Master trust agenda

Q4 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
Transfers / Scams • On 8 November 2021, regulations designed to protect savers against pension scams were laid before Parliament, alongside new TPR guidance to help guide trustees, pension managers and administrators through the new requirements. • The regulations will introduce new conditions restricting the statutory right to transfer for both occupational and personal pension schemes. • Under the new measures, transfers to certain types of scheme (including authorised master trusts) can go ahead with minimal extra due diligence.	• The regulations come into force on 30 November 2021 and apply to transfers initiated on and from that date. • Liaise with your provider/oversee your provider's review and update of transfer processes and member communications before the new requirements come into force.
Climate risk Trustees are 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 consulted on related guidance and changes to its monetary penalty policy. Final guidance is expected to be published shortly. • The DWP is consulting on proposals which would require master trusts and other schemes in scope of the climate change governance and reporting requirements to measure and report on the "Paris alignment" of their investment portfolios on and from 1 October 2022. The consultation closes on 6 January 2022.	• Authorised master trusts have been subject to the governance requirements since 1 October 2021 and must produce their Report within 7 months of their scheme year end date. • Consider responding to the consultation on measuring and reporting on Paris alignment.
Simpler annual statement • The DWP has published its response to the consultation and final regulations to introduce simpler annual statements for members of DC auto-enrolment schemes. • Subject to accessibility considerations, the new style statement must not exceed one double-sided sheet of A4 paper when printed. • Trustees / managers will be required to have regard to statutory guidance concerning the content and layout of the Statements. An illustrative template is provided. • Responding to feedback, the effective date for the changes has been pushed back from 1 April to 1 October 2022. • At the PLSA Annual Conference 2021, Guy Opperman confirmed that he intends to legislate for a statement season as he believes this will maximise the impact of simpler statements and stimulate greater debate among the public. A cross-sector working group has been formed to identify workable options for its introduction.	• Work with your provider as it prepares to make the necessary changes to your benefit statements from 1 October 2022.

Current issues cont.	Action / Comment

Default fund charge cap

- On 9 November 2021, the DWP published a partial response to its consultation on permitted charges within DC schemes, confirming its intention to put in place regulations to implement a de minimis (of £100) on the charging of flat fees as part of a combination charge from April 2022. A response to its proposal to move to a single, permitted universal charging structure will follow.
- Changes to the cap to allow schemes to smooth performance fees over five years came into force on 1 October 2021.
- In the Autumn Budget, the Chancellor announced that there will be a further consultation on changes to the charge cap "before the end of the year". The consultation will specifically consider amendments to the scope of the cap to "better accommodate well-designed performance fees and enable investments into the UK's most productive assets", enabling savers to "benefit from better growth in their long-term investments" while continuing to protect them.

Action / Comment

- Liaise with your investment consultants and fund managers to understand the potential impact on your default funds.
- 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.

Increase to normal minimum pension age ("NMPA")

- NMPA is the earliest age at which a member's pension benefits can be taken under a registered pension scheme without higher tax charges applying, except in cases of ill-health or where the member has a "protected pension age" ("PPA").
- The Finance Bill 2021-2022 includes measures to increase NMPA from age 55 to 57 from 6 April 2028 and to introduce a new protection regime.
- The consultation proposed to give individuals until 6 April 2023 to join a scheme whose rules would confer a PPA, However, the Bill only provides protection to those who have joined, or were in the process of joining, a scheme with a PPA before 4 November 2021.
- Current PPAs of less than 50 or 55 will not be affected.

Action / Comment

- 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.
- Once the legislation is finalised, consider what rule amendments may be needed to give effect to PPA protections.

Supervision

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

Action / Comment

- Ensure that, so far as possible, your governance framework enables the necessary information to be identified during the year.
- 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. A consultation on the first draft closed on 26 May.
- 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 draft code will apply. For example, aspects relating to legal requirements for DC schemes and best practice governance.
- In an interim response to the consultation, TPR stated that it does not expect to lay the code in Parliament before spring 2022 and it is therefore "unlikely to become effective before summer 2022".

Action / Comment

- 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.)
- 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
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. • On 21 October 2021, the DWP issued a consultation to seek views on proposed new guidance in relation to SIPs and implementation statements.	• Write the SIP with a view to producing the implementation statement. • Engage with asset managers and investment consultants early to agree parameters for the information and to ensure it will be available in good time.
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.) • As noted above, on 21 October 2021, the DWP issued a consultation to seek views on proposed new guidance in relation to SIPs and implementation statements. One of the aims of this new guidance is to improve trustees' stewardship.	• Consider whether to sign-up to the Code.

For information	Action / Comment
Stronger nudge to pensions guidance • The DWP has consulted on draft 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 changes may come into force from 6 April 2022.	• 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.)	• This second phase could result in the contraction of the current master trust market.
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 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.	• As intended, this measure should accelerate consolidation of the DC market. • 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 pulished an "initial update" report in September 2021.	• If your provider is participating in the co-ordination group, consider receiving regular updates on progress. • 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.

For information cont.	Action / Comment
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.	• 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 has consulted on draft regulations which set out the underlying detail. We understand the final regulations will be published in December 2021. • 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. Guy Opperman has confirmed that there will not be regulations for multi-employer CDC schemes before Summer 2022.	• In practice, it may be that CDC is more likely to be of interest for master trusts in relation to decumulation.
Pensions tax • In the Autumn Budget, the Government announced that it intends to introduce a system to make top-up payments (in respect of contributions made from 2024-25 onwards) directly to low-earning individuals who save into a pension scheme using a Net Pay arrangement. Details of the proposals are set out in its response to the HMT's call for evidence on the operation of the main methods of administering pensions tax relief (net pay and relief at source).	• 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.