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.

Trustee elements

Pension funds and social investment

For schemes with 100 or more members, trustees must update the Statement of Investment Principles (SIP) by 1 October 2019 to set out:

- how they take account of financially material considerations, such as those arising from Environmental, Social and Governance (ESG) risks, including climate change
- their policies in relation to the stewardship of investments

This requirement applies also to the 'default SIP', i.e. covering DC default investment arrangements, if trustees are required to prepare one and do so separately from the scheme-wide SIP.

Proposals to consider illiquid investments and consolidation

In February, the Department for Work and Pensions (DWP) published a consultation proposing that trustees:

- of large schemes report their policy on investing in illiquid assets, such as start-up companies and green energy
- of smaller schemes assess, every three years, whether they should consolidate into a larger scheme, e.g. a master trust

The consultation also included proposed changes in how schemes calculate DC charges to allow performance-related investment fees.

Winding-up guidance published

In February, The Pensions Regulator (TPR) published guidance for trustees, setting out the key steps that need to be undertaken in order to wind up a DC scheme.

The guidance covers four stages:

1. deciding whether a scheme should be wound up
2. preparing for and formally entering wind up
3. securing members' benefits
4. completing the wind up

Trustees considering wind up or within the process of winding up should bear in mind the new guidance.

New standards for professional trustees

In February, the Professional Trustees Standards Working Group published new standards that professional trustees will be expected to meet, with additional standards for trustees who chair a board.

Professional trustees will be able to gain accreditation under the new standards by passing an initial application stage and then, on an ongoing basis, confirming they remain fit and proper and completing relevant professional development.

Accreditation may become a feature that TPR looks for in evidencing trustee knowledge and understanding.

Review of additional voluntary contribution arrangements

Additional voluntary contribution (AVC) arrangements are often afforded limited consideration in terms of governance.

> These arrangements can be small in terms of value, but can include more complex considerations such as with-profit investments and holdings in cash funds over the longer term.

In many cases, closed books of business have been transferred to a consolidator provider.

Recent developments, such as those below, may mean a review is timely:

- Equitable Life's proposals to close its With-Profits Fund and transfer all business to Reliance Life (now renamed Utmost Life and Pensions)
- Legal & General's announcement that it will close some AVC arrangements and transfer others to ReAssure
- Prudential's plans to remove existing lifestyle investment options this year and offer new lifestyle options (designed for the 'pension freedoms' environment)

This could be to review the investment options, service providers or to consider consolidation in the case of multiple arrangements.

Company Elements

Increase in minimum contribution rates

Employers will need to ensure that the workplace pension schemes they use for auto-enrolment (for new hires and existing workers) comply with the increased minimum contribution requirements applying from April 2019.

The minimum requirements depend on how a scheme's pensionable earnings are calculated and, in many cases, employers will need to re-certify their schemes from April.

Authorisation of master trust schemes

Employers using a master trust scheme will be aware these schemes are now subject to an authorisation and supervision regime by TPR, and will be monitoring with interest that their schemes achieve authorisation.

Master trust schemes as at 1 October 2018 had until 31 March 2019 to apply for authorisation, and TPR will process applications by 30 September 2019.

We understand that a number of schemes have negotiated short extensions for submission of their applications.

As at end of March: 27 schemes had submitted an application with a decision on approval yet to be reached, ten schemes had agreed an extension for submitting an application, three schemes had been authorised, nine schemes had exited the market and a further 35 had notified TPR of the intention to exit.

> Exiting master trusts will need to transfer their members to an alternative master trust scheme or other appropriate vehicle.

Employers who use a master trust that exits the market will wish to ensure they are satisfied with the replacement scheme and may need to address some transition areas, e.g. contributions and communications.

Other elements

Changes to the Pension Quality Mark standards

Those trustees and employers with Pension Quality Mark (PQM) accreditation (or considering this) will note that the PLSA announced in January changes to the standards.

> Among the new standards is an increased contribution requirement, to be phased in over the next two years.

This will require all employees to be automatically enrolled at a minimum contribution level of 12% of salary, with at least 6% contributed by the employer.

Other key areas of focus for the new standards include improving governance by raising the quality of trustee boards and employer pension committees, and ensuring that schemes have an appropriate and regularly reviewed default investment strategy.

Single Financial Guidance Body renamed

The Single Financial Guidance Body (SFGB), which formerly comprised Pension Wise, The Money Advice Service and The Pension Advisory Service, started delivery from January 2019. The SFGB was renamed the Money and Pensions Service from 6 April 2019.

Consultation on drawdown investment pathways

The Financial Conduct Authority (FCA) is consulting on measures to prevent consumers losing out on retirement income when using the pension freedoms.

The consultation proposes that non-advised customers are offered a range of investment solutions that broadly meet their objectives, known as "investment pathways", and that pension investments are not defaulted into cash savings unless customers choose this option.

The consultation also proposes new rules on the "wake up packs" that must be given to consumers as they approach retirement, and on the disclosure of charges by pension providers.

Pension dashboards a step closer

The Government expects a dashboard hosted by the Money and Pensions Service to be launched by the calendar year end.

Whilst the Government believes that consumers will benefit from a range of dashboards from which to choose, it also believes that there should be a single service to which schemes are compelled to supply their data and that this be run on a non-profit basis and with strong governance.

The Government will seek to legislate to compel schemes to provide their data for dashboards when parliamentary time allows. It expects that the majority of schemes will be on-boarded within three to four years from the first dashboards being available to the public. State Pension data may be included at a later stage.

Mid-life MOT web-portal

The DWP, working in partnership with other bodies, has launched a mid-life MOT web-portal. This suggests areas on which workers may wish to take stock in relation to money (specifically pensions), work and health, and provides links to information, guidance and advice services.

Provider news

The Legal & General WorkSave Mastertrust and Lifesight were authorised by TPR prior to April, in advance of TPR advising that it would be ruling on applications. We believe that this early action by TPR may have been partly to road-test its authorisation considerations and partly to encourage momentum for application submissions.

In July, Scottish Widows is expected to complete the Part VII transfer of Zurich's UK DC pension and savings business following regulatory and court approvals.

Equitable Life has announced its plans for closing its with-profits fund and transferring all of its business to Utmost Life and Pensions. There are a number of considerations with which we can support for trustees and Local Government Pension Scheme administering authorities who hold investments with Equitable Life, particularly where members' benefits are invested in the With-Profits Fund.

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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