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 2023

What's inside?

Major reforms to boost returns for savers and to increase investment in British businesses

In his Mansion House speech on 10 July 2023, the Chancellor outlined a number of pension reforms, headlined with a two-prong plan to increase pension fund investment in 'high growth businesses' to the tune of £75bn by 2030.

- The first element is to be delivered by the Mansion House Compact, in which nine of the UK's largest DC providers, representing over £400bn in assets and the majority of the UK's workplace DC pensions market, have committed to the objective of allocating 5% of assets in their default funds to unlisted equities by 2030 (up from around 1% currently); and
- The second element, covering the other £25bn, is expected to come from Local Government Pension Schemes doubling their investment in private equity to 10% by 2030.

We explore more of the reforms included in the Chancellor's speech on the following page.

Government policy and guidance developments

DC value for money framework to go ahead

The new proposed value for money framework for workplace DC schemes is to go ahead. However, this will take time, involve a lot more policy work, and will also need primary legislation followed by regulations and FCA rules. The framework is also to be implemented in phases, with no timeline for any of this.

In a lengthy response to the consultation, many aspects of the framework, as proposed back in January, are reprised, this time alongside the nature of the responses received. One positive outcome seems to be the ending of the DC Chair's Statement. This is to be "managed down, and ultimately phased out" as the framework is phased in. Our views can be found here.

A decision on DC small pots

The DWP has responded to its earlier call for evidence to address the challenge of how best to deal with the issue of small DC pots for ex-members of workplace schemes, which is to take forward an "authorised and multiple default consolidator model" (explained here), which the DWP feels will align more effectively with its desire for a more consolidated workplace pensions market and be less prone to the risk of detriment to members than the alternative "pot follows member" model.

The DWP's proposals will need primary legislation, with further detail to be set out in regulations. No timescale has been intimated for this, but a delivery group is to be established later in 2023 to explore the design and implementation of the default consolidator framework.

DC trustees will have a duty to provide decumulation services to members

Many members currently have no ready-made signposted solution to help them when they come to take their flexible retirement benefits, which often results in them paying far higher costs. The DWP has now responded to its call for evidence on the availability of decumulation products and services for DC occupational pension scheme members.

Its response includes a new consultation which aims to establish a broad alignment (rather than precise consistency) in the services offered by schemes, so that every DC scheme, either directly or through a partnering arrangement, provides decumulation solutions for their members.

To achieve the stated aim, the intention is to place a duty on trustees to offer decumulation services which are suitable for their members and consistent with pension freedoms.

CDC scheme expansion given the green light

The DWP is set to deliver an extension to its Collective Defined Contribution (CDC) legislative framework, so that unconnected employers can pool assets in new 'multi-employer' CDC schemes.

This is the key decision arising from the DWP's response to its January 2023 consultation. At the same time, the DWP will consider ways to introduce CDC decumulation-only products to give DC savers a more cost-effective option to turn their pension pot into a regular income, because of the potential economies of scale that could arise from a pooled decumulation product.

Exploring how trustees can be supported to improve their skills, overcome cultural barriers and realise the best outcomes

- In a new call for evidence, which closes on 5 September 2023, the DWP and HM Treasury are seeking to understand trustee skills and capabilities, the role of advice, and barriers to trustee effectiveness; and
- TPR has announced the launch of its first survey of occupational pension scheme trustees on diversity and inclusion matters.

Government policy and guidance developments (cont'd)

The abolition of the Lifetime Allowance features in consultation on some of next year's Finance Bill

HMRC and HM Treasury have launched a joint consultation on draft legislation intended for next year's Finance Bill. When it comes to pensions tax there are two particular items of interest.

1. Abolition of the Lifetime Allowance

The intention to abolish the Lifetime Allowance was announced in the Budget 2023: HMRC has now released some of the legislative changes to achieve this, intended to take effect from 6 April 2024. This follows the first steps already embedded in law, including abolition of the Lifetime Allowance charge from 6 April 2023; and

2. Digitisation of relief at source

First promised at the Autumn Budget and Spending Review 2021, updates to the legislative framework are proposed so that the relief at source mechanism for delivering tax relief on member contributions can move from the current paper-based system to being fully digitised.

Another challenging year for TPR

TPR has published its 2022/23 Annual Report and Accounts. It maintains it continues to focus on savers' needs in what it calls a "pivotal time for pensions", given the ongoing transfer of pension risk from employers to employees because of the continuing move from DB to DC.

Among the initiatives highlighted are a focus on helping trustees understand the value of having a diverse trustee board and the importance of taking climate and sustainability into account when making investment decisions.

FCA finds that investment pathways are working as intended

The FCA has published a post-implementation review of investment pathways for drawdown, created for those in contract-based DC schemes which do not offer advice. Under these rules, which came into force in February 2021, when a non-advised customer either asks to enter drawdown or wishes to transfer assets already in drawdown, they will be prompted to choose from four objectives on how they intend to take their retirement pot – and in most cases be offered an investment solution based on their choice.

The FCA has found that the investment pathways rules are working as intended, setting a 'foundation of support', but believes that there is more to be done to support consumer decision-making. The FCA is also working closely with the DWP as it develops proposals to support members of trust-based schemes as they move into the decumulation phase.

FCA widens access to long term asset funds

On 29 June, the FCA published its new rules to permit access to Long Term Asset Funds (LTAFs) to a wider range of DC pension scheme members, as well as retail investors. Currently, only auto-enrolment qualifying DC schemes can use LTAFs and then only as part of their default fund.

LTAFs are FCA-regulated and have been designed to help investment in assets such as venture capital, private equity, private debt, real estate and infrastructure, using pooled funds. The FCA finalised the rules for such funds in October 2021.

Government policy and guidance developments (cont'd)

FRC adjusts its guidance on money purchase projections

The Financial Reporting Council (FRC) has changed its October 2022 guidance that accompanied its new version of the technical memorandum that governs how statutory money purchase illustrations (SMPIs) are calculated. Some adjustments have been made where the guidance covers circumstances where fund volatility cannot be reliably determined, most usefully to make clear that the three examples it gives are not intended to be exhaustive.

TPR calls on DC trustees to do more to support their members

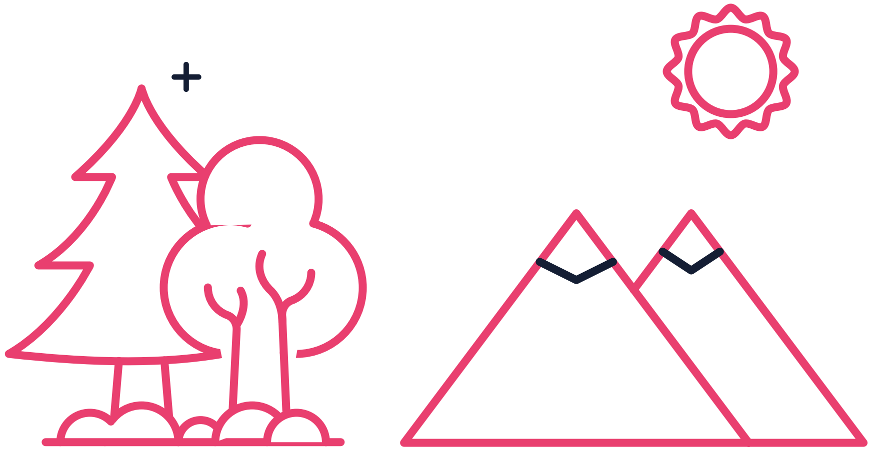
Louise Davey, who is Director of Regulatory Policy, Analysis and Advice at TPR, has called on DC trustees to use the Regulator's guidance, published in January 2023, to protect DC members close to retirement who could be adversely impacted by adverse market movements, depending on the investment strategy of the scheme.

In particular, she implies that where long-duration bonds form part of the mix (which have traditionally been used to support annuity purchase), these may not align with what is needed to support likely member benefit decisions at retirement. Ms Davey is urging schemes to engage with members approaching retirement to review and update their choices.

Pensions Equity Group launched

A new coalition has been launched which comprises over 20 leading pension companies and organisations, to tackle pension inequalities in the UK. This 'Pensions Equity Group' has been established in recognition that many in our society are not saving enough for retirement and aims to:

- Develop a way of consistently measuring pension inequalities, beginning with the gender pensions gap;
- Work with Government and policymakers to achieve positive change;
- Share best practice approaches to help employers address inequalities;
- Find practical tools to empower individuals, such as planning tools and guidance; and
- Highlight potential industry product developments that will help drive greater equity for individual savers.



Pensions Dashboards

PASA publishes dashboard values guidance

The Pensions Administration Standards Association (PASA) has published new guidance which sets out good practice approaches to providing value data to pensions dashboards. The guidance is designed to be used by both DB and DC schemes: it covers twenty topics, including possible approaches for dealing with issues such as late retirements, underpins, partial retirements and split normal retirement ages.

An update from the Pensions Dashboards Programme

The Pensions Dashboards Programme has published the latest in its series of regular progress update reports, covering the period since October 2022. However, given the March 2023 announcement from the DWP that the mandatory connection deadlines are to be 'reset', unlike previous updates there is a dearth of new information in this latest report.

Pensions Dashboards – new criminal offence passes into law

The Bill that resolves an oversight in the Pension Schemes Act 2021 in relation to compliance with the pensions dashboard requirements received Royal Assent on 2 May 2023.

The Pensions Dashboards (Prohibition of Indemnification) Act 2023 makes it a criminal offence for pension scheme trustees or managers to reimburse themselves, using the assets of the pension scheme, in respect of penalties imposed under pensions dashboards regulations.

Government sets out a new delivery approach for schemes to connect to pensions dashboards

On 8 June Pensions Minister Laura Trott updated Parliament on the timetable for providers and schemes to connect to pensions dashboards. This had been paused in March when issues were discovered with the dashboard ecosystem being built.

Repeating her message from March that “more time is needed to deliver this complex build”, she announced that regulations were being laid setting out a new delivery approach. The draft regulations will need to be approved before they can be finalised.

The draft regulations:

- Remove completely the staging timetable and associated connection windows, only finalised last year;
- Introduce a 31 October 2026 backstop by which all pension schemes with 100 or more members (excluding pensioners) as a reference date need to connect;
- Allow all schemes to ask for a 12-month extension to this backstop, but only under very narrow circumstances; and
- Remove the ability of schemes to ask to connect early relative to the now-removed staging timetable.

Responsible investment and climate change – what's new?

TPR provides more details of ESG review

In February 2023 TPR signalled a two-phase regulatory initiative for statements of investment principles (SIPs) and implementation statements (ISs) – checking on compliance with the latest ESG and climate change reporting duties.

We now have more details about this campaign from a new blog published by the TPR. As before, the first phase will be to check that trustees have published their SIPs and ISs, as required by law. The second will be a qualitative review of a cross-section of SIPs and ISs, in relation to climate, ESG and sustainability requirements. TPR now intends to start this review in the autumn and will finalise the details of schemes to be included over the coming months.

The blog also says that:

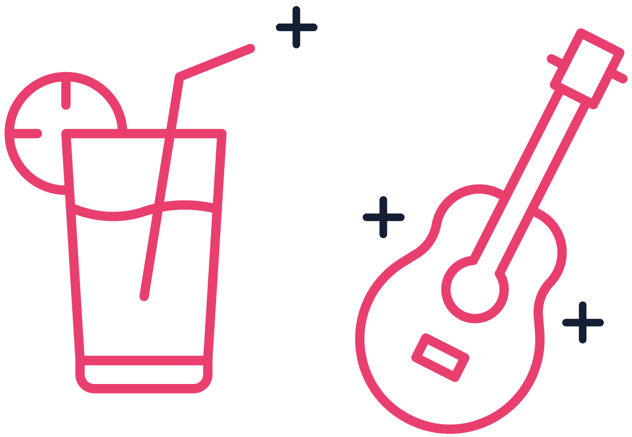
- TPR wants to see a change to the practice of schemes producing disclosures where the wording is relatively vague and generic;
- When it carries out its autumn review, TPR expects to focus on the extent to which trustees have adopted the DWP guidance, which applies to ISs for scheme years ending on or after 1 October 2022;
- Trustees need to improve their understanding of climate, ESG and wider sustainability issues; and
- Trustees also need to improve the quality of their policies and disclosure, move away from boilerplate wording and ensure action follows intent.

Next step taken for schemes wishing to participate in the LIFTS initiative

The Chancellor has announced an "ambitious life sciences package to support economic growth", including the promise of up to £250m to incentivise pension schemes to invest in science and technology firms through the Government's Long-Term Investment for Technology and Science (LIFTS) initiative.

This announcement was accompanied by a call for proposals from the British Business Bank on the LIFTS initiative, whose objectives are to unlock UK institutional investment, catalyse private investment into UK science and technology and stimulate the UK venture capital eco-system. The deadline for submissions was 28 July 2023: the announcement of successful proposals is expected in November.

The Government has also published a summary of the responses to the five questions around the LIFTS initiative on which it consulted in April.



LCP Insight

Gender pension gap statistics a "vital first step" to tackling "profound inequalities" in pensions - Laura Myers, LCP

The Government's publication on 5 June of the first official figures on the gender pension gap has been welcomed by LCP partner Laura Myers as representing a “vital first step” in addressing this long-standing issue.

Although many reports have been published on this topic, this is the first time that the Government has attempted to assess the scale of the problem and has also committed to monitoring the issue on an ongoing basis.

You can read more about the key findings as well as Laura’s thoughts here.

Who is running master trusts?

In this blog, LCP’s John Reid examines the composition of some of the largest master trust boards and uncovers some interesting trends.

You can read more about this here.

New research shows ‘renters in retirement’ need ‘over half a million pounds pension pot’ – Steve Webb, LCP

New analysis that LCP is due to launch reveals that those who will have to fund a rent out of their retirement income will need a pension pot of over half a million pounds to fund even a ‘moderate’ retirement. This is a quarter of a million pounds more than the target for someone who will be an owner-occupier when they retire.

You can read more about this here.

“HMRC overtaxes pension savers by £1 billion” – Steve Webb, LCP

Figures published by HMRC take the total amount of income tax overcharged by the Government on people withdrawing money from their pensions past the £1 billion mark since the introduction of pension freedoms in 2015.

You can read more about what LCP Partner Steve Webb thinks here.

Boosting employee wellbeing through financial education: an HR imperative

In today's corporate landscape, the importance of employee wellbeing cannot be overstated. HR professionals have a responsibility to foster a supportive and empowering environment for employees. One often overlooked aspect of employee wellbeing is financial wellness.

By providing comprehensive financial education programs, organisations can equip their workforce with the knowledge and tools to make informed financial decisions. This blog by LCP’s Heidi Allan, Head of Financial Wellbeing, explores how financial education can support employee wellbeing, enhance productivity, and contribute to the overall success of the organisation.

How should investors use ESG scores?

ESG scores have had a lot of negative press lately, even drawing criticism from Elon Musk after an ESG score downgrade for Tesla led to its removal from a popular ESG equity index.

The lack of consistency across providers for individual companies’ ESG scores has been widely criticised, but is it justified? Given their widespread use, LCP took a deeper dive into some of the different ESG scores available to assess how they can be useful for investors.

LCP Insight (cont'd)

LCP wins Actuarial/Pensions Consultancy of the Year at the UK Pension Awards

The UK Pensions Awards recognise the firms that offer the highest level of innovation, performance, and service and have done the most to improve this over the past year.

Commenting on the award, Aaron Punwani, LCP CEO, said "I am delighted that LCP has been recognised at this year's awards. As a firm we are constantly growing and evolving, and that is a result of the hard work of our people, an environment that encourages curiosity and innovation, and our commitment to providing a dedicated and forward-looking service to our clients."

LCP's DC and Financial Wellbeing Conference 2023 highlights

At LCP's DC and Financial Wellbeing conference in May, our focus was on the key issues affecting DC pensions and savers, particularly those impacted by recent market turbulence.

You can watch the recordings and slides of the sessions on-demand here.

'Beyond Curious' with LCP: staying relevant in an AI-enabled world

Beyond Curious is LCP's podcast that explores the big questions of tomorrow. It brings a fresh take on the innovations and trends that are shaping the business world and beyond – from AI to Gen Z.

The first Beyond Curious season kicks off with AI, addressing the opportunities and challenges transforming the way we do business day-to-day. You can listen to the podcast here.

AI and pensions: What I learned talking with pensions actuaries

As we navigate through the fourth industrial revolution, it's impossible to ignore the enormous potential of AI and its implications for various sectors, including the pensions industry.

LCP's Alex Waite recently addressed actuaries from across the industry about AI, providing insight, dispelling myths, and discussing its potential. In this blog he shares some personal takeaways from that discussion.

LCP Investment Conference

The economic and political shocks seem to get more frequent and more severe, but as an industry we take very little time to step back and challenge the status quo to see if there's a better way. At our inaugural Investment Conference, we'll do just that.

We're delighted to announce that we'll be joined by world class global economics experts as our keynote speakers, to share their insights on how macro issues interact with key investment themes.

Our in-house investment experts will also provide a wide range of thought-provoking sessions, many with other experts from investment organisations, covering various asset classes as well as emerging trends, disruptive technologies, investment strategies and more.

Click here for more details and to register.

Do you enjoy hearing from our experts?

It is important to us that we deliver what you want, and do not clog up your inbox with things you do not.
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?

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