

LCP DC update



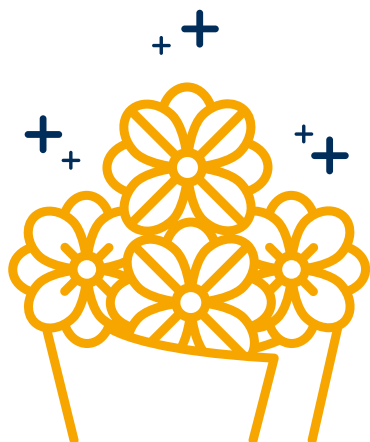
Welcome to LCP's latest quarterly DC update, in which you will find our views on key developments in the DC arena over the last three months, together with any actions and issues heading your way.

August 2020

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Pension Schemes Bill is (finally) approved by House of Lords

The [Pensions Schemes Bill](#) has been approved by the House of Lords, after delays brought by Covid-19.

As a reminder, the Bill's main features are:

- **The introduction of the framework for the establishment, operation and regulation of Collective Defined Contribution (CDC) schemes.** These are known as a type of 'defined ambition' schemes, and are designed to pay a target or 'ambition' amount, although without an underlying DB promise, by pooling contributions. CDC schemes have been in the pipeline for some time, [as discussed in this blog by Stephen Taylor](#), but it will be interesting to see how things develop.
- **Strengthening The Pensions Regulators (TPR)'s existing powers** and its sanctions regime, to include introducing new criminal offences, the most serious of which now carry a maximum sentence of seven years' imprisonment and a civil penalty of up to £1 million.

- **Information and redress powers** – this gives TPR powers to obtain the right information about a scheme and its sponsoring employer in a timely manner to ensure that it can obtain redress for pension schemes and members when things go wrong.
- **Pensions dashboard** – to provide a supporting framework, including new powers to compel pension schemes to provide accurate information to consumers, with provisions for regulators to ensure compliance .
- **Right to transfer** – the intention here is to create regulations to explain under what circumstances someone will have the right to transfer their pension savings to another scheme. The background has been the proposed restriction in the statutory right to transfer, in order to tackle pension scam concerns.

This is something to keep an eye on, as it may affect some of your higher earners.

1. Key industry updates

DWP publishes call for evidence on the effectiveness of costs, charges and transparency measures

The DWP [is calling](#) for views on the effectiveness of costs, charges and transparency measures in protecting member outcomes, in some of the following areas:

- The level and scope of the current charge cap (0.75%) which applies to the default arrangement within DC schemes that qualify as auto-enrolment vehicles, and whether transaction costs should be brought within this equation;
- The appropriateness of certain permitted charging structures, such as the use of a flat fee, and the extent to which these should be limited; and
- Options to assess take-up and widen the use of standardised cost disclosure templates.
- The consultation concludes on 20 August 2020 with responses requested in an [online form](#). The DWP aims to bring forward proposals in response to this call for evidence later this year. See [Pensions Bulletin 2020/27](#) for more information on this update.

FCA announces pensions ‘value for money’ consultation

The FCA is [consulting](#) on proposals to determine if members of workplace pension schemes are actually receiving value for money.

The proposals aim to make it easier for Independent Governance Committees (IGCs), which currently

have to scrutinise a provider’s workplace personal pension schemes, to be more effective.

This comes in the wake of a timely [thematic review](#) which examined the effectiveness of IGCs and others.

The review found that whilst a number of IGCs were working well to provide value for money, there was a lack of consistency in the way that they operated, which in turn suggests that not all workplace pension scheme members are receiving value for money, which is a cause for concern. Following the review, the FCA has sent feedback letters to providers asking for improvements in the way they work with their IGCs and others.

This is something to keep an eye on, but please get in touch with our [DC team](#) if you have any questions in respect of your own workplace pension scheme, as there are steps you could potentially take to make sure it is as competitive as possible.

PLSA publishes new guidance to help trustees navigate investment disclosure duties

Only a year on after trustees were required to include details in SIPs on financially material, non-financial matters and overall stewardship, comes a new suite of reporting requirements that take effect on 1 October 2020 as part of a continuing drive from policymakers, regulators and members for schemes to do more to demonstrate transparency, public accountability and good corporate governance.

From October, trustees will now be required to



generate an annual ‘Implementation Statement’ which describes voting, engagement behaviours and how strategic aims have been enacted in practice.

To help trustees understand more about how this will work in practice, the PLSA has just published [this guidance](#). The Working Group that has published this guidance was chaired by [Laura Myers](#), [Head of LCP’s DC Practice](#).

If you want to understand more about how these statements will work in practice, please contact the [DC Team](#).

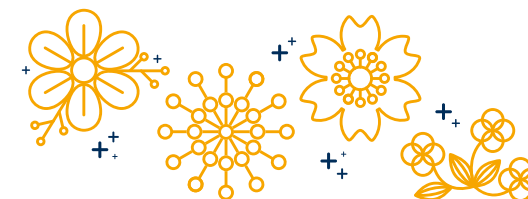
LCP questions FCA DB transfer benchmarking

In October, new rules introduced by the FCA will force those advising on DB transfers to benchmark the proposed destination for funds against a low-cost workplace pension.

Whilst we share the concerns the FCA has expressed about the high charges often found in the contracts that are often recommended (ie SIPP), at this stage we wonder whether this requirement will provide the level of consumer protection the FCA has envisaged.

This is borne out by the results of a survey of 13 Master Trusts to assess their capabilities. You can find more details in [LCP analysis](#) which shows that, as a result, this new FCA requirement may not provide the consumer protection that is intended.

1. Key industry updates continued



Are thousands of older women being short-changed on their state pension?

Since the National Insurance system was created, special provision has been made for married women who might be financially dependent upon their husbands in retirement. Enquiries from readers of [LCP Partner Steve Webb's column](#) in 'This is Money' highlighted that some married women may actually be missing out on part of their state pension entitlement.

[This paper explores the issue in greater depth](#), finding that tens of thousands of older women may be entitled to a higher rate of state pension than they are currently receiving.

DC tax relief analysis by the PPI

The Pensions Policy Institute ('PPI') [has issued a paper covering DC tax relief, which is important and timely](#) for anybody interested in the possible future direction of the current regime that supports tax relief on contributions to DC schemes. Some of its main conclusions were:

- Applying a flat rate of tax relief on DC pension contributions would increase the proportion of DC pension tax relief associated with basic rate taxpayers from 26% to 42%.

- A basic rate taxpayer, who works and contributes continuously to a pension could get around one fifth more from their savings under the current tax-advantaged system than under a non-advantageous structure. A higher rate taxpayer could receive around half as much, again from their savings.
- For every £100 of DC pension contributions made from gross earnings or by an employer, £32 of income tax has been relieved.
- The total value of contributions to DC pensions schemes was £29bn in 2018 from individuals and employers. Around £9.3bn of income tax was relieved in respect of these contributions.

Under the current system, around 50% of tax relief on DC pension contributions is associated with individuals whose income is above £60,000 a year, which means that half the value of the tax relief is claimed by the 15% of those with the highest incomes.

Updated Covid-19 Guidance

TPR has issued [further updates to its Covid-19 guidance](#), including:

- **Late payment of contributions** – the introduced 150-day backstop to reporting of

late employer contributions continues. This will be reviewed at the end of September 2020. It now seems clearer that the Regulator has only DC schemes in mind.

- **Chair's statements and failure to prepare audited accounts** – the Regulator will continue not to review any DC Chair's Statements it receives; from now until 30 September 2020 they will be returned unread. TPR will take a pragmatic approach to late preparation of audited accounts and will accept delays to 30 September 2020.
- **Investment governance** – TPR does not expect to take regulatory action if a review of a statement of investment principles (or statement in relation to any default arrangement) is not delayed beyond 30 September 2020.

Further guidance for trustees of DC schemes to follow schemes during the Covid-19 crisis can be found on its [website](#).

It is important that scheme members avoid making hasty decisions, which they may later regret. Guidance for communicating with your scheme members during Covid-19 can be found [here](#). If you have any questions about any of these topics, please get in touch with our [DC team](#).

2. Our viewpoint

Investment ideas

How should DC default design evolve in a post-Covid-19 world?

The financial market impact from the pandemic is providing a litmus test for DC investment strategies, the first real test in the auto-enrolment era and probably more importantly, the first post the freedom and choice reforms. [In this blog](#), [Laura Myers](#) looks at why and how DC default design needs to evolve in a post-coronavirus world.

[Watch this Professional Pensions' virtual roundtable](#) in which Laura and other industry figures look at how DC schemes are coping with the investment volatility caused by the Covid-19 pandemic and assess any actions they should consider now to protect members. This may be a perfect time to review your scheme's DC default design. Please feel free to get in touch with our [DC team](#) if you have any questions

New campaign encourages members to question their pension investments. Are you ready to answer?

In early July, the film director Richard Curtis launched his 'Make My Money Matter' campaign. [In this blog](#), Claire Jones discusses the campaign and how trustees and scheme sponsors can prepare for difficult questions about how members' money is invested.

Employee financial wellbeing

How can you support your employees' financial wellbeing?

[Access this webinar on-demand](#) to find out how can you provide a supportive workplace which nurtures employee engagement and productivity during a time of increased financial stress.

LCP's financial wellbeing and communications experts, [Heidi Allan](#), [Rebekah Gerry](#) and [David Millar](#) discuss:

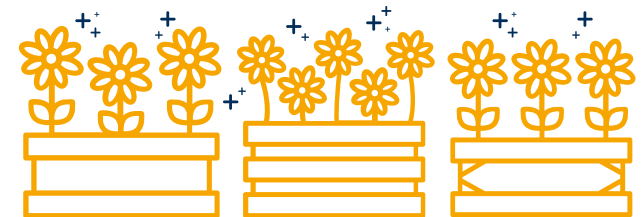
- LCP's latest research on employee financial wellbeing;
- Why financial wellbeing should matter to senior management; and
- How to increase engagement and productivity through effective communication.

Employee financial wellbeing: providing a supportive workplace

Following on from our recent webinar, Rebekah Gerry [discusses the current state of financial wellbeing](#) amongst employers and best practice for your financial wellbeing strategy.

The importance of data analytics and what it can tell you about your global workforce

We live in digitally-connected times, where data flows 24/7, be it for social or commercial reasons. [In this blog](#), Heidi Allen looks at how we can use data insights to ensure that we are supporting and engaging workers in the right way, how we protect that data, making sure it is held for valid reasons and not subject to misuse in any way.



Any questions?

If you would like any assistance or further information on the contents of this Update, please contact one of the team below.



Laura Myers
Partner, Head of DC

laura.myers@lcp.uk.com
+44 (0)20 7432 6639



Philip Audaer
Principal

philip.audaer@lcp.uk.com
+44 (0)20 7432 6777



Ellen Wallace
Associate Consultant

ellen.wallace@lcp.uk.com
+44 (0)20 7432 0633



Naznin Chowdhury
Analyst

naznin.chowdhury@lcp.uk.com
+44 (0)20 7432 7741

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