Newsletter

PerioDiC

The elements that you need to know

Whether you are a trustee running an occupational scheme, or you are a company offering a master trust or contract-based scheme (such as a Group Personal Pension), these newsletters help to keep you up-to-date with elements relevant to your defined contribution (DC) arrangement.

IN THIS NEWSLETTER

Trustee elements

Standards for professional trustees

Following a draft published by the Professional Trustee Standards Working Group, new standards expected of professional trustees are intended to apply from May 2018.

The standards will cover:

- fitness and propriety
- integrity
- expertise and care
- impartiality and conflicts of interest
- professional behaviour
- systems and controls

There will be enhanced expectations of professional trustees who act as chairs or sole trustees.

Pensions Ombudsman takes on TPAS's dispute resolution function

The Pensions Ombudsman (TPO) took on the dispute resolution function of The Pensions Advisory Service (TPAS) from 1 April 2018. This simplifies matters by providing access to pension dispute resolution in one place. Pension schemes and providers should make changes to their signposting.

Previously, individuals could approach either organisation for help when dealing with a pension complaint. TPAS tended to focus on complaints before the pension scheme's internal dispute resolution procedure (IDRP) had been completed, while TPO typically dealt with complaints that had been through the IDRP.

TPR fine and name trustees for chair's statement failings

In February 2018, The Pensions Regulator (TPR) confirmed that it has begun to name pension schemes, and the professional trustees of these schemes, that have produced non-compliant chair's statements. TPR refers trustees to its November 2017 guidance, and trustees should consider this before preparing their next chair's statement.

TPR guidance on managing service providers

In February 2018, TPR published a statement summarising its expectations of good practice by trustees in managing service providers, e.g. third party administrators. The statement covered guidance in relation to managing commercial relationships, resolving issues and planning for events such as the failure of service providers. Trustees should consider the guidance when appointing new service providers, and in relation to existing appointments.

Guidance on bulk transfers of DC benefits without member consent

On 30 April 2018, the DWP published guidance to trustees on bulk transfers of 'pure' DC benefits without member consent between occupational DC arrangements.

> The requirement for actuarial certification was removed with effect from 6 April 2018 for transfers of pure DC benefits (i.e. without any guarantees), and will lift the barriers to some transfers previously hindered by the prior rules.

The current actuarial certification route remains for DC benefits that do not fall within this description, e.g. DC underpins and DC benefits that include guaranteed returns or annuity rates, and remains available on a voluntary basis for pure DC benefits until 30 September 2019.

The actuarial certification requirement is replaced by a less prescribed advice requirement, under which the trustees of the transferring scheme must obtain and consider the written advice of an appropriate adviser whom they have determined to be independent from the proposed receiving scheme. The legislation does not detail the level of advice that trustees should seek, but gives a list of factors trustees may wish to consider, and some general principles to follow.

> Advice is not required for bulk transfers to authorised master trust schemes (authorisation regime will begin from 1 October 2018 although it may take some time for existing schemes to achieve authorised status), or between schemes where the employers are within the same group.

There are however aspects that trustees will need to consider, and TPR's expectation is that advice would usually be taken.

New guide on security of DC assets

In March 2018, the Security of DC Assets Working Party issued a further guide for trustees, on monitoring changes in the security of schemes' DC assets. This follows its 2016 guide on how to consider DC asset security, and 2017 guide on how trustees might communicate their findings with scheme members. These guides shed some light on an often little understood area of DC governance, and trustees may wish to review their approach to these issues.

Disclosure of costs, charges and investments

The Department for Work and Pensions (DWP) announced new rules with the aim of improving the disclosure of costs, charges and investments in occupational DC arrangements. In scope are those schemes that have to provide a chair's statement.

The key changes are:

- The chair's statement will need to include more detailed information on costs and charges, i.e. costs and charges must be disclosed for each investment fund that members can select.
- The chair's statement will need to include an illustrative example(s) of the compounding effect that costs and charges have on members' pension savings.
- Trustees will be required to make this and some other information from the chair's statement, e.g. the annual value for money statement, publicly available on the internet, free of charge and able to be indexed by search engines. There will be no central website provided for this purpose.
- Pension members must be provided with the web address in their annual benefit statements.
- On request, trustees must provide members with specified information corresponding to the 'pooled' investment funds in which members are invested.

Timing of the disclosure of costs and charges will take effect for scheme years ending on or after 6 April 2018, i.e. at the earliest by 6 November 2018 for a scheme year ending on 6 April 2018, and at the latest by 5 November 2019 for a scheme year ending on 5 April 2019.

The reporting requirement of information on a scheme's pooled funds will come into force on 6 April 2019, so for member requests received on or after this date.

For many schemes, the changes will require significant advance planning and consideration. This includes, for example, ensuring the availability of cost and charge information, consideration of the illustrative examples to prepare and how the disclosures are to be suitably contextualised within communications.

Particularly where schemes are closed to future service benefits and/or include little DC provision above additional voluntary contributions (AVCs), trustees may wish to consider the merits of continuing DC provision through the current arrangements.

Company Elements

Pension tax relief for Scottish taxpayers

With effect from April 2018, the Scottish Government announced further divergence in income tax for Scottish taxpayers relative to taxpayers in the rest of the UK, i.e. different tax rates and thresholds, including two new tax bands:

- Scottish Starter Rate (19% for earnings between £11,850 and £13,850)
- Scottish Intermediate Rate (21% for earnings between £24,000 and £43,430)

There are potential implications for pension tax relief, pension salary exchange arrangements and employee communications, in particular for contract-based schemes and those master trust schemes operating the 'relief at source' taxation method.

Other elements

Increase in minimum contribution rates

The minimum contribution requirements to DC schemes used by employers to meet their auto-enrolment duties increased from April 2018 and will increase again from April 2019. Some schemes comply already with the 2019 requirements, whilst others will need to make changes.

In addition to the rates themselves, a review of contributions may include consideration of contractual provisions, consultation and communication with employees, pay elements included with pensionable earnings, cost and benefit modelling, auto-enrolment certification, and the implications for member-borne charges and provider suitability.

In its Auto-Enrolment Review 2017, the DWP confirmed that minimum contribution levels will be reviewed after the increase in April 2019.

Authorisation of master trust schemes

On 27 March 2018, TPR published a draft code of practice.

The draft code outlines how master trust schemes will be expected to meet the new authorisation criteria and what they will need to evidence for TPR to grant authorisation and to continue to operate.

Authorisation will commence on 1 October 2018 and existing schemes will have six months from that date to apply to TPR for authorisation. Master trust schemes will have to provide evidence to TPR in five areas: fit and proper persons; financial sustainability; scheme funder; systems and processes; continuity strategy.

To help prepare for authorisation, TPR are providing a 'readiness review' process under which master trust schemes can submit draft applications. TPR will also be publishing guidance to supplement its code of practice.

We are expecting some existing master trust schemes to decide not to apply for authorisation. Master trust schemes that are not authorised will be required to wind up and transfer any members they may have.

Joint regulatory approach

The Financial Conduct Authority (FCA) announced in February that it will be working with TPR on a pensions regulatory strategy, which will set out how they will work together to tackle the key risks facing the pensions sector in the next 5-10 years.

> We welcome an integrated regulatory approach, in extending similar levels of member protection and governance across workplace pension scheme types and minimising any regulatory arbitrage.

For the FCA, focus in recent years has been on providing the appropriate level of consumer protection and competition within the new pension landscape. For TPR, the focus has been on protecting workplace pension savers through improved standards of governance, and that workers are enrolled into pensions as part of auto-enrolment.

Provider news

Following Scottish Widows' announcement in October 2017 of its acquisition of Zurich's UK workplace pensions and savings business, the transaction completed on 3 April 2018. The 'Part VII Transfer' of acquiring and branding the policies and assets is expected in February 2019.

Aegon's acquisition of BlackRock's DC pensions business is going through the Part VII Transfer Court process, and if approved by the Court is expected to take place on 1 July 2018.

In February 2018, Standard Life Aberdeen plc announced the sale of Standard Life Assurance Limited to Phoenix Group Holdings. The acquisition of Standard Life's open pension business is a new venture for Phoenix, whose core business to date has been in operating closed pension arrangements.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively contact Mark Futcher, Partner and Head of DC via the following:

mark.futcher@barnett-waddingham.co.uk 0333 11 11 222

www.barnett-waddingham.co.uk