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.

February 2023

What's inside:

Government policy developments

A cluster of consultations

The Government has kicked off the year by announcing the next steps for several consultations:

- Broadening the investment opportunities of defined contribution pension schemes – this includes the Government's response to the March 2022 consultation 'Facilitating Investment in illiquid assets' and seeks views on draft regulations and guidance on the exemption of performance-based fees from the regulatory charge cap proposals.
- Value for Money: A framework on metrics, standards, and disclosures – this policy consultation proposes key metrics, standards and data disclosures for DC pension schemes under the proposed Value for Money ('VFM') framework. It also includes proposals for the use of this data in comparisons and assessments.
- Addressing the challenge of deferred small pots – this call for evidence is to support the development of policy options for automated consolidation solutions to address the growth of deferred small pots within the automatic enrolment market.
- Extending opportunities for CDC schemes – this consultation seeks views on policy proposals for broadening Collective Defined Contribution ('CDC') provision beyond single or connected employer schemes to accommodate multi-employer schemes and the role of CDC in decumulation.
- Understanding member engagement with workplace pensions - this report summarises the findings from research into member engagement with workplace pensions and understanding of pension charges.

Saving for later life – the Government and others respond

The Government, Financial Conduct Authority ('FCA') and Money and Pensions Service ('MaPS') have now responded to the recommendations within the Commons' Work and Pensions Committee report on saving for later life published in September 2022. However, there is little that is new. For the Government's part, most of the MPs' recommendations have been turned down or side-stepped. You can read more about the three key aspects of the response here.

FCA starts over with its retirement income advice review

The FCA has announced that it is to undertake "a piece of discovery work" to see how financial advisers are delivering retirement income advice and to assess the quality of outcomes their clients are receiving.

This review has been prompted by the 2015 Freedom and Choice reforms, which has resulted in a significant shift in how individuals choose to take their retirement income, which in practice has meant a move away from annuity purchase towards drawdown, the advice for which can be complex and is likely to be needed on an ongoing basis.

The FCA says that its findings will help inform its future strategy for the sector, and the results will also be an important indicator of how firms are implementing the FCA's Consumer Duty. The review will begin in Q1 2023 and the FCA aims to publish its findings in Q4 2023.

Laura Trott MP is the new Pensions Minister

On 27 October 2022, Laura Trott MP was awarded the pensions portfolio at the DWP. Her portfolio is slightly different from her predecessors, and appears to be somewhat reduced.

Changes of personnel at the Pensions Regulator and the DWP

TPR has announced the appointment of Nausicaa Delfas as its new Chief Executive, replacing Charles Counsell at the end of March 2023. She joins from her current role as Executive Director, Governance at the FCA, where she was the former interim Chief Executive and Chief Ombudsman of the Financial Ombudsman Service.

TPR has also announced the departure of David Fairs. He was appointed in July 2018 and is to leave in mid-March 2023 to pursue new challenges.

Autumn Statement largely silent on pensions matters but does confirm the triple lock

Fears that the Government would mount a raid, in one form or another, on pension savings in the 2022 Autumn Statement once again proved to be misplaced. In his speech on 17 November 2022 the Chancellor made only two direct announcements about pensions:

- The triple lock on the Basic State Pension and Single Tier State Pension will continue to be honoured, and so both will increase by 10.1% in April 2023 (i.e. in line with price inflation).
- The guarantee credit element of the State Pension Credit will be increased by 10.1% (rather than by the lower earnings measure as required legislation.)

The DWP has separately published a full list of the benefit and pension rates for 2023/24.

Government Policy developments continued

TPR reflects on its trustee board equality, diversity and inclusion plans

In a recent blog, David Fairs, Executive Director of Regulatory Policy at TPR (until mid-March 2023 – see more about this below), provides an update on the it's plans to encourage greater equality, diversity and inclusion across the pensions industry.

You can read more about this here.

TPR and FCA update their joint regulatory strategy

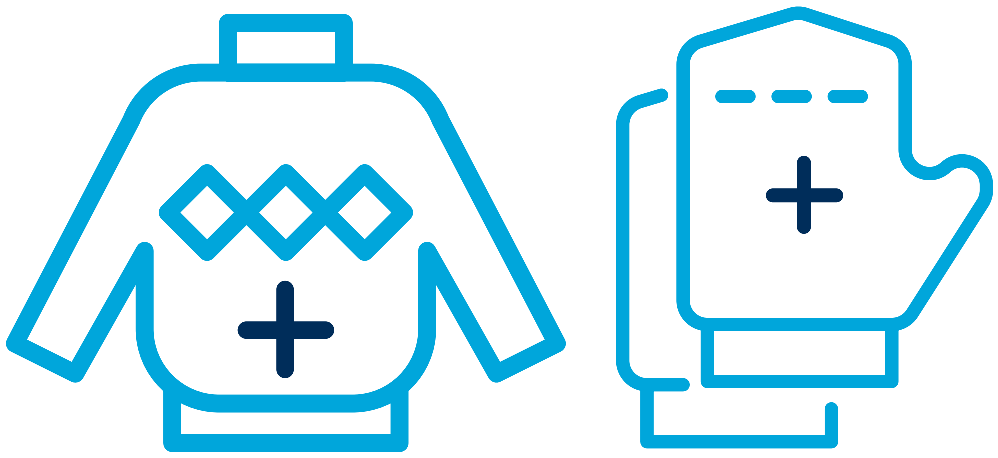
Four years on from publishing their joint regulatory strategy, the TPR and the FCA have provided an update, via a blog by Sarah Smart, Chair of TPR. The update explains what the two bodies have undertaken over the last four years. It outlines eight joint workstreams and the outcomes. Read more about this here.

No change to SMPIs until October 2023

Following a review, the Financial Reporting Council (FRC) has announced that there will be no changes to the assumptions in the current version of Actuarial Standard Technical Memorandum 1 (AS TM1), which sets out the required approach for producing Statutory Money Purchase Illustrations (SMPIs), which are issued every year to DC members.

AS TM1 version 4.2 will therefore continue to be used for SMPIs until it is replaced by the radically different version 5.0 for illustrations issued on or after 1 October 2023.

To help you prepare for the changes set out in version 5.0, we have compiled this guide to help support you to stay on top of the new requirements.



Pension scams and cyber crime

Pension scam warning sounded once more

TPR, FCA and the MaPS have issued a warning to pension scheme trustees and savers of a potential increased risk from scammers, due to fears over squeezed household finances and recent media reports on the security of pension schemes, leaving savers more vulnerable to scammers.

The three bodies urge pension savers to avoid hasty decisions and contact MoneyHelper for free impartial guidance before taking any action. Savers can also find more information on how to spot the warning signs and check that they are dealing with a legitimate firm by visiting the FCA's ScamSmart set of website information and tools. You can read more about this here.

Scheme governance and oversight

TPR provides some pointers for DC scheme trustees in the current economic climate

TPR has launched a guidance statement for trustees of DC schemes and their advisers, which sets out the main points on how schemes should communicate with and support savers through a period during which the value of some DC pots have fallen. The guidance also sets out how trustees can strengthen the governance and oversight of DC schemes and ensure their investment strategies support stronger saver outcomes.

You can read more about this here.

PLSA updates its retirement living standards income levels

The PLSA has published its latest guidelines on the income people will need in order to lead a certain lifestyle in retirement. In this latest version, what is particularly striking is the impact of heightened inflation on expenditure needs and desires since the 2021 update.

As before, there are three levels:

- The minimum living standard ("covers all your needs, with some left over for fun") now requires an income of £12,800 pa (£10,900 pa) for a single person and £19,900 pa (£16,700 pa) for a couple.;
- The moderate living standard ("more financial security and flexibility") now requires an income of £23,300 pa for a single person and £34,000 pa for a couple; these figures have increased from £20,800 and £30,600 pa in 2021 respectively; and
- The comfortable living standard ("more financial freedom and some luxuries") now requires an income of £37,300 pa for a single person and £54,500 pa for a couple; these figures have increased from £33,600 pa and £49,700 pa in 2021 respectively.

The figures are for outside London. You can read more about this here.

Market & investment updates

Industry guidance on less liquid assets published

The PLSA has published a series of guides intended to help DC schemes understand the key considerations and risks around investment in less liquid assets (also known as 'illiquids'), such as venture capital, private equity, private credit, real estate, and infrastructure. These guides aim to encourage DC schemes to consider whether to invest in illiquids within a default arrangement and in so doing potentially improve member outcomes.

Investing in less liquid assets – key considerations brings together six guides which you can read more about here.

The final piece of the jigsaw puzzle for illiquids in DC

On 24 November 2022, the Productive Finance Working Group issued their guidance on investing in illiquids having spent time working through the barriers and issues holding back DC scheme investment, alongside a call to action for investment platforms.

Head of LCP's DC Practice, Laura Myers, discusses what this means for DC schemes.

Investing in DC pension schemes in turbulent times

Unprecedented events over the past few months have impacted all of us in many ways. Paying attention to the cost-of-living crisis in particular, we need to make sure the money invested by members into their pension pots is working for them and continues to deliver over the longer term. In this blog we discuss some ideas to support your members in these difficult times.

Pensions Dashboards Programme (PDP) - updates

The PDP has published its latest report which summarises activity between April 2022 and October 2022 before going on to set out areas of focus to April 2023. You can read about what was included in the report here.

In addition, PDP has also released new versions of its standards, covering data, design, reporting, technical and code of connection. Read more about this here.

Dashboards - are you dashing ahead or seeking to delay boarding?

At last, after years of anticipation, the Dashboard regulations finally came into force on 12 December 2022. And with the first staging date (for large DC master trusts) now less than nine months away, there is lots for all schemes to do and think about. We delve into the details here.

'Dashboard Lasagne': Pension Dashboard preparation is key or it's a recipe for disaster!

Dashboard preparation is a bit like a good lasagne: it can look simple enough, but it is very easy to get it wrong. It requires plenty of preparation and careful handling of a number of different ingredients in order for it all to come together.

You can read more about our thoughts on Dashboard preparation here.

Pensions Dashboards regulations

The Pensions Dashboards Regulations 2022 have now been approved by both Houses of Parliament and came into force on 12 December 2022. This date reflects the start of the 12-month clock for those schemes that want to request that their staging date is put back and believe that they meet the very narrow eligibility conditions for such deferral. The guidance for schemes who wish to defer their deadline for connecting to the dashboard infrastructure has been issued in final form.

Now that the dashboard regulations have been issued in their final form, TPR has launched a consultation on its expectations as to how occupational pension schemes should comply with the regulations and its approach to regulating schemes. You can read more about the key risk areas that TPR will focus on, here.

FCA consults on rules to govern Pensions Dashboard providers

The FCA has announced the publication of a consultation on standards for operators of qualifying dashboards. The consultation sets out the authorisation, supervisory and enforcement regime that will apply. Consultation on the FCA's proposals closes on 16 February 2023. The FCA aims to publish a Policy Statement and finalised rules in summer 2023, with potential providers being able to seek authorisation shortly after this. You can read more about this here.

PASA publishes dashboard guidance for Master Trusts

The Pensions Administration Standards Association has also published guidance aimed at Master Trusts, some of which will be amongst the first schemes required to connect to the MaPS digital architecture from 1 April 2023. You can read more about this here.

LCP Insight

Steadying the ship in challenging waters

What a year 2022 was! Whether it was employees/members dealing with the cost of living crisis and soaring inflation whilst trying to plan for their futures, or those who look after DC schemes trying to manage costs, monitor investments and keep on top of changing legislation, it was a year of change and challenge for everyone.

It often feels like we are on a ship with the waters moving from broadly calm to heavy storms, and the environment is constantly changing – so we have issued this framework for trustees and corporate sponsors of DC schemes to help you navigate the storms and steady the ship in challenging waters.

What good governance means for members

Whatever type of pension scheme you may be a member of, whether it is a Master Trust or a single trust-based arrangement (managed by a board of trustees) or a contract-based arrangement (managed by a provider, such as an insurance company), good governance is extremely important and is critical to achieving good member outcomes. LCP's Jessica Clayson discusses why this is the case in this blog.

Three core principles to good financial health

Many people are feeling anxious or struggling with their financial health at the moment. Costs are rising at a significant rate and income is not keeping pace for a large percentage of the population. Family, friends and colleagues are having to make some tough decisions to get by.

Whether you are looking at your everyday money management, or thinking about your future finances, LCP's financial wellbeing expert Heidi Allan has three core areas that she'd like to share with you.

Coming Up: Our latest employee wellbeing report

Employee Wellbeing: powering possibility for good financial futures highlights key trends over the last four years showcasing the challenges for employee wellbeing, as well as providing easy to follow actions employers can take to support their workforce. Divided into four sections, plus a handbook for employers, our latest insight will launch in March.

DC and Financial Wellbeing Conference - coming May 2023

Join us in person for LCP's DC and Financial Wellbeing Conference. Taking place in central London, this year it will be an afternoon event. Look out for more information, including date and venue, in the coming weeks.

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Any questions?

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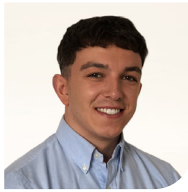

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