Master trust agenda

Q3 2021

Sackers

This quarterly bulletin sets out current and future developments affecting master trusts, so you can check what should be on your agenda.

Current issues	Action / Comment
Climate risk Trustees will be required to: • meet climate change governance requirements which underpin the Taskforce on Climate-related Financial Disclosures recommendations and to produce and publish (on a publicly available website) a report on how they have done so ("the Report") • inform members via their annual benefit statement that the Report has been published and where it can be located • provide TPR, via the scheme return, with the website address(es) for their most recent Report, their SIP, implementation statement and relevant excerpts of the Chair's annual statement. TPR is consulting on related guidance and changes to its monetary penalty policy.	Comment: authorised master trusts will be required to comply with the governance requirements from 1 October 2021 and to produce their Report within 7 months of their scheme year end date. Action: preparations should be well underway. In particular, ensure any training the trustee board needs to able to understand the outputs of activities such as scenario analysis and calculating emissions-based metrics, and to incorporate them into their new climate change risk management processes has been received.
Implementation statements • Since 1 October 2020 trustees of master trusts have been required to produce an implementation report (as part of their annual report) which explains how the principles set out in the SIP have been followed during the preceding scheme year. The statement must be made publicly available, free of charge, on a website. • Transitional provisions require the first year's information in relation to voting behaviour/proxy votes and the extended definitions of "relevant persons" and "relevant matters" to be published online by 1 October 2021. (See our FIG briefing.)	Action: write the SIP with a view to producing the implementation statement. Action: engage with asset managers and investment consultants early to agree parameters for the information and to ensure it will be available in good time.
Transfers / Scams • The DWP has consulted on draft regulations which will introduce new conditions restricting the statutory right to transfer. (See our response.) They are due into force in autumn 2021. • Although the Government rejected the recommendation that the forthcoming Online Safety Bill tackle online fraud facilitated through paid-for advertising, it plans to consult on online advertising regulation later in the year.	Action: prepare for changes to your process for transfers out.
Increase to normal minimum pension age ("NMPA") • The Government has published a consultation on draft clauses for the Finance Bill 2021-2022. These cover the tax implications of upcoming increases in NMPA. The consultation closes on 14 September 2021. • NMPA will rise from age 55 to 57 from 6 April 2028. However, pensions may be paid from an earlier age (without additional tax charges arising) because of ill-health, or if a member has a "protected pension age" ("PPA"). A new protection regime will therefore be introduced. • The draft legislation gives individuals until 5 April 2023 to join a scheme whose rules, as at 11 February 2021, conferred an unqualified right to take pension benefits below age 57, and provides some protection for PPAs to be retained on a block transfer. But, it appears this will only work for transfers which take place after 5 April 2023. • Current PPAs of less than 50 or 55 will not be affected. (See our Alert.)	Action: liaise with your legal advisers to determine whether your scheme will confer a PPA on its members when the change to NMPA comes into force, and to understand the potential impact on scheme administration and member experience. Action: consider responding to the consultation to emphasise the potential impact of the proposals on master trusts, particularly in relation to managing transfers-in and winning new business. The current legislation does not appear to work well for block transfers before 6 April 2023 to master trusts that do not have a PPA. Action: once the legislation is finalised, consider what rule amendments may be needed to give effect to block transfer PPA protection.

Current issues cont.

Action / Comment

Simpler annual statement

- The DWP has consulted on proposals for new requirements as to the length and format of annual benefit statements provided by DC auto-enrolment schemes.
- Subject to accessibility considerations, the new style benefit statement must not exceed one double-sided sheet of A4 paper. An illustrative template is provided.
- The requirements will apply to statements issued on or after 6 April 2022. We consider this timetable ambitious. (See our response.)

Action: prepare to make the necessary changes to your benefit statements from 6 April 2022.

Supervision

- Supervisory returns must be submitted to TPR within three months of the scheme year end.

Action: ensure that, so far as possible, your governance framework enables the necessary information to be identified during the year.

Action: as you undertake various projects, consider keeping examples of relevant case studies in mind for your responses. In our experience, this makes completion of the return easier.

Single code

- TPR is in the process of transposing all of its codes of practice into one single code.
- The proposed single code contains greater detail on several topics, such as cyber security, and new modules on matters including stewardship and climate change, as well as detail of how trustees should establish and operate "an effective system of governance, including internal controls" (an "ESOG") and carry out and document an "own risk assessment" ("ORA").
- While authorised master trusts are exempt from the requirement for an ESOG (and therefore an ORA), much of the rest of the code will apply. For example, all aspects relating to legal requirements for DC schemes and best practice governance more generally.
- TPR doesn't expect to lay the final code in Parliament before spring 2022.

Action: although the new requirements on ESOGs and ORAs do not technically apply to master trusts, we nonetheless recommend that you carry out a brief cross check against the ESOG/ORA requirements in the code to make sure there are no glaring omissions in your current practices. (In our view, master trusts are only exempt because they should already be carrying out equivalent activities through the master trust authorisation/ supervision regime and so TPR will therefore still expect to see them.)

Action: cross-check your current systems and processes generally against the other sections of draft code (where relevant to DC) once the code is in final form and consider whether and how to address any gaps or discrepancies.

Ongoing issues

Action / Comment

Stewardship

- The DWP, the Investment Association and the PLSA are all working to improve trustees' stewardship.
- Becoming a signatory to the UK Stewardship Code 2020 is a useful demonstration of a scheme's commitment to responsible investment. (See our FIG briefing for details.)

Action: consider whether to sign-up to the Code.

Longer term issues

Action / Comment

Stronger nudge to pensions guidance

- The DWP is consulting on proposed regulations which will require trustees and managers to "deliver a Stronger Nudge" to pensions guidance when individuals seek to access, or transfer for the purpose of accessing, the pension flexibilities. The consultation closes on 3 September 2021.
- The changes may come into force from 6 April 2022.

Comment: note that changes to disclosure are on the way and may need to be quickly assimilated.

Call for evidence on the case for greater consolidation

In a recent call for evidence, the DWP sought views on how to accelerate the pace of consolidation for schemes under £100 million and looked ahead to the "second phase of consolidation for medium to large schemes" (ie schemes with assets between £100 million and £5 billion). (See our response.)

Comment: this second phase could result in the contraction of the current master trust market.

Longer term issues cont.

Action / Comment

New value assessment

- Subject to certain exceptions, from their first scheme year ending after 31 December 2021 trustees of DC / hybrid schemes with less than £100 million in total assets will be required to undertake a "more holistic" annual value assessment and report on it in their chair's statement and scheme return. Unless improvements can be made rapidly and cost-effectively, the Government will expect those schemes which do not demonstrate value for members to be wound up and consolidated.
- Following consultation, the DWP has amended the regulations so that a scheme that would ordinarily have been in scope of the new assessment will be exempt if it has informed TPR, at any time before the next chair's statement is due, that it is in the process of winding up.

Comment: as intended, this measure should accelerate consolidation of the DC market.

Comment: we expect many schemes in scope will choose to trigger wind-up before the first new style statement falls due.

Solutions for small pots

- The PLSA and ABI have formed the Small Pots Co-ordination Group to take forward the recommendations of the DWP chaired Small Pension Pots Working Group. (See our Hot topic for details.)
- The Group intends to publish a progress report in the summer.

Action: if your provider is participating in the co-ordination group, consider receiving regular updates on progress.

Action: consider working with your provider to determine the extent to which member data can be matched and disclosed to members in a single format and the extent to which automated transfers could be facilitated from a practical perspective.

Default fund charge cap

- The DWP has consulted on the implementation of a de minimis pot size (initially to be set at £100), below which flat fees will be not permitted to be charged in default funds. It also sought views on a proposal to move to a single, permitted universal charging structure for use within the default fund of DC auto-enrolment schemes.
- Changes to the cap to allow schemes to smooth performance fees over five years will come into force on 1 October 2021.
- The new de minimis is expected to be introduced in April 2022.

Action: liaise with your investment consultants and fund managers to understand the potential impact on your default funds.

Action: consider with your provider how this government initiative will work alongside small pots consolidation and changes to the NMPA. There are a number of challenges in making these initiatives work together.

Pensions dashboards

- On 27 May 2021, the PDP published a call for input and accompanying blog post on staging proposals. (See our response.)
- There will be a consultation on proposed regulations later this year, with Parliamentary debate scheduled for 2022. Delivery remains on track for 2023.

Action: where possible, ensure that full and accurate data can be provided as part of this initiative.

CDC

- The PSA21 will introduce a framework for "collective money purchase schemes", with a regulatory regime closely resembling that already in place for master trusts.
- The DWP is consulting on draft regulations which set out the underlying detail.
- The draft regulations are designed to enable the launch of single or connected multi-employer CMP schemes, and to accommodate the CMP scheme that Royal Mail and the Communication Workers Union aim to deliver.
- The Government plans to "turn [its] attention to the growing demand for…other types of provision" in due course, although further legislation will be needed to allow for this through master trusts.

Action: in practice, it may be that CDC is more likely to be of interest for master trusts in relation to decumulation.

Pensions tax

- We are awaiting HMT's response to a call for evidence on the operation of the main methods of administering pensions tax relief (net pay and relief at source).

Action: some employers have a preference for providers that offer both types of tax relief, is this a possibility for your master trust? There are some possible workarounds here, please ask us for more details.