EVERSHEDS SUTHERLAND

Blooms of change

DC Agenda

May 2023

1. Value for money

DWP, the FCA and the Pensions Regulator have jointly consulted on a new value for money (VFM) framework that will require all workplace DC schemes to disclose, compare and assess value of their scheme relative to other schemes using objective metrics. Under the proposals, schemes will need to publish VFM framework data (including separate data on investment and administration costs and objectively measurable date on quality of services) by 31 March each year. They will need to publish their VFM assessment by 31 October each year.

Action – the policy drivers for the proposed VFM framework are to facilitate better outcomes for members, shift focus from costs to value and promote further consolidation. Governing bodies and providers may need to disclose and compare significant amounts of additional data on investment performance, costs, charges and wider services. For an overview of the proposed VFM framework, see our recent speedbrief and for our thoughts on the strategic direction of the proposals, please see our accompanying DC Practical Notes.

2. Spring budget

The Government announced in the budget that the lifetime allowance (LTA) will be abolished from April 2024. In addition, from 6 April 2023, there will be no LTA charge, although schemes will still need to carry out LTA checks. HMRC has issued guidance on this change and the impact on tax protections and lump sums. The Finance Bill also provides that from 6 April 2023, where certain lump sums are paid in excess of the LTA, the excess will be charged at the member's marginal rate, the money purchase annual allowance will rise from £4,000 to £10,000 and the annual allowance from £40,000 to £60,000.

Action - trustees and administrators should consider how to communicate the tax changes to members and whether changes may be needed to scheme rules and administrative processes. The abolition of the LTA will be included in future legislation, so there is a chance that it might not happen or the proposals may change. For more information on the tax changes see our speedbrief and our accompanying DC Practical Notes.

3. Equality, diversity and inclusion

The Regulator has issued guidance aimed at both trustees and employers on how equality, diversity and inclusion (EDI) should be factored into trustee governance and composition, including succession planning and appointment. It also looks at the responsibility of chairs in relation to implementing EDI and the need to take it into account in trustee training and meetings. The trustee guidance sets out questions that trustees can ask advisers in a selection process to determine the adviser's approach to EDI and suggests that advisers may be able to provide missing EDI perspectives.

Action – existing trustee appointment and governance processes should be reviewed in the context of the guidance. Employers should also be aware of the guidance when appointing employer nominated trustees. There is more detail on the guidance in our article and for more detailed thoughts on EDI, please see our accompanying DC Practical Notes.

4. Small DC pots

The Government has issued a new call for evidence on how to deal with the proliferation of small, deferred pension pots. It estimates that there will be 27 million deferred DC pots by 2035. Members often lose track of their pots and the administrative costs could undermine the financial stability of providers. A number of options are being considered including whether small pots should be consolidated into a single consolidator or several commercial consolidators and if "pot follows member" could also be used.

Action - no action is currently required but in general, schemes should ensure that data on deferred members is up to date and watch out for any developments. More information on the proposals is in our speedbrief.

5. Future of Collective Defined Contribution Schemes

In August 2022, legislation came into force allowing establishment of CDC schemes for connected employers. The first CDC scheme operated by Royal Mail has been authorised by the Pensions Regulator. A recent consultation paper invited views on how to expand CDC schemes to multiple unconnected employers and the commercial market. The paper focused on "whole life CDC schemes" which provide for both accumulation and decumulation, but it also invited views on the use of CDC as a decumulation vehicle in the future.

Action - CDC could provide advantages for members if schemes can reach sufficient scale as it pools investment and mortality risk. Few employers are likely to be able to achieve the required scale themselves but those who think CDC might be a good option for members should keep an eye on developments. For more on how CDC schemes work, see our article . We set out our views on CDC as a default decumulation option in our accompanying DC Practical Notes.

6. Review of climate change reporting

The Pensions Regulator has recently published a review of the first tranche of climate change reporting by larger schemes. The review highlights examples of good and poor practice and identifies several overarching issues that trustees are being asked to consider when producing their next report. In particular, the Regulator says that some reports lacked sufficient background information which made disclosures difficult to interpret.

Action - where schemes have assets of £1 billion or more and are in scope of the climate change reporting requirements, they should consider the good and bad practice highlighted by the Regulator. We set out an overview of the Regulator's review in our accompanying DC Practical Notes.

7. Member engagement

The final version of the dashboards regulations came into force on 12 December 2022. Staging was due to begin on 31 August 2023 but the Pensions Minister has announced that it will be delayed. The Regulator has issued updated dashboards guidance which reflects the staging delays but says that schemes should still be taking action now. An updated timeline is expected to be announced before the summer. There is also guidance from PASA on creating a modern digital engagement strategy to more successfully encourage members to engage with their pension pots.

Action - trustees and administrators should keep a watching brief for any updates to staging dates and, in the meantime, they should continue to get their data ready for the dashboards and ensure that administrators or third party providers have sufficient capacity. They also need to remember that from October this year, statutory money purchase illustrations need to be prepared in accordance a new standard set of assumptions.

8. Transfers and scams

In May 2023, DWP will undertake a review of the transfer conditions implemented in November 2021 and it has continued to engage with the industry about the issues with them. In addition, the Pension Scams Industry Group (PSIG) has issued interim guidance on the transfer conditions, the problems they pose, the operation of clean lists, transfer due diligence and the options available for schemes where they identify there may be a low risk red or amber flag.

Action - trustees and administrators should consider the interim guidance on the transfer conditions and assess whether their existing practices need to be updated. It is worth remembering that consideration of the existing PSIG code of practice is one of the elements of the Pensions Regulator's scams pledge.

9. Chair's statements

New regulations allow specified performance fees to be excluded from the default fund charge cap, but they will need to be disclosed in the chair's statement for scheme years ending from 6 April 2023. The chair's statement will also need to include information about the percentage of default fund assets allocated to each of eight specified asset classes for year ends after 1 October 2023. The Regulator is launching an initiative to check whether DC schemes with assets under £100 million are complying with the more detailed value for members requirements. In addition, the Government has invited views about the viability of the chair's statement in its current form.

Action - trustees need to be aware of the changes to chair's statements and that their existing templates may not reflect the new requirements.

10. Auto-enrolment

The Government has announced its support for a private member's bill on expanding auto-enrolment. The bill contains a regulation making power which will allow the age at which eligible workers must be auto-enrolled into a workplace pension scheme to be lowered from 22 to 18. It will also make provision for the removal of the lower earnings limit on contributions to support "*those with low earnings and multiple jobs by ensuring they are saving from the first pound earned*".

Action - these changes were first proposed in the Automatic Enrolment Review back in 2017 and a commitment was made to implement them by the mid-2020s so the government's support for the bill comes as no surprise. To implement the changes, regulations will still be needed but employers should be aware that the costs of auto-enrolment are likely to increase either later this year or sometime in 2024.

For more information on how
we can help you please contact:

François Barker
Partner and
Head of Pensions

T: +44 20 7919 0675
M: +44 782 534 1131
francoisbarker@
eversheds-sutherland.com

Michael Jones
Partner

T: +44 20 7919 0808
M: +44 774 833 3757
michaelejones@
eversheds-sutherland.com

See our accompanying DC Practical Notes

eversheds-sutherland.com