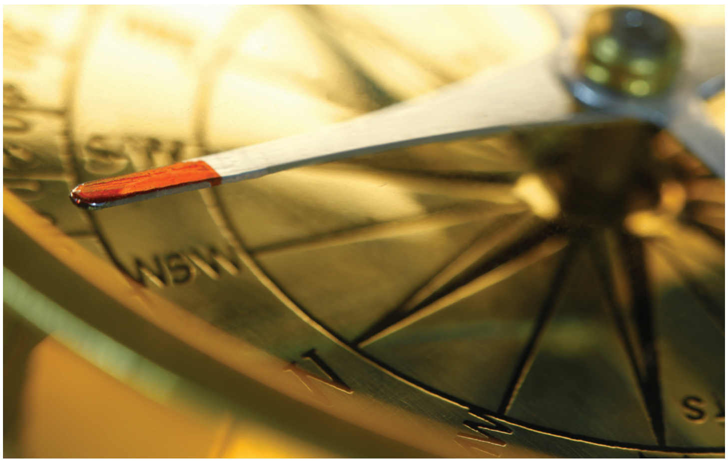
Sackers

DC briefing

August 2017

Highlighting the latest developments in DC for trustees, employers and providers



Keeping busy…

There was a collective sigh of relief when it became clear that there would be no new Pensions Bill in the Queen's Speech this Summer. However, there won't be much rest for the DC world over the next few months, given the number of projects that are already in train. In this DC briefing our DC tracker sets out some key dates to be aware of and acts as a helpful reminder for you.

Meanwhile, in our day-to-day practice we have seen an increasing number of schemes moving their DC assets (both within and outside their schemes). This can generate many legal questions, which it is important to address. We are also seeing further interest in reviewing retirement options, alongside the development of new products and services in the DC marketplace. These all require trustees and employers to address two fundamental legal requirements: the need to consider value / cost transparency, and also the need for good scheme governance. With many schemes facing these kinds of issues, please keep watching this space for further notes and briefings from Sackers over the next few months…

Existing master trusts – new obligations

The Pension Schemes Act 2017 will require existing master trusts to apply for authorisation from TPR or if not, to be wound up. These requirements are expected to come into force in the autumn of 2018. The details have yet to be set out in regulations which will be published for consultation in the next few months, so there is currently a period of uncertainty about what such schemes will have to do and how much it will cost them to become compliant.

Meanwhile, to provide members with a more immediate form of protection, transitional arrangements are now in force (and apply retrospectively from 20 October 2016). These affect non-associated multi-employer schemes, including DB schemes that hold money purchase AVCs, as well as typical auto-enrolment DC master trusts.

Affected schemes must report the occurrence of certain "triggering events" to TPR within 7 days. For example, when a scheme funder (broadly, a person who is liable to provide funds to or receive the profits of the scheme) has an insolvency event or becomes unlikely to continue as a going concern. Until the event is resolved, schemes must not:

- increase charges on / in respect of members
- impose new charges on / in respect of members
- impose charges on / in respect of members as a consequence of their leaving / deciding to leave the scheme.

According to its guidance, TPR expects trustees to notify both participating and prospective employers and members that the scheme has experienced a triggering event and to advise them of "key dates and milestones" in the project plan, particularly if they are required to take certain actions or decisions.

As this is uncharted territory, we recommend speaking to Sackers if you operate a non-associated multi-employer scheme with any DC benefits to find out what steps you should be taking.

DC tracker

Keeping up to date on the progress of new measures is always challenging and never more so than in the current political environment. This quick reference guide shows what is in force now and what is yet to come.

In force April 2017

- Pensions Advice Allowance
- New rules on transfers to overseas QROPS (25% tax charge in some cases)
- Lifetime ISAs open for saving

On the horizon

- 2017 – Government due to review the level and composition of the default fund charge cap
- Q3 2017 – Investment Association due to publish final proposals on the standardisation of disclosure for charges and transaction costs
- Autumn 2017 – New Finance Bill to:[1]
  - provide for the money purchase annual allowance for the tax year 2017/18 onwards to be reduced to £4,000
  - introduce a new exemption from income tax for up to £500 of employer-arranged pension advice in any tax year
- Sept 2017 onwards – Guidance to support TPR's 21st century trustee education initiative (also consultation with The Professional Trustee Standards Working Group on "fit and proper" protocols for professional trustees)
- Sept 2017 onwards – New factsheet from TPR/FCA for employers and trustees to help employees on financial matters[2]
- 1 October 2017 – Cap on early exit charges and ban on member borne commission for pre-6 April 2016 contracts in force
- End of 2017 – Results of PQM consultation on future standards for DC pension provision and outcome of Government's review of automatic enrolment
- 6 April 2018 – First scheduled increase to minimum contributions for DC auto-enrolment schemes (postponed from 1 October 2017)
- 25 May 2018 – General Data Protection Regulation comes into force
- October 2018 – new authorisation regime for master trusts in force under the Pension Schemes Act 2017
- Autumn 2018 – New Financial Guidance and Claims body due to be established
- 2019 – Pensions dashboard (Prototype project is underway)

Awaited

Following calls for evidence in December 2016, action / further action in relation to:

- pension scams, including a ban on cold calling in relation to pensions and limiting pension scheme members' statutory right to transfer
- bulk transfer of DC pensions without consent.

1 Both measures were withdrawn from what became the Finance Act 2017 (when the General Election was called) and both are intended to come into force, retrospectively, with effect from 6 April 2017

2 Following recommendations from the Financial Advice Market Review report in March 2016

Spotlight: Value for members ("vfm")

What have we learnt from the first set of vfm assessments for occupational and contract-based schemes?

Vfm framework

First, schemes establish a vfm framework and identify relevant factors that underpin it.

There is currently no common approach, but the schemes and IGCs we work with believe that the following general factors contribute most towards the quality of member outcomes:

- contribution levels
- the quality of the investment solutions provided and their performance
- appropriate member choices on how and when to access benefits

Beyond this, detailed underlying factors and their weightings vary considerably from scheme to scheme (or provider to provider, in the case of IGCs).

Voice of the member

A vfm assessment should consider what value looks like from the member perspective. Despite trustee and IGCs' best efforts, it has been difficult to obtain this information to date.

11 IGCs (whose providers represent over 95% of the active GPPP market) recently embarked on an extensive research programme (undertaken by NMG Consulting and co-ordinated by Sackers). The aim was to develop a common understanding of what members see as important when it comes to assessing value, and why.

Key findings:

- **Perceptions of what vfm means focus on "good returns":** however, for members this means achieving a good outcome at retirement, rather than good investment performance.
- **Members want their pensions to be secure:** their confidence has been dented by bad press and DB scandals. They do not distinguish between DB and DC risks.
- **Charges levels are not a priority provided they are in line with market average:** partly because of low understanding but, interestingly, partly as the quality of the overall pensions experience is considered more important.
- **Education is critical:** once members understand how a good outcome at retirement can be achieved they place more emphasis on support and engagement.

Getting the message to members

As education is key, how can trustees and employers improve member understanding?

- Joining materials – Are they simple and easy to understand? Can they be accessed through a variety of media? Are benefits made clear and outcomes made real? What human involvement is there? Can members ask questions and consolidate their thinking?
- Savings stage – Do members receive regular information and updates? Are communications timely and accessible? How easy is it for members to change their contributions and review their progress against their savings goals? Do communications contain projections that focus on the end "pot" and what this will actually mean in retirement?
- Drawing benefits – What tools are there to aid decision making? Do you make the risks and implications of each benefit option clear? What access does the member have to guidance and advice?

There are lots of tools available to help assess vfm which can be a good source of support. However, the final decision on vfm must ultimately be for the trustees (and IGCs) themselves to make. Keeping good records and governance over that decision is very important from a legal perspective.

Sackers

Contact

Sackers is the leading specialist law firm for pension scheme trustees, employers and providers. Over 50 lawyers focus on pensions and retirement savings, including our DC experts who provide practical and specialist help on all aspects of DC arrangements. For more information on any of the articles in this briefing, please get in touch with Helen Ball, Jacqui Reid or your usual Sackers' contact.

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Upcoming seminars & events

We offer an extensive programme of workshops, seminars and trustee training specifically on DC issues and developments. If you would like to attend any of our events, please contact us at events@sackers.com or visit www.sackers.com.

DC annual legal update	21/09/17	Breakfast seminar (9:00am-10:30am) Aimed at everyone involved with running or managing DC arrangements, this seminar will focus on recent legal developments in DC, as well as considering the wider financial services perspective and the role of employer and member communications
Pensions for new trustees	10/11/17	Workshop (9:00am-3:30pm) Aimed at new trustees or those wanting a refresher on DB and DC benefits, this interactive session will look at key issues for trustees
Getting ready for GDPR	12/10/17	Breakfast seminar (9:00am-10:30am) Practical tips to help you deal with the General Data Protection Regulation (GDPR) which comes into force in May 2018
Quarterly legal update	09/11/17	Breakfast seminar (9:00am-10:30am) The latest legal and regulatory developments in pensions and retirement savings

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