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.

November 2020

In this edition:

Key industry updates

New Government Working Group to look at DC 'small pots' problem

Following the Work and Pensions Committee's open letter to the pensions industry about the issue of small pension pots, the DWP has launched a working group to "assess and make recommendations" on ways to deal with the proliferation of small DC deferred pension pots, which have multiplied significantly since the introduction of auto-enrolment and the restriction on taking refunds. It seems clear that something needs to be done to address this issue, as these pots are costly to maintain, and can easily be eroded over time by a combination of management charges and/or fixed fees. Should pot follow member? The jury is out and so we shall have to wait and see.

Warning sounded as regular withdrawals have increased to 42%

The latest data from the FCA's retirement income market data has highlighted that savers with smaller pension pots (typically those between c£10,000 and c£100,000) have triggered high withdrawal rates within the flexible retirement regime. The FCA's data shows that c42% of regular withdrawals were at an annual rate of 8% or more of the pot value (an increase from 40% in 2018/19).

Received wisdom is that withdrawal rates at this level are too high to compensate for investment growth behind the scenes, which means that many scheme members may be in danger of depleting their DC pots much earlier than anticipated, however justifiable the reasoning may be. This means that schemes should take every opportunity to alert members of the potential risks associated with such an approach (see below).

PLSA examines 'customer journeys' on DC decumulation options

The Pension and Lifetime Savings Association has issued recommendations to establish a new regulatory regime which will require occupational pension schemes to support members about the decisions they need to consider when considering their flexible retirement options.

The PLSA thinks that schemes should be under a statutory obligation to support their members to understand in greater detail the suitability of all the flexible options, underpinned by standards and guidance.

Whilst the flexible retirement regime introduced in 2015 was welcomed by many, it is starting to become clear that DC members need to understand the potential impact of each. This means that schemes should ensure that their suite of communications are robust.

Reform to DC annual benefit statements to go ahead

The DWP is to press ahead with a number of reforms to pension benefit statements which have to be issued annually. This news, contained within the DWP's response to its consultation last November (see Pensions Bulletin 2019/42), is broadly in line with what had been proposed. Key features are:

- Simpler statement templates – the DWP will consult later this year on a mandatory approach to statements for DC schemes used for auto-enrolment, taking the two-page statement template as the starting point in considering the length, content and design.
- The inclusion of charges and transaction costs – rather than increasing the length and complexity of the statement, the intention is to include a signpost to where a more detailed assessment of this information can be found.
- The assumptions used – the DWP will continue to work to identify the most appropriate ownership of the assumptions going forward.
- A 'statement season' – the DWP is supportive of this and will consult on a mandatory approach for the timing of provision of an annual written pension benefit statement.

State pension age now reaches 66

On 6 October 2020, those born 66 years ago were able to claim their State Pension, thus ending the first 'unisex' State Pension Age transition from 65 to 66, which started in March 2019. The next transition from 66 to 67 is not scheduled until April 2026, with the third, from 67 to 68, currently legislated to start in April 2044, but with the possibility that it may start in 2037.

More success for Pension Wise as it continues to grow

More people are accessing the guidance offered by Pension Wise, according to latest report published by the Money & Pensions Service (MaPS).

The 2019/20 report reveals that 160,000 face-to-face or telephone appointments were arranged, compared with 130,000 in 2018/19 – a 23% increase. Those accessing guidance digitally increased to 45,000.

A number of other statistics demonstrates high levels of satisfaction from those who engage with Pension Wise on how to access their pension savings.

'Defined' contributions?

Read the first of our new mini-series of blogs, co-authored by LCP's Philip Audaer and Rebecca McKay from law firm Trowers & Hamlins LLP, which explores some of the current unseen issues that can arise in terms of how DC contributions are paid, which can significantly impact both trustees and scheme sponsors.

MaPS acknowledges pension dashboard challenge

In an industry update following the closure of the consultation on data standards (see Pensions Bulletin 2020/28), Richard Smith, Head of Industry Liaison for the Pensions Dashboards Programme, has acknowledged that delivering the dashboards will be a challenge. Whilst welcoming the many responses received, he makes clear that the great complexity of pension provision in the UK will make it difficult to get data standards right.

Nevertheless, MaPS hopes to be in a position to publish a summary of the responses to the consultation and an initial version of the data standards for pensions dashboards by the end of the year.

CMA compliance statements are due by 7 January 2021!

There is now a legal requirement for trustees to set their investment consultants strategic objectives, so that they can better measure the quality of services provided.

The first annual compliance statement should be submitted to the CMA by **7 January 2021**.

The statement must be submitted with a signed certificate stating that the statement has been prepared in accordance with the requirements of the CMA order. It must relate to the period during which the statement relates, stating that the trustees have complied in all material respects with the requirements of the order and reasonably expect to continue to do so. If you need any more information on the implications of this, contact the DC Team.

Diverting contributions back to 'gated' funds – the Regulator updates its guidance

At the start of the Covid-19 pandemic many investment funds (particularly property funds) were gated, which curtailed the payment of ongoing contributions.

This meant contributions having to be temporarily diverted to other funds, typically cash funds. Now that these gated funds are re-opening, concern has been raised that these temporary 'holding' funds could themselves be classified as 'default' arrangements, depending on how legislation is interpreted, which could result in additional governance requirements.

The Pensions Regulator updated its guidance about this in July (see Pensions Bulletin 2020/28) but, following discussions with various industry representatives, it has updated it again. It has now added a very helpful easement to its interpretation by confirming that a default arrangement is unlikely to be created when trustees inform members that the trustees' view is that "the pre-existing expression of choice remains in place and they are given the opportunity to object before those contributions are redirected back into the original self-select fund".

Key industry updates continued

Charge cap and cost disclosure consultation closes

The DWP's, call for evidence on the effectiveness of costs, charges and transparency measures in protecting member outcomes (primarily in DC schemes - see Pensions Bulletin 2020/27) closed on 20 August.

LCP's response to the consultation was to call for the ending of member-borne flat fees, because of the detrimental impact they can have, and new policies to ensure that small deferred pension pots are consolidated. We were also sceptical about whether and how transaction costs should be included in the overall charge cap and expressed concern that an across-the-board reduction in the current 0.75% charge cap could be to the detriment of members.

The PLSA is also not in favour of a reduction in the charge cap and believes that including transaction costs as a component of the charge cap may not be in members' best interests.

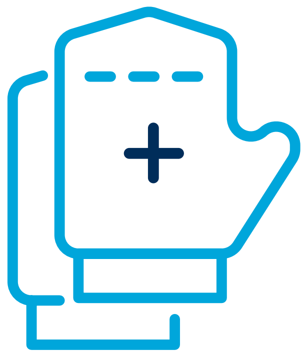
PLSA publishes vote reporting templates

The Pensions and Lifetime Savings Association has published vote reporting templates to help pension schemes, investment managers and platform providers disclose how they enact their shareholder voting rights.

Changes to the law, which came into effect in October, mean that trustees must demonstrate how they are acting as effective 'stewards' of their assets. An important way to demonstrate this is for them to disclose how they are using their voting rights to support or sanction corporate behaviour among their investee companies.

Importantly, the new regulations require trustees to disclose not only their own voting behaviour, but also the votes of investment managers acting on their behalf.

It remains to be seen how effective these will be, but if widely adopted, it is hoped that these templates will reduce costs of compliance for pension schemes.



Covid-19 updates

TPR blogs on targeted auto-enrolment enforcement during the Covid-19 pandemic

The Pensions Regulator has published a blog on the results of its approach to enforcing employers' auto-enrolment duties during the pandemic.

The blog and linked data in its quarterly compliance and enforcement bulletin indicate that the Regulator's "pragmatic" approach to enforcement has worked well. Where employers have struggled to comply, the Regulator has been prepared to delay escalation unless significant and wilful non-compliance has surfaced (often via whistle-blowers).

The Regulator says that it has seen no evidence of a significant spike in non-compliance and confirms that, still while keeping its approach under review, it will take action where necessary to protect savers.

Should DC schemes help those financially affected by Covid-19?

LCP's Madeline Chelper explores how DC schemes can assist their members in challenging market conditions, what we can learn from other countries, including Australia's Early Release Scheme and the effectiveness of these policies to-date.

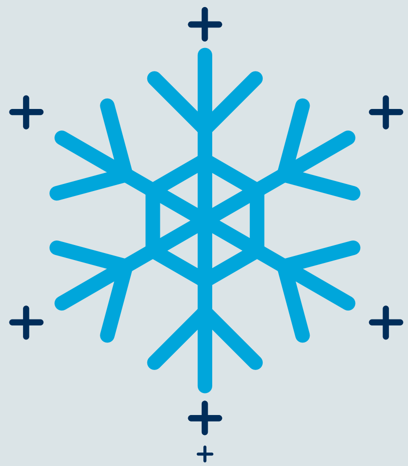
Updated Covid-19 Guidance

TPR has issued further updates to its Covid-19 guidance, including:

- Trustees should consider how individual members might react in the current environment to headline market/fund value falls or reduction/loss in earnings. Members could make inappropriate decisions, crystallise losses or be exploited by scams.
- Trustees should review and manage specific risks that may now exist within their portfolios or with their service providers, for example in relation to sector exposures/concentrations in certain funds.
- Trustees should review any previously agreed investment and risk management decisions to be implemented in the future. This is to ensure that they remain appropriate, efficient and do not introduce risks or crystallise losses.
- Trustees should review their investment governance structures and delegations to ensure they can continue to function and make decisions in the event of trustee incapacity or absence.
- Trustees should assess, following the recent performance of their scheme, whether any changes to their governance framework or provider arrangements should be made at an opportune time.
- TPR recognises that in the current circumstances, employers may need to reduce their AE contributions to the statutory minimum. TPR has agreed not to take regulatory action against employers if they fail to consult affected members for the full 60-day period, providing they meet certain conditions.
- If a rule change is required in order to reduce employer contributions and trustees have or share responsibility for this, they must be mindful of their duty to act in the members' best interest.

More information about Covid-19 guidance for trustees can be found on TPR's website.

If you have any questions about any of these topics, please get in touch with our DC team.



Responsible investment: focus on climate risk

DWP consults on climate action by trustees

The Department for Work and Pensions launched a consultation (which finished on 7 October) called "Taking action on climate risk: improving governance and reporting by occupational pension schemes".

The consultation paper set out firm proposals for mandating the existing Government expectation that large schemes will disclose their approach to managing climate-related risks and opportunities by 2022, in line with the recommendations of the Taskforce on Climate-Related Financial Disclosures. This will be achieved via regulations and statutory guidance, as provided for through the Pension Schemes Bill currently before Parliament (see Pensions Bulletin 2020/06).

This is an important development for trustees of occupational pension schemes, so LCP will be commenting further on this in a future News Alert.

Addressing climate change: your action plan

LCP's investment team has compiled a nine-point action plan that will enable DC trustees to:

- understand climate-related risks and opportunities and assess their financial materiality;
- manage these risks and opportunities appropriately; and
- demonstrate to your members, the Regulator and others that you are taking the meaningful action required.

For help in tailoring this action plan for your scheme, please contact our DC team.

Climate change for pension schemes: what actions should trustees take?

Watch our on-demand webinar to learn about DWP's proposals and actions that trustees can take now.

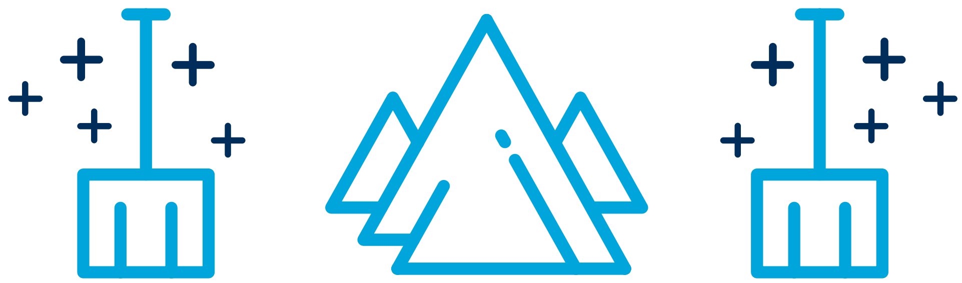
Is responsible investing more than a 'coronatrend'?

In this blog, LCP's Stephen Budge considers if responsible investing is a 'coronatrend' (just one of the new 'coronaphrases' that have been added to the English language) or is it here for the long run?

Resilience: the new watchword for investors?

The Covid-19 pandemic took investors by surprise. With hindsight, it was a known risk that we were unprepared for. What can investors do to protect themselves from future shocks? LCP's Claire Jones recommends focusing on resilience.

You can find more content relating to responsible investment in our content hub here.



Our viewpoint

Stick or Twist? Do Master Trusts now have the best cards?

Webinar: 10 November 2020, 3:00PM

Master Trusts are fast becoming the contract of choice for many DC scheme sponsors. This trend is likely to accelerate as a result of the DWP's recent proposal to introduce additional reporting requirements for single trust-based schemes with assets below £100m, which will put pressure on these schemes to migrate.

But Master Trusts are not necessarily suitable for everyone, nor are they all the same, so now is a good time to assess if this approach will work for you. Should similar considerations also apply to GPPs?

Join Philip Audaer and Rachel Crowther from LCP, along with Claire Southern from Hogan Lovells, in this 45 minute webinar which will provide an independent view of this rapidly changing market, help develop your thinking and consider the next steps and key actions you should take.

Register here

Financial wellbeing: three ways to support older workers who are struggling financially

In this blog, Rebekah Gerry explores the various ways companies can support older workers who are struggling financially.

Investment Uncut - Financial wellness with Heidi Allan

Listen to our Investment Uncut podcast, where hosts Dan Mikulskis and Mary Spencer talk to Heidi Allan about the bigger picture of financial wellbeing and its state of play in today's current environment.

Annual Pensions Conference 2020

Politics, Pandemics & Pensions: Moving forwards with 2020 hindsight

Tuesday 1 December 2020, 9:30AM

At LCP's first virtual conference, we'll reflect on lessons learned this year and consider changes encountered in our industry from the Regulator, the Pension Schemes Bill and action on climate change. And let's not forget Brexit and Covid-19.

Register here

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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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