DC update

Welcome to LCP's latest quarterly DC update, in which you will find our views on key developments in the DC arena during the last three months, together with any actions and issues heading your way.

August 2024

What's inside?

Financial Wellbeing Survey 2024

Employee wellbeing: Building better financial futures

In this year's report, LCP's Head of Financial Wellbeing Heidi Allan focuses on the financial confidence and capability amongst groups with diverse needs within the UK workplace.

This year, the levels of stress, anxiety, and growing concern around everyday money management in those who feel they lack control about their financial future has grown significantly.

Examining the data from our fifth survey of 10,000 employees, we discovered that almost half do not feel confident in dealing with their everyday money: more striking statistics highlight how different age groups are impacted by the current financial climate.

You can read our fifth annual Employee Wellbeing Survey here.

General Election 2024

King's Speech promises a Pensions Bill

The first King's Speech of the new Parliament on 17 July 2024 announced that the Government will introduce a Pension Schemes Bill, which intends to deliver on several issues that were on the previous Government's agenda, such as:

- Implementing auto-consolidation of small DC pension pots.
- Establishing a value for money framework for DC schemes to drive consolidation and improve outcomes.
- Requiring post-retirement 'products' for DC decumulation.

This Bill may be a hopeful sign that the new Government appears to be continuing pensions policy initiatives that were already in progress, rather than scrapping them all and starting again. If this is the case, then many in the industry will welcome the stability it brings. You can read more here.

General Election 2024: What the result means for DC pensions

Following the General Election, the new Government will need to press ahead with urgent reforms to the DC pensions landscape to ensure that savers are able to maximise retirement outcomes.

In this on-demand webinar former Pensions Minister, Sir Steve Webb, Lydia Fearn and George Currie discuss the implications of the result of the General Election and the key areas the new Government should focus on to deliver for savers.

Landslide Labour win changes the face of DC pensions

New Prime Minister Keir Starmer has made a number of ministerial appointments since his party's victory on 4 July 2024.

Of particular note for the pensions industry are the appointments of Rachel Reeves as the UK's first female Chancellor of the Exchequer, Liz Kendall as Secretary of State for Work and Pensions and Darren Jones as Chief Secretary to the Treasury.

In addition, Emma Reynolds has the Pensions Minister role at the Department for Work and Pensions, which she is undertaking alongside a role in HM Treasury. We hope that the appointment this will herald activity on several fronts that had ground to a halt with the announcement of the General Election.

Government policy and guidance developments

IFS suggests that DC pension pots should be subject to inheritance tax

An article published by the Institute for Fiscal Studies includes a suggestion that DC pension pots should lose their efficacy as inheritance tax (IHT) planning vehicles, as one of three suggestions made to improve the current IHT system. The authors say that the total exemption from IHT of DC pension pots should be brought within the scope of IHT as this *"serves no economic purpose and is clearly unfair".*

Whatever the outcome, there are steps that all schemes should take to help members mitigate IHT, the optimum being to **ensure that your members have completed beneficiary nomination forms**, so that DC funds can be passed to dependants tax effectively. Similar considerations apply to any insured life assurance benefits that you may offer as part of your benefit programme.

We know from experience how challenging it can be to for trustees and providers to process claims when a nomination form hasn't been completed.

Changes to how the Pensions Ombudsman will operate

Robert Loughlin, Chief Operating Officer at the Pensions Ombudsman, has highlighted plans to tackle the Ombudsman's historical caseload and reduce waiting times.

DC scheme returns draw near

TPR has updated its DC scheme return page to reflect the fact that it will shortly be sending out scheme return notices to DC schemes, which must be completed within six weeks of trustees or managers receiving them. This page also highlights the new and updated questions that will be asked in this year's return.

- New questions about leavers – schemes will need to provide the number of members who have left the scheme in the last 12-month period.
- New questions about the scheme's pensions dashboard primary contact – including their name, contact details and whether they are a professional or non-professional trustee.
- Updated questions about objectives for investment consultants – which will include when the objectives were set and when they were last reviewed.
- Updated questions about benefit details – DC schemes with 12 or more members will be asked questions about benefit details.

The scheme return notice will be sent out between August and December 2024. A DC scheme with between two and 11 members is required to complete a scheme return every three years, whilst those with 12 or more members need to complete a scheme return every year. If you need any help completing this year's return, please get in touch with your usual LCP contact.

Master Trust policy developments

You may not be aware that there is significant change on the horizon relating to DC scheme default investment strategies, as more providers are starting to move away from offering simple low-cost index tracking strategies that have been the mainstay of many DC workplace schemes for the last few years.

There is now a noticeable ***move to develop default strategies that contain at least some exposure to private markets / illiquid assets****, to improve potential outcomes for members. In many cases, providers will now be offering at least two defaults and in doing so will be seeking decisions from sponsors on which they want to make their auto enrolment default. There is going to be a difference in cost between the two options and so it will be important to understand what your members would be paying for and the potential for improved member outcomes.*

We undertake ongoing analysis on all the major providers' defaults and so are ideally placed to help you with this: ***if you would like to talk to one of our DC experts, please do get in touch*** *(see page 9 for details).*

TPR evolves its supervision of Master Trusts

TPR is evolving its supervision of Master Trusts to focus on investments, data quality, standards and innovation at retirement. Going forwards, it wants to:

- Probe and challenge how a Master Trust's approach to investments delivers for savers;
- Investigate how a Master Trust is seeking the best possible long-term risk-adjusted returns;
- Look more broadly at Master Trust investment governance practice and investment decision making; and
- Request more information on Master Trusts' systems and processes.

The focus on innovation at retirement is consistent with the DWP's desire to encourage DC schemes to support decumulation options, on which TPR has promised to issue guidance.

PASA updates its guidance on Master Trust transitions

The Pensions Administration Standards Association (PASA) has published updated guidance on the transition of schemes to Master Trusts, which focuses on the two most common scenarios of:

- Employers moving to a new Master Trust if its current one winds up; and
- Single employer trusts moving to a Master Trust.

PASA says that the guidance is designed to support trustees, employers and administrators to effect an accurate and timely project.

Pensions Dashboards

PDP blog on Dashboards connection timetable confirms first connections expected this August

Following the recent publication of the Dashboards connection timetable guidance, the Principal of the Pensions Dashboards Programme (PDP), has written a blog setting out its expectations, which reinforces several messages from the guidance.

An interesting point to note in the blog is confirmation that more than 20 volunteer participant schemes are expected to connect from August 2024.

The blog re-states that whilst the connection dates are not mandatory, all schemes will need to be able to demonstrate upon request how they have considered the guidance when planning their connection to the Dashboard ecosystem.

FCA provides easement on its Dashboard connection rules

The FCA has adjusted its Dashboard rules for pension providers so they can connect by the dates in the DWP's staged timetable, These dates are 30 April 2025 for firms with 5,000 or more relevant members and 31 January 2026 for firms with fewer than 5,000 relevant members.

The adjustment is designed to address concerns that providers may not be able to comply with the FCA's rules for all their relevant pension scheme members by these dates. Where a provider can connect to the Dashboard on these dates in respect of at least 80% of its relevant members, and is able to comply fully with certain requirements, the FCA expects the firm to do so.

Annualised accrued value calculations guidance issued for DC pots

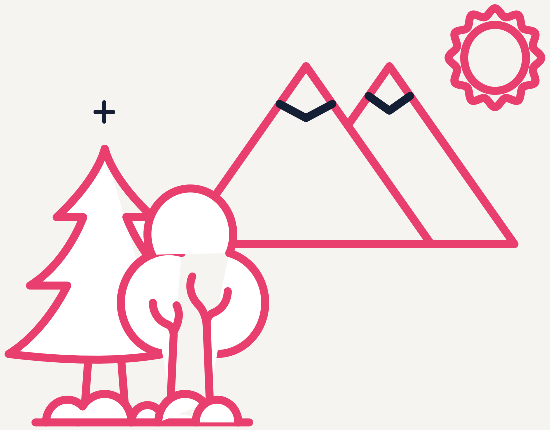
The DWP has published short guidance from the Financial Reporting Council to assist those who need to turn DC pot values into annual income equivalents (or 'annualised accrued values') for display on the forthcoming Pensions Dashboards.

Responsible investment and climate change – what's new?

FCA extends its sustainability disclosure requirements and investment labels regime

The FCA has launched a consultation on extending to portfolio managers the requirements on how sustainable investments are labelled.

The consultation closed on 14 June 2024: the FCA intends to publish its final rules in the second half of 2024, with new requirements coming into force over a two-year period starting in December 2024. It has also published its finalised guidance on the anti-greenwashing rule, which came into force on 31 May 2024.



TPR publishes its latest review of trustee climate-related disclosures

TPR has published its second review of climate-related disclosures that are required to be made by trustees of the largest schemes, with the aim of helping raise standards across the industry.

The 2024 review covers a selection of reports (13 DB schemes, 13 hybrid schemes, three single employer DC schemes and one Master Trust). Under the headings below it highlights the good practice observed, as well as areas that could generally be improved on such as:

- Governance;
- Strategy;
- Scenario Analysis; and
- Risk Management.

Net zero – transition plan resources published

The UK Transition Plan Taskforce has launched its final set of transition plan resources to assist businesses with preparing plans on how to achieve net zero targets.

These materials were welcomed by TPR as it launched its second review of climate-related disclosures.

Addressing climate change in a 'nature-friendly' way

What do we mean by 'nature'?

By 'nature', we mean all the living and non-living entities on earth, i.e. landscapes as well as plants and animals.

Why does nature loss matter?

Nature loss presents a significant, systemic risk to investors. Both society and the global economy depend on the functioning of nature. The World Economic Forum has ranked events in its Global Risks Report 2024 related to climate change and nature loss as the top four risks over the next 10 years.

There has been increased focus on nature loss within the industry, with the Taskforce on Nature-related Financial Disclosures publishing recommendations and supporting guidance on how organisations can assess, disclose and manage their nature-related risks and impacts.

How does this relate to climate change?

Climate change, nature and the economy are inextricably linked, sharing some of the same drivers, as well as perpetuating each other. This means that solving each issue has the potential to improve the other. However, while some solutions can be beneficial to both, solutions to one can be detrimental to the other.

How can you incorporate nature considerations within your scheme's approach to climate change?

- Engage with your investment managers to understand their policies and approach to considering nature impacts alongside climate issues, how they engage with companies and escalate issues and encourage them to enhance their approach.
- Identify significant exposures within your portfolios, particularly within sectors deemed 'high impact', such as the energy, materials and food sectors. Identify specific areas to focus on in portfolios to address both climate and nature related risks.
- Ask managers to justify high risk holdings, e.g. deforestation creates significant consequences for both climate change and biodiversity loss, resulting in financial risks for investors.
- Invest in 'nature-friendly' climate solutions to ensure trade-offs are minimised where possible, e.g. regenerative agriculture and sustainable forestry investments aim to be both nature and climate-positive.

LCP Insight

LCP wins DC Consultancy of the Year!

We are extremely proud to announce that LCP have been named **‘DC Consultancy of the Year’** for 2024 at the Professional Pensions UK Pensions Awards.

Our new government must tackle the ‘five great evils’ that are undermining DC pension saving

With a new government taking office with a sizeable majority, the Labour administration has the opportunity to reshape the country in its image.

George Currie considers parallels with William Beveridge’s 1942 report on the welfare system and highlights 'five great evils' of DC pension saving: inadequacy, inequality, irretrievability, inefficiency, and insecurity.

You can find George’s blog here.

Cracking the code: unlocking member engagement in DC Pensions

LCP’s Ellen Wallace provides insight into the challenges of member engagement in the Master Trust landscape, as well as strategies for breaking down the barriers between providers and members.

Read Ellen’s blog here.

Thinking 'when' rather than 'if' about cyber risk

The pensions industry has had its share of unexpected events in recent years. LCP Principal Peter Shaw considers why we should reflect on lessons learned and continue improving the resilience of pension schemes.

You can read more of Peter's tips on planning for a cyber incident here.

Do you enjoy hearing from our experts?

It's important to us that we deliver what you want and don't clog up your inbox with things you don't.
Please take a moment to let us know your preferences; in return we will try our best to only send you the things that matter to you.

For further details, visit our preference centre.

Any questions?

If you would like any assistance or further information on the contents of this Update, please contact one of the team below.

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