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 2024

What's inside?

Building a better future for DC

What's on the horizon in 2024?

2023 was a busy year for DC schemes, with a flurry of policy announcements, consultations, new ideas and concepts we all need to consider over the coming year. So, what does this mean and what is on the horizon for DC pensions during 2024?

To help you reflect and consider what to focus on during this year, we have created this short guide where we outline our reflections on 2023 and priorities for DC pensions in 2024. These include:

- Responsible investments
- Value for money
- Post-retirement solutions
- Technology and AI.

Chancellor's Autumn Statement 2023

The Chancellor described three sets of pensions reforms to take forward his Mansion House proposals

Following his Mansion House speech in July 2023, the Chancellor has announced updates, as well as additional measures.

These include:

- Providing better outcomes for savers
- Driving a more consolidated market
- Enabling pension funds to invest in a diverse portfolio.

Some of these initiatives can be delivered relatively soon, but many will need primary legislation - the Government has pretty much run out of time to deliver these before the General Election.

Listen to our Webinar on the impacts of the Autumn Statement on the DC Landscape

Hear from LCP experts Laura Myers, Steve Webb and Stephen Budge as they examine and discuss the implications of the Chancellor's Autumn Statement on DC pensions. Topics covered include:

- The announcements that impact DC savers including the idea of a 'pot for life'
- New trustee decumulation requirements
- Next steps on the Mansion House reforms

You can find the recording of the webinar **here**.

The evolution of bespoke pension scheme communications: Harnessing AI for enhanced member engagement - care needed

Alex Waite, Partner at LCP, considers how schemes can enhance member engagement by harnessing the benefits that AI can bring to communications

In the swiftly evolving landscape of pensions communications, AI is likely to usher in an era of innovation and personalisation. As we look towards the future, AI is poised to transform how savers interact with their retirement planning. However, there are also risks involved, which need to be managed carefully.

The rise of personalised communication

The integration of AI into bespoke member communications has already started, via customised savings chatbots and avatars. These AI-driven assistants offer savers the convenience of asking pension-related questions through websites or directly from their phones. The overview of an annual benefit statement can now be viewed through a short video, on your phone, with the full detail provided separately, on paper or online.

Like the early days of the internet, the initial implementations of these tools have been somewhat limited. But in the not-too-distant future, these chatbots will provide answers that are not just accurate but also wholly personalised to the individual member.

Further enhancing this personalised approach are tailored internal communications. With the help of AI, members can receive personalised ‘nudges’ that are specifically crafted to match the member's situation and preferences – with the aim of nudging them into engagement and ultimately action.

Action point: schemes and trustees should assess the quality of their current suite of communication material.

Educational advancements and the ‘road-show’ of the future

A key aspect of AI’s role in pension communications is in its potential to educate members more effectively about their benefits and options. This improved understanding is crucial in enhancing outcomes and overall member satisfaction. It’s much less scary to ask a computer how your retirement age works, rather than admitting to a colleague that you haven’t a clue!

The concept of the ‘Pension Road-Show’ takes on a new dimension with the incorporation of Augmented Reality / Virtual Reality (AR/VR). These technologies can provide immersive experiences that are more experiential, such as illustrating ‘a day of your dream retirement’. The use of aging apps within these experiences could allow members to envision their future selves having taken different investment strategies, adding a powerful, personal element to retirement planning.

What are the risks?

The risks of AI are numerous, but looking particularly at how retirement and investment comms are delivered there are three key risks that stand out. First, is AI doing the right thing? Chatbots have already been known to get things wrong – known as ‘hallucinations’ – and in the complex area of financial education, that is all too easy. Second, is the AI going too far? In a regulated space like pensions, it is essential to ensure that messages don’t accidentally stray into giving ‘Financial Advice’. Finally, data security is key. **Managing cyber risk should be on everyone’s risk radar.**

Conclusion

The future of bespoke member communications for savers is undeniably intertwined with the advancements in AI technology. However, as we embrace these innovations, we also need to be aware of the many risks involved. The prize on offer is enhanced engagement on financial decisions and hence better outcomes for savers. This paves the way for a future where financial education is a valued and integral part of everyone’s journey to retirement.

Government policy and guidance developments

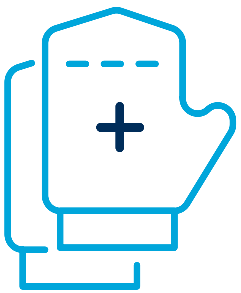
DC decumulation services – trustees are being asked to default members into decumulation solution

The Department of Work and Pensions (DWP) has now responded to its July 2023 consultation on its proposals for DC trustees to offer decumulation services to members: it “strongly believes” that the measures outlined in July are the most appropriate “to secure a strong later life for occupational pension members.” The key point to note is that the DWP has decided that members in trust-based schemes should be placed into a “backstop” decumulation solution by their scheme, unless they make an active choice.

The DWP intends to introduce legislation to place duties on trustees to offer a suite of decumulation products and services. Ahead of this, it says that it will encourage schemes to develop a decumulation offer or enhance their current services.

The DWP’s consultation response is somewhat muddled: on the one hand it talks about placing a decumulation services duty on trustees before concluding that it will pursue a voluntary approach, for now. And although the idea of a ‘backstop’ decumulation solution is simple in concept, more detail about what this means and, importantly, legislation containing safeguards both for members and trustees is needed.

TPR has announced that it will publish interim guidance on DC decumulation in 2024, with fuller guidance to be developed over a longer timescale.



DC Lifetime Provider Model Call for Evidence

The DWP has issued a Call for Evidence on the radical proposal for a Lifetime Provider Model. Its view is that giving employees greater choice over the DC scheme they can use should empower them to take more control of their own pensions and lead to greater consolidation, as well as helping to solve the problem of proliferation of ‘small pots’.

But it acknowledges there are several potential challenges, which include:

- The need for central architecture to process multiple payments
- The impact on employers
- The impact on employee engagement
- The extent to which employees will know which provider will give them the ‘best value’.

Industry reaction has been lukewarm: you can read more on what we think here.

Venture Capital Investment Compact launched

The British Private Equity and Venture Capital Association has launched the Venture Capital Investment Compact under which signatories (drawn from UK venture capital and growth equity fund managers) are to “to develop a long-term and constructive working relationship with UK pension investors.”

This initiative is intended to build on the Mansion House Compact of July 2023, when nine of the UK’s largest DC pension providers committed to the objective of allocating at least 5% of their default funds to unlisted equities by 2030.

Government policy and guidance developments (cont'd)

General Code published

The Pensions Regulator (TPR) finally published its long-awaited General Code of Practice on 10 January 2024. It should come into force on 27 March 2024.

The Code aims to improve the governance of occupational pension schemes in two ways: by consolidating / updating ten of the existing Codes, and by introducing some new requirements. Most notably these include the effective system of governance (ESOG) requirements, which include priorities such as establishing a risk management function and a remuneration policy.

You can read more about the new General Code in our news alert, which contains key action points.

DC value for money framework consultation in spring 2024

In an announcement clearly co-ordinated with the Autumn Statement, TPR and the FCA have let it be known that in spring 2024 the FCA will consult on detailed rules for a new value for money (VFM) framework for DC workplace pensions.

Whilst the FCA can impose VFM on contract-based pension providers, it will take primary legislation for the DWP to do likewise for occupational schemes, and there is no current indication that it intends to do this.

FCA launches advice guidance boundary review

The FCA and HMT are seeking views about three proposals to help people make more informed investment and pensions decisions, fulfilling a promise made in August 2023.

You can read more about these proposals here.

Finance Bill removes the Lifetime Allowance (LTA)

The Finance Bill now contains all the necessary detail to abolish the LTA with effect from 6 April 2024. Trustees, scheme sponsors and particularly scheme administrators **will need to be ready to operate within a new pensions tax regime in two months' time.** HMRC has published a newsletter devoted entirely to the legislation to abolish the LTA.

The guidance covers:

- Authorised payments;
- Tax reporting, including processes for the 2024/25 tax year;
- Administration and notification processes; and
- Highlighting the commencement date of 6 April 2024.

This very useful newsletter underlines the sheer scale of the challenge that this new regime will bring, primarily for scheme administrators' operating processes.

Our viewpoint on the LTA removal can be found here.

FCA confirms the go ahead on sustainability disclosure requirements and investment labels

The FCA has announced that it is introducing new sustainability disclosure requirements (SDR) and an 'investment labels' regime, following consultation with a range of stakeholders.

Amongst other things, it covers anti-'greenwashing', labels to help customers, naming and marketing conventions.

Government policy and guidance developments (cont'd)

TPR updates its cyber security guidance

TPR has updated its guidance on cyber security. It is now asking to be sent reports of significant cyber incidents as soon as reasonably practicable. An incident is now significant if it is likely to result in any of the following:

- a significant loss of member data;
- major disruption to member services; and
- a negative impact on other pension schemes or pension service providers.

The update also has more to say about being prepared for and responding to cyber incidents, reflecting the reality that cyber risks are ever-present, as we saw last year.

A prudent first step for trustee boards and governance groups will be to complete an 'Incident Management Plan' containing all the escalation points.

DC small pots – next steps on multiple default consolidators

The DWP has responded to its consultation about how to solve the problem of DC small pots and has provided further clarity on the outline of its proposed multiple default consolidator framework.

Where a member does not make an active decision about which default consolidator to use, attempts will be made to consolidate them into a scheme where they already have a pot (or to the scheme with their largest pot if they have multiple pots). Where the member does not have a pot with an authorised consolidator, they will be allocated one based on using a 'carousel' approach. The DWP intends that an industry delivery group will be launched in early 2024.

Collective Defined Contribution (CDC) legislation adjusted to assist single employer schemes

There have been changes to the 2022 regulations that govern the operation of single and connected employer CDC schemes.

No CDC schemes are currently operational: one reason for this has been because of some technical difficulties with the legislation. Hopefully, these regulations will enable single and connected employer variants to proceed and the DWP can now turn its attention to multi-employer schemes.

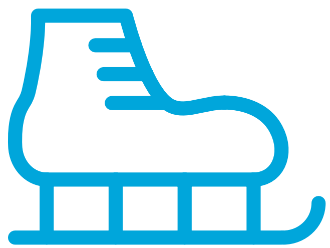
See page 7 for further details.

MaPS reveals that the pensions dashboard was given a 'code red' in July 2022!

The Money and Pensions service ("MaPS") has published its annual report and accounts for the year ending 31 March 2023, which reveals that the pensions dashboards programme (PDP) had been on official red alert for many months before the DWP announced the reset in March 2023.

The report has concluded that it won't be until late Spring 2024 that a full assessment of a revised business case, setting out the programme's costs and benefits, is carried out.

2024 could well be the make-or-break year for the PDP. Unless sufficient progress has been made before the General Election, nothing can be progressed during the campaign, and quite possibly for many months after, as a new incoming Government could decide to take stock of the project.



LCP Insight

Should more employers with DC schemes be considering CDC?

The first CDC Scheme by Royal Mail is due to be launched mid-way through 2024. CDC also featured in the Chancellor's Mansion House speech.

In this blog, LCP partner Sam Cobley reflects on the different employers that may benefit from considering CDC.

The vital role of financial education in pension decisions

In the wake of the Chancellor's Autumn Statement, a new layer of complexity has emerged with the potential introduction of the 'pot for life' concept (see page 3). This proposed change increases the importance of equipping members with the financial knowledge to help them make informed decisions about their retirement provision.

In this article, LCP's Head of Financial Wellbeing, Heidi Allan, summarises the potential challenges for members.

Watch our on-demand webinar on the new General Code of Practice

Here we look deeper into the final Code and highlight the areas that have changed since the initial draft. Hear from LCP experts, including a Q&A discussion with David Fairs, LCP Partner and former Executive Director of Regulatory Policy, Analysis and Advice at TPR, for his thoughts and insight on the importance of good governance.

The webinar can be found here.

DC and Financial Wellbeing Conference

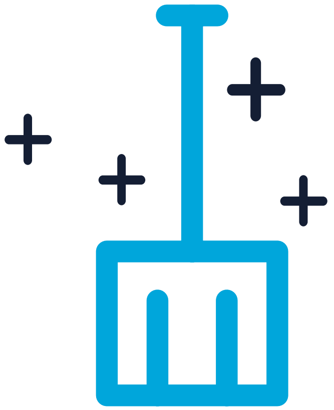
Building a positive future for DC pensions

Thursday 18 April 2023, 12:00pm
Royal Institute of British Architects (RIBA), London

We are excited to announce the details for this year's annual DC and Financial Wellbeing conference where we will be examining how we can work together to build a positive future for DC pensions.

This conference will be of interest to trustees, sponsors and pensions managers of DC pension schemes.

For more information and to secure your place, click here.



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For further details, visit our preference centre.

Any questions?

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