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 2022

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Government policy developments

Jeremy Hunt's reversal of the 'mini-budget'

Immediately following the sacking of Chancellor Kwasi Kwarteng on 14 October 2022, his replacement Jeremy Hunt announced that the increase in the corporation tax rate from 6 April 2023 would now go ahead. This decision followed the earlier about-turn on the removal of the 45% income tax band.

On 17 October the Chancellor announced that nearly all the tax measures announced in the previous 'mini-budget' would also be reversed. In particular:

- The reduction in the basic rate of income tax from 20% to 19%, due to come into effect from 6 April 2023, has been scrapped indefinitely (to be considered when economic conditions allow);
- The 1.25% cut to the dividend tax rate, due to take place from 6 April 2023, will now not happen; and
- The abolition of the Health and Social Care Levy and the reversal of the 1.25% rise in National Insurance Contributions for the 2022/23 tax year with effect from 6 November 2022, will still go ahead.

New Secretary of State for Work and Pensions announced

The latest Secretary of State for Work and Pensions is Mel Stride, who was appointed on 25 October 2022, replacing Chloe Smith, whose tenure lasted just over 6 weeks.

FRC finalises new rules for money purchase projections

The Financial Reporting Council (FRC) has announced changes to its technical memorandum that governs how statutory money purchase illustrations (SMPIs) are undertaken, following a consultation launched in February 2022. These new-style SMPIs will in turn feed through into estimated retirement income illustrations on pensions dashboards, the finalised regulations for which are imminent.

The basis for these new SMPIs is very close to the original on which the FRC first consulted, despite significant concerns that were raised on a number of aspects of the FRC's proposals.

The most controversial of these was to set a fund's accumulation rate according to the volatility group in which the fund was placed, this in turn being determined according to the volatility of the fund's monthly returns over a five-year period. This concept of past volatility being a guide to future performance generated widespread criticism, including from LCP, as 75% of respondents did not support the proposal for a variety of reasons.

The finalised rules will apply to all SMPIs issued as part of member annual benefits statements on or after 1 October 2023, and, once a SMPI has been issued, to any money purchase estimated retirement income illustration on pensions dashboards.

DC schemes and providers will need to schedule the necessary IT work to ensure that they are ready to make available these projections from October 2023.

September's CPI - a landmark for Government and many pension schemes

The announcement on 19 October 2022 that the Consumer Prices (CPI) by 10.1% over the twelve months to September 2022 triggered the calculation of a number of pension benefits and limits for the next tax year. Over the same period the Retail Prices Index rose by 12.6% and the CPI including owners occupiers' housing costs (CPIH) by 8.8%. You can read more about the impact this has on pension benefits and limits here.

Authorisation regime for CDC schemes goes live

At long last, from 1 August 2022, pension schemes are now free to apply to TPR for authorisation as Collective Defined Contribution (CDC, also known as Collective Money Purchase or CMP schemes). You can read more about this here.

Pension scams and cyber crime

TPR launches a new scam fighting plan

(TPR) has launched a new scam fighting strategy to renew and strengthen its efforts to protect savers, particularly as increases to the cost of living may leave savers potentially even more vulnerable to scammers.

You can read more about this strategy, the measures it includes, and a summary of the seven types of pension scams here.

FCA launches its latest ScamSmart campaign

The Financial Conduct Authority (FCA) has also launched its latest campaign to promote its ScamSmart set of website information and tools, with some worrying statistics showing the extent to which consumers can fall prey to the tactics of pension scammers. You can read more here.

Scheme governance and oversight

New DC transfer guidance from PASA

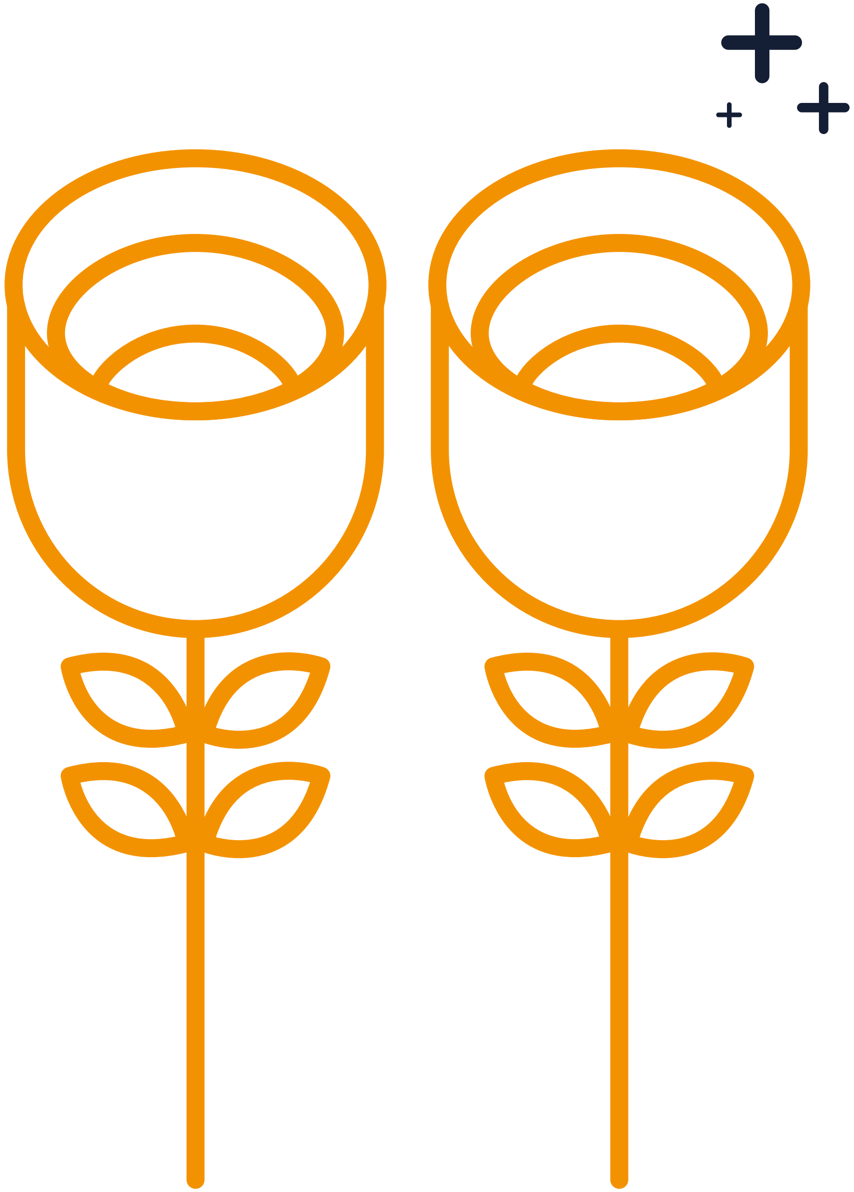
The Pensions Administration Standards Association (PASA) released 'good practice' guidance on DC transfers aimed mainly at pension scheme administrators. It contains potentially useful templates for administrators to use for member communications during the transfer process.

Many schemes will already have their own processes and templates in place, but a drive toward standardised processes and communications could lead to improved efficiency across the industry. Additionally, smaller in-house schemes could find that using this material saves their own resource costs.

PASA has also updated its guidance on administration transfer exit agreements following increasing concerns about the smooth transfer of administration services when trustees wish to change providers. Current concerns include delays, unreasonable charges (or 'out of scope' services not made clear at the outset), and service deterioration during the notice period.

The guidance contains a template exit agreement which can be used as a schedule to an existing administration contract, a schedule within a new administration contract, or as a checklist for trustees and administrators to check their own exit agreement includes all recommended aspects.

In Focus – Trust based schemes



TPR updates its climate risk trustee guidance

TPR has updated its guidance on climate-related disclosure requirements for schemes subject to the Department of Work and Pensions (DWP) legislation and statutory guidance on the governance and reporting of climate-related risks and opportunities. The update primarily references the changes to the DWP's regulations, which came into force on 1 October 2022, which introduce a requirement for trustees affected to calculate and report on a portfolio alignment metric for any scheme year ending on or after 1 October 2022.

You can read more about this here.

Updates to TRP guidance on trustee oversight of investment consultants and fiduciary managers

TPR has updated two parts of its four-part guidance for trustees in relation to investment consultancy and fiduciary management services. This update was generated once TPR assumed responsibility for monitoring trustee compliance in two areas from the Competition and Markets (CMA) 2022.

The guidance updated is as follows:

- Setting objectives for investment consultants; and
- Tendering for fiduciary management services.

Both sets of guidance previously reflected the original content of the CMA Order finalised in June 2019, which needed to be adjusted.

Action plan to boost trustee board diversity and inclusion

TPR has published an action plan setting out how it will set trustees clear expectations on diversity, providing practical tools and information on improving diversity, inclusivity, and sponsor engagement.

You can read more about what is included in the action plan, as well as some research that shows that too few trustees are currently prioritising this issue here.

Market & investment updates

Widening access to Long-Term Asset Funds

The FCA has launched a new consultation about broadening the retail distribution of Long-Term Asset Funds (LTAFs) to more retail investors whilst including further investor protections.

The LTAF regime was finalised last year and is a new category of FCA-regulated fund that is designed specifically to help investment in assets including venture capital, private equity, private debt, real estate and infrastructure. However, for DC schemes LTAFs are currently restricted as part of their default fund.

Of most interest for pension scheme trustees and managers will be the proposal that LTAFs will be available via self-select options in qualifying schemes, allowing trustees to offer members more choice about the level of exposure they have to these more illiquid assets.

You can read more about the additional proposals that are being considered as part of the consultation here.

DWP continues to push forward with illiquid investment regulations

The DWP has launched a consultation on broadening DC investment opportunities to facilitate the greater use by such schemes of illiquid investments. The consultation is in two parts:

- A proposal to exempt certain performance-based fees from the charge cap (as signalled in the mini-Budget); and
- A proposal to amend Statements of Investment Principles to ensure that certain DC schemes disclose and explain their policies on illiquid investment.

You can read more about each part of the consultation here.

Pensions Dashboard

Pensions Values Guidance

As the interest in Pensions Dashboards continues to increase ahead of the first staging deadlines which are less than a year away, PASA has released guidance on 'Value Data' for dashboards. Broadly, this includes accrued pension, the current pot value for DC accounts and an estimate of the annual income an individual might receive in retirement, along with some contextual data, such as the date it becomes payable.

The guidance is aimed at administrators and is a checklist of actions and considerations. You can read more about this here.

Pensions dashboards regulations

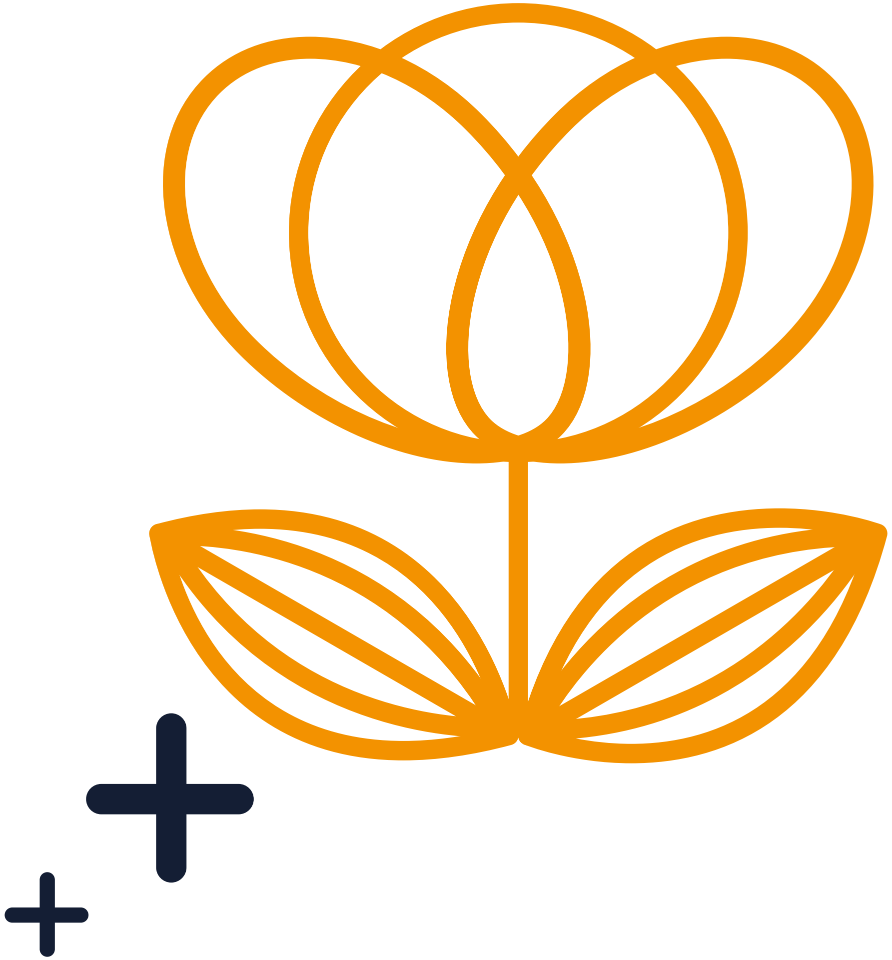
On 17 October 2022 the DWP laid before Parliament its finalised regulations that, amongst other things, set out what occupational pension schemes must do to connect with and supply information to pensions dashboards and by when.

The Pensions Dashboard Regulations 2022 will need to be approved by both Houses of Parliament before they can come into force.

Government to give at least a six-month warning of dashboards 'go live' date

On the same day as finalising the regulations, the DWP published its response to a consultation held in July 2022 on two matters – when pensions dashboards should become available to the public, and how information should be exchanged between the Money and Pensions Service (MaPS) and TPR.

- Dashboards availability – the DWP had proposed that 90 days' notice be given of the "Dashboards Availability Point". In response to concerns about this timescale it has now settled on at least six months' notice.
- Information sharing – on MaPS sharing information with TPR, the DWP intends to proceed as planned.



LCP Insight

The "Flex First, Fix Later" pension – is this the future of retirement

Much policy attention has gone into helping individuals build up meaningful DC pension pots, as well as making good choices at retirement. But there has been very little focus on what happens during the post-retirement phase, which can potentially last for decades.

This paper, authored by LCP's Steve Webb and Phil Boyle, builds on LCP's previous research and evaluates the relative merits of using a retirement pot in decumulation to go into drawdown compared with buying an annuity.

Pensions Dashboards - what do the next 12 months hold?

Watch our on-demand webinar with LCP's Steve Webb and Aiden Coloe for an insightful discussion with TPR on pensions dashboards as well as what you can expect for your scheme in the coming months.

Future finances

Many scheme members hold quite strong views on 'taboo' subjects such as the use of plastics, animal testing or gambling: however, it is often the case that these views rarely translate into actual investment decisions within their pension investments. LCP's Nigel Dunn explains more here.

'Our Viewpoint' - Inflation nation

This first episode of our fourth Investment Uncut podcast provides insights on the financial well-being implications of higher inflation at a national level and the role of governments, employers and individuals in supporting households. From the political angle, we discuss the current support measures with Steve Webb.

Five reasons to consolidate your DC pensions – and five reasons to be careful

The introduction of automatic enrolment in 2012 has led to more than ten million people being enrolled into a workplace pension, many for the first time. For workers outside the public sector, the scheme into which they have been enrolled is overwhelmingly likely to be DC-based.

Under current rules, every time someone changes jobs they will be enrolled into a new DC scheme, which means that they can often accrue a large number of relatively small DC pots. This often leads to many considering whether consolidating these DC pots is a good idea.

This paper seeks to offer a balanced picture of the pros and cons.

How the current market environment is impacting DC schemes and members

What a few weeks it has been! LCP's Stephen Budge provides an update on the current market environment and its impact on schemes.

Annual pensions conference 2022

Thurday 24th November 2022, The Savoy Hotel

In line with our theme of change, we are changing things up this year and moving to an afternoon conference followed by a winter party. We will explore a range of subjects including regulatory developments, the impact of Covid-19 and the importance of ESG factors. Click here to register.

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Any questions?

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