Sackers

DC briefing

October 2019

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

Great Expectations….

Every few years the Government presents us with a new Pensions Act, capturing the big issues of the day. This year we were expecting a Pensions Bill to land in May, but it remains at the mercy of external Brexit-related forces. Should there be some form of resolution in the next month, it is still possible we will see the Bill before the end of the year. Speaking at the Conservative Party conference, Guy Opperman confirmed that it is "completely ready and good to go" and will cover, amongst other things, CDC, new rules on pensions dashboards and proposals to increase TPR's powers.

Bill or no Bill, there are still many issues for DC schemes to grapple with over the next few months. In this briefing we identify what else is on the horizon, such as the new SIP requirements and the review of the default charge cap, and encourage schemes to act now to get their data in order in preparation for the new dashboards.

Finally, our spotlight section looks at the practical issues some of our clients have been considering lately on the question of moving to a master trust – both for transfers out and "bolt-on" retirement options. Brexit may be paralysing Parliament, but it's business as usual for DC schemes.

Is your data Dashboard ready?

Pensions dashboards are intended to enable individuals to securely access their pensions information online, all in one place and at a time of their choosing, with the aim of supporting better planning for retirement.

However, the success of the dashboards will rest on the quality of the data they contain, as pointed out in TPR's corporate plan. As noted above, the legal framework to set up pensions dashboards will be included in the Pensions Bill but, due to political delay, the launch date is not yet certain. Meanwhile, TPR has made clear its intention to review record keeping in schemes, so trustees should take the opportunity to get their data in order.

Dashboards aside, TPR expects trustees to carry out a data review exercise **at least annually**, working with their administrator as necessary. Where gaps in the scheme's data are identified, TPR expects trustees to put plans in place to complete the scheme's records as soon as possible and to document those plans and the progress made towards their completion.

Trustees should therefore ensure that:

- they undertake an annual data review, putting in place an improvement plan to complete the missing data and to ensure it is correct
- the scheme administrator operates appropriate systems and controls to monitor, report, and deal with errors
- their member data is secure.

Collective defined contribution (CDC)

The general idea behind CDC is to create large scale DC schemes. The collective nature of a CDC scheme, and the way it adjusts the level of pensions and prospective pensions, should mean that the overall membership will enjoy an element of cushioning from volatility, as investment risk is adjusted for over time and longevity risk is pooled across the membership. And because the fund is administered and managed on a collective basis, there is no need for members to make tricky choices about investments or difficult decisions about converting funds into an income stream at retirement. However, the downside is that the pension is based on a targeted (as opposed to a guaranteed) level of benefits, so pensions in payment and prospective pensions can be reduced to keep in line with the available scheme assets.

In March this year, the DWP published its response to a consultation on CDC. It committed to legislate for a model of CDC involving single or associated employers, as proposed by Royal Mail and the Communication Workers Union.

The DWP was impressed by the "genuine, strong appetite for CDC benefit provision in the UK" and intends the new law to be drafted in a way that can be rolled out more widely. It may, for example, be attractive to certain retirement only vehicles and DC master trusts. If CDC does take off, it could also provide an interesting factor for employers to consider when choosing what kind of arrangement to offer their employees.

As noted above, measures to implement CDC will be included in the long-awaited Pensions Bill.

What's on the horizon?

	Measure
By 1 October 2019	First set of new SIP requirements come into force (financially material considerations and stewardship); SIP must be published, free of charge, on a publicly available website.
By late 2019	Pensions Bill including measures to implement CDC and the pension dashboards.
2020	• Next review of 0.75% default charge cap due. • Next review of automatic enrolment due.
By 1 October 2020	Second set of SIP requirements (extended stewardship) and requirement for DC "implementation statements" come into force.
By 1 October 2021	Information on how the extended stewardship requirements have been implemented must be published online.
Awaited	• A response to the DWP's consultation on the consideration of illiquid assets and the development of scale in occupational DC schemes. • Measures to limit the scope of statutory transfers, with a view to protecting members' pension savings from scams.

For details of the SIP changes, please see our Finance & investment Briefing for Q3 2019.

Spotlight: Moving to a master trust

In 2012, there were 270,000 members in a master trust. In 2019, there are nearly 14 million. This demonstrates just how quickly master trusts are growing and attracting new business. We can see from our own work with employers and trustees that many of you are considering whether to transfer members to such an arrangement, or whether to add this option at retirement to increase member choice.

Each master trust is different and the factors driving an employer and trustees towards them are not always the same. However, there are some common themes coming through the discussions we have seen in practice.

For transfer proposals

1. **Type of master trust**

   Is it targeted at standard auto-enrolment requirements or is it a tailored offering?

2. **Choice**

   What investment and retirement options does it offer members?

3. **Costs**

   Will future administration and transition costs fall on members, and could these be increased?

4. **Transferring trustees**

   Who has the power to transfer out existing funds into the master trust and at what stage will they be involved?

5. **Oversight**

   Who will check whether the master trust is meeting expectations and who will they report to?

6. **Exit**

   How difficult will it be for the employer to switch provider in the future?

For retirement proposals

1. **Enhancement**

   What does this provide that is not available already from the existing scheme?

2. **Fit**

   How will the master trust structure “bolt on” seamlessly and dovetail with existing scheme design?

3. **Communications**

   Who will be responsible for these and how will they fit alongside existing scheme communications?

4. **Responsibility**

   Will the trustees have to manage the relationship with the master trust or will the employer?

5. **Review**

   Will the new retirement option become part of a wider review around investment strategy, such as the triennial review of the default arrangement?

6. **Feedback**

   How will the trustees measure the success or value of the new retirement option?

Don’t forget

There are many legal issues to consider when looking at master trust proposals, and quite a few potential pitfalls to avoid. It is usual for employers and trustees to work together on such projects and to take advice over important decisions.

If you have any queries about such projects, please get in touch with your usual Sackers contact for further information.

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Contact

Sackers is the leading specialist law firm for pension scheme trustees, employers and providers. Over 60 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, Claire van Rees or your usual Sackers contact.

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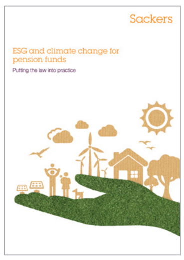
Upcoming seminars & events

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.

Pensions for new trustees	24/10/19	All day workshop (9:00am-3:30pm) Aimed at new trustees or those wanting a refresher on DB or DC benefits, this session will look at key legal issues for trustees
Quarterly legal update	07/11/19	Breakfast seminar (9:00am-10:30am) The latest legal and regulatory developments in the pensions world
Quarterly legal update	06/02/20	Breakfast seminar (9:00am-10:30am) The latest legal and regulatory developments in the pensions world



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