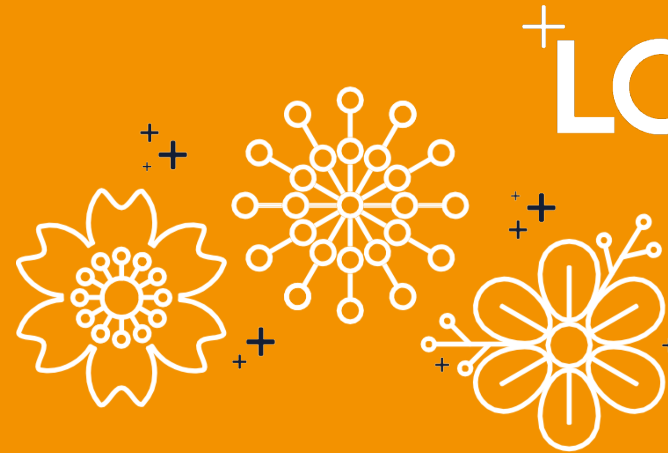
LCP DC update

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 you need to consider.

November 2023



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The Gender Pension Gap

A recent Government report has revealed that there is an estimated 35% gender pensions gap between men and women around 'normal minimum pension age' (currently age 55).

As this inequality continues to persist, our new report, which explores these issues in more detail, contains recommendations for the government, employers and the pension industry on how to tackle this increasingly important issue.

Our analysis concludes that the success in reducing gender gaps in state pensions could be undermined in future if inequalities between men and women in workplace DC pensions continue to rise.

In the report, you will find:

- A review of the research on gender pension gaps.
- The first detailed analysis of the Department for Work and Pensions' (DWP) 2023 statistics on the gender gap in private pensions.
- New projections from LCP on the pensions that men and women will draw in future from the State, private sector DB and DC pensions.

Government policy and guidance developments

LCP Viewpoint: The confusing world of pensions projections

In this blog, LCP's Stephen Budge examines the new investment projection assumption methodology, known as Statutory Money Purchase Ilustrations (SMPI).

Showing consistent and realistic projections of a member's projected funds on a benefit statement is hugely important in terms of engaging them with their retirement savings.

The new approach, which applied from 1 October 2023, requires all DC pension schemes to project member benefits on a basis which uses the volatility of the returns of their investments over the previous five years, compared to the previous methodology which used longer-term investment assumptions.

Stephen explains some of the real challenges that this will create in terms of member expectations and speculates how it might affect the DC market.

Lifetime Allowance – keep, abolish or reinstate?

The Society of Pension Professionals has published a paper that examines the Lifetime Allowance (LTA), in which it discusses the potential consequences of retaining or abolishing the LTA (as the Government intends).

The paper also highlights a recent survey which suggests that the LTA is expected to be reintroduced (in some form) at some point in the future, which could create significant issues for some members.

Laura Myers elected to PLSA Board

Our Head of DC, Laura Myers, has been elected to the Pensions and Lifetime Savings Association (PLSA) Board as one of two new members. The Board's aim is to ensure that the PLSA continues to deliver on its mission to help everyone achieve a better income in retirement

Laura commented, *"The PLSA is the voice of our workplace pensions, working to help everyone achieve better outcomes in retirement, so I'm very proud to have been put forward for the PLSA's Board to continue to support the work they do for the industry. Having been involved with the PLSA through its Policy Board and as Chair of its DC committee, I hope to be able to continue to ensure that we can all work to improve everyone's retirement prospects."*

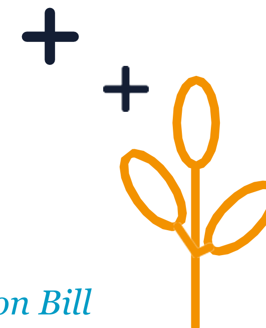
You can hear more from Laura in this episode of 'Beyond Curious'.

You can also hear more from Days 1, 2 & 3 of the PLSA conference in these episodes.

LCP signs PLSA lead charter - Building a Consensus for Better Pensions

LCP has signed a PLSA charter – *Building a Consensus for Better Pensions*. It aims to attract commitment to reforming the UK pensions system; for there to be a pledge to set clear objectives for the UK retirement savings system; to protect the value of the state pension and bring excluded groups within the scope of auto-enrolment. The charter aims to create an adequate, fair and affordable pension savings system for all - something that is consistent with LCP's ethos.

Government policy and guidance developments (cont'd)



Will the DWP's general levy proposals price smaller pension schemes out of existence?

The DWP has started a consultation on potential increases to the general levy, which is paid by schemes to help recover the funding provided by the DWP, TPR and other agencies. Of the options outlined, its preferred approach appears to be one which would involve a £10,000 additional premium for every DB and DC scheme with fewer than 10,000 members.

The DWP argues that levy-funded bodies have experienced continuing change and growth and a concomitant increase in expenditure, which means that more is needed to bring the levy deficit under control. The DWP has outlined three options for increases to the general levy between 2024/25 and 2026/27. Consultation closes on 13 November 2023. You can read about these options and LCP's views here.

MaPS report on pension scams and 2023/24 Corporate Plan

The Money and Pensions Service (MaPS) has issued its findings following a review on the scale of pension scams, the impact on those affected, the types and tactics used by scammers, key risk factors and current trends. The review was undertaken by the Behavioural Insights Team which includes interviews with six people affected by scams, and ten industry professionals.

MaPs has also published its Corporate Plan for 2023/24 in which it outlines five priority themes that will help it deliver its core services, so that guidance and advice on money, debt and pensions is available, however and whenever needed.

Royal Assent for the Auto-Enrolment Extension Bill

The Pensions (Extension of Automatic Enrolment) Act received Royal Assent on 18 September 2023. It sets out:

- A reduction from 22 to 18 in the lower age limit from which an employer's duty to auto-enrol applies.
- The potential removal of the lower limit of the qualifying earnings band from which minimum contributions are determined, so that contributions can be calculated on all earnings up to the upper limit.
- Regulations to modify the requirements of the annual review of the qualifying earnings band and for any changes to be introduced.

It is unclear when this will become effective, as the focus will now turn to consulting on these regulations – which will hopefully take place in late 2023.

HMRC pensions tax statistics for 2021/22 published

This year's HMRC commentary shows significant increases in annual and lifetime allowance charges (66% and 27% respectively). HMRC says that the increase in annual allowance charges may be partly due to changes to the tapered thresholds in 2020/21.

The increase in lifetime allowance charges may also be due in part to the LTA having been frozen, as well as some members bringing forward their retirement due to the pandemic. The number paying the LTA charge has increased from 8,820 to 11,660.

For further details and commentary from Steve Webb, please see our press release.

Government policy and guidance developments (cont'd)

Triple lock – earnings growth is likely to fix next year's State pension increase

The publication of provisional earnings data for July 2023 suggests that next year's increase in State pensions will be driven by earnings growth, rather than price inflation. The earnings measure that the DWP uses to determine the earnings element of the state pension 'triple lock' has a provisional value of 8.5%, whilst the increase in the CPI to July was 6.8%, with expectations that the September CPI figure will be lower. This would mean that the 'old' state pension would rise to around £169.50 pw from April 2024, and the 'new' single state pension to around £221.20 pw – annual rises of £700 and £900 pa respectively.

TPR updates its DC guidance

TPR has updated some of its guidance aimed at trust-based DC schemes so that it reflects the new requirements and opportunities it legislated for earlier this year.

For scheme years ending after 1 October 2023, trustees must disclose and explain their policies on illiquid investment within their statement of investment principles which relates to their default arrangement.

In Chair's statements, trustees must also disclose and explain their asset class allocations for each of their default arrangements.

Since 6 April 2023 trustees have been able to exclude certain specified performance-based fees from the 0.75% charge cap.

Review of TPR published

The DWP has published the results of an independent review of TPR that was undertaken earlier this year, the purpose of which was to establish whether TPR remains fit for purpose and is still required as a public body.

The 2023 report concludes that TPR is broadly well run and well regarded: it contains 17 recommendations around risk and growth, compliance and enforcement, digital transformation and value for money.

TPR promotes its 'Midlife MOT' website

TPR is urging pension schemes to signpost members to the recently relaunched midlife MOT website. In her blog, Louise Davey at TPR highlights that pensions cannot be seen in isolation but should be considered as part of saving and debt, day-to-day household finances, and how long people expect to work.

She suggests that schemes should target particularly those between 45 to 65, fully integrate the Midlife MOT into the support already offered to members, and provide this link in signposting, so that the DWP can capture where visitors are being referred from.

Pension sharing on divorce – PLSA updates its charges guidance

The PLSA has updated its guidance to schemes when providing information for pension sharing on divorce orders. As before, the guidance includes a recommended range of charges, as well as a flowchart outlining the circumstances when charges can be made.

The new guidance will apply from 2 January 2024.

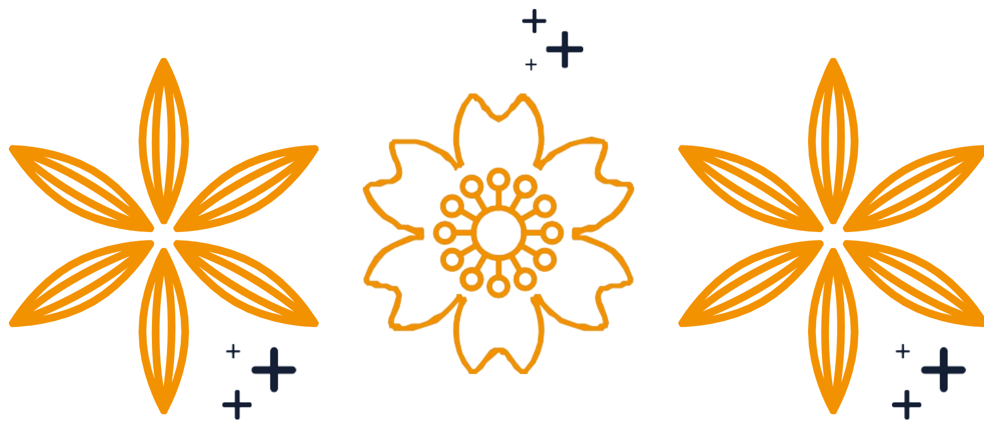
Updates on FCA guidance

FCA updates its advice / guidance - boundary review

The FCA has published further details on its review of the boundary between regulated financial advice and guidance that it is undertaking in conjunction with HM Treasury. The aim of the review has been to improve access to helpful support, information and advice, whilst maintaining strong protections for consumers.

Key themes and insights have emerged which will guide the next phase of its work. The FCA has also published a clarification on the existing framework for the advice / guidance boundary for FCA-authorised firms.

This provides examples where firms can support consumers without inadvertently providing a personal recommendation. A policy paper on the advice / guidance boundary is promised shortly.



FCA issues guidance on pension transfers involving those with vulnerabilities

The FCA has published guidance covering those who advise on pension transfers who encounter clients with vulnerable characteristics that may impact on their decision making.

The FCA defines an individual as ‘vulnerable’ if, due to their personal circumstances, they are especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care. Ensuring that advisory firms deal appropriately with vulnerable individuals has been an important issue for the FCA for some while.

Whilst this latest guidance doesn’t offer anything that is particularly new, it is good to see the FCA highlighting this issue with reference to the pension transfer market, where there have been many instances in which customers have not been treated fairly.

Consumer Duty starts to take effect

From 31 July 2023 the FCA’s Consumer Duty took effect. It requires firms to act to “deliver good outcomes for retail customers” and applies to all new products and services (and existing products or services) which remain on sale, or open for renewal. It will also apply to closed products and services from 31 July 2024.

Only firms conducting FCA-regulated activities in the UK are subject to the Duty, which means that most trustees of occupational pension schemes are unlikely to be directly affected. One exception will be schemes with in-house investment teams that are subject to FCA regulation, i.e. those which provide investment services to the trustees.

Responsible investment and climate change – what's new?

TPR issues first climate change reporting fine

TPR has fined the trustees of the ExxonMobil Pension Plan £5,000 for failing to publish a report on their management and governance of climate-related risks and opportunities, as required by regulations. This was a technical failure, as the report had been produced by the deadline, but not published in time due to an administrative error.

This highlights the importance of trustees ensuring that DC governance and reporting meets regulatory standards. Climate change and pensions are now inextricably linked, and so must be taken seriously.

Trustees must produce and publish their report within seven months of the end of any scheme year in which they were subject to the requirements (unless exempt).

TPR responds to concerns about usefulness of climate change scenario analysis

Mark Hill, Climate and Sustainability Lead at TPR, has written a blog about recent challenges to the usefulness of current climate change models and scenario analysis that trustees of larger pension schemes are now required to use in their climate reports.

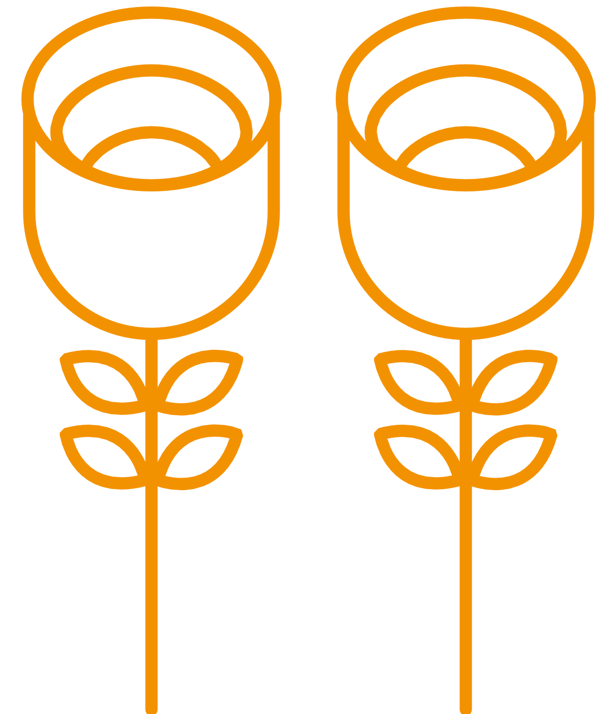
These challenges have emerged at a critical time following the roll-out of TCFD reporting by larger schemes. Around 90 published their reports by 31 July 2023 and a 180 more are expected to publish their reports by 6 November 2023.

Mr. Hill calls on trustees to make their scenario analysis "decision-useful" for risk management purposes by using models and scenario analysis that "addresses a fuller range of real-world risks and uncertainties".

LCP Viewpoint: TCFD for pension schemes: how should it evolve?

Two years on from the application of the TCFD to the largest occupational pension schemes in the UK, LCP's Claire Jones offers her insight on the successes and failures of the regulations in practice.

You can read her views ahead of the DWP's expected review here.



LCP Insight

TikTok and pensions – the communications channel you didn't know you needed

The number of people consuming news content on TikTok has increased from 800,000 in 2020 to 3.9 million in 2022. Why is this a pensions issue?

David Millar argues that schemes should review the media they're using to reach different audiences and personalities via different channels and methods of communication. 'Influencing' isn't just for those on social media – it can be used by trustees, employers, governance groups and pensions managers alike.

The decumulation question

Money is a source of continuing worry for many, particularly those who are experiencing cost-of-living pressures. Retirees are often affected because they are usually the most exposed to financial shocks, if they are reliant on DC savings alone to provide their retirement income.

George Currie outlines here how DC savers can make the most of their accumulated pension savings, which will be essential if they are to achieve good outcomes in later life.

How AI can support better financial wellbeing

Could recent developments in artificial intelligence (AI) be used to improve financial wellbeing?

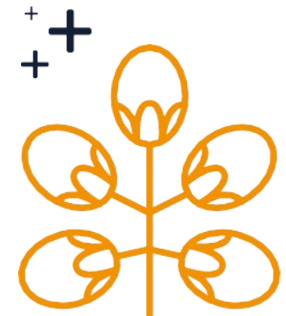
Heidi Allan, LCP's Head of Financial Wellbeing, sets out key areas where AI could move the dial, whilst considering some of the potential risks and the role employers can play in mitigating these. She also explains how AI has a role to play in all four pillars of financial wellbeing: knowledge, confidence, capability and resilience.

LCP's response to Mansion House

LCP has issued a summary of the key points and related responses as the Mansion House consultations close.

- We have warned that investment opportunities in productive assets can only be maximised if trustees have the right regulatory framework and guidance to support them making decisions to invest in these assets.
- We continue to believe that the pot follows member model has many advantages for addressing the DC small pots issue, compared to the consolidator model, But we agree that a single consolidator is better than having multiple alternatives.
- We are supportive of DC trustees providing decumulation services - such a market should be facilitated by allowing commercial authorised master trusts to offer their services to individuals as well as other schemes and trustees.

In another article, Nigel Dunn summarises the evolution of the Mansion House Compact and the journey of providers making the leap from 1% to 5% allocation to unlisted equities. He assesses whether providers have signed up or not – which includes concerns over fees and commitment.



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Any questions?

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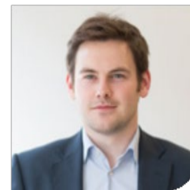

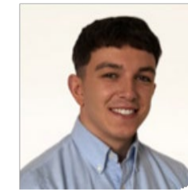

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