Regulatory Update

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

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This regulatory update covers updates and announcements from the third quarter of the year. My last update was written just before the general election and with a fair expectation that we would now be working with a new Labour Government. In truth, there hasn't been a great deal of parliamentary time since the election, with the summer recess and now party conference season. But some key policy priorities have continued apace and the Budget looms on 30 October, so I'll cover what has happened over the summer months and look ahead to the rest of the year.

New Government, new outlook

Emma Reynolds is the new Minister for Pensions and is appointed Parliamentary Secretary at both HM Treasury and the Department for Work and Pensions (DWP). That dual appointment gives hope of better-connected policy making and the Government got off to a quick start in July with a Pensions Schemes Bill in the King's Speech and launching the promised pensions' review.

We expect the Pensions Schemes Bill to be published next summer and to include provisions for the new Value for Money (VfM) framework, consolidating small pension pots and requirements to support members in accessing retirement solutions. It may also include measures to support investment in domestic markets, as is being explored through the first phase of the pensions' review.

Pensions' review

The Labour Party committed to undertake a pensions' review in its election manifesto and it is being conducted in two phases. The first focuses on the scale of the workplace Defined Contribution (DC) market, considering value rather than costs in delivering member outcomes and encouraging investment into UK assets. A call for evidence allowed a short window in September for formal representations to be made and I expect we might see an announcement or update at, or around the time of, the Budget at the end of October.

In our advocacy, I continue to call for no mandating of how pension schemes invest - schemes must be allowed to invest solely in members' best interests. Finalising and implementing the VfM framework is critical in supporting the pivot to focus on net of cost value provided by schemes. I also believe that the scale debate needs repositioning. It is not necessary to require or expect jumbo sized schemes to achieve the extent of investment in private assets that the Government seeks. Scale can be achieved by schemes using platform-based investment solutions. At Fidelity, we are committed to deploying new investment opportunities to improve long-term outcomes for members.

The Autumn Budget

At the start of October, a month before the Budget on 30 October, it is still very difficult to foresee or predict what might be announced. There has been a lot of speculation in the press about potential pension and savings tax changes. There are three key factors:

1. the scale of the cited £20 billion black hole in public finances;
2. the Government's commitment not to raise Income Tax, National Insurance or VAT; and
3. the absence of formal pensions taxation policy from the Government so far.

If we do see pension tax changes in the Budget, my current view is that changes to the tax-free lump sum and taxation of death benefits look more likely than more radical changes to tax relief. More widely Capital Gains Tax reforms might be expected. National Insurance on employer pension contributions is also an area that may attract attention from the Chancellor, which could have an impact on salary sacrifice arrangements for pensions. However, it is always hard to predict what a new Government and new Chancellor might do.

Value for Money (VfM)

The Financial Conduct Authority (FCA) published its latest consultation paper in August setting out proposed rules and guidance. There are still a couple of specific areas where we continue to advocate for change. Where value isn't provided action is absolutely necessary. But I feel that the proposed amber and red rating approach and resulting implications of closing schemes, risk unintended consequences and undue market disruption. We need a framework which allows space for constructive tension and improvements being made in reasonably quick timescales.

In this issue...

Watch James Carter talk through the key regulatory themes from Q3

What has Labour announced so far?

Pensions Schemes Bill

The Government announced a new Pension Schemes Bill in the King's Speech back in July. This Bill is intended to boost pension incomes and to put saver's pots at the heart of Labour's bid to drive UK investment and growth.

Measures in the Bill will include ensuring all members are saving into pension schemes which deliver value through the VfM framework, the consolidation of small pension pots as well as provisions to require occupational pension schemes to offer access to retirement income solutions to members.

Our view:

It was encouraging to hear the announcement of this new Pension Schemes Bill in the King's Speech and many of the measures announced continue the work of the previous Government.

However, we don't expect to see this Bill until we are well into 2025, to enable the inclusion of policy arising from the first phase of the pensions' review (see opposite). It will take time before we see how the new Government's agenda differs from that of the Conservatives, and we expect any new policies will have to await legislation later in this Parliament.

Pensions' review

Shortly after the announcement of the Pensions Schemes Bill in the King's Speech, Chancellor of the Exchequer, Rachel Reeves announced a pensions' review as part of the Government's mission to "boost growth and make every part of Britain better off".

This review will be conducted in two stages. The first is focused on productive investment including scheme consolidation, encouraging broader investment strategies and aiming to identify any further actions to drive investment that could be taken forward in the Pension Schemes Bill. The second stage, which will likely start later in 2024, is to look at how to improve pension outcomes, including assessing retirement adequacy. The scope of the first phase also looks at how to unlock the investment potential of the £360 billion in the Local Government Pension Scheme.

In early September, the government launched a call for evidence to help inform the first phase of its pensions' review. This call for evidence, which closed on 25 September, asked for industry views in relation to scale and consolidation, costs versus value and investing in the UK.

Our view:

We strongly support this review and splitting it into two stages suggests that this Labour government wants to make quick progress. In our response to the call for evidence, we again reiterated the importance of not mandating how pension schemes invest.

In the second phase, the new Government has an opportunity to build on the success of automatic enrolment by creating a long-term plan which aims to have a positive impact on retirement outcomes and also generate investment to help finance growth. We wait with interest on the output of the review and how it will shape UK's pensions policy going forward.

FCA launches consultation on VfM framework for workplace pension schemes

The FCA published a consultation for a new VfM framework which builds on its previous work with the DWP and TPR towards a new market-wide VfM framework for Defined Contribution (DC) schemes. This consultation sets out the proposed detailed rules and guidance for this new framework for savers invested in default arrangements of workplace DC pension schemes.

The aim of the framework is to enable industry stakeholders to assess and compare the value of pension schemes on a consistent basis, with a holistic consideration of value rather than a focus on cost.

The consultation seeks views on the proposed framework which introduces four elements:

1. Consistent measurement and public disclosure of investment performance, costs and charges, and service quality by firms for all in scope arrangements against prescribed metrics.
2. Oversight and challenge of an arrangement's value – Independent Governance Committees (IGCs) and Governance Advisory Arrangements (GAAs) for contract-based schemes – to assess performance against other arrangements and requires them to do so on a consistent and objective basis.
3. Public disclosure of assessment outcomes including a Red Amber Green (RAG) VfM rating for each in scope arrangement.
4. Firms to take specified actions where an arrangement has been assessed as not VfM (Red or Amber).

Whilst this consultation relates to rules for FCA-regulated firms operating contract-based pensions, they are based on previous work with the DWP and TPR and are designed to be suitable for application across the DC workplace pensions market. To that end, we expect next year's Pensions Schemes Bill to include similar rules for trust-based occupational pension schemes to those published in this consultation to ensure that VfM is measured consistently across the DC market.

This consultation closes on 17th October, and we expect the framework to be implemented in phases, initially applying to default arrangements used for automatic enrolment.

Our view:

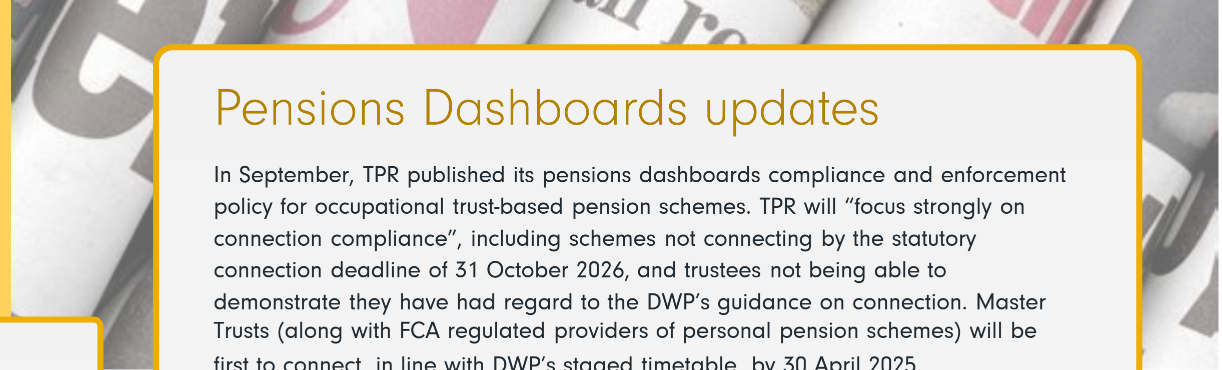
We are supportive of the introduction of a new VfM framework, which aims to bring a consistent and standardised approach across the industry. Sixteen million people now save into DC schemes, many using the default arrangements of workplace pension schemes chosen by their employer. It is critical that schemes offer good value for money for their members, and we are pleased that the regulators are working together with the aim of having a consistent approach across the DC market. Greater transparency around key metrics should drive better long-term value for members.

The first phase will introduce the VfM framework across those savers who are in the accumulation phase of workplace default arrangements only. We believe that the framework should include those in the decumulation phase at outset and not at a later date to ensure that members are getting the best possible retirement outcomes.

In addition, we are concerned that some of the metrics being put forward for assessing value are too complex and beyond what is necessary to make a fair VfM assessment and that the proposed RAG rating appears overly simplistic for a complex assessment of data points. The consequences proposed for being amber rated appear quite severe including stopping any new clients being onboarded which will have a cost impact for those employers, as they would need to find an alternative arrangement.

However, the framework should help to deliver further consolidation, ensuring that only schemes which can demonstrate VfM have an important ongoing role in the UK pension market. Aside from ensuring that there is effective enforcement against smaller scale schemes which do not demonstrate value, it is now crucial that this new framework is given time to work, before establishing whether any further considerations are needed.

In other news...



Pay your pension some attention campaign

Pension Attention is an annual coordinated and industry funded campaign that runs from 6 September (Pension Awareness Week) to 8 November (Talk Money Week). Fidelity is extremely pleased to continue to sponsor and fund this important initiative. The campaign aims to boost pensions awareness by inspiring the nation to engage with their pension. For more information on the campaign please visit - pensionattention.co.uk

Changes to the DC Scheme Return

TPR announced changes to the DC scheme return. TPR uses the scheme return to gather information about pension schemes, including to help maintain their register of schemes, identify schemes where there is a risk or potential risk to members' benefits and to calculate annual levy charges. There are several new questions this year, including information about scheme leavers, pensions dashboards, investment services and benefits details.

These new questions will support TPR's work in relation to consolidation; dashboards implementation; building more choice in the decumulation market and enhancing scheme administration and governance. If you do have any questions about the information for these new requirements, please speak to your Fidelity contact.

Pensions Dashboards updates

In September, TPR published its pensions dashboards compliance and enforcement policy for occupational trust-based pension schemes. TPR will "focus strongly on connection compliance", including schemes not connecting by the statutory connection deadline of 31 October 2026, and trustees not being able to demonstrate they have had regard to the DWP's guidance on connection. Master Trusts (along with FCA regulated providers of personal pension schemes) will be first to connect, in line with DWP's staged timetable, by 30 April 2025.

TPR also expects trustees of occupational schemes to keep clear audit trails of the steps taken to comply with their duties. This includes monitoring their progress and success, keeping a record of compliance and actions taken to resolve any issues, such as communications with third parties. TPR also expects trustees to keep records of their matching policy and the steps taken to improve their data. These records will help to give TPR a view of trustee's efforts to comply with the legislation. FCA has separate rules for the compliance of FCA-regulated pension providers, like Fidelity, with separate obligations for pensions dashboards.

Fidelity has joined the Pension Dashboard Operators Coalition (PDOC). The Coalition presents an excellent opportunity for the industry to work together and share best practice, to support with the implementation of dashboards. We look forward to collaborating with its members to support the delivery of commercial pensions dashboards for the benefit of our retirement savers.

Also, this quarter, the Pensions Dashboards Programme (PDP) published updates to the draft technical standards and draft code of connection. The technical standards are what data and dashboard providers will use to interface with the central digital architecture and/or each other, whereas the code of connection sets out how pensions providers and schemes, and dashboards providers are to connect to the dashboards ecosystem and what they need to do to remain connected. The standards will be finalised once approved by the Secretary of State for Work and Pensions.

PDP also announced that GOV.UK One Login will be the identity service provider for all savers using the dashboard. This service will ensure that individuals cannot fraudulently register as someone else to gain access to their pension information. This service is already used across Government, meaning that a user who has already registered with this service will find it simple to register to use the dashboard.

In other news...

TPR's engagement with Master Trusts

TPR announced that it is evolving its supervision of Master Trusts. There will be a shift to a focus on investments, data quality, data standards and innovation at retirement in a move to see Master Trusts become the 'gold standard for pension provision'. This shift follows the success of the Master Trust authorisation and supervisory regime which, in TPR's view, has resulted in high levels of governance and administration. TPR sees their relationship with Master Trusts as a partnership which mitigates harms, identifies opportunities for savers and delivers value.

MaPS launches online Pension Wise

The Money and Pensions Service (MaPS) has launched a new service called 'Pension Wise Digital' - Pension Wise appointment options | MoneyHelper. This service will provide the equivalent guidance of a telephone or face-to-face appointment, and it can be accessed at any time by anyone aged over 50 with a DC pension. Telephone and face-to-face appointments will still be offered by MaPS.

TPR publishes report on ESG compliance

TPR has published findings from its review of how pension scheme trustees are complying with their wider environmental, social and governance (ESG) duties. The report states that the vast majority of trustees are meeting their ESG-related disclosure requirements, but TPR said its deeper analysis found that many are only delivering minimum compliance.

TPR also stated that if trustees don't believe they have the expertise or scheme governance scale to be able to manage financially material ESG risks effectively, trustees should consider whether consolidating their schemes could improve the way in which these risks are managed. TPR also wants to see more evidence of trustee oversight where management of financially material risks, engagement and voting had been delegated to an investment manager.

Important information

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