For scheme sponsors, trustees, their advisers and consultants use only

Regulatory Update

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Pensions Dashboards continues to be a complex topic and on 8 June the Pensions Minister, Laura Trott, issued a written statement again noting that more time is needed to deliver the programme. The update stated that rather than revising the entire data connection timeline in legislation, the Government will set this out in guidance. It has committed to collaborating with the industry "this year" on these dates. Instead a 'single and final' connection deadline for all schemes in scope is being set in regulations as 31 October 2026, a year later than the previous timescale.

We remain keen advocates of the pensions dashboard. Overall, I think the proposed approach is the best compromise. The Government is keen to quell rumours and commentary that pensions dashboards will never become a reality and needed to set new regulations soonest. It is clear though that more time is needed to determine when the first schemes may be able to connect their data and how to schedule the staging of connections. We don't yet know when the guidance containing these dates will be published. I'm pleased that the Department for Work and Pensions (DWP) is committed to work with industry on the dates and we are already engaged in discussions about how the guidance will be structured. This is a complex project and the impact of it not launching successfully would be huge. Providers and schemes must be given sufficient time to complete their preparations and we continue to reiterate that point.

I also wanted to mention the journey ahead to implement the abolition of the lifetime allowance (LTA). There is a lot to do, to analyse and plan for the removal of the LTA from 6 April 2024, as will remain the Government's ambition. We also remain alert to Labour's position to reinstate the LTA, should they win the next general election. In the short term, we hope to quickly see a building of activity and momentum through the industry group considering the issues with HMRC. Moving from the current state of a zero LTA charge to the LTA's removal will relieve much complexity and burden from both pension scheme members and administrators.

Update to this edition

Whilst not strictly in Q2, we have included a summary of the Chancellor's Mansion House speech and the raft of proposed pension reforms from DWP.

Most of these policies require primary legislation and a pensions bill announced in the King's Speech in November. How much can realistically be delivered before the General Election remains to be seen.

There appears to be cross-parliamentary support for the broad outline of the proposals, but as this is at consultation stage, the devil will be in the detail for the current and any future government.

Watch James Carter talk through the key regulatory themes from Q2

Breaking news...

Since the recording with James Carter, the Chancellor and the Pensions Minister have provided key updates on their vision for pensions reforms.

Mansion House reforms - 11 July 2023

The Chancellor, Jeremey Hunt, outlined his 'Mansion House Reforms' that are designed to unlock capital from UK pension schemes for productive finance. The reforms also included the 'Mansion House Compact', a package brokered alongside the Lord Mayor of the City of London, which saw some defined contribution pension providers commit to allocating 5% of assets to unlisted equities by 2030.

Our view

We are highly supportive of unlocking so-called 'productive capital' from defined contribution (DC) schemes. We believe there is strong alignment with the objectives of private market investments and members whose investment horizon is measured in decades not years. We see an opportunity to deliver improved outcomes for investors, whether that be through returns, income, sustainability or diversification.

Whilst we welcome the City of London's specific push to commit 5% of defined contributions default scheme capital to unlisted securities, we are unable to sign the Compact at this point in time. We feel that the restriction to unlisted securities is still too narrow in scope, and scheme members would be better served by a more diverse productive asset mix, such as private credit, infrastructure, and real estate. We will continue to work with our clients and industry stakeholders to deliver improved solutions and outcomes for scheme members.

Pensions Minister's Speech - 12 July 2023

The Pensions Minister, Laura Trott, noted her key driver is to close the generational divide between those with defined benefit (DB) pensions and those who have DC pensions. To illustrate this, she gave the example of two sets of people - those who joined the workforce before 1997 and those who joined towards the end (in early 2010) of the last Labour government. She said that before 1997 most people who worked had a private pension and the majority of these were DB. However, by 2010 the number of private sector workers with a private pension had fallen by 20%, hardly any of these were DB and investment in productive assets had 'cratered'. This was what she considers to be Labour's legacy, the decimation of private pensions. Her goals are to boost adequacy, increase fairness and improve predictability.

The Pensions Minister noted the key areas for improvement:

- Auto-enrolment savers pension adequacy is 'not where it should be'
- Returns on DC pensions are not always high enough
- Significant difference between what people would have previously received under a DB pension and what they can achieve with a DC pension
- Some people have too many pots which makes planning difficult

Key reforms to achieve this are the Value for Money framework, (which Department for Work and Pensions (DWP) is developing with The Pensions Regulator (TPR) and the Financial Conduct Authority (FCA)), resolving the challenges of 'small pots', and introducing requirements for trust based schemes to offer decumulation options.

In her conclusion, she confirmed that she wants to ensure that regulators have the powers they need to make these reforms a success. The goal for the reforms is to achieve better outcomes for pension savers. The Government claim that the overall impact of forthcoming changes could see average pensions increase by around 50% per year and a minimum wage worker could see their pension pot increase by nearly 90% over their career. The system should deliver better, fairer and more predictable pensions.

Key DWP publications

12 July

Ending the proliferation of deferred small pots

The Government's small pots 'call for evidence' in January focused on two possible large-scale solutions for dealing with deferred small pots: "default consolidator" and "pot follows member" models, alongside member exchange and greater member engagement. In its response, DWP noted that there was no clear preference within the industry for either model, with both solutions having their merits and supporting the aim of reducing the number of deferred small pots.

DWP is now consulting on a preferred 'multiple default consolidator model', with a clearing house in place to handle the transfers between schemes and the consolidator. It is anticipated that schemes who wish to be a consolidator would need to meet the highest levels of Value for Money (VFM) and would need to meet authorisation criteria. The value of a small pot is proposed to be limited to £1,000, with a requirement for the Secretary of State to review this limit at regular intervals.

Our view

It's pleasing to see a more coherent and connected policymaking approach. In relation to resolving the challenges surrounding small pots, we participated in the Small Pots Industry Coordination Group and have consistently advocated for a default consolidator approach rather than a 'pot follows member' solution, and therefore broadly welcome this proposal from the DWP. In particular, we are pleased to see a small pot size of £1,000 proposed rather than any of the higher amounts under discussion. The immediate focus needs to be on consolidating genuinely small pots as we await the impact of pensions dashboards.

- **'default consolidator'** where eligible pots would transfer automatically to a consolidator, with the member being given the chance to opt out of the transfer if they wanted to remain with their current provider.
- **'pot follows member'** where, if a member changes jobs, their deferred pot would automatically move with them to their new employer's scheme, if it meets the chosen eligibility criteria for automatic consolidation. Pot follows member was previously proposed as a solution when Steve Webb was Pensions Minister, the policy was then abandoned in favour of Pensions Dashboard which has yet to be implemented.

Key DWP publications

12 July

Helping savers understand their pension choices

From February 2021, FCA regulated schemes have been obliged to offer 'Investment Pathways' to savers as they move into drawdown. This initiative is designed to ensure that anyone with a pension drawdown account has access to simple, good-value investments that broadly match their retirement income goals. Currently there are no equivalent requirements for members of trust-based pensions. To remedy this, last summer DWP issued a call for evidence (CfE) on 'helping savers understand their pension choices', seeking views on how options similar to investment pathways could be offered to members of trust-based schemes. DWP has published its response to the products and services element of this CfE and is now consulting on proposals to require trust-based schemes to offer in scheme decumulation or to partner with another provider who offers an appropriate option. As noted in the Pension Minister's speech, the Government remains committed to collective defined contribution (CDC) and wants schemes to consider how CDC could feature in their offering but do not propose to mandate specific products being offered.

Our view

It is vital that savers' interests remain central to the Government's ambitious pensions market proposals. The publications mention the potential opportunities for members through the provision of CDC. DWP's proposals suggest CDC could enable members to benefit from greater opportunities and consolidation in the market while supporting the wider government agenda around productive finance. We believe the economic benefits of CDC must be independently validated in order to prove the benefit to members and ensure savers' needs are prioritised, first and foremost.

It is important for schemes to support their members as they approach and enter retirement, and we are therefore supportive of DWP's proposals to require occupational schemes to offer decumulation solutions to their members. We are also pleased to see the choice for schemes on their approach, with the opportunity to consider partnerships rather than the requirement to offer in scheme drawdown options themselves - a positive step forward for members of occupational schemes.

Value for Money (VfM)

DWP published their response to the consultation released in January, which was developed with TPR and the FCA. They plan to keep the proposed framework broadly the same, with some notable exceptions, such as a simpler set of data requirements including a move from net to gross investment performance in order to reduce data complexity in the initial phases.

The initial focus will still be on workplace default schemes, bringing in other types of schemes in the future. It is also noted that the Chair's Statement may be phased out as the VfM framework becomes established and this framework will replace the Value for Members framework which is in place for schemes with less than £100 million of assets.

In addition, regulators will be given the power to intervene and force schemes to wind up if they do not offer VfM. Contract based schemes will be given the power to move money without member consent and this will be progressed in conjunction with DWP's small pots work.

May 2023

Welcoming a new CEO at The Pensions Regulator

“We must unite to meet the pensions challenge”

Nausicaa Delfas, TPR’s new CEO, called for the pensions industry to work together in a speech she gave at an event on 23 May 2023. Key themes in the speech included value for money, consolidation, governance and trusteeship, and supporting members with ‘at retirement’ solutions.

Value for Money is a key priority for TPR, and Ms Delfas wants industry to move away from a short-term focus on cost to deliver real, long-term, holistic value for savers. TPR’s view is that those responsible for providing oversight of value should be supported to focus on what matters most for pension saver outcomes. This means expanding the measure of value from costs and charges alone to include other factors such as investment returns and a quality level of service. It is envisioned that this will drive innovation that benefits savers. Ms Delfas also confirmed that a response to the FCA, DWP and TPR joint consultation on the proposed value for money framework is expected this summer. It is hoped that this framework will generate a virtuous cycle of improvement and make defined contribution pensions better value all round.

On consolidation and standards of governance, Ms Delfas made clear that TPR would be challenging trustees to leave the market and put savers into better run schemes if they cannot meet TPR’s expected standards and will work with the market to address any “barriers or practical issues” to doing so. She raised the ongoing expectation for trustees to meet high standards of administration and governance, including addressing equality, diversity and inclusion and environmental social governance issues. She also made clear that TPR will be pushing towards greater professional trusteeship.

TPR is currently working with DWP to ‘scope a set of reforms’ to support savers when they come to use their money. She says that the intention is to support savers to make good decisions and secure the best retirement for their circumstances.

June 2023

Pensions Dashboards Programme 'reset' update

Towards the end of Q1, DWP announced the 'reset' of the Pensions Dashboards Programme (PDP). Since then, we have participated in discussions with Government and industry about the revision of the connection deadlines and whether these should be in guidance or legislation. In a Ministerial Statement, the Pensions Minister confirmed that more time was needed to deliver this complex project and for the pensions industry to help facilitate the successful connection of schemes to the dashboard ecosystem.

The statement also confirmed that instead of putting the entire staging deadline in legislation there will be a new 'single and final' connection deadline of 31 October 2026, a year later than before, and the revised staging timetable will be set out in guidance not legislation. The Government has committed to further collaboration with industry "this year" and it is expected that details of the revised staging timetable will be published after this has taken place.

Both the FCA and TPR wrote to the schemes they regulate swiftly after the announcement. The FCA will propose to its board that it should amend its rules to take the same approach. TPR has updated its dashboards guidance to reflect the new approach and is now considering what, if any, changes need to be made to its draft compliance and enforcement policy. Both regulators promised ongoing engagement and additional communications as the pensions dashboards project progresses. In the meantime, the regulators emphasised their expectations on the industry to continue preparations for pensions dashboards while awaiting further updates.

Our view...

We have been and continue to be, strongly supportive of creating pensions dashboards for consumers. It is important for both the integrity of the project and consumer confidence that pensions dashboards are delivered successfully and for these reasons we have been sympathetic to the delay. We are, overall, supportive of the new approach, acknowledging that there are both benefits and limitations for connection deadlines to be in guidance rather than in regulations.

It remains vital that proper consideration is given to the staging dates in guidance and it is clear that PDP needs more time to determine when schemes may be able to connect their data and how to schedule the staging of connections.

We are pleased to see commitment from DWP that it will work with industry as this will be critical. As DWP note, this is a complex technology project and providers and schemes must be given sufficient time to complete their preparations. It is also imperative that PDP is confident in its ability to onboard the volume of schemes at each date. To support the successful achievement of these outcomes we will continue to engage with Government and regulators.

June 2023

DWP reviews the transfer regulations

DWP has published its 18-month review of the transfer regulations. These rules came into force in November 2021 and were intended to empower trustees and scheme managers to reject transfer requests where they believe the member may be at risk of a scam. A system of amber and red flag scam indicators was introduced - red flags are used when there is a significant risk of a scam and amber when there may be a risk, but equally the circumstances could be legitimate. However, there have been concerns about the practical application of the rules, specifically the amber flag for overseas investment and the red flag for schemes offering incentives.

This concern was supported by the findings of a report with more than half of the amber flags raised were for 'overseas investments' and 96% of amber flagged transactions subsequently proceeded. DWP recognised this concern, confirming that the overseas investment amber flag needed to be more clearly defined or removed.

Other findings show that pensions transfers are taking longer. Data published by Origo showed that the average ceding days for a transfer increased from 13.4 days in 2021 to 14.0 days in 2022. A possible contributing factor is the increase in waiting time for a MoneyHelper appointment from two to six weeks.

DWP have acknowledged industry concerns, particularly around the issue of the flags. It has committed to further work with the pensions industry and TPR "to consider if changes could be implemented to the regulations to improve the pension transfer experience, without undermining policy intent."

Our view...

The original policy intent for the introduction of these regulations was to empower trustees and scheme managers to reject a transfer request where they believe the member may be at risk of a scam. Scammers tactics regularly evolve and these regulations, providing increased powers to protect customers from different types of scam were welcome. Members continue to be vulnerable to scams and it remains important that trustees and scheme managers are empowered to protect members if they suspect a scam. We, therefore, strongly agree with DWP that the policy intent itself remains appropriate.

However, we also welcome that DWP has acknowledged the misgivings that we share with others in industry about aspects of how the regulations have been working in practice. We wrote directly to DWP last year with our concerns and also led on engagement with DWP via the Society of Pension Professionals. We will remain close to DWP's next phase as it considers possible changes to the regulations. Our ambition is to support DWP in making the changes that are needed to the rules, bringing them closer to the original policy intent and enabling trustees and scheme managers to better protect their members.

FCA - Widening access to long term asset funds

The FCA has published a policy statement setting out new rules designed to give a wider group of retail investors and more defined contribution pension schemes access to Long Term Asset Funds (LTAFs). The new rules re-categorise a unit in an LTAF from a Non-Mass Market Investment (NMMI) to a Restricted Mass Market Investment (RMMI). This means distribution will be extended so that mass market retail investors, as well as self-select defined contribution pension schemes and Self-Invested Personal Pensions (SIPPs) will be able to invest into an LTAF.

LTAFs are a new type of open-ended authorised collective investment asset introduced by the FCA in 2021. They are designed to invest efficiently in long-term, illiquid assets, such as venture capital, private equity and private debt, real estate and infrastructure. They are a higher risk investment, which can provide greater diversification to investment portfolios and also potentially higher returns, but have less immediate liquidity and longer redemption periods. Access to LTAFs was previously restricted to professional investors, certified and self-certified sophisticated investors and certified high net worth individuals. The FCA has recognised that long-term investments are riskier, so investors will need to be given clear risk warnings and customer assessments.

These rules support the Government's ambition to increase investment in illiquid assets by occupational DC pension schemes. DWPs productive finance regulations, introduced earlier in the year were another step forward to removing barriers to this type of investment. When announcing the new rules, the FCA's Sarah Pritchard, Executive Director, Markets explained that "longer-term less liquid real assets can generate good alternative returns for investors and crucially, help to grow the UK economy through investments, such as new infrastructure."

As well as the new rules, the policy statement also contains an additional chapter seeking views on whether the protections of the Financial Services Compensation Scheme (FSCS) should be available for this product, or whether a different approach should be in place, before LTAFs reach the retail market.

Important information

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