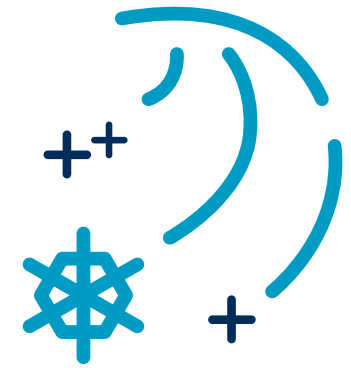
The French Financial Regulator introduced new legislation on 16 December 2020, which means that from 1 January 2021 GPP customers resident in France are subject to additional requirements compared to residents of other EEA states. It is not clear at this stage whether other EU countries will follow France's lead.

## Charge Cap to remain at 0.75%

The Government's [response](#) to its review of the default fund Charge Cap was published on 13 January 2021.

The response sets out its plan to abolish flat fees on Automatic Enrolment (AE) pension pots worth £100 or less. The ban is designed to protect small pots from being eroded by providers' charges, particularly those which apply a monetary amount. The Government intends to keep the new floor for flat fees under review, with a view to an increase at some point in the future.

The response also concluded that there should not be any change to the current 0.75% Charge Cap for AE pensions, and that transaction costs will not be included. This conclusion was based on the results of the [Pension Charges Survey 2020](#), which found that all members of qualifying schemes covered by this research were now below the Charge Cap - with average charges at 0.48% across all members.



## DWP Working Group offers solutions to DC 'small pots' issue

The Working Group, (set up by the DWP in the autumn see [Pensions Bulletin 2020/39](#)) to tackle the proliferation of small DC deferred pension pots, has made its [recommendations](#) to the Pensions Minister, [published on 17 December 2020](#)).

One of the unintended consequences of the success of AE (and other reforms, such as the end of short service refunds) is that the number of deferred pension pots in DC arrangements, particularly Master Trusts, has increased dramatically. DWP estimates suggest that the number of these could increase further over the medium-term, from 8 to 27 million by 2035.

These small pots can often be hard for members to keep track of and are more likely to be eroded by charges. They are also a challenge for providers to administer efficiently. DWP analysis suggests that 74% of all deferred pots in the largest DC pension providers are smaller than £1,000 (25% are smaller than £100).

You can read more about the Working Group's recommendations [here](#).

## General Levy Consultation

In December 2020, the DWP released a [consultation](#) seeking stakeholders' views on the Government's proposed options for changes to the structure and rates of the General Levy from April 2021, 2022 and 2023.

The Levy covers the funding for the core activities of TPR, the Pensions Ombudsman and the pension-related activities of the Money and Pensions Service (MaPS). It is paid by the trust and contract-based schemes: the amount levied is calculated by reference to the number of scheme members. Several Master Trusts have expressed concerns about the per member basis on which the Levy is calculated, given the growth of the number of small, deferred pots.

Although the Government is proposing substantial increases in Levy rates to recalibrate income with expenditure, and recover the accumulated Levy deficit, the consultation contains three options for structuring the proposed increases:

1. To increase rates and introduce separate Levy rates for pension schemes;
2. To increase rates and introduce a separate, lower set of Levy rates for Master Trusts; and
3. To retain existing Levy structure and increase rates.

The consultation has now closed; we will provide an update in future bulletins.

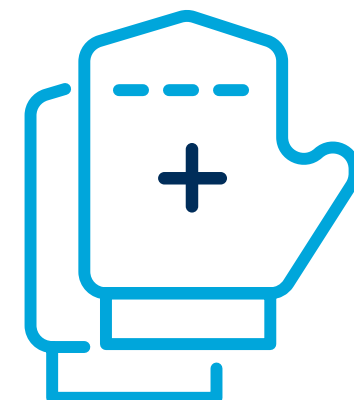
## Pledge to beat pension scams launched

On 10 November 2020, TPR [launched](#) a new [campaign](#) calling on pension providers, trustees and administrators to sign up to a pledge to help protect pension savers from the devastating impact of pension scams.

The campaign, supported by the Pension Scams Industry Group, requires those who sign up to agree to the following six steps:

1. Regularly warn members of the risk of scams;
2. Encouraging members asking for cash drawdown to call the Pensions Advisory Service for free impartial guidance;
3. Learn the warning signs of a scam and best practice for transfers;
4. Take appropriate due diligence measures and document pension transfer procedures;
5. Clearly communicate concerns to customers if high-risk transfers are being made; and
6. Report concerns about a suspected scam to the authorities and communicate this to the member.

The pledge can be signed up through [TPR's website](#), which also allows pledgers to self-certify to TPR that they meet the pledge, which can then be communicated to scheme members and the public. [TPR's trustee toolkit](#) also contains a scams module that provides assistance in this area.



# Practical Guidance

## *Work & Wellbeing – top tips to move Boards’ thinking forward*

Wellbeing is increasingly recognised as an important driver of company culture that enhances productivity. LCP has extensive experience in helping Boards move their thinking forward in this area by recognising the increasing role that Wellbeing plays in shaping a productive and engaged workforce. Heidi Allen, Senior Consultant at LCP, has produced a series of top tips to help Boards get this process underway. You can find these [here](#).

## *Benefits communications – rules to live by*

The world of corporate benefits is often technical, detailed, and weighty. But the ‘people’ agenda has risen in importance in the workplace over the past few years. This makes it more important than ever for companies to get communications on employee benefits right, so that staff can make the most of what’s on offer. David Millar, Head of Communications at LCP, set out some essential rules for [writing benefits communications](#) and [top tips](#) that will help corporates make their communications easier to digest.

## *TPR updates AE guidance*

TPR has updated its AE guidance to take account of the challenges employers face as a result of the ongoing Covid-19 pandemic. It understands that the business environment has changed but employers’

AE duties have not. The guidance covers information regarding:

1. employers’ AE duties;
2. employers’ responsibility for paying pension contributions and maintaining beneficiaries’ contact details; and
3. details of the Government’s business support packages (including the Coronavirus Job Retention Scheme).

The update confirms that TPR will take a proportionate and risk-based approach towards enforcement decisions, with the aim of supporting both employers and savers. The updated guidance includes information on nominating a contact for TPR to send important information to, should the normal contact be unavailable due to restrictions or possibly furlough. More details can be found [here](#).

## *Survival guide to pensions on divorce published*

A comprehensive and readable guide on pensions and divorce has been [published](#) by the Law for Life charity on its [Advice now website](#). This new ‘survival guide’ sets out what individuals should consider about pensions when getting divorced, including how the courts deal with pensions in this situation, and outlines a seven-stage process through to resolution.

These include:

1. finding out how much the pensions held by the divorcing parties are worth;
2. sharing information between the divorcing parties;
3. working out if expert help is needed;
4. getting expert help on pensions;
5. working out the options for pension sharing;
6. reaching a mutually acceptable agreement; and
7. finalising the agreement or next steps, where no agreement is possible.



## *Pensions Dashboard – data standards guide published*

The Pensions Dashboards Programme (part of the MaPS ) has published a [data standards guide](#) following consultation with industry stakeholders (see [Pensions Bulletin 2020/37](#)). This comprises a lengthy [guide](#), an [overview](#), a [video](#) (which is well worth looking at) and a [blog](#).

The guide (which is quite technical) provides a clear indication of the data items pension schemes and providers will be required to make available to dashboards.

The data is divided into two types:

- [Find data](#) – this includes a person's first name and surname, date of birth, address and national insurance number. This is necessary so that schemes and providers can match individuals to their pension entitlements.
- [View data](#) – this is the data that the pension provider will display to the user and includes a person's pension arrangement and the name of the pension provider as well as accrued entitlement (e.g. a DC pot), estimated retirement income (ERI), and the date payable for each pension.

A blog by Chris Curry (Principal of the Pensions Dashboards Programme) stresses that the data standards guide is “*just the beginning of the conversation on data standards*” setting out a relatively simple list of find and view data elements, recognising what is possible at this stage. He acknowledges that more work needs to be done, especially to enable users to view an ERI that has a degree of consistency between one provider/scheme and another. But in order to deliver to the agreed plan, they have to push forward with the data elements set out in the guide whilst working on a solution to the ERI issue.

For the first iteration of Pensions Dashboards, all UK-based pension schemes are in scope. This includes State pensions, DB pensions (including cash balance schemes) and DC pensions (whether occupational or personal, including a remaining balance after any uncrystallised funds pension lump sums have been withdrawn). Pensions that are currently in payment, or in drawdown are out of scope.



# LCP Insight

## Just launched - Financial Wellbeing report

This week we launched our interactive financial wellbeing report: 'Employee Wellbeing - The changing dynamics of financial health.' This report explores the impacts of Covid-19 on the nation's financial health, the changing landscape of financial behaviour and the role of the workplace.

Following our inaugural report in 2020, we conducted a further study of 10,000 UK employees one year on to measure the impacts of the pandemic on the financial health of UK employees from day-to-day money management, right through to their financial future.

What's inside?

- Exploring the regional impacts of job loss furlough and changing personal income;
- Understanding levels of stress, anxiety and depression and the core reasons;
- Examining the impacts of Covid-19 on spending and saving - almost 1 in 4 employees have less than 1 month's savings (including none) impacting their financial resilience;
- Spotlighting the bottom-line cost for industry of poor employee financial health;

- A deep dive into employee benefits - access, value and confidence in the employer post pandemic;
- Questions employers should be asking and top tips on where to start with an employee Financial Wellbeing strategy.

[Read the interactive report](#)



*Plan 2021 effectively and make the best use of meeting time by covering the key topics at the appropriate time.*

Download a business plan for 2021, checklist of key actions to cover at trustee meetings and watch short video summaries explaining why each topic is important for your scheme. Find out more [here](#).

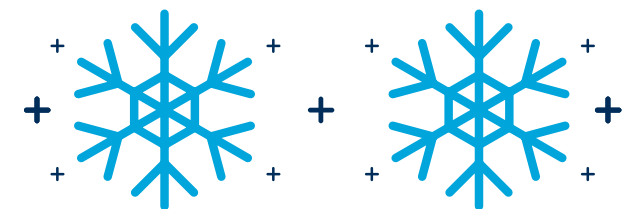
## Investment Focus – DC Lifestyle Strategy

Sam Cobley, Senior Consultant at LCP, has written a three-part series of blogs looking at components of the DC lifestyle strategy and what the Covid-19 pandemic has taught us about their suitability.

1. [Regional equity allocations - the starting point has changed.](#)
2. [Are your 'diversifiers' diversifying?](#)
3. [Duration vs Correlation; the DC Fixed Income quandary.](#)

## Communication & Engagement – The Power of ESG

It is no secret that the future success of long-term pension savings in the UK would be much easier if DC scheme members were more engaged with their schemes. In his latest [blog](#), Philip Audaer, Principal at LCP, considers what role ESG and responsible investing can play in unlocking member engagement.



## *Master Trust expert series*

We have launched a master trust expert series for DC scheme sponsors and trustees that reviews in detail key aspects of Master Trusts.

1. [The first issue, 'Growing up - a focus on trustee boards' written by John Reid, explores master trust trustee boards.](#)
2. [The second issue, 'Growing well - the member experience during 2020' written by Stephen Budge, reflects on the member experience during 2020.](#)

You might also be interested in this [blog](#), by Philip Audaer, examining the complexities single employer occupational trusts face in considering whether to close their in-house scheme and transfer members to a Master Trust.

And watch our master trust webinar on demand: [Stick or Twist? Do master trusts now have the best cards?](#)

## *LCP's Best External Client Service Award*

Philip Audaer won LCP's 'Best External Client Service' Award as part of our LCP Cares Awards in December 2020. One of the quotes received from a client read, "Philip managed a project transition with unfailing good humour and professionalism". Congratulations to him on winning this award.



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

LCP's first virtual DC and Financial Wellbeing conference will be held on Tuesday 27 April, where you will hear from experts who will share their experiences with practical tips on how to improve your members' and employees' outcomes. Look out for your invite.



## *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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