# Regulatory Update

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We enter 2024 with many interesting live pension policy issues. This year will see a general election and a Government continuing to look to apply pensions policy to have short term impacts. We also have another new Pensions Minister, Paul Maynard, following the Government's reshuffle in November. So the year ahead will definitely provide a lot to talk about.

### Pot for life

In the Autumn Statement in November the Chancellor brought to the fore the concept of a pension "pot for life". You may remember Guy Opperman, as Pensions Minister, referencing this a few years ago and the idea has been bubbling behind the scenes for a little while.

The Department for Work and Pensions (DWP) launched a call for evidence to start discussions on what would be a significant re-forming of workplace pensions.

There are other live developments that will impact the landscape of multiple pots, notably pensions dashboards and the work on consolidating small pots. We need to make sure that the significant gains made through automatic enrolment (AE), stronger governance and employer's support of employee financial wellbeing aren't jeopardised.

I welcome the opportunity to have a complete and robust debate on the issues but question the extent to which it would improve member outcomes and whether it is top of the agenda of issues to tackle as an industry.

Read my article, published in Corporate Adviser, which outlines some of our initial thinking **James Carter: the problem with choice - Corporate Adviser (corporate-adviser.com)**

### A focus on improving member outcomes

In pensions, choice might not always lead to better outcomes. In March 2014, a previous Chancellor introduced “freedom and choice in pensions”, and the industry is still working on better supporting and protecting retirement outcomes for DC pension members.

We need to stay focused on the issues that will drive better outcomes for the majority of members, for example, contribution adequacy. We will certainly keep you updated as this debate progresses.

### The removal of the lifetime allowance

The Autumn Statement also saw confirmation that the lifetime allowance (LTA) will be removed with effect from 6 April this year and a raft of broader publications from DWP.

### Pensions Dashboards Programme

Lastly, the reset of the pensions dashboards programme. The Government sponsored programme published an update in October. We have continued to participate in meetings with DWP which has stated that it will release the staged scheme connection dates in the Spring. We now anticipate that the earliest connection date for the first tranche of schemes could be in Spring 2025. Given the ultimate deadline for all schemes to be connected has been set in law as October 2026, there will inevitably be a compression of the timings for schemes to connect which will present challenges. We continue to challenge all parties on the robust and transparent planning needed.

## In this issue...




**Watch James Carter talk through the key regulatory themes from Q4**


# Autumn Statement 2023

**As ever, leading up the Autumn Statement there was much speculation about what the Chancellor would announce as part of his Budget speech. Would he abolish Inheritance Tax, or radically change the rules on ISAs? Instead, the Chancellor announced a desire to offer members more choice on which provider looks after their pension savings and a long-term ambition for all members to be in pension schemes with asset pools of over £30bn by 2030.**

## Small Pots and the 'Lifetime Provider' model

On the same day as the Autumn Statement, DWP released a response to their consultation looking at ways to tackle the issue of 'small pots' and in conjunction, released a Call for Evidence (CfE) on a 'Lifetime Provider' model.

**Small Pots**

As we confirmed in our Q3 Regulatory Update, the Government is proceeding with a 'multiple default consolidator' model, which will initially apply to workplace pension pots of £1,000 or less.

In their response to the follow-on consultation, it confirms that a 'clearing house' will be set up to act as a central point, matching deferred pots and leading on communication with members and schemes. Government will establish an industry delivery group next year, to work through the design and delivery questions that need to be addressed before this approach can be implemented.

The default consolidators will be subject to an authorisation and supervisory regime for trust-based schemes. Options for a similar framework for contract-based schemes seeking to become default consolidators will be developed with the Financial Conduct Authority (FCA).

### Our view:

We are fully supportive of the Government's aims to reduce the volume of small pots within the market, but we still believe that the solutions put forward are too complex and require significant digital architecture in order to realise their ambitions.

# Lifetime Provider

DWP are concerned that as a result of the design of the AE framework, individuals will end up with multiple pots throughout their working life (averaging at 10 per person) and believe that this is a potential barrier to engagement. They wish to balance security for members who choose not to, or are unable to, engage, while facilitating choice for members who can and do engage. They want to ensure that individuals do not bear unreasonable levels of risk for managing a retirement pot that they do not fully understand.

The Government stated it wanted to explore mitigating the creation of multiple new pots in the first place and how it would impact the current stock of pots, using the examples of Australia, Chile, Mexico and Canada.

In the CfE the Government are seeking views on the following proposals:

- Firstly, to allow workers to choose which scheme their employers pay their workplace pension contributions to.
- In the medium-to long-term, a mechanism that stops the creation of multiple new pots and how that could operate in relation to the current stock of pots.
- In the longer term, to create a 'Lifetime Provider' model, with defaults built into it, where the first scheme an individual is enrolled into, or the provider they choose, becomes their sole pension provider for life.
- To create a central architecture (most likely based on the Pension Dashboard and default consolidator architecture) which allows employers to identify which 'lifetime provider' scheme their employees are in.
- To create a future where the need for individuals to make complex financial decisions is reduced 'as far as possible' whilst retaining choice for those who want to exercise it.
- To allow exemptions to the lifetime provider model in circumstances where an employer's scheme is 'better' than the employee's lifetime provider.

## Our view...

There needs to be a strong case for fundamental and incredibly costly change, which risks the success of AE. There are a number of existing in flight policies to address the issues of engagement (pensions dashboards) consolidation (Value for Money framework (VfM)) and multiple pots (pensions dashboards, default consolidator). It is critical that focus is maintained on delivering these key policy initiatives, before layering on further changes.

Giving consumers the choice of where to pay their workplace pension contributions would be a significant departure from AE, where success has been built on the exact opposite of choice and active decision making - inertia.

We question the extent to which this would improve member outcomes, especially as this would disengage employers from their role in supporting the financial wellbeing of employees through the workplace. We believe that many employers play a central role in communicating the value of pensions (and improving financial literacy) a benefit which is core to employee benefit packages. Using the workplace to collectively engage employees in the merits of a common pension offering is extremely powerful.

If the Government were to progress with this model, the infrastructure required would be significant to ensure that the burden placed on employers was lessened. On this basis, the potential risk, the cost of the infrastructure and the limited benefit to most members, we believe this model is very hard to justify.


November 2023

# Helping savers understand their pension choices

The Government also published its response to another of this summer's consultations which sought views on creating a framework to support occupational pension scheme members with access to their pension wealth at retirement, in a similar way to FCA investment pathways introduced in 2021.

In its response, the Government confirm that schemes will be required to devise a backstop default decumulation solution based on the general profile of their members, with members moving into this default if they do not make an active choice about a decumulation product, e.g. only taking the tax free lump sum.

DWP do not intend to be prescriptive on the solution and instead will allow schemes flexibility on design. However, it considers that trust-based Collective Defined Contribution schemes (CDC) have the potential to be a promising future model for pensions and could be actively considered as part of a scheme's decumulation offer.

All schemes who are unable, or do not wish to deliver a suite of decumulation options can instead partner with a provider who can.

The Government's intention is to legislate when parliamentary time allows. In the meantime, TPR will bring forward interim guidance (expected in 2024) to show how the objectives of these policies can be met without legislation, and to encourage innovation.

## Our view...

We continue to strongly support the policy ambition of helping members better understand and engage with their options at retirement. We are also pleased that the Government is considering some level of alignment with the FCA rules. We were supportive of the intentions behind Investment Pathways and when we implemented this for our contract-based products, we also introduced this for members of the Fidelity Master Trust.

The main focus of these changes should be delivering the best member outcomes and any framework and requirements should support trustees to achieve this. We were pleased to note that the importance of avoiding conflict with existing or forthcoming regulatory change, such as the VfM framework, Small Pots measures and the FCA and HM Treasury advice/guidance boundary review, has been understood.

November 2023

# Evolving the regulatory approach to Master Trusts

## A review of the Master Trusts authorisation and supervisory regime and the wider market.

The DWP and TPR published a joint review of the master trust market. This considered the master trust authorisation and supervisory regime as well as the wider market, looking at costs and charges, consolidation, increasing scale, and the relationship with the Chancellor's Mansion House compact and other DWP policies and proposals.

The report describes possible changes to the master trust authorisation and supervisory regime that may be considered, including:

- An enhanced focus on investment governance, with the addition of the Chief Investment Officer to the list of people required to undergo a 'fit and proper' persons check.
- Amending the authorisation regime to consider market withdrawal in the cases of mergers and acquisitions, ensuring that it is appropriate, and that TPR have proper oversight.
- The addition of risk notices, for example, allowing TPR to issue a notice to trustees about matters of concern which, if left to deteriorate, are likely to lead to a breach of the authorisation criteria.
- The removal of pre-agreements, to promote further market competition.

The report also notes that the master trust market has increased and continues to grow, with a high concentration of membership and assets within the largest schemes. DWP analysis shows that the size of the market could reach £420 billion by 2030 and that almost 80% of all defined contribution members could be in schemes of over £30 billion. As scale in the market continues to build and the VfM framework is embedded, DWP will work with TPR to review market competition and any emerging risks resulting from scheme size.

November 2023

# Draft Finance Bill published

The Autumn Statement was followed by the publication of the draft Finance Bill 2023-24, which confirms the abolition of the lifetime allowance (LTA) on 6 April 2024.

Initial draft clauses were published in the summer. Concerns were raised that beneficiary drawdown pots, which are currently paid tax free, would be brought into scope for taxation by the removal of the LTA. However, HMRC have listened to industry feedback on this issue and confirmed that there will be no change to the tax treatment of these pots. This means that income withdrawals taken by beneficiaries where the member died before age 75 will continue to not be subject to income tax.

### Our view...

Following the removal of the LTA charge for this current tax year (2023/24), there is still a considerable amount of work to do before the removal of the LTA itself at the end of this tax year. We are pleased that HMRC has responded to industry concerns about the changes to taxation for beneficiaries.

The Finance Bill is making its way through Parliament, which can take some time and means it could still be subject to change until it receives Royal Assent and becomes an Act. There is limited time between now and the end of the tax year to analyse and implement the changes, however, work continues apace. We hope to see the Finance Bill and subsequent guidance from HMRC finalised as soon as possible to provide certainty for both industry and scheme members.

# Pensions Dashboards Progress Report

Pensions Dashboards Programme (PDP) gave a progress report on the work it has undertaken since the reset earlier this year. It said significant progress has been made towards finalising a revised delivery plan which will prioritise the work on preparing for providers to connect sooner. It further explained that prioritising this work will allow more time for thorough testing and help to ensure that the dashboard user experience is safe and positive.

The update also revisited the topic of why pensions dashboards are needed. Despite AE, many people are estimated to be under-saving for their retirement and engagement remains low, as shown by the PDP's own research. 55% of those surveyed had undertaken no pension engagement activities over the previous year. Other research by the ABI shows around the same proportion of people saying that it would be helpful to have all the information about their pension pots in one place, which pensions dashboards will enable them to do.

To support the PDP update, TPR also launched a campaign urging industry to continue their pensions dashboards preparations and drive action around data preparation. The TPR campaign is intended to encourage collaborative working and has highlighted its 'preparation checklist', described as a key tool for keeping track of progress, helping "schemes visualise their dashboard goals".

The key messages of the TPR campaign are:

- Preparing for dashboards will take time
- Work collaboratively to develop a practical delivery plan
- Get to grips with the data requirements

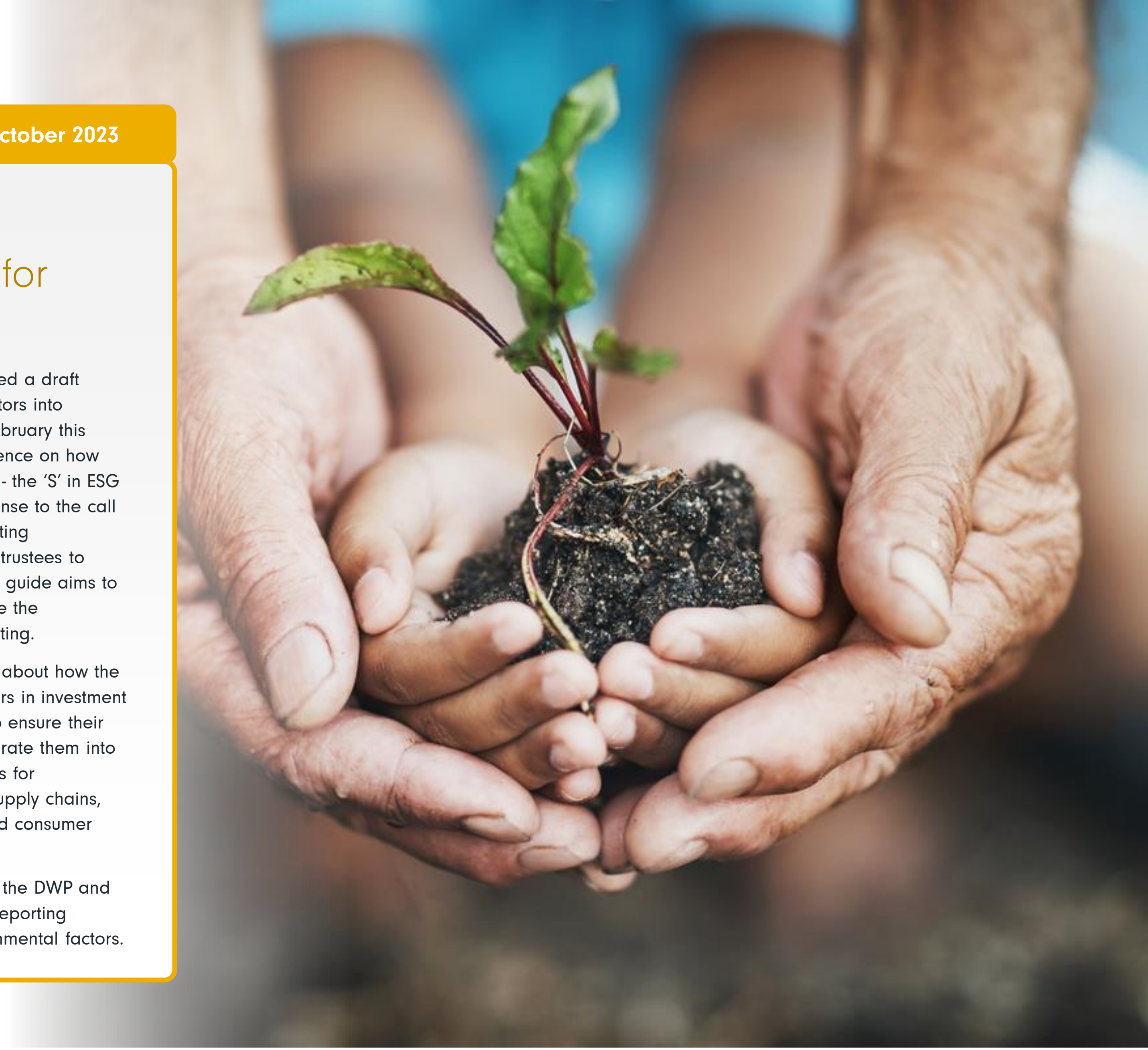
October 2023

# DWP's Social Factors Taskforce issues guide for consultation

The Taskforce on Social Factors (TSF) has published a draft guide for consultation on incorporating social factors into investment decisions. The TSF was launched in February this 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.

There are more than 30 recommendations made about how the pensions industry can better consider social factors in investment decisions. In particular, urging pension trustees to ensure their asset managers consider social factors and integrate them into their investment strategy and stewardship. Factors for consideration include modern slavery, safety in supply chains, workforce conditions, community engagement and consumer protection.

The Taskforce also makes recommendations that the DWP and FCA should consider formally setting out 'social' reporting expectations alongside those required for environmental factors.





**October - November 2023**

# CEO Nausicaa Delfas outlines TPR's ambitions and priorities

**Ms Delfas spoke at a number of events this quarter, outlining TPR's key priorities and ambitions in the context of an evolving pensions landscape and support for the pensions elements of the Government's Autumn Statement.**

The CEO noted that the pensions landscape is at a moment of significant change and identifies key themes for TPR's focus:

- Protecting savers' money by making sure trustees and employers comply with their duties;
- Enhancing the system through effective market oversight, influencing better practices; and
- Supporting innovation in savers' interests so that new products and services deliver good outcomes.

The five principles for building a consensus on 'what good should look like' were set out as:

1. All savers deserve value for money – Schemes should help savers to maximise the value of their pension savings into and throughout retirement.
2. All savers should be helped with decision-making – Savers should be encouraged and supported to make key decisions whilst saving for their pension, and in preparation for decumulation.
3. Schemes should put the saver at the heart of decumulation – Trustees should consider the best interests of savers and proactively help DC savers to mitigate the risks they face at and in retirement.
4. The market must innovate to provide genuine choice for savers – Savers should be given a choice in how to decumulate their pension savings considering their personal circumstances.
5. Schemes should provide wrap around and personalised support in the lead up to and during decumulation and in post-retirement.

It was noted that TPR's ambition to "shape the pensions market to fewer, larger well-run schemes" will continue as TPR focuses on market consolidation so that only good schemes remain. Alongside this, raising the standards of trusteeship is also seen as essential, to ensure all trustees have the capability to meet their fiduciary duty and act in savers' best interests.

Despite the absence of a Pensions Bill to allow a VfM framework for trust based schemes, Ms Delfas stated that TPR will continue to work with the FCA and DWP to help achieve a consistent VfM framework across all DC schemes. And also expressed the importance of diversified investments, announcing that guidance on investing in private markets would be published soon.

As well as explaining the changes expected for the industry, changes for TPR as a regulator were also identified. As well as its duty to ensure compliance with the law, TPR will also seek to have a role in broader market oversight, understanding market dynamics, sharing what good looks like, and fostering innovation in savers' interests.

## Important information



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