Regulatory Update

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In more recent times the Chancellor's Budget speech and fiscal statements have provided the key platform for policy announcements as the Government continues to look to apply pensions and savings policy to support the economy. The Budget in March saw the announcement of a new UK ISA and updates on pension value for money assessments and the exploration of a 'lifetime pension provider' model.

We support a more holistic assessment of value for money. A focus on charges alone narrows the opportunity for innovation and the use of wider asset classes, such as illiquid investments, as could benefit pension members. The Government reaffirmed its ambition to stimulate investment in UK markets by requiring greater transparency of allocation to domestic assets. We continue to strongly believe that Defined Contribution pension schemes must maintain discretion to follow the investment strategy they believe is in the best interests of members and were pleased to see the Government not pursuing more directive intervention on this issue.

Related, the move to empower the regulators to act where acceptable value is not provided is welcome but will need to be implemented carefully to avoid negative impacts. While it is right that the FCA doesn't delay, the divergence in implementation timelines with trust-based scheme remains a concern, as it risks distorting the market. We continue to call for greater emphasis on alignment in policy making.

In the lead up to the Budget it was believed that the Government was keen to announce progress of the lifetime pension provider model. In my last update I covered our concerns with these proposals and we have been actively highlighting the importance of the employer's role in supporting pension outcomes. I was pleased to see the commitment in the Budget speech to explore the issues further with industry and importantly employers themselves before taking further steps.

Having spent some time with the new Pensions Minister, Paul Maynard, I am encouraged by his balanced view, focus on members and awareness of the volume of change already in-flight for how pension policy will be taken forward - in the short-term at least, given a general election is looming.

One of those in-flight policies is obviously the pensions dashboard and we nudged closer in March with the publication of DWP's guidance that sets out the staging dates for schemes to connect data to the dashboard ecosystem. As we had expected, the earliest date is 30 April 2025, giving industry the full year of notice that had asked for to best allow schemes and providers to make ordered preparations. The FCA also recently launched a further consultation on the permissions framework for being a dashboard provider, so slowly the broader picture is becoming clearer but much still needs to be done.

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Watch James Carter talk through the key regulatory themes from Q1

Spring Budget March 2024

The Chancellor's Spring Budget didn't contain any 'big' announcements for pensions, unlike the previous two (no changes to allowances or indeed any abolitions!). Key announcements included:

The 'Great British ISA'

There was lots of speculation about the launch of a 'Great British ISA' to boost investment in the UK and in this Budget the Chancellor announced there would be a consultation launched to seek views on its implementation. The ambition, for what is officially known as the 'UK ISA', is to provide individual investors with an additional opportunity to save tax efficiently whilst supporting investment in the UK and benefiting from its growth.

Our view:

First and foremost, we believe that financial products need to align with investors' needs and behaviours. We welcome the opportunity to engage with the Government consultation to consider how best to develop its plans for a 'UK ISA'. Increasing how much consumers can save and invest through ISAs is welcome given their popularity and valuable tax advantages. However, we know that one of the main barriers that deters consumers from investing is complexity, which in turn erodes financial confidence. Therefore, plans for a 'UK ISA' must focus on simplicity, and helping consumers to understand how this fits with other financial products that can help to achieve their goals.

One of the continued challenges we face is how to evolve a cash savings culture into confidence to invest for longer-term needs. We know that many people find it difficult to identify which products best suit their saving or investment needs and struggle to manage their savings across different ISA types. Many consumers hold large cash balances for too long, missing out on the potential for higher investment returns.

We continue to believe that further simplification is needed and could be achieved by combining Stocks and Shares and Cash ISA products, as well as improving the ease of transfers.

Value for Money

Following announcements made in the days before the Budget, the Chancellor confirmed the Government will give greater powers to TPR and the Financial Conduct Authority (FCA) to act where value for money is not being provided. Additionally, it is intended that schemes will be required to disclose UK investment allocations and net investment performance. The FCA is expected to consult on its value for money framework in the 'spring' with equivalent requirements for trust-based pensions to follow in the future when parliamentary time allows.

Our view:

It is essential that schemes offer members good value for money, and whilst we are pleased that the FCA is making progress, we are concerned that there will not be similar requirements for trust-based schemes. We hope that the regulators can work effectively together to ensure consistency across regulatory regimes and look forward to engaging with the consultation when it is released.

'Lifetime provider' update

The Government has confirmed that it will continue to explore a lifetime provider model for defined contribution pension schemes. DWP has since confirmed that this means the Government will undertake further analysis and engagement, with a focus on better understanding the views of employers and employees, and how their attitudes and behaviours might be influenced by the introduction of a lifetime provider model. They intend to publish the response to the Call for Evidence in due course.

Our view:

We have previously made clear our concerns regarding these proposals. Through advocacy, we have been highlighting the importance of the employer's role in supporting pension outcomes. We are pleased that the Government will be taking a greater interest in the impact of these proposals on employers and will continue our advocacy in this area.

National Insurance cut

A further cut to National Insurance was announced, effective from April, reducing the rate from 10% to 8% which reduces the total saving for those contributing to their pension via salary sacrifice.

January 2024

TPR publishes new General Code

TPR published its new 'General Code of Practice', which came into force on 27 March. It brings together and updates 10 existing codes and sets out their expectations for scheme governance and administration.

Key changes from the previous codes include requirements for some trustees and governing bodies to have an effective system of governance (ESOG) that is proportionate to the size, nature, scale and complexity of the scheme. The ESOG should include processes and procedures to ensure compliance with modules including management of activities, organisational structure, investment matters and communications and disclosure.

Many defined contribution schemes with 100 or more members, are also required to carry out and document an own-risk assessment (ORA) of their ESOG. For those schemes, who aren't required to have an ORA (those with less than 100 members and schemes who are also exempt from having an ESOG (such as Master Trusts)) adopting the principles and procedures of the ESOG and ORA will be best practice. Most schemes in scope will be required to complete their first ORA within 12 months of the end of the first scheme year after the General Code was issued and then at least every three years.

January 2024

TPR publishes guidance on private market investments

TPR has published new guidance for pension scheme trustees who are considering investment in private market assets, in order to achieve better outcomes for savers. The guidance follows the Government's 2023 Mansion House reforms, which are intended to support industry to "increase returns for pensioners, improve outcomes for investors and unlock capital for our growth businesses." TPR supports this ambition, saying that with the right advice and effective governance, private market assets can play a valuable part in a diversified portfolio that aims to improve and protect retirement savings.

TPR also reiterates that it expects trustees to act in the best interests of savers, which means properly considering the full range of investment options. The guidance calls on trustees to ensure they have an appropriate level of knowledge and understanding. They need to be able to work with their advisers to fully consider how accessing private market assets may meet their needs. It suggests setting objectives for investment advisers relating to private market investment advice and improving outcomes for members.

Interim Director of Regulatory Policy, Analysis and Advice Louise Davey said *"It's not our job to tell trustees how to invest people's pensions. But it is our job to make sure they focus squarely on delivering value from investments and have the right skills and expertise to consider all asset classes."*

February 2024

Finance Act 2024

The Finance Act 2024 received royal assent in February which abolishes the lifetime allowance (LTA) from 6 April this year. The LTA is replaced with two lump sum allowances - the lump sum allowance (LSA) and the lump sum and death benefit allowance (LSDBA).

HMRC continues to publish regular guidance to help schemes prepare for these changes and further regulations and guidance are expected after 6 April.

For further information on these changes, we have also produced a client statement which you can view here.

March 2024

General Levy increase

The DWP published the outcome from their consultation on the General Levy last autumn. The consultation proposed three options for dealing with the significant levy deficit that is estimated to be building up. These were:

- Option 1 - Continue with the current levy rates and structure
- Option 2 - Retain the current levy structure and increase rates by 6.5% per year
- Option 3 - Increase rates by 4% per year and signal an additional premium rate for small schemes (with memberships up to 10,000) from 2026.

The Government has decided to proceed with Option 2, a rise of 6.5% across all scheme categories, which had overwhelming support from respondents. Accordingly, regulations (The Occupational and Personal Pension Schemes (General Levy) (Amendment) Regulations 2024), have been made and laid in both Houses of Parliament.

March 2024

DWP Taskforce on Social Factors publishes 'Considering Social Factors in Pension Scheme Investments' guide

The Taskforce on Social Factors (TSF) has published its guide on incorporating social factors into investment stewardship and decisions following the consultation last year. They have also provided additional publications to "provide frameworks of good practice and allow for the assessment of materiality." These include:

- A quick start guide for pension trustees, which aims to support with activities to begin to identify and monitor social risks and opportunities of their scheme's investments
- Case studies on considering social factors
- Recommendations to improve the integration of social factors.

The TSF was launched in February last year, in response to the DWP's 2021 call for evidence on how schemes approach social risks and opportunities - the 'S' in ESG (Environment, Social and Governance). The response to the call for evidence did not propose changes to the existing requirements and made it clear that it was up to trustees to decide how to include social factors. Instead, this guide aims to help pension schemes address the risks and seize the opportunities of the 'social' element in ESG investing.

March 2024

Pensions Dashboards - DWP set out guidance with the staged timetable for connection

Last year DWP announced they would be setting a 'single and final' connection deadline of 31 October 2026 in regulations, but that the dates they expect schemes to connect would be set out in guidance. The long-awaited guidance has now been published and the staging timetable starts with the largest schemes in April 2025 and ends with smaller schemes in September 2026.

Despite the timetable being in guidance rather than regulations, DWP and the FCA have been strong in encouraging trustees, managers and pension scheme providers to 'have regard to' the guidance and connect by this date unless there are exceptional circumstances which prevent them from doing so.

The Pensions Dashboards Programme (PDP) will issue more guidance in the coming months giving more details on the process of connecting to the pensions dashboards ecosystem.

FCA Retirement Income review

The FCA published the results of its thematic review into retirement advice covering 2022. It addresses what it expects from advisers when consumers move from pensions accumulation to decumulation.

In response to the greater exposure to investment and mortality risk faced by those now investing in retirement income solutions, the FCA's thematic review sought to:

- Gain detailed insights into how the retirement income advice market is functioning
- Understand whether firms' advice models consider the specific needs of consumers in decumulation
- Consider whether consumers are being provided with suitable retirement income advice, when accessing benefits through pension savings, and take appropriate action to tackle any harms identified
- Inform the FCA's future areas of focus.

The main findings are:

- **Centralised Retirement Proposition (CRP):** Firms using a documented approach to help their advisers to give advice are more likely to be able to deliver consistent and suitable advice.
- **Advice suitability:** Particular concerns were raised on the information collected before making a personal recommendation. The issues identified include loss of guarantees and features, penalties incurred and unnecessary charges or tax. Some customers were also not given information about relevant options.
- **Income withdrawal strategy:** Another key area for improvement is in the methodology that firms use to help illustrate how customers might be able to draw income sustainably throughout their life, considering their current and future income needs in retirement.
- **Risk profiling:** Some firms are not assessing a customer's capacity for loss (CFL) when establishing the risk a customer is willing and able to take and considering how that may change throughout retirement.
- **Periodic review of suitability:** Some firms were charging for, but not delivering ongoing reviews.
- **Vulnerable customers:** Whilst there were policies in place to identify vulnerable customers, it was not always clear how firms would monitor their outcomes.

As the review covered 2022, it did not assess whether firms were compliant with Consumer Duty.

Our view:

We welcome the FCA's review. Some of the decisions consumers need to make at the point of, and into, retirement are complex and therefore, they are encouraged to obtain advice to help navigate through. It is critical that those who need holistic advice at and into retirement are offered a good service which enables them to achieve a better outcome. All firms providing this type of advice will need to carefully reflect on the findings and consider what changes they need to make to ensure that they are delivering consistent advice and offering value for money. The extent of these findings has even led to some advice firms making provisions for compensation claims arising, so the significance shouldn't be underestimated. The findings further highlight the importance of the advice guidance boundary review in delivering targeted support to consumers to aid their decisions. We look forward to a continued focus from the FCA on this area.

In other news...

The FRC publishes new version of the Actuarial Standard Technical Memorandum 1 (AS TM1), February 2024

The Financial Reporting Council (FRC) has revised the calculation of Statutory Money Purchase Illustrations (SMPIs), which are used in annual benefit statements. This updates the assumptions in relation to accumulation rates and came into effect for calculations from 6 April 2024.

This change is in response to higher long-term interest rates and gilt yields, resulting in higher long-term expected returns.

Pensions Dashboards - FCA further consultation on the regulatory framework for pensions dashboard service (PDS) firms, March 2024

In addition to the regulatory requirement to connect data to the Pensions Dashboards ecosystem, firms have the option to launch their own Pension Dashboard. The FCA consulted on regulatory framework for 'PDS firms' back in December 2022 and have now followed this with a further short consultation on changes to some of the rules from the original consultation. In this new consultation the FCA seek feedback on two changes to the previous regulatory framework proposals:

1. to allow firms to signpost consumers to appropriate sources of information, support and guidance
2. a minor change to the data export permissions for financial advisers.

Important information

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