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.

May 2024

What's inside?

"Magnetic Pensions" is launched!

LCP experts design a new blueprint for the DC landscape

As those who attended our DC conference in April will be aware, we are launching our own solution to the long-standing problem of small deferred pension pots, which currently are being created at a rate of over 2 million per year.

Magnetic Pensions follows the same principle as 'pot follows member, but for the dashboards age' – where a member's DC small pot sticks magnetically to workers as they change job, until a decent sized pot has been built up, at which point auto transfers would stop, but with the option to continue.

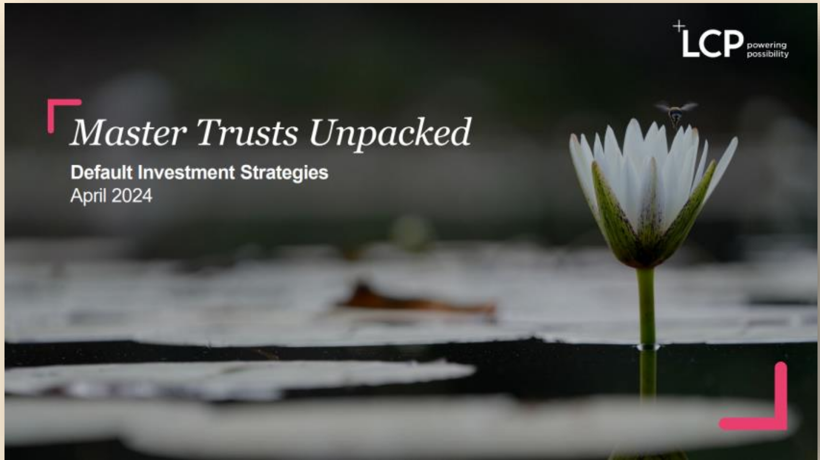
You can read more from our experts Laura Myers, Tim Box & Steve Webb in our 'On Point' article which summarises the principles behind this and its impact on DC savers' retirement outcomes.

Master Trusts Unpacked 2024

Default Investment Strategies explored for third year running

In its third year, this report reviews Master Trust fund performance during 2023 to assess how they have dealt with the challenges that high inflation and interest rates brought to investment markets.

The difference in performance has been quite stark.



Government policy and guidance developments

HMRC newsletters reveal the challenges that have surfaced when abolishing the Lifetime Allowance ("LTA")

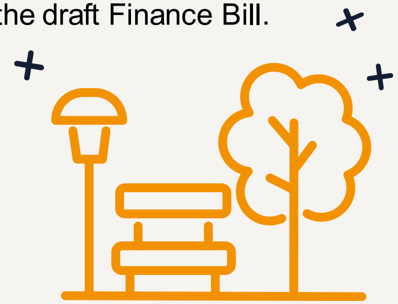
HMRC's latest newsletters have highlighted several errors in the legislation which outlines how the new LTA regime should operate.

The first newsletter confirms the unintended consequences for the 'pension commencement excess lump sum', stating that further legislative changes may be needed, relating to the new 'tax label' for those with considerable pension wealth and how they choose to take further retirement savings as a taxed lump sum.

This is an issue that has created considerable uncertainty for those considering drawing their benefits in the coming months, and so **communications with any impacted members will be key**. The latest situation as we understand it is that HMRC is now saying that where a member requires a payment which is affected by the promised further regulations and cannot wait until these are introduced, due to financial hardship, it can be contacted directly to resolve the issue.

This is most unsatisfactory, as the financial hardship criterion may limit extent to which HMRC can act.

A second newsletter covers various topics such as lump sum benefits, reporting requirements, protection factors, and transitional arrangements but also flags that further legislative changes will be needed to resolve unintended consequences in the draft Finance Bill.



Government policy and guidance developments (cont'd)

FRC publishes refreshed Corporate Governance Code

The Financial Reporting Council ("FRC") has published an updated version of its UK Corporate Governance Code, rowing back on its original proposals issued in May 2023 in favour of a more limited number of changes.

Amongst the proposals dropped are those relating to the role of audit committees on environmental, social and governance issues, expanding diversity and inclusion expectations, over-boarding provisions, and expectations on Committee Chairs' engagement with shareholders.

The updated code comes into force for accounting years commencing on or after 1 January 2025.

TPR to challenge trustee decision-making to ensure savers' interests are met

The Pensions Regulator's ("TPR") CEO has published a blog making it clear that it intends to use the disclosures that will be required by the forthcoming Value For Members framework to "constructively challenge trustee decision-making so that savers' interests are really being met". The data it will harvest is being seen as an opportunity to demonstrate that schemes that do not offer good value might serve members' interests better through consolidation. This has been a consistent message from TPR for some time now.

FCA sends "Dear CEO" letter about poor retirement income advice practices

The FCA has completed its review of how the retirement income advice market is working since the flexible retirement legislation was introduced, by publishing both the results of its review and calling on the CEOs of financial advice firms to review their processes in providing retirement income advice to members.

Although the results of the review have been largely positive, the FCA has found examples where it had concerns that firms were operating in a way unlikely to lead to good customer outcomes. There were also a small number of instances on advice files where recommendations were being made resulting in consumers losing guarantees or incurring unnecessary charges.

The FCA notes that unsuitable retirement income advice has the potential to result in significant harm, as it can result in consumers:

- Suffering a reduction in their level of income and/or their funds running out too soon
- Potentially paying higher charges than necessary
- Investing in complex solutions that they do not understand or that are not aligned with their risk profile

Government policy and guidance developments (cont'd)

Labour Party promises to review pensions and retirement savings

The Labour Party has published its plan for the financial services sector in which it announced a number of measures that it would take forward.

It has said that it will undertake an "in-Government pensions and retirement savings review" to evaluate whether the current framework will deliver sustainable retirement incomes.

Next is a desire to enable greater consolidation across all pension and retirement saving schemes, with TPR being given new powers to enforce consolidation where DC schemes fail to offer sufficient value for their members.

There is also mention of an 'opt-in' scheme for DC funds to invest a proportion of their assets into UK growth assets – split between venture capital, small cap growth equity, and infrastructure investment.

FRC finalises SMPI update

The FRC is going ahead with the changes it proposed in November 2023 to the accumulation rate assumptions that are used in statutory money purchase illustrations ("SMPIs"). This means that the accumulation rate assumption increases by 1% for volatility groups 1-3, so the 1%, 3% and 5% rates respectively become 2%, 4% and 6%. But volatility group 4 remains unchanged with a 7% accumulation rate assumption. The FRC's changes, as initially proposed and set out in version 5.1, will come into effect for "calculations performed on or after" 6 April 2024.

The FRC's phrase "calculations performed on or after 6 April 2024 will require careful consideration, given that this revision since the 6 April date is close to many scheme year ends, such as 31 March and 5 April on which the illustration dates for a number of SMPIs currently operate.

TPR issues guidance on private market investments

New guidance has been published encouraging trustees to consider investing in private market assets, to deliver better outcomes for their members.

The guidance sets out the opportunities and risks of investing in such markets, contains a reminder of trustees' legal duties and some key considerations when deciding whether to invest in such assets.

New General Code of Practice

TPR refreshes its Code and guidance material following the introduction of the new General Code

The new General Code came into force on 28 March 2024, and is now available on its website, containing separate modules to enable easier navigation within the relevant sections. The Code has now triggered the need for schemes to undertake their first ‘own risk assessments’ to evaluate the effectiveness of their systems of governance.

TPR is working its way through supporting guidance material, making necessary adjustments to reflect the General Code coming into force.

Watch our webinar where we examine the General Code in more depth and highlight the areas that have changed since the initial draft.

The webinar includes a Q&A discussion with David Fairs, LCP Partner and former Executive Director of Regulatory Policy, Analysis and Advice at TPR to source his thoughts and insight on the importance of good governance.

Pensions Dashboards Programme

Dashboards staged timetable published (at last!)

The Government has published the long-awaited guidance for the staged timetable for schemes to be connected to the pensions dashboards ecosystem.

All schemes and providers in scope are legally required to connect to the dashboards ecosystem by 31 October 2026 at the latest, although the guidance enables a staged approach. The timetable is split into two parts: 1) large schemes/providers beginning in April 2025, and 2) medium schemes/providers starting in January 2026.

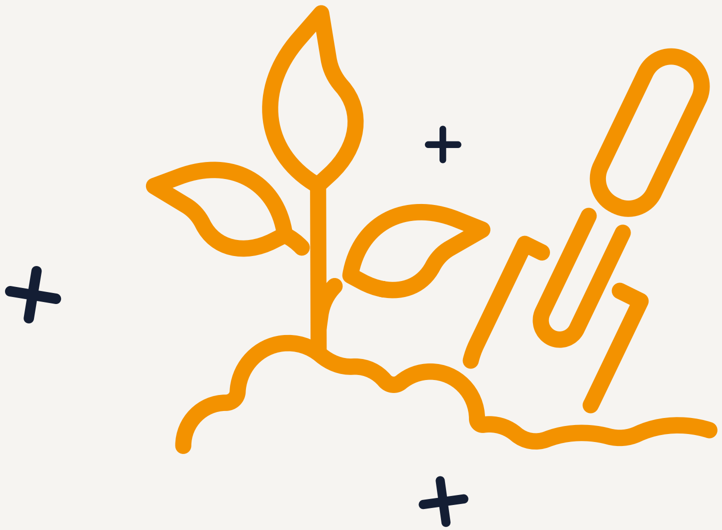
We think that many schemes will find it challenging to be ready in time to connect with the dashboard: our research suggests that only 39% of schemes have a project plan and 54% not knowing how they would connect. You can read more in this article summarising our views.

Pensions dashboards: How to stay ahead and avoid pitfalls

Watch our webinar on-demand where our expert speakers covered 5 key questions you should be asking your administrator to stay ahead of the game…and what may go wrong if you don't.

Zoom In, Zoom Out: It's time to focus on the pensions dashboard landscape

LCP's Priya Patel takes a step back to consider not only what trustees and administrators should be thinking about at this stage in their dashboard journey, but also what pensions dashboards more widely could mean for pension savers across the country. Read our blog here.



Responsible investment & climate change – what's new?

Fiduciary duties and climate change

The Financial Markets Law Committee ("FMLC") has published a paper which sets out the latest legal thinking on pension trustee decision-making in the context of sustainability and the subject of climate change. The paper provides an explanation of the legal position and the difficulties and legal uncertainties that still persist, including considerations of litigation risk, stewardship and systemic climate change risk. You can read more of our views and the key points of the guidance here.

TPR asks trustees to look beyond climate change when considering ESG risks

This latest blog encourages trustees to expand their ESG focus beyond climate change.

Actions that trustees should consider include becoming early adopters, building on experience, and increasing collaboration with others and sharing knowledge.

The blog rebuffs feedback that existing reporting requirements may compromise decision making and action, saying that the disclosures required should already be embedded in output on the strategic decisions trustees are making.

FRC launches review of Stewardship Code

On 27 February 2024, the FRC launched its review of the 2020 edition of its Stewardship Code. The FRC promises a "fundamental review process" which is to be undertaken in three phases, likely concluding in 2025.

The FRC reports that there are now 273 signatories to the Stewardship Code, representing £43.3 trillion in assets under management. This includes 188 asset managers, 66 asset owners and 19 service providers. 81 organisations successfully renewed their signatory status (including LCP).

A recap of our DC & Financial Wellbeing Conference

Revolutionising member communications: how we can use technology to improve decision-making

LCP communications expert Hayley Williams explored the future of pensions communications, including the benefits and challenges of AI, and the possibility of robo-advisors helping members to make financial decisions.

Navigating financial wellbeing and longevity for your members and employees

Ahead of the launch of LCP's 5th market-leading survey on financial wellbeing, Heidi Allan and Stuart McDonald highlighted the continued growing trend of DC members' lack of security and confidence in their personal finances.

'Magnetic Pensions' - a new blueprint for building DC pension pots

Sir Steve Webb offered a sneak preview of LCP's latest initiative to help solve the problem of the proliferation of the small DC pots that members have accumulated, the solution to which is the concept of 'Magnetic Pensions' that follow a member from scheme to scheme.

The future for climate and investment strategy design

LCP investment partner Stephen Budge and RI expert Drew Henley-Lock examined the big questions relating to the future of investments that incorporate climate factors.

Key takeaways from this session were that timelines and roadmaps to reaching targets such as net zero will pave the way to more responsible investment.

Watch this highlight video from the day and speak to your usual LCP contact if you would like to find out more about any of the topics covered.

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For further details, visit our preference centre.

Any questions?

If you would like any assistance or further information on the contents of this Update, please contact one of the team below.

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