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 2019

In this edition:

Key market updates

Is a radical shake up of the Pensions Regulator's Code of Practice on the way?

Following speculation within the industry, the Pensions Regulator has confirmed it is reviewing its current 15 Codes of Practice "to form a single, shorter code" which is "quicker to find, use and update, so that trustees and managers of all types of schemes can be more responsive to changes in regulation."

Its immediate focus will be on the Codes most affected by last year's governance regulations. DC Code of Practice 13 will be one of the first to be reviewed, as will content from the Master Trust Code of Practice 15. Trustees will need to be able to demonstrate that they have an effective system of governance within 12 months of publication of the updated Code(s).

The Pensions Regulator is planning to launch a formal consultation later in the year, but before then it will engage with stakeholders for feedback on the proposed design and content.

It is not clear when this Code(s) will come into force, but our latest assessment is Spring 2020.

Our DC Team can help you if you need further background on this.

Key market updates continued

Industry group updates its Pension Scams Code

The Pension Scams Industry Group has issued a further edition of its Code of Good Practice which is designed to help trustees, pension scheme administrators and providers combat pension scams. It is applicable on a voluntary basis to all transfer requests processed from 10 June 2019.

The Code has been updated to reflect recent regulatory and legislative changes, as well as the evolving nature of pension scams, which are now receiving high profile coverage. The new features in the Code now include:

- material relating to the introduction of the cold-calling ban;
- the findings from a scams survey undertaken by the Group; and
- revised Action Fraud reporting guidance.

The Pension Regulator's crackdown on investment strategy reviews

The Pensions Regulator has recently announced a new drive to ensure that trustees of DC and hybrid schemes are meeting their legal obligations and regularly reviewing the investment strategy and performance of their schemes' default arrangement(s).

The law requires that a scheme's default strategy and its performance must be reviewed **every three years**, or when there is a significant change in a scheme membership's investment policy or demographic.

We are not surprised that the Regulator is focussing on whether trustees are regularly reviewing their scheme's default arrangements, given that c95% of members of trust-based DC schemes are saving in this way. Therefore, if trustees are not regularly reviewing the scheme's default, then they are most likely to be failing in other areas of scheme governance. You can read more about this in our Pensions Bulletin.

Our DC team can help you if you need assistance with your scheme's investment strategy or alternative DC scheme design options.

Changes to the Statement of Investment Principles: don't leave it too late!

Significant changes in the law regarding the investment of DC assets have been made in recent months.

With the publication of guidance by the Pensions Regulator, trustees should prepare now to meet these new requirements, including revisions to their Statement of Investment Principles (SIP) by **1 October 2019.**

Key actions

SIP – trustees should:

- Update their SIP for policies on financially material considerations, non-financial matters and (if the scheme has more than 100 members), stewardship by 1 October 2019
- Update their SIP for policies on asset management arrangements by 1 October 2020
- Make their SIP freely available on a website by 1 October 2019

Implementation statements – trustees should:

- Ensure that they are in a position to produce an annual implementation statement on how the SIP has been followed from 1 October 2020 (and to include a description of their voting behaviour by 1 October 2021)
- Make the implementation statement freely available on a website from 1 October 2020

You can read more about SIPs and responsible investment in our recent News Alert. But if you have any particular questions, please get in touch with our DC team who would be happy to help.

Key market updates continued

The Pensions Regulator's stance on 'poorly' governed schemes: badly run schemes need to improve or consolidate

In July, the Pensions Regulator launched a consultation on the future of trusteeship and governance, in which it argued that it needed to take a number of actions.

We comment about this in our special News Alert and in this blog.

DC Chair's Statements: hybrid schemes

It has been unclear for some time whether, and for how long, the requirement to produce a DC Chair's Statement will continue after a hybrid scheme (i.e. a scheme with both DB and DC sections) stops being a "relevant scheme" (i.e. most occupational pension schemes which provide money purchase benefits other than AVCs).

Our experts have liaised with the Pensions Regulator which takes the view that if all non-AVC DC benefits in a scheme are bulk transferred, for example to a Master Trust, then the scheme will no longer be a "relevant scheme" and, if the transfer of DC benefits is fully completed before the deadline for producing a Chair's Statement (within 7 months of the scheme year-end), then the Pensions Regulator is "unlikely" to issue a penalty for not producing a Statement for that scheme year.

Please get in touch with the DC Team, if you have any particular questions about Chair's statements.

Age UK – fixing the freedoms

Age UK published a fascinating and timely report in June, highlighting key issues for the pensions industry to consider:

- The long list of complex decisions and actions which are required from retirees, without necessarily having access to adequate support.
- A recommendation that there should be a clear default path of "guidance" for all retirees, with retirees then being able to opt-out if they wish, or easily "opt up" to "advice".
- Concerns about "non-advised drawdown"; and
- A summary of the FCA's retirement outcome review, which backs Age UK's research. For example, c.72% of pots have been accessed at 55+, most of which have been taken as cash lump sums, which could lead to retirees having less money when they eventually retire.

You can read about this further in the report.

UK retirees outlive their savings by a decade

Research conducted by the World Economic Forum suggests that the average UK retiree might use up all their pension savings at the point when they still have more than ten years left to live, highlighting the importance of effective member communications and modelling tools.

Recent provider market developments

NEST plans to divest completely from the tobacco industry

NEST, which is the UK's largest Master Trust, recently announced that it would divest completely from tobacco, having concluded it would be a poor investment option for its c8million members.

NEST currently has c£40m exposure to tobacco firms and predicts it will take up to two years to unwind its position completely. This is unsurprising, given NEST's well-publicised position on tobacco investments and recent performance, in tandem with stricter global regulation, government intervention and legal action against tobacco products. This also chimes with the growing trend towards responsible investment and increasing requirements for UK pension schemes to offer more responsible investment options, prompted by such issues as climate change. It will be very interesting to see how this develops and whether other providers will take a similar stance.

Equitable Life: proposed Equitable Life sale to Utmost (formerly Reliance Life)

On 15 June 2018 Equitable Life announced that it had signed an agreement with Reliance Life, now called Utmost Life & Pensions ("Utmost"), under which it is proposed that Equitable Life and all of its business transfers to Utmost.

The vote on Equitable Life's proposal to transfer its business to Utmost is scheduled to take place in October 2019.

As the policyholder, trustees will be asked to vote on the proposal on behalf of their Equitable Life AVC members. Subject to the majority of With-Profits policyholders agreeing and subsequent approval by a High Court Judge, Equitable Life aims to complete the transition to Utmost by 1 January 2020.

To recap, the proposals are to:

- Close the With-Profits Fund and apply an uplift to With Profits members' policy values (expected to be in excess of the publicised 60% to 70% uplift, due to the Guaranteed Investment Rate);
- Move holdings in the With Profits Fund to a Cash fund; and
- Transfer Equitable Life's policies to Utmost.

The outcome of the vote should be known in November 2019. If Equitable Life achieves the required percentage in favour of its proposals, it will seek approval for the sale from the High Court.

If you have any questions regarding this transfer, please contact our DC team who would be happy to help.

Zurich (Part VII): update

In October 2017 Scottish Widows announced that it would acquire Zurich's c.£19bn workplace pensions and savings business, as part of a long-term strategic deal to expand its proposition and business model. As part of the deal, some of Zurich's business, including investment products, began transferring to Scottish Widows in April 2018.

As at 1 July 2019, Scottish Widows confirmed that it has now completed the transfer of the remaining part of Zurich's UK workplace pensions and savings business (c.650,000 policyholders and c.£21bn assets).

Scottish Widows is now the provider for all insurance policies and insured funds. All communications (including digital) now use Scottish Widows' branding and the trading suspension has now been lifted, which will allow Scottish Widows members to make transactions as normal.

We will continue to monitor this recent development and keep you updated.

Aviva update

In June 2019, Aviva announced that it was splitting its UK Life and General businesses to simplify its structure. At this stage, we cannot say what (if any) impact this will have on its workplace pensions business, but Aviva will release further information in November 2019.

Our latest thinking

Helen Stokes looks at 3 ways to approach VFM to ensure a well-governed DC scheme

Read more

Claire Jones leads the debate on how trustees should respond to the climate emergency

Read more

Heidi Allan outlines her 10-point checklist to create a well-rounded employee wellbeing strategy in the workplace

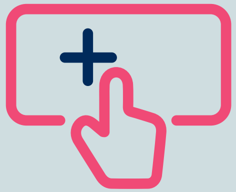
Read more

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.

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