

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 2019

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Key market updates

Queen's Speech signals the Pension Schemes Bill

In the Queen's Speech on 21 October were details on the Pensions Schemes Bill ([see briefing background notes](#)). Key features included:

- Collective defined contribution schemes – providing a framework for their establishment, operation and regulation (see [Pensions Bulletin 2019/11](#)).
- Pensions Regulator (TPR) powers – strengthening its existing powers and the sanctions regime, to include introducing new criminal offences, the most serious carrying a maximum sentence of seven years' imprisonment and a civil penalty of up to £1 million.
- Information and redress powers – giving TPR powers to obtain the right information about a scheme and its sponsoring employer in a timely manner and ensuring that it can obtain redress for pension schemes and members when things go wrong.
- Pensions dashboard – providing a supporting framework, including new powers to compel pension schemes to provide accurate information to consumers, with provisions for regulators to ensure relevant schemes comply (see [Pensions Bulletin 2019/14](#)).
- Right to transfer – “creating regulations to set out circumstances under which a pension scheme member will have the right to transfer their pension savings to another scheme” – this refers to the proposed restriction in the statutory right to transfer in order to tackle pension scam concerns (see [Pensions Bulletin 2017/35](#)).

Key market updates continued

Unfortunately the Bill is now the key casualty in the Government's legislative agenda following the decision to hold a General Election on 12 December 2019.

As Parliament is to be dissolved on 6 November, the Pension Schemes Bill will fall. With the dissolution of Parliament, "purdah" will begin, which is the convention that the Government will not make any major policy announcements whilst campaigning is in progress.

However, there is every likelihood that it will re-surface in some form after the General Election, given that it had cross-party support. But quite when we see it again will depend on whomever forms the next Government.

Government accused of complacency over 'cost transparency'

The Work and Pensions Committee chaired by Frank Field has [published](#) a hard-hitting report on its inquiry, launched a year ago, into pension costs and transparency in the pensions industry (read more in LCP's [Pensions Bulletin](#)). The report acknowledges progress in different areas but concludes overall that the Committee is 'unconvinced' that the industry will rise to the challenge of providing clear, transparent information to pension schemes about the costs and charges of investments, without legislation requiring mandatory disclosure in a set format for DC (and DB) schemes.

Other recommendations in the report include:

- For the [Cost Transparency Initiative](#) (which is a new industry standard launched by the PLSA to generate meaningful and consistent institutional investment cost data) to introduce templates for investors and advisers to disclose information to trustees to allow for clearer comparisons on charges (see [Pensions Bulletin 2019/20](#)).
- For the DWP to review the level and scope of the current 0.75% charge cap on DC schemes in 2020. Pressure to reduce the current cap could have implications for the introduction of, for example, illiquid assets into DC, so it will be interesting to see how these discussions develop.
- For the Government to publish a timetable for the roll-out of a non-commercial pensions dashboard by the end of 2019.
- That anyone who accesses their DC pensions savings using the flexible retirement options should only be able to opt-out of guidance through an active decision communicated to an impartial body, such as the new Money and Pensions Service.
- For the Government to resolve the differential impact on the pension savings of low earners between net pay and relief at source tax relief pension arrangements as a matter of urgency. Just by way of a reminder, the pension tax relief

system for low earners can give a basic rate tax rebate to pension savers earning below the personal allowance in relief-at-source schemes, but not to those in net pay schemes (because their earnings are not subject to tax in the first place).

- This anomaly is widely seen as penalising low earners who want to make additional pension provision. The Committee also suggests that the FCA should review whether it currently allocates sufficient resource to combat active pension scams, prevent new pension scams and protect individuals.

We will keep you up to date with any market developments.

The pension scam saga continues: what will you do?

Following on from our [last DC update](#) and warnings from Action Fraud (see [Pensions Bulletin 2019/26](#)), The Regulator has issued new research suggesting that over 5 million people across the UK could be at risk of falling for at least one of six common tactics used by pension scammers.

If you require assistance providing information to your employees, please get in touch with our [DC team](#), who will be able to help you further.

Key market updates continued

TPR: improve or “quit the market”!

TPR has used the release of its latest annual [DC scheme governance survey](#) to highlight what it calls the “unacceptable” scale of under-performance by small pension schemes (i.e. those with fewer than 100 members) in terms of meeting acceptable governance and trusteeship standards. Its conclusion is blunt and unsparing and should leave no-one in any doubt about its determination to ensure that these schemes should be absorbed into master trusts.

TPR believes that authorised master trusts are more likely to be well run and provide much better value for members because of their scale and quality of oversight. Almost three quarters of DC members are now in schemes which meet all of TPR’s five expected governance standards (an increase from 54% in 2018).

The results and conclusions from this survey are unsurprising, given TPR’s stance on consolidation for small schemes within the DC market and explains why so many of these schemes are moving to master trusts.

TPR continues to engage with trustees and employers to raise standards

TPR’s [latest quarterly compliance and enforcement bulletin](#) contains a stark warning about the dangers of failing to keep track of ongoing auto-enrolment duties.

Recently, an employer which chose not to engage with TPR has been found in breach of its obligations and ended up having to pay a £350,000 fine as well as £100,000 in backdated pension contributions.

This serves as yet another reminder of TPR’s increased oversight, so if you would like any support in your auto-enrolment or other duties, please get in touch with one of our [DC experts](#).

UK Pensions Minister writes to the 50 ‘biggest pension schemes’ about ESG

The UK Pensions Minister Guy Opperman has [written to the 50 largest pension schemes](#) highlighting their responsibilities on ESG and climate change policies.

In our experience it is rare for a Pensions Minister to be quite so forthright, which if nothing else shows how seriously this issue is being taken within ministerial ranks and the extent to which this hugely important topic should be taken very seriously by all schemes.

You can read more ESG issues in our recently updated guide to [Responsible investment in DC schemes](#).



Recent provider market developments

NEST introduces new death benefit option for members

NEST members [can now opt](#) either to nominate a beneficiary or opt in to discretionary decision-making by completing an Expression of Wish form.

By opting in to discretionary decision-making the member's pension pot at death will usually not be considered to form part of their estate for inheritance tax purposes.

NEST looked to introduce this flexibility when reviewing its rules in 2018 but the proposal was shelved, largely due to concerns over the communication challenges around helping members choose which option suited their circumstances best ([see Pensions Bulletin 2018/13](#)). The stated intention then was to “develop a thoughtful communications strategy”: we now understand that NEST has worked with specialist agencies to make sure these communications are simple, easy to understand and accessible.

Master trust latest

On 1 October 2019, Cardano Group completed the acquisition of Now: Pensions, a week after its master trust received authorisation from the Regulator.

TPR's list of authorised master trusts can be found on its [website](#).

2019 Industry research

Responsible Investment as a motivator for 'Generation DC'

David Whitehair, Director of DC Strategy (Franklin Templeton) looks at the evolving nature of DC for millennials, including the use of emotional analytics.

You can read all about it [here](#).

FCA retirement income market data findings

The FCA provides analysis of the latest data from firms on the retirement income market. You can read more about this on the [FCA website](#).

PPI The DC Future Book (2019)

This report sets out available data on the DC landscape alongside commentary, analysis and projections of future trends.

You can read the full report [here](#).



Our latest thinking

LCP supports new 'Retirement Living Standards'

At its annual conference in October, the PLSA launched new [Retirement Living Standards](#) which have been developed to help people picture their future retirement and what that might cost.

The standards are pitched at three levels – minimum, moderate and comfortable – based on a basket of goods and services, from food and drink to holidays. They have been developed from independent research undertaken by Loughborough University.

You can find out more about the standards by watching [this video](#).

As well as using these standards in engagement and education strategies, we have also embedded these new standards into our DC modeller, [LCP Horizon](#) as we think these new measures will help trustees and employers better quantify DC strategy decisions. To find out more on the standards and our thoughts, read this [press release](#) or get in touch with any of the [DC team](#).

The DC retirement world: what employers need to know

Keeping your employees engaged and financially healthy with the ability to achieve a comfortable retirement isn't easy when you must also consider the needs of the business. [Our latest publication focusing on the DC retirement world](#) aims to help you tackle the challenges that will ensure you get the best value from your scheme and support your employees to reach better, more personalised outcomes.

Time's up! FCA calls time on the Retirement Outcomes Review

Nigel Dunn, Senior Consultant [looks at the FCA Retirement Outcomes Review](#) and what this means for savers, companies and providers.

LCP Investment management fee survey 2019

In our latest [investment management fees survey](#), we found that fees have fallen in many key asset classes used by institutional investors in the last two years. These include the following:

- Multi-asset diversified growth funds and multi-asset credit;
- Liability driven investment strategies; and
- Passive global equity mandates.

Our survey can be used as a reference document to;

- Benchmark existing manager fee arrangements
- Compare fees for new investment manager appointments; and
- Negotiate fee levels.

Financial wellbeing webinar debate

[Listen to Heidi Allen](#), a Senior Consultant in our Financial Wellbeing Team, as part of a panel debate with WSB (Workplace Savings and Benefits) to examine why employers should consider setting up a financial wellbeing programme, how to decide what should and shouldn't be included, and assess how to build and implement an effective programme.

Our latest thinking

Early registrations are now open for our 2020 DC & Financial Wellbeing Conference!

Please join us on Tuesday 28 April 2020 at the St Pancras Renaissance Hotel to hear our latest ideas on how to make a real difference to your DC savers' futures.

[Reserve your seat today](#) to walk in the shoes of your DC savers and help them to improve their financial wellbeing - now and in the future.

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 any one of the team below.



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