



SPRING 2023 NEWSLETTER

PeriodiC

The elements that you need to know

Stay up to date with elements relevant to your defined contribution (DC) arrangement.



Spring Budget 2023

On 15 March 2023, HM Revenue & Customs (HMRC) published a [policy paper](#), and on 16 March 2023 a [pension schemes newsletter 148](#), with details of the following DC pension-related announcements in the Budget:

Lifetime Allowance (LTA)

- The LTA charge will be removed from 6 April 2023.
- Subject to legislative change, the LTA, currently £1,073,100, will be abolished from 6 April 2024.

Pension Commencement Lump Sum (PCLS)

- The PCLS, the maximum amount that a member can normally take as a tax-free cash sum, will be frozen at £268,275; i.e. 25% of the current standard LTA.
- Protected rights to a higher PCLS will continue to apply, even if further contributions are paid from 6 April 2023.

Other lump sums

- Other lump sums, such as the Lifetime Allowance Excess Lump Sum, that would currently be subject to an LTA charge of 55%, will be taxed at the recipient's marginal rate from 6 April 2023.

Annual Allowance (AA)

- The AA, the limit for tax relief on pension savings in a registered scheme (contributions to a DC scheme), will increase from £40,000 to £60,000 from 6 April 2023.
- The minimum tapered AA will increase from £4,000 to £10,000 from 6 April 2023, with tapering applying for adjusted income over £260,000.
- The Money Purchase Annual Allowance (MPAA), triggered when savers access DC savings flexibly, will also increase from £4,000 to £10,000 from 6 April 2023.

Pension tax relief for low earners in 'net pay' schemes

- Subject to legislative change, HMRC will make top-up payments to low earners (taxable income below the personal allowance) who contribute to a net pay scheme from the 2024/25 tax year onwards.

The LTA framework will remain in place until primary legislation is enacted to remove it. One key consequence of this approach is that, in the interim, it will be a case of 'as you were', with crystallising benefits being assessed against the LTA, albeit no LTA charge will apply from 6 April 2023.

There are numerous implications of removing the LTA, such as for auto-enrolment exemption and individuals who hold LTA protection. The Government intends to issue information and guidance when the change is made. There are wider also implications; e.g. for 'cash in lieu' and 'excepted' group life assurance arrangements, and for individuals' estate planning.

Early reaction from the Opposition is that they will try to block the legislation and, failing this, would plan to re-introduce the LTA if elected. Careful consideration should therefore be made in relation to changes anticipating the LTA's removal.

Notwithstanding the uncertainty regarding the future of the LTA, HMRC's newsletter confirms that individuals who hold valid enhanced LTA protection or any valid fixed LTA protections, where this protection was applied for before 15 March 2023, and a certificate or reference number subsequently issued, from 6 April 2023 will be able to accrue new pension benefits, join new arrangements or transfer without losing this protection.



Trustee elements

ESG and climate change reporting compliance

On 22 February 2023, the Pensions Regulator (TPR) announced the launch of a [campaign](#) to make sure trustees are meeting their environmental, social, governance (ESG) and climate change reporting duties.

Unless exempt, trustees must publish a statement of investment principles (SIP) that details the policies controlling how the scheme invests, including consideration of financially material ESG and climate factors, and an implementation statement (IS) that describes how the principles in the SIP have been implemented. Trustees of authorised master trust schemes and schemes with relevant assets of £1 billion or more must also publish an annual climate change (TCFD) report.

As schemes must provide website addresses of their published SIP and IS statements and TCFD reports in their scheme returns, TPR will be analysing scheme return data to monitor compliance. TPR may take enforcement action against failing trustees, with the power to impose a fine up to £50,000 for a corporate trustee.

TPR will review a cross-section of SIP and IS statements in the summer, and the outcome of this review will be shared to highlight good practice.



Pension transfers

On 9 February 2023, The Pensions Administration Standards Association (PASA) published its [DC Governance Watch](#) looking at the governance aspects of the transfer regulations, while maintaining a degree of pragmatism in delivering an effective service to pension savers. The publication included consideration of the role of discretionary transfers where a statutory transfer is not available.

On 17 February 2023, the Financial Conduct Authority (FCA) [confirmed](#) that it wishes to hear from trustees who have carried out checks and have serious concerns about pension transfers. Concerns could be due to the number of red or amber flags, or deciding to refuse a transfer. The FCA lists issues it wishes trustees to report on, including individuals who provide unauthorised advice on pension transfers and increases in the volume of transfers advised by the same firm.

We expect administration service providers to have picked up on these matters.

Improve governance to aid better member outcomes

On 9 December 2022, TPR published a [blog](#) on improving governance to aid better member outcomes. The blog urges trustees to consider, even where they believe their scheme offers value for members, whether their members might be better served by consolidation if this has the potential for better member outcomes; e.g. due to greater governance resourcing and access to a wider range of investment and risk management opportunities.

Reporting costs, charges and other information

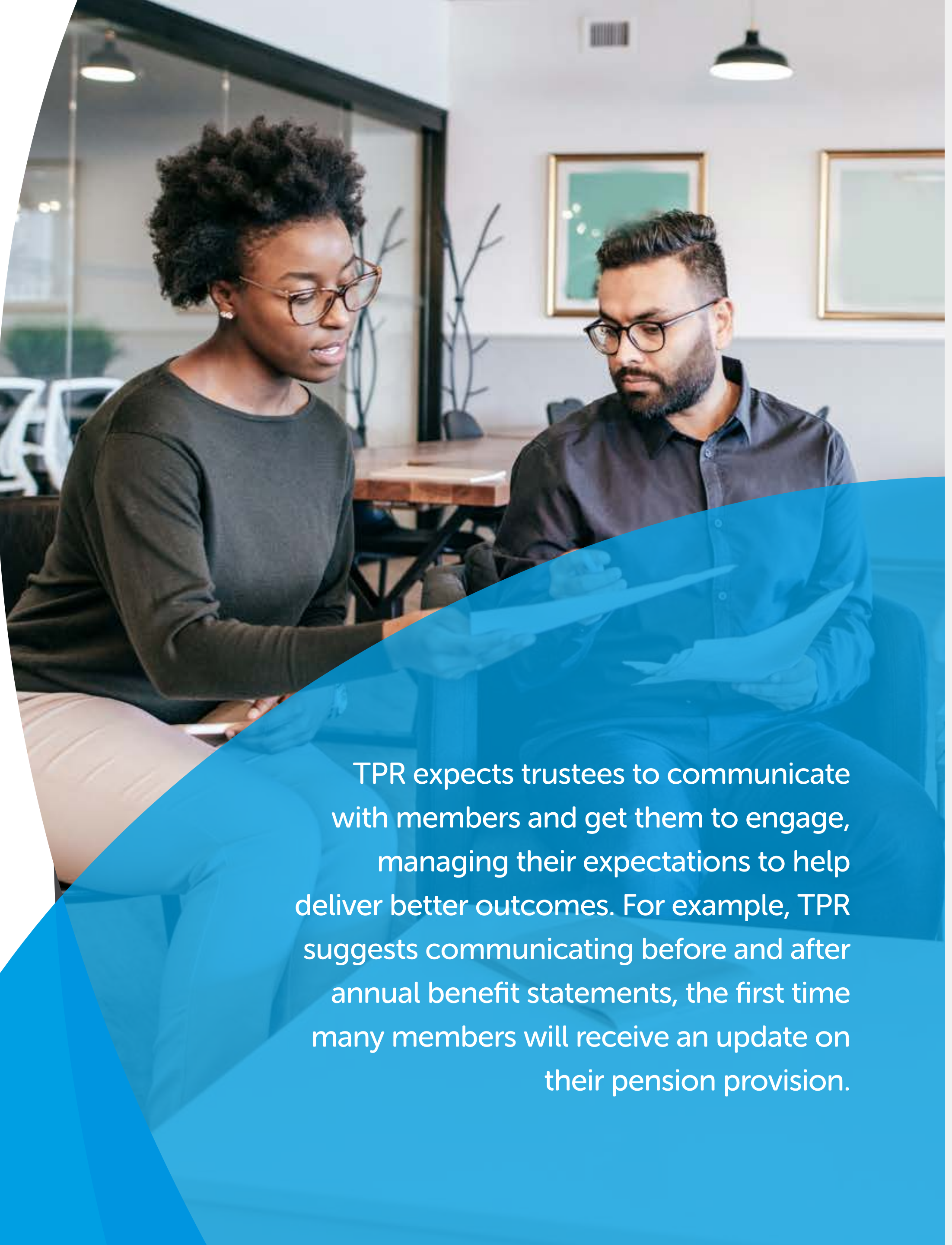
On 21 October 2022, the DWP published [updated statutory guidance](#) on reporting of costs, charges and other information. The statutory guidance is effective from 21 October 2022 and covers the matters to which trustees must have regard when producing illustrations to communicate the impact of costs and charges on pension pots and when publishing information. The update was to take into account collective money purchase (CDC) schemes.

Supporting DC savers in the current economic climate

On 12 January 2023, TPR published a [guidance statement](#) for trustees setting out how they should communicate and support savers through this period of market volatility, and how they can strengthen the governance and oversight of DC schemes and ensure their investment strategies support stronger saver outcomes. TPR expects trustees to consider the issues raised and take appropriate action, and a checklist is provided for trustees to develop their action plans.

TPR's expectations for reviewing governance and investment arrangements builds on an [earlier statement](#) that focused on the issues for trustees to consider when managing investment and liquidity risks in the face of market volatility.

Trustees should review and strengthen their support to members, targeting efforts towards those most affected and in need of help. Management information can provide intelligence on changing patterns of saver behaviour, e.g. decreasing contribution rates and opt-outs.



TPR expects trustees to communicate with members and get them to engage, managing their expectations to help deliver better outcomes. For example, TPR suggests communicating before and after annual benefit statements, the first time many members will receive an update on their pension provision.

Other elements

Auto-enrolment reforms

On 3 March 2023, the DWP [confirmed](#) it would support a Private Members Bill proposing to extend auto-enrolment to the young and to low earners. The Bill proposed two changes: reducing the age for being auto-enrolled from 22 to 18 and abolishing the lower threshold for 'qualifying earnings', so contributions recognise pay from the first pound earned.

The reform measures were recommended in the DWP's 2017 review of auto-enrolment, and the Government had confirmed on 23 January 2023 that it remains committed to implementing the changes by the mid-2020s.

The intention is that the Bill will give the Secretary of State powers to make the amendments. This will follow consultation, which will inform the implementation approach and timing.

The proposed reforms do not cover the 'earnings trigger'; i.e. the earnings level at which workers are defaulted into saving. However, low earners below this may use opt-in rights to join a workplace pension scheme. The earnings trigger is currently the pay period equivalent of £10,000 pa and both this, and the current lower and upper thresholds for the band of qualifying earnings, were confirmed as remaining appropriate in the DWP's [annual review of auto-enrolment thresholds for 2023/24 tax year](#) published on 26 January 2023.

Pensions dashboards

On 2 March 2023 and with the first staging deadline set at 31 August 2023, the DWP [announced](#) that additional time is required to deliver the complex build to enable the successful connection of a wide range of pension providers and schemes' IT systems to the dashboards digital architecture. The statement confirmed the regulatory framework for pensions dashboards remains fit for purpose and the DWP will legislate at the earliest opportunity to amend the timing of the obligations. An update is expected before Parliament's summer recess.

Prior to this, recent activity on pensions dashboards included:

- On 21 November 2022 and following consultation over the summer, the Pensions Dashboards Programme (PDP) published consultation response and a [suite of standards](#). The standards provide the rules and controls for dashboard providers, trustees and pension providers relating to the practical operation of pensions dashboards services and the digital infrastructure needed to support them. The standards will come into force following formal approval by the Secretary of State.
- On 1 December 2022, PDP launched a [consultation on design standards](#), setting out the way in which qualifying pensions dashboard services (QPDS) must present pension information to the user. The design standards will provide consistency to the user and will also be relevant to pension providers and schemes who will be required to provide the pension information. The 'non-commercial' dashboard being developed by the Money and Pensions Service will not be a QPDS but is expected to adopt the design standards (as far as it can).



- On 12 December 2022, [The Pensions Dashboards Regulations 2022](#) came into force, setting out requirements for pension providers and schemes to connect to dashboards by their staging deadline, and what organisations must do to provide a QPDS. On the same date, the DWP published [guidance on deferred connection](#); i.e. flexibility to defer the staging deadline for up to twelve months where a scheme is in the process of changing administrator.

Broadening the investment opportunities of DC schemes

On 30 January 2023, the DWP published its [consultation response](#) on broadening the investment opportunities of DC schemes. The consultation sought views on draft regulations and statutory guidance to exempt performance-based fees from the regulatory charge cap and require schemes to disclose and explain their policies on illiquid investment and their asset allocations.

The consultation response reported broad support for both measures. The DWP intends to adopt its proposals with minor amendments, bringing regulations and statutory guidance into force by April 2023, subject to Parliamentary approval. Guidance on the exclusion of performance-based fees from the charge cap will be effective from when the regulations come into force.

Guidance on new 'disclose and explain' requirements will be effective from 1 October 2023.

On a connected note, on 24 November 2022 the Productive Finance Working Group published [a series of guides](#) covering key issues around investment in less liquid assets within default arrangements. (The industry-led Productive Finance Working Group was established to develop practical solutions to the barriers to investment in less liquid assets.)

Proposed value for money framework

On 30 January 2023 and following joint work between the DWP, TPR and the FCA, the DWP published a [consultation](#), setting out a proposed framework of metrics and standards to assess value for money (VFM) across DC occupational and workplace personal pension schemes. The consultation closes on 27 March 2023 and responses will inform development of the policy requirements.

The proposed VFM framework aims to shift the focus from cost by considering also whether savers get good value from their investments and receive a quality level of service. The term 'service' describes factors covering aspects such as scheme administration, governance and effective member communication to support saver understanding and decision-making. It is intended that the VFM framework builds on and, in time, replaces the Value for Members assessments by requiring all occupational pension schemes to

report on wider value metrics and use this data to assess the value of their offering against market comparisons.

The consultation includes consideration of how the chair's statement, which currently includes the result of the 'value for members' assessment, should interact with the VFM framework. The DWP's current policy thinking on this is either to split the chair's statement requirements into two separate documents (one that is member facing and another that is purely a governance document) or to consider the continued feasibility of the chair's statement as a means to publish governance and member information.

No timeline is given for the Government's consultation response, which is expected to set out the next steps, however the proposals are at an early policy stage, so likely some years from implementation.

Retirement Living Standards

On 12 January 2023, the Pension and Lifetime Savings Association (PLSA) published [updated Retirement Living Standards](#). The 'minimum' lifestyle has seen the biggest percentage increase to the cost in retirement (some 20%) owing to the higher proportion of the budget going towards the things that have risen the most in price: food and energy.

The Retirement Living Standards provide benchmark levels of annual income to fund different standards of living in retirement, each based around a basket of goods and services, and also taking into account whether living inside or outside London and whether someone is single or part of couple.

Proliferation of deferred small pots

On 30 January 2023, the DWP published a [‘call for evidence’ consultation](#) to deepen the evidence base around the growth in the number of deferred small pots and inform development of policy approach. It focusses on two consolidation solutions - a default consolidator and ‘pot follows member.’

The consultation covers matters such as:

- the criteria against which solutions are to be considered
- the value of deferred pots that should be in scope
- whether there should be a minimum pot size that is eligible for consolidation, permitting refunds on micro pots below this
- the point at which pots should be considered ‘deferred’



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:

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