Master trust agenda

Q1 2022

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
Pensions dashboards • The DWP is seeking views on a range of policy areas relating to the creation of pensions dashboards. • The requirements will be phased in from April 2023, starting with the largest pension schemes, including DC master trusts. • It is not clear where liability is expected to fall if, for example, the data supplied to the dashboard is incorrect, or exploited by scammers. We expect this to be addressed by the PDP's liability model which is due to be published for discussion this summer. • PASA has published guidance on data matching conventions which is intended to help schemes to choose how they wish to compare "find requests" from dashboard users against their member records.	• Consider whether data cleansing for the master trust is needed before April 2023 to get ready. • Liaise with your provider (and/or external administrator) to understand key practical issues with how data will plug in to the dashboard and how your master trust fits into your provider's dashboard plans. • Consider what contractual documents and processes with your provider (and/or external administrator) will need to be amended. For many master trusts this will involve much more than amending a single administration agreement with your provider. Agree a plan and onboarding process with your provider/administrator for doing this. • Consider how the dashboards will fit alongside your provider's or external administrator's existing apps /member portals. Data shown there is likely to be different in functionality to dashboard data and could also produce different numbers. • Consider responding to the consultation (which closes on 13 March 2022). The DWP is keen to hear from interested parties to understand what is workable.
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. This is causing considerable headaches in the industry as providers think about unclear wording in rules/booklets etc, how they partition benefits for transferred in PPA55 pensions, how they check previous transfers have a PPA of 55 and how far back they go, how flexible retirement will operate and be communicated to members and much more.	• Liaise with your provider to understand the potential impact of the changes to your master trust and take advice from us on the knotty issues. There are lots of them. • Once the legislation is finalised, consider what rule amendments may be needed to give effect to PPA protections and to implement the new NMPA. There are a variety of approaches you could take here, so please ask us for advice.
Stronger nudge to pensions guidance • The DWP has published its response to the July 2021 consultation, together with final regulations, on proposals to implement a "Stronger Nudge" to pensions guidance. • The regulations come into force on 1 June 2022, not 1 April as originally proposed. This aligns their timing with that of the similar changes being introduced by the FCA in respect of contract-based schemes. • Subject to certain exceptions, trustees of occupational pension schemes will be required to deliver a Stronger Nudge to guidance in relation to applications (or communications in relation to applications) to transfer or start receiving "flexible benefits" (broadly DC) which are received on or after 1 June 2022. • There are several steps to providing the Stronger Nudge. For example, the trustees must facilitate the booking of a Pension Wise appointment as part of the benefit application process.	Trust-based schemes have a little longer than expected to adjust their systems, but timing remains tight. However, many master trust providers/administrators are already addressing Stronger Nudge guidance for their contract-based arrangements. You should liaise with your provider/ administrator as soon as possible to ensure: • this is in scope within existing administration arrangements and there will be no additional costs to members • that the revised process is compliant with the regulations (some differences between the FCA and DWP regimes remain) • that it is clear that the Stronger Nudge steps are being delivered on behalf of the trustees (as opposed to the provider) • appropriate arrangements are in place in respect of the master trust, which recognise the master trust trustees' obligations where the provider delegates administration services to third parties.

Current issues cont.	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 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 came into force on 30 November 2021 and apply to transfers initiated on and from that date. • Ask your provider/administrator to confirm the extent to which they are compliant with the new requirements, particularly where this has required building in changes to automated systems. • Ensure that you have appropriate delegation and oversight of the processes to be confident that, as trustees, you are meeting your responsibilities under the legislation. Without oversight, the volume of transfers out could create a significant risk for reinstatement of members' benefits down the line. We are helping a number of our clients review the providers' stated process.
Chair's statements • For the first scheme year ending after 1 October 2021, trustees must report the net investment returns for their default(s) and self-selected funds and updated guidance on costs and charges illustrations applies. • 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 ("Smaller Schemes") 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. • The new assessment requires costs, charges and net investment returns to be assessed relatively against three comparison schemes and we expect master trusts to be the obvious choice for these comparison schemes.	• Meeting the requirement to report net returns is complicated. Ensure you approach your advisers for this information in good time. • You should expect and be prepared for trustees of Smaller Schemes to approach you for information to use in their relative assessment of costs, charges and net returns.

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 has published the final version of its guidance on governance and reporting of climate-related risks and opportunities.
• New FCA rules for enhancing climate-related disclosures by asset managers are being phased in from 1 January 2022.
• The DWP has consulted 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.
	• 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. For schemes with a year end of 31 December, the first report is due by 31 July 2022 so drafting should be underway. Seek legal input to ensure all the disclosure requirements have been satisfied.
	• TCFD compliance is an ongoing annual requirement, so the second year of the requirements applying may have already begun.
	• It is important to formulate a plan with your provider/external administrator to ensure all requirements that must be met during the scheme year (eg carrying out scenario analysis) are satisfied within the relevant scheme year and not left to when the report is being prepared.
	• Seek advice on what constitutes your "popular DC arrangements" as certain requirements apply to each such arrangement separately.
	• Liaise with your platform provider/investment managers early to understand what data is available in relation to metrics and targets and scenario analysis.

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.	• As the annual statement is issued by your provider/external administrator on your behalf, ensure appropriate sign off processes are in place for your master trust as your provider prepares to make the necessary changes to its benefit statements from 1 October 2022, especially if your providers/external administrators' updates are part of a much wider project for its contract-based book.

Current issues cont.	Action / Comment
Default fund charge cap • Regulations on the de minimis pot size for the imposition of the flat fee element of the combination charge will come into force on 6 April 2022. • Changes to the cap to allow schemes to smooth performance fees over five years came into force on 1 October 2021. • The DWP has consulted on adding certain “well-designed performance fees” to the list of charges excluded from the default fund charge cap. They propose removing the smoothing mechanism (see above) if this change is implemented.	• Liaise with your investment consultants and fund managers to ensure appropriate reporting and monitoring is in place and all relevant funds caught by these changes are compliant.
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 2021. • 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” (an “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. • TPR does not expect to lay the code in Parliament before spring 2022 and it is therefore “unlikely to become effective before summer 2022”.	• 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 the 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
Supervision • Supervisory returns must be submitted to TPR within three months of the scheme year end.	• 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.
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
Call for evidence on the case for greater consolidation • The DWP has 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.
Solutions for small pots • The Small Pots Co-ordination Group was formed to take forward the recommendations of the DWP chaired Small Pension Pots Working Group. (See our Hot topic for details.) • The Group published 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.
CDC • The Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations were published in December 2021. • TPR has issued a consultation on a new code of practice for the authorisation and supervision of CDC schemes. • The 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.