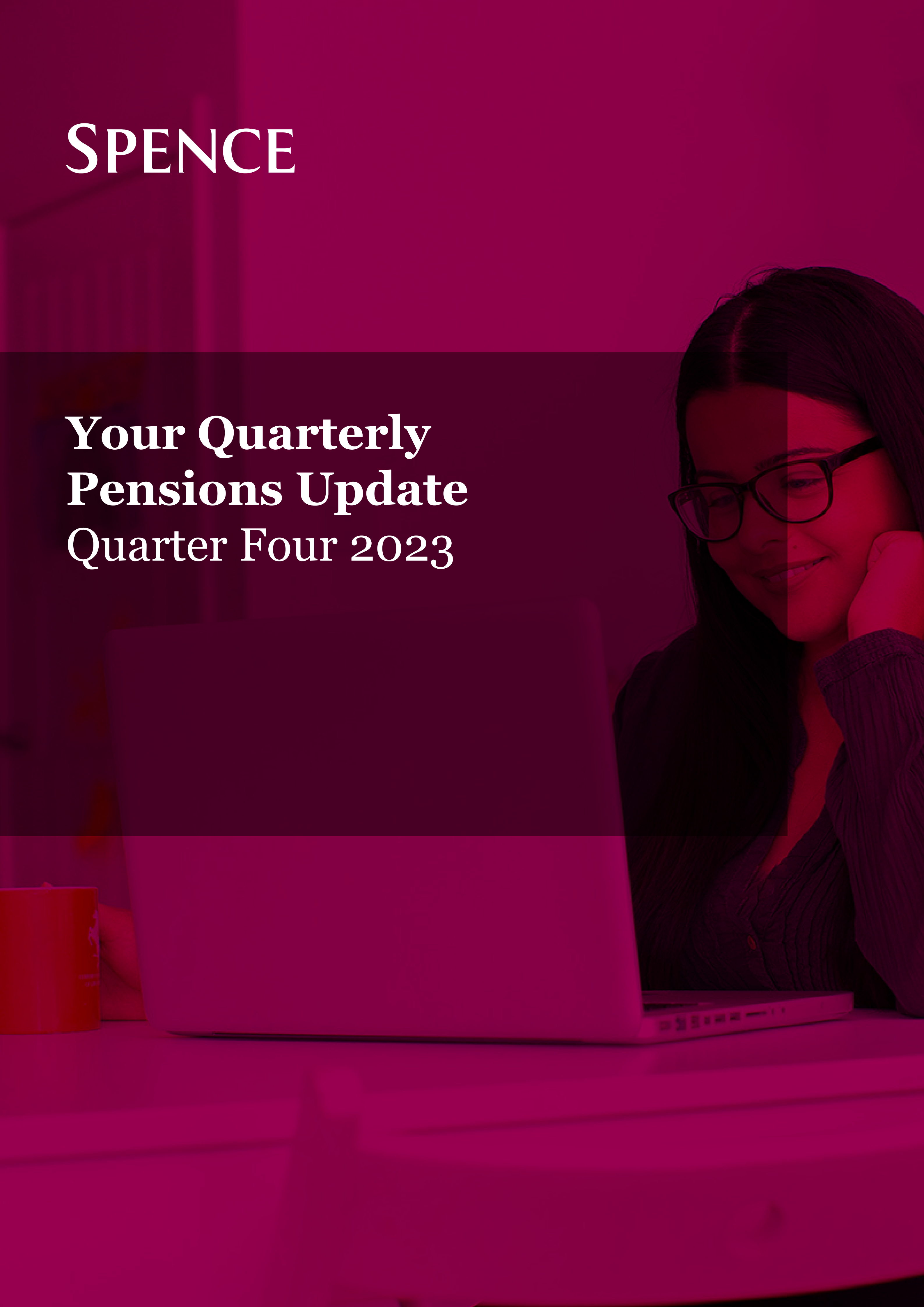
SPENCE



Your Quarterly Pensions Update

Quarter Four 2023

What's inside?

Welcome to your Quarterly Pensions Update

The purpose of this report is to update sponsors and trustees with recent pensions industry changes in the quarter.

For your convenience, Spence has summarised the key developments and highlighted the necessary actions sponsors and trustees may need to take.

The report combines brief written comment with links to any further relevant information and any deadlines you should be aware of. We trust you will find the update useful and informative. If you require further information about how any of the topics covered might impact on your scheme specifically, please get in touch with alan_collins@spenceandpartners.co.uk or your usual Spence contact.

Autumn Statement 2023 – What it means for pensions

Jeremy Hunt, the Chancellor, delivered his Autumn Statement on 22 November. The key measures can be summarised as further consolidation and trustees needing to do more, together with several announcements in connection with the **pensions and growth agenda**, intending to aid the UK economy and reverse the 40% reduction of new companies listing in the UK since 2008.

The **pensions and growth agenda**, including productive finance, is expected to include the prioritising of long-term pension investment performance over low fees, reversing the 23 year Value for Money (VfM) focus on charges when Stakeholder was first introduced in 2001. This is likely to be an important development for DC trustees.

DC trustees also need to note the proposals placing duties on them to offer decumulation services. Until now the vast majority of DC trustees will have focussed on the accumulation only and will have had little involvement in decumulation or the transitional period between the two. If the proposals are carried, DC trustees are likely to have a sizable 'TKU' requirement in this area.

For trustees and sponsors of schemes making contributions via salary sacrifice, the National insurance cut by 2 percentage points from 12% to 10% on 6 January is a good opportunity for member engagement, to nudge members to review their pension savings.

On the DB side, for trustees of "schemes unattractive to commercial providers", it may be advantageous to pro-actively review the consolidators in 2024 as part of your Business Plan. The DWP is to launch a consultation on options for smaller DB schemes, which they say are currently unserved by the market, to consolidate into a new statutory vehicle run by PPF. The direction of travel could therefore be the PPF consolidator or one of your own choice. At this stage it is not clear what part of the market might be considered commercially unattractive (in terms of scheme size/total assets), but important to remember that small schemes are typically considered to be those of less than £100m in assets.

Also, importantly for Trustees, TPR will put into place a **register** to help improve communication and guidance to trustees and to assess whether knowledge requirements are being met and will review its **trustee toolkit** so that it better aligns with the codes of practice and guidance. And with the General Code now having been published, TPR has been clear that schemes not meeting the code's expectations should take action to improve their scheme's governance or consider consolidation. At the very least, trustees need to be aware of where they fall short of TPR's expectations and have clear and realistic plans in place to address those shortcomings.

The Autumn Statement in detail: -

- To provide better outcomes for savers the government is:
  - introducing the multiple default consolidator model for defined contribution (DC) schemes, to enable a small number of authorised schemes to act as a consolidator for eligible pension pots under £1,000
  - launching a call for evidence for DC schemes on a lifetime provider model to simplify the pensions market by allowing individuals to move towards having one pension pot for life, and on a potential expanded role for Collective DC (CDC) schemes in future
  - publishing an update that proposes placing duties on DC occupational pensions trustees to offer decumulation services and products at an appropriate quality and price when savers access their pension assets, either themselves or through a partnership arrangement
- To drive a more consolidated pensions market government is:
  - welcoming the current trend of DC pension fund consolidation and expecting to see a market in which the vast majority of savers belong to schemes of £30 billion or larger by 2030
  - welcoming the Financial Conduct Authority (FCA) and the Pensions Regulator (TPR) announcements on next steps towards implementing the Value for Money framework in the DC workplace pensions market

  - o publishing a review of the Master Trusts market, 5 years after the 2018 Master Trusts regulations came into force
  - o consulting this winter on how the Pension Protection Fund can act as a consolidator for defined benefit (DB) schemes unattractive to commercial providers
  - o confirming a March 2025 deadline for the accelerated consolidation of Local Government Pension Scheme (England and Wales) assets, setting a direction towards fewer pools exceeding £50 billion Assets Under Management, and implementing a 10% allocation ambition for investments in private equity

- To enable pension funds to invest in a diverse portfolio government is:
  - o consulting this winter on whether changes to rules around when DB scheme surpluses can be repaid, including new mechanisms to protect members, could incentivise investment by well-funded schemes in assets with higher returns
  - o reducing the authorised surplus payments charge from 35% to 25% from 6 April 2024
  - o welcoming TPR's announcement that they will implement a register of trustees and update the trustee toolkit
  - o engaging with industry on proposals to ensure all aspects of the pensions industry are supporting best outcomes for savers, including how to shift employer incentives away from low fees towards long-term pension investment performance
  - o committing £250 million to 2 successful bidders in the Long-term Investment for Technology and Science (LIFTS) initiative, subject to final agreement
  - o following positive feedback from industry, confirming its intention to establish a Growth Fund within the British Business Bank (BBB)
  - o developing a fellowship course targeting mid-career science and technology Venture Capital (VC) investors, similar to the Kauffman Fellowship in the US, to be operational in 2024

In relation to the State pension, this will increase by 8.5% from April 2024 to £221.20 a week; i.e. the government will honour the triple lock "in full".

The Chancellor also announced that employee National insurance will be cut by 2 percentage points from 12% to 10% from 6 January .

Following the Autumn Statement, a number of papers were issued by the DWP and many of the measures could have a material impact on occupational pension schemes. The current state of play is summarised below.

DEFINED CONTRIBUTION (DC) MEASURES

In the context of the long-standing problem of **"small pots"**, a call for evidence is launched on a lifetime provider model that would allow individuals to have contributions paid into their existing pension scheme when they change employer. This is despite the fact that the DWP had previously discounted the 'Lifetime Provider Model'. There is a potential expanded role for collective defined contribution (CDC) schemes in future.

Also, the Government will proceed with plans to introduce the **multiple default consolidator model** to enable a small number of authorised schemes to act as a consolidator for eligible pension pots under £1,000.

There were several announcements in connection with the **pensions and growth agenda**, including the prioritising of long-term pension investment performance over low fees. TPR will provide further information for employers on what factors should be assessed when they are selecting a pension scheme.

The Government has published a review of the Master Trusts market, five years after the 2018 Master Trusts regulations came into force. This looks at market trends and the future of regulation and supervision.

The Government is proposing to place duties on occupational pensions trustees to offer decumulation services and products at an appropriate quality and price when savers access their pension assets, either themselves or through a partnership arrangement.

DEFINED BENEFIT (DB) ISSUES

Despites a mixed reaction from the pensions industry to earlier proposals, the Government will consult on how the Pension Protection Fund (PPF) can act as a consolidator for "schemes unattractive to commercial providers". The DWP will launch a consultation this winter on options for smaller DB schemes, which they say are currently unserved by the market, to consolidate into a new statutory vehicle run by PPF. At this stage it is not clear what part of the market might be considered commercially unattractive (in terms of scheme size/total assets).

Also, there will be a consultation this winter on the appropriate regime under which surpluses can be repaid. This will include new mechanisms to protect members, and whether this could incentivise investment by well-funded schemes in assets with higher returns. The authorised surplus repayment charge will be reduced from 35% to 25% from 6 April 2024. The changes could encourage more schemes to choose run-off as a long-term objective.

Various measures were announced in connection with the Local Government Pension Scheme (see the links, below).

TRUSTEE SKILLS, CAPABILITY AND CULTURE

The DWP published its response to its 'Pension trustee skills, capability and culture: a call for evidence'. TPR will put into place a register to help improve communication and guidance to trustees and to assess whether knowledge requirements are being met. TPR has also strongly encouraged all professional trustees to receive accreditation through the two main accreditors, though have not mandated this.

TPR will review its trustee toolkit so that it better aligns with the codes of practice and guidance. TPR is also planning to release additional guidance (expected by the end of this year) related to trustee investment decision making in alternative assets.

On a different but related note, Laura Trott has left her role as Minister for Pensions, following her appointment as Chief Secretary to the Treasury. Paul Maynard, MP for Blackpool North and Cleveleys, has been named as the new Minister for Pensions, having been appointed as a DWP Parliamentary Under Secretary of State. The Secretary of State for Work and Pensions is Mel Stride, MP.

Helpful Links

Ending the proliferation of deferred small pension pots - GOV.UK (www.gov.uk)

Government response to 'Pension trustee skills, capability and culture: a call for evidence' - GOV.UK (www.gov.uk)

Evolving the regulatory approach to Master Trusts - GOV.UK (www.gov.uk)

Helping savers understand their pension choices: supporting individuals at the point of access - GOV.UK (www.gov.uk)

Options for Defined Benefit schemes: a call for evidence - GOV.UK (www.gov.uk)

Trends in the Defined Contribution trust-based pensions market - GOV.UK (www.gov.uk)

Autumn Statement Pensions Reform 2023 - GOV.UK (www.gov.uk)

Investment Update

Markets experienced a strong rally during the quarter with Global Equities and Global Bonds generating positive returns of 6.3% and 8.1%* respectively.

The key driver of returns had been the end of the 'higher for longer' interest rate narrative which helped support valuations across most asset classes. As inflation declined across most of the developed world during the quarter markets became increasingly comfortable with the view that central banks had achieved their aim of combatting higher levels of inflation with their interest rate hiking policies.

This view was supported by the December Federal Open Market Committee, where the latest projections suggested three interest rate cuts over 2024.

EQUITY MARKETS

Global Equity markets reversed the third quarter narrative. From a regional perspective European Equities generated the strongest returns at 7.6% followed by the U.S at 7.1%. Despite the majority of the U.S Market's returns being attributed to the 'magnificent 7' tech and AI stocks for most of the year, this quarter saw the rally broaden out to the rest of the index. The U.K and Japan were key laggards this quarter at 3.2% and 3.3% respectively.

In Japan concerns around the appreciation in the Yen following the Bank of Japan's decision to relax its yield curve control weighed on equity market returns. Despite Chinese Equities falling -4.8%*, off the back of concerns around the growth of the Chinese economy, broader Emerging Markets managed to deliver 7.9%*, mainly driven by Latin America.

OTHER ASSETS

Commodities declined during the period at -4.6%* as gains in precious and industrial metals were offset by weaker agriculture, energy and livestock prices. Energy was the key detractor this quarter mainly driven by oil where prices fell despite output cuts from Opec+ (the Organization of the Petroleum Exporting Countries, plus some other oil-producing countries).

Slowing growth with greater regional divergence alongside elevated political risks has created a complex environment for currency markets. Over the quarter, fading US optimism and prolonged overvaluation led to the USD falling relative to other developed market currencies.

FIXED INCOME AND INFLATION

The fall in inflation numbers over the quarter increased expectations that interest rates will be cut by central banks in 2024 and meant that sovereign bonds (in particular the UK and Italy) rallied during the period. Within the UK, long-term UK gilt yields decreased by -0.7% to 4.1%. Real yields decreased by -0.5% to 0.9%. Long-term inflation moved from 3.4% to 3.2% over the period.

More broadly within fixed income, increased expectations of falling interest rates in 2024 also led to tighter credit spreads (falling by -0.2%) which helped the more interest rate sensitive investment grade bonds outperform relative to high yield. Spreads on high yield and emerging market debt fell. Global indices enjoyed enhanced positive returns as the USD weakened boosting USD returns.

OUTLOOK

Whilst the rally experienced by most asset classes over the quarter can be seen as positive news after a weaker prior quarters, investors must be mindful of what the figures could imply for markets and economies going forward.

If central banks aim to start cutting interest rates in 2024 then this could indicate further economic weakness which in turn could be negative for equity valuations. However, falling interest rates and a weaker economic environment should generally be positive for sovereign and investment grade bonds which have struggled in recent periods due to persistently high levels of inflation and high interest rates.

All returns shown are shown in GBP terms unless stated otherwise, sourced: FTSE, Markit iBoxx
*Local currency, except for EM and global indices, which are in US dollar, sourced: JPM and MSCI
Past performance is not a reliable indicator of current and future results.
Data as of 31 December 2023.

Benefit statement changes – assumption around TM1

BACKGROUND

Actuarial Standard Technical Memorandum 1: Statutory Money Purchase Illustrations (“AS TM1”) sets out the methodology and assumptions to be used for calculating annual Statutory Money Purchase Illustration (“SMPI”) statements. With effect from 1 October 2023, the Financial Reporting Council published a new version of this document which applies to statutory illustrations issued on or after this date.

The key changes that have been introduced in the latest version of the guidance:

– A standardisation of the benefits members will be assumed to take on retirement; and

– A prescribed methodology for deriving the rate at which members funds will be assumed to increase until retirement age (known as the “accumulation growth rate assumption”)

Previously, the guidance was less prescriptive as to how the accumulation growth rate assumption was to be derived. This led to wide ranging assumptions being adopted. The aim of the new guidance is to produce more consistent and comparable results across different schemes.

WHAT IS THE IMPACT OF THESE CHANGES?

The above changes will have no impact on the actual value of members funds or the performance of these funds; it is only a change to how retirement projections are carried out.

When members receive their next SMPI statement, they may see a considerable difference in the projected value of their fund at their retirement date and the resulting level of income they may expect to receive.

Given the new guidance outlines what form of benefits the member is assumed to take on retirement, this may lead to material differences in the estimated retirement benefits shown in the members next SMPI compared to previous statements. For example, if the previous illustration reflected a member taking tax-free cash at retirement, then the new estimated income at retirement may have changed significantly due to the illustrations now assuming that no tax-free cash is taken under the new guidance.

Furthermore, with the change in accumulation growth rate assumption, members may see considerably different projected fund values on retirement from that provided on previous statements. This will be dependent on how the new prescribed growth rate assumption compares to that previously adopted.

THINGS TO CONSIDER

The expectation of the new methodology for deriving the accumulation rate growth assumptions is that it should provide consistency year on year in the assumptions that are adopted for each investment. With the spike in interest rates in recent times, the Association of Consulting Actuaries highlighted their concerns that 2024 SMPI statements may provide some potentially unusual or misleading results.

Their analysis suggested there is the potential assets such as long-dated government bonds and index-linked government bonds may be assigned a higher assumption than would historically be expected as a result of recent market volatility. This would result in members projected funds on retirement being unduly optimistic and may have a detrimental impact on members retirement planning and decision making.

There is a consultation ongoing in which the above concerns (along with a few other suggested changes) are being considered. If updated guidance from the consultation is not produced in advance of 6th April 2024, trustees may want to consider writing out to members to forewarn them the 2024 statements they will receive may be overly optimistic and to treat the projected retirement benefits with a level of caution.

The First Superfund Transaction – Alternative to Buyout?

A Superfund is a vehicle for Trustees to secure member benefits rather than via the purchase of a bulk annuity policy. A transaction with a Superfund still breaks the link to the sponsoring employer, potentially at a lower cost.

Clara Pensions was the first Superfund to complete The Pensions Regulators assessment process at the end of 2021 and, almost two years later, it completed its first transaction.

The transaction covered 9600 members of the Sears Retail Pension Scheme.

While Clara Pensions' model aims to secure insurance contracts for members eventually, the initial transfer does not require a scheme to be fully funded on a buyout basis. Assets and liabilities are transferred into a separate section within the Clara Pension Trust (in some cases augmented by a one-off final contribution from the Scheme sponsor) alongside a capital buffer provided by Clara themselves.

The assets will then grow over time, with the aim to meet the cost of insurance once the scheme has further matured, plus a return on capital for Clara if the initial transfer assumptions are realised.

The link to the sponsoring employer is broken on transition to Clara.

The additional capital is akin to the additional reserves a bulk annuity provider is expected to hold for prudence. As part of the Sears transaction, £30m of additional capital was provided by Clara.

In certain circumstances, superfunds can be an alternative to an insurance buyout. There are a number of considerations applicable:

- The Gateway Rule.
    - At the moment, if a scheme can afford to insure all benefits immediately or over the next five years, then a Superfund could not accept it.
- Funding level.
    - A Superfund transaction will still be out of bounds if a scheme is quite poorly funded. So there will be a "goldilocks zone" – buyout is not affordable in the short to medium term but the scheme is reasonably well funded on a solvency basis – outside which a transaction is not financially viable.
- Covenant.
    - Trustees are exchanging the covenant of the sponsor, for the covenant of the superfund (i.e. the capital provided by its investors). One key question for Trustees is therefore if the covenant of the Superfund is likely to provide a better outcome for members. This assessment will be much easier to complete if the covenant of the sponsor is weak or non-existent, such in the case of Sears.
- Population.
    - Generally, pricing for Superfunds is more attractive for immature schemes as these are more expensive to insure and so there are arbitrage gains that can be achieved by delaying insurance.
- Advisory costs and execution risk.
    - Both of these are higher for a Superfund transaction than for a bulk annuity purchase, although costs should decrease once a few transactions have proceeded, and standard documents and processes develop as a result. Execution risk will potentially remain substantial as the transfer process is inherently more complex and time-consuming.

The recent yield increases have improved buyout affordability for many schemes and for a lot of these other aspects of preparation, such as data quality, are now a barrier to a transaction rather than funding levels. Some schemes and sponsors are also re-visiting their endgame objectives and solvent run-off (with the members and sponsor sharing the benefits from any surplus) is increasingly seen as a viable alternative to buyout and wind up.

A Superfund endgame is more niche than either of the above given the specific circumstances a scheme needs to be in for a transaction to take place and be likely beneficial for all parties. However, there will be a number of schemes meeting the relevant criteria, and for these a Superfund transaction will both be viable and likely to improve member outcomes – the Sears transaction being a clear example of this.

Consultation on PPF levy rules for 2024

The PPF opened consultation on the 2024/25 Levy rules on 11 September 2023 and this closed on the 30 October 2023. 22 responses were received, and these were considered in the determination of the final Levy Rules which were published in December 2023.

The headline changes are as follows:

50% Reduction in the Levy

The 2024/25 Levy estimate is confirmed as £100 million. This represents a further 50% reduction from the 2023/24 levy of £200 million which was previously reduced from £390 million in 2022/23. This is the lowest levy ever charged by the PPF since its inception in 2005. As a result, almost all schemes will have their levy decreased this year. This highlights that the PPF is in a very strong financial position, being able to reduce the levy charged considerably while still ensuring security for members.

Legislative Change Required

The PPF have shared that unless there are legislative changes, the levy will be set at £100m minimum in the coming years. Oliver Morely, PPF CEO explains this is due to current legislation which was originally "intended to protect levy payers from sharp increases in the levy" but has resulted in constraints on how low the levy can decrease without limiting the PPF's ability to "respond to a funding challenge should one arise."

Currently, the levy can only be increased by a maximum of 25% in a year. The PPF are concerned that if they reduce the levy below £100 million, a 25% increase in a year may not be sufficient to respond to potential unforeseen events. In their policy statement, they explained "there are limits to the predictive capabilities of the LTRM (Long Term Risk Model), and unlikely events outside its range can and do occur." They used inflation rising to over 10% this year and the gilts crisis in September 2022 as examples of unforeseen circumstances.

DWP are currently looking at the potential to update this rule and if it is changed, we could see further levy reductions in the future, potentially eliminating the Levy altogether.

Feedback on use of PPF reserves

Of the 22 responses, 15 agreed with setting a minimum levy based on the current legislative framework, 6 disagreed and one gave no opinion. Of the six who disagreed, two responses suggested prioritising member compensation instead of focusing on levy reduction. The PPF recognises "the difficult situation for members due to increases in cost of living" and have shared these responses with DWP but they ultimately can only "set the levy reflecting the legislation as it stands". They have discussed with the Work and Pensions Select Committee, the cost analysis of changing compensation, outlining the consequences on their funding level based on a range of changes including removal of the 90% factor for deferred members and paying indexation on pre-97 compensation. The reserves could also be used to enable the PPF to guarantee 100% of benefits in the future. Ultimately it is DWP who will finalise any decisions.

PPF as a consolidator

Following the Chancellor's Mansion House Reforms in July, there have been discussions with the PPF on how a Public Service Consolidator could be set up and the PPF have responded saying they would be "well placed to take on this additional and separate function should this be the government's preferred solution." Kate Jones, PPF Chair believes DB schemes could "play a major role driving greater productive investment in the UK economy whilst securing good member outcomes" and Oliver Morley stated, "Running a Public Sector Consolidator would be a natural evolution of the PPF's existing capabilities." It will be interesting to see how these discussions materialise in the near future.

Helpful Links

PPF 2024/25 Policy Statement: Policy Statement 24 25 Final (ppf.co.uk)

PPF 2024/25 Levy Rules Consultation Document: Condoc - September 2425 (ppf.co.uk)

New legislation for auto enrolment into WP pension scheme

New legislation will extend employers workplace pension (WP) duties.

The Pensions (Extension of Automatic Enrolment) Act 2023 received Royal Assent on 18 September 2023. It will allow ministers, through secondary legislation, to –

- lower to 18 the age threshold at which qualifying workers are automatically enrolled / re-enrolled into workplace pensions; and
- amend qualifying earnings limits so that pension contributions are calculated from the first pound earned (as well as modify the requirements of the annual review of the qualifying earnings band).

Ministers will have to obtain Parliament's approval for any changes after first consulting on any proposals and reporting to Parliament on the consultations held.

The government estimates, that when the new measures take effect, the cost of reducing the lower age limit to 18 and removing the lower earnings limit would be approximately £2bn in 2022 earnings terms for the first full year of implementation. This cost would be split between extra employer contributions (£0.8bn), extra employee contributions (£0.9bn) and income tax relief (£0.2bn) and would be lower if the measures were phased in over a number of years.

The Act also makes provision for its territorial extent and commencement. Private pensions are a reserved matter for Scotland and Wales, with the UK Parliament legislating on pensions across Great Britain. The issue is devolved to Northern Ireland, although historically the Northern Ireland Assembly has legislated so that arrangements mirror those in Great Britain. The government anticipates that the Northern Ireland executive will pursue separate legislation in time.

No date has been set for the changes to come into force. So, as a reminder, the existing automatic enrolment requirements for employers are summarised below.

All employers in the UK must provide a workplace pension scheme for qualifying workers. For those workers not already in a workplace pension scheme this obligation on employers, provided for in the Pensions Act 2008, is called 'automatic enrolment' and applies to all workers who:

- are aged between 22 and state pension age
- earn at least £10,000 per year
- usually (or 'ordinarily') work in the UK.

For qualifying workers, contributions are required on earnings between a lower earnings limit and an upper earnings limit set at £6,240 and £50,270 respectively in 2023/24.

Helpful Links

[Pensions (Extension of Automatic Enrolment) Act 2023 (legislation.gov.uk)]

[Auto enrolment guidance | The Pensions Regulator]

PASA Dashboards Guidance ‘Connection Ready’

With less than three years to the final dashboards connection date, administrators need to put in place detailed plans now to ensure schemes are getting ready to meet their duties. PASA is supporting this through a series of outputs defining what it means for a scheme to be ‘connection ready’, and showing what a typical single scheme plan could look like.

The forthcoming connection guidance dates will inform the final point at which schemes are expected to ‘plug in’ to the dashboards ecosystem. But they don’t help schemes know when they need to start their preparations or how long they will take. PASA’s new materials fill this gap so schemes and administrators can plan to become ‘connection ready’ before it’s too late.

PASA’s connection ready guidance aims to ensure that:

- stakeholders are aware of what’s required to be connection ready;
- understanding of the time/effort required to be connection ready;
- stakeholders understand the interdependencies between connecting to dashboards and providing ongoing administration services both prior to and after connection to dashboards; and
- there is understanding of the need for proper planning (from a timing, industry capacity and cost perspective)
- preparation for dashboards connection continues at pace in the absence of mandatory connection dates prior to 31 October 2026

The connection ready guidance sets out what ‘connection ready’ looks like, including:

- Assessment - the key areas of preparation which must be considered and addressed
- Implementation - the outcomes which must be achieved in these areas and how to deliver these
- Evidence - how success can be evidenced

Useful supporting guidance and material from organisations including PDP/MaPS and TPR is highlighted throughout the guidance, as well as material already produced by PASA.

The guidance will be supplemented and supporting materials added to assist schemes in key areas over time as more is learned about practical connection to the Dashboards Central Digital Architecture (CDA).

A sample plan for a single scheme who has yet to address connection to dashboards is also included. This won’t be reflective of all schemes, but it should be useful as a starting point. It also highlights the totality of the work required to achieve connection readiness in the form of a timeline.

The Call to Action issued alongside the guidance outlines the top five actions schemes need to act on now with regard to dashboards connection readiness -

1

No schemes are 'dashboard ready'
This is a totally new requirement which needs significant preparation work and you don't know just how much work until you take a close look.
Action:
Consider the TPR Pensions Dashboards checklist

2

Early engagement with your administrator and suppliers is essential:
To schedule and resource all of the elements of this work.
Action:
Talk to your administrator and other suppliers about their plans for dashboards

3

There are a lot of detailed requirements to understand:
Schemes must have clearly assessed what connection to dashboards requires from them. This could include changes to data, calculations and communications as well as potentially new technology.
Action:
Review the requirements for any elements you haven't already considered in detail – starting with the PASA Pensions Dashboards Connection Ready Guidance

4

You need to understand your gaps as early as possible:
Based on where you stand against the dashboards' requirements in the key areas, you must identify the size of the task at hand before you can be sure of what's required next. This includes having data and technology ready for matching, and processes to calculate pension values.
Action:
Identify where what you do today doesn't meet the dashboards' requirements highlighted above

5

Agreeing prioritised delivery plans is essential:
Not all connection activity can or needs to be done now, but much of it can be. By prioritising action now effectively with your administrator, you can get ahead of the game and avoid the risks outlined above.
Action:
Develop a Pensions Dashboards Connection Plan to ensure all requirements will be met in the correct timescale

Helpful Links

CR-call-to-action-FINAL.pdf (pasa-uk.com)

PASA-Connection-Readiness-Guidance-FINAL.pdf (pasa-uk.com)

New finance bill after AS – detail of abolition of LTA

The abolition of the Lifetime Allowance: Are we there yet?

Lat year, in Jeremy Hunt's budget speech, it was stated that:

"Some have also asked me to increase the Lifetime Allowance from its £1 million limit. But I have decided not to do that. Instead I will go further and abolish the Lifetime Allowance altogether. It's a pension tax reform that will … incentivise our most experienced and productive workers to stay in work for longer.… and simplify our tax system, taking thousands of people out of the complexity of pension tax."

There are have been a number of developments since then and the policy intent, to abolish the Lifetime Allowance (LTA) from 6 April 2024, remains intact. However, the journey is not yet complete.

To recap –

- On 23 March 2023, HMRC published a LTA Newsletter, in which HMRC invited persons to join a working group.
- The first tranche of implementation legislation is the Finance (No 2) Act 2023. Section 18(1) of that Act provides: "No lifetime allowance charge arises for the tax year 2023-24 or any subsequent tax year". The important word here is "charge". The LTA charge was removed in the 2023/24 tax year, but the LTA, itself, continued to be part of the pensions tax regime and will remain so until the 2024/25 tax year.
- Further, it became clear that, even after 2024/25, there will still be ceilings on tax relievable pension benefits. This is because, in section 19 of the above legislation, provision is made for certain lump sums or parts of lump sums which, disregarding section 18, would have been chargeable to income tax under sections 214 to 226 of Finance Act (FA) 2004, to remain chargeable. The lump sums in question are 'serious ill-health lump sums', 'lifetime allowance excess lump sums', 'defined benefits lump sum death benefits', or 'uncrystallised funds lump sum death benefits'. Under section 19(2), the lump sums, if they would have suffered a lifetime allowance charge, will instead be subject to tax at a marginal rate of income tax under the Income Tax Earnings and Pensions Act (ITEPA) 2003, section 579A. Thus, a charge to tax will be triggered for exceeding an amount equal to the amount of the lifetime allowance, albeit at a lower rate than the current 55% lifetime allowance charge rate.
- On 18 July, HMRC published, along with draft legislation, a policy paper entitled "Abolishing the pensions lifetime allowance". HMRC explained that the legislation abolishes the LTA, but limits –
  - the total amount of tax-free cash / pension commencement lump sum an individual can receive to a maximum of £268,275, unless they hold a valid lifetime allowance or lump sum protection; and
  - the total amount of lump sums - excluding the receipt of regular pension income - an individual can receive before marginal rate taxation applies to £1,073,100 (the most recent level of LTA), unless they hold a valid lifetime allowance protection.
- Then, on 20 December 2023, HMRC published a Lifetime Allowance Guidance Newsletter (which was reissued in January 2024 to correct a minor error) in order to clarify the way that lump sum benefits will be taxed.

We currently await final legislation, presumably to be included in the Finance Act 2024. However, it is envisaged that this will not be materially different from the draft legislation. That legislation is 41 pages long and, inter alia, provides that sections 214 to 226 of the Finance Act 2004 (lifetime allowance charge, including section 218 (definition of lifetime allowance)) are repealed. It also makes provision for an individual's "lump sum allowance". This is expressed in terms which include a definition of "relevant benefit crystallisation event". What this means is that the taking of certain benefits will still be treated as a crystallisation event where a test against a tax relievable allowance will need to be performed. Specifically, the individual's standard lump sum and death benefit allowance is defined as "£1,073,100".

So, in terms of the abolition of the LTA, we are not 'there yet' and, even when we reach the LTA abolition destination on 6 April 2024, lump sums will continue to trigger tax by reference to levels under the LTA regime (albeit at marginal income tax rates rather than LTA rates).

Whilst bearing in mind that we are in an election year and so cannot be certain of the longevity of any aspect of the pensions tax system, the abolition of the LTA is nevertheless only than three months away and the removal of the LTA, which has been a fundamental part of the single tax regime, along with the Annual Allowance (which is not being abolished), will have a material impact on pension scheme administration.

Key issues include –

- For administrations, updates to templates and processes
- For trustees and employers, ensuring there is no unintended increase in liabilities as a result of the LTA abolition (e.g. where members benefits are currently limited to the LTA)
- For employers, reviewing compensation arrangements for high earnings (e.g. use of unapproved arrangements).

Coming up next

The transition into both a new calendar and financial year feels like the right time to prepare for the changes and challengers ahead. Here is a rundown of just some of the significant dates and event you might want to put in your diary for 2024.

January

1st : OPS (Revaluation) Order

The Occupational Pensions (Revaluation) Order 2023, SI 2023/1265, will come into force on 1 January 2024.

5th : Pension Fund Clearing

'Call for Evidence: Pension Fund Clearing Exemption' closes.

6th : NI Contributions Bill

This Bill will implement a cut in the main rate of NICs paid by employees ('primary Class 1 NICs') from 12% to 10%.

24th : Greater Member Security and Rebalancing Risk

Call for Evidence 'Looking to the Future: Greater Member Security and Rebalancing Risk' closes.

Q1: 'VfM' in DC schemes

Introducing a common framework for assessing value for money in workplace defined contribution schemes. Schemes will have to publish their results each October.

Q1: Online Safety Act 2023

Ofcom is due to publish detailed Codes of Practice on the implementation of the Online Safety Act 2023. The Act is expected to help with the combatting of pension scams.

April

1st : Pension Protection Fund (PPF) Levies 2024/25

Start of PPF Levy Year for 2024/25. Invoicing will take place in the Autumn.

6th : Abolition of Lifetime Allowance

Under the 2023 Finance Bill, the lifetime allowance will be replaced with two new allowances - a 'lump sum allowance' (which will limit the total amount of tax-free lump sum an individual can receive to £268,275, unless they hold a valid lifetime allowance protection or lump sum protection) and a 'lump sum and death benefit allowance' (which will also limit the total amount of lump sums an individual can receive before marginal rate taxation applies to £1,073,100, unless they hold a valid lifetime allowance protection).

6th : Tax on refunds of surplus

Tax charge on refunds of surplus reduced from 35% to 25%.(The government has also promised to launch a consultation on surplus extraction arrangements for DB pension schemes.)

Also in April

Single/General Code

New Pensions Regulator Single Code of Practice (now to be known as the 'General' Code of Practice) is expected come into force. The code combines ten existing codes and incorporates changes introduced by the Occupational Pension Schemes (Governance) (Amendment) Regulations 2018 relating to effective systems of governance (ESoG) and the own-risk assessment (ORA).The ORA must be completed within 12 months of code coming into force and then at least triennially thereafter.

DB Funding Regulations

Expected that new defined benefit funding regulations will come into force, but will not take effect until the Pensions Regulator's new DB funding code is published later in 2024 (see 'Funding Code' below).

Social Security Benefits Uprating

Uprating Orders are produced each year and specify the rates of various Social Security benefits for the coming tax year. The new State pension full rate is expected to increase from £203.85 to £221.20 per week.

GMP Increase Order

Expected to specify 3% as the percentage by which that part of guaranteed minimum pensions (GMPs) attributable to earnings factors for the tax years 1988–89 to 1996–97 and payable by contracted-out, DB occupational pension schemes is to be increased.

June

Court of Appeal to hear appeal in 'Virgin Media' case

In this case, Virgin Media Ltd v NTL Pension Trustees II Ltd, the High Court that section 37 of the Pension Schemes Act 1993 rendered void an alteration to the rules of a formerly contracted-out pension scheme relating to section 9(2B) rights in so far as the amendment was introduced without the actuarial confirmation required by regulations. Leave to appeal the decision was granted in 2023.

July

31st : Consumer Duty

For new and existing products or services that are open to sale or renewal, the rules came into force on 31 July 2023. For closed products or services, the rules come into force on 31 July 2024. Amendments to the FCA's Handbook are made by Consumer Duty Instrument 2022, FCA 2022/31, which came into effect on 31 July 2023.

Summer: DB Funding Code

Revised Code of Practice expected, applying to schemes with valuation dates after October 2024.

September

PPF consultation on 2025/26 Levy rules

PPF expected to publish its consultation on the 2025/26 levy rules.

Throughout 2024

Deadline for changes to Statements o of Investment Principles (SIPs)

The Occupational Pension Schemes (Administration, Investment, Charges and Governance) and Pensions Dashboards (Amendment) Regulations 2023, SI 2023/399, introduce a 'disclose and explain' requirement. The regulations amend requirements relating to default SIP to ensure that relevant DC schemes disclose and explain their policy on illiquid investments in respect of default arrangements. This information must be included by trustees in the first updated version of their statement of investment principles to be produced after 1 October 2023 or by 1 October 2024 at the latest.

Economic Crime and Corporate Transparency Act

The government has explained that, in parallel with the Act coming into force, it intends to implement the ban on corporate directors provisions not yet brought into force under the Companies Act 2006, and issue regulations which will outline the limited basis by which companies may retain or appoint corporate directors going forward.

In effect, this will mean that only corporate directors with legal personality will be permitted under the available exceptions and all the directors of those permitted corporate directors will have to be 'natural' persons whose identity has been verified. This would affect schemes with a corporate professional trustee who would need to ensure that all of their directors are 'natural' persons.

Conversion of GMP Act 2023

The main provisions of the Act will come into force on a day to be appointed. The Act amends provisions in the Pension Schemes Act 1993, the Pension Schemes (Northern Ireland) Act 1993, the Pensions Act 2007 and the Pensions Act (Northern Ireland) 2008 in order to help occupational pension schemes to convert Guaranteed Minimum Pension (GMP) benefits into other scheme benefits. It does this by clarifying that the legislation applies to the survivors of those who earned the GMP and by removing the requirement to notify HMRC of every individual whose benefits are being converted. Some provisions are though subject to regulations, which have not yet been published.

Royal Assent for new Data Protection Bill

Will replace the EU's data protection laws following Brexit.

Notifiable Events Regulations

The delayed regulations may be brought into force in 2024. Revisions are made to scheme and employer-related events that must be notified to The Pensions Regulator and new declarations of intent are introduced so that better and earlier information is provided to trustees and TPR in connection with corporate activity.

Climate risk reporting

The Government will review climate risk governance and reporting requirements for occupational pension schemes, with a view to extending them to sub-£1bn schemes.

'And beyond'

28 January 2025: General Election

The next general election must take place no later than this date. It marks five years from the day the current Parliament first met (17 December 2019), plus the time required to run an election campaign.

Spring 2025: Completion of first 'ORA'

First Own Risk Assessment under the new Single Code must be completed if, as expected, the Code is effective by Spring 2024.

31 October 2026: Pensions Dashboards

Pensions Dashboards connection deadline.

The pensions dashboards will continue to apply to trustees and managers of all registrable UK-based occupational pension schemes with 100 or more relevant members. However, the reference date for calculating the number of relevant members is being changed by the regulations from the scheme year end that fell between '1 April 2020 and 31 March 2021' to the scheme year that falls between '1 April 2023 and 31 March 2024'.

2026: Public Sector Consolidator

The government plans to work with the pensions industry to establish a public sector consolidator by 2026, aimed at schemes that are unattractive to commercial providers.

2026 – 2028: State pension age

SPA will incrementally rise to 67 between 2026 and 2028.

The government plans to have a further review within two years of the next Parliament to reconsider the rise to age 68.

6 April 2028: Normal minimum pension age (NMPA)

The minimum age for drawing benefits (other than in ill health) is increased to age 57, subject to transitional provisions around protected pension ages. Members will need to be informed of these changes.

2030: RPI reform and switch to CPIH

The Government proposal that RPI be replaced by CPIH in 2030 is expected to go ahead, following a failed judicial review of the proposal by a number of large pension schemes.

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