Master trust agenda

Q2 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

Pensions dashboards

- The DWP has consulted on a range of policy areas relating to the creation of pensions dashboards. A response is due this summer.
- Following the DWP's response, the PDP will issue a consultation on the draft standards for dashboards. The standards will supply detailed technical guidance about what data will be on dashboards.
- The requirements are due to be phased in from April 2023, starting with the largest pension schemes, including DC master trusts.
- At the PASA Annual Conference, David Fairs, executive director of regulatory policy at TPR, urged trustees to include dashboards on their agendas and get the appropriate conversations going with administrators.
- Initial guidance to help trustees to meet their dashboards duties is expected from TPR and it intends to contact larger schemes at least 12 months ahead of their staging date.

Action / Comment

- 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. 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.

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 Act 2022 includes measures to increase NMPA from age 55 to 57 from 6 April 2028 and to introduce a new protection regime. Guidance is promised from HMRC, including as to transitional provisions, but with no date as yet.

Action / Comment

- 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.
- Consider what rule amendments may be needed to give effect to PPA protections and to implement the new NMPA and when you want to make them. There are a variety of approaches you could take here, so please ask us for advice.

Joint FCA/TPR statement on value for money

- Following their September 2021 discussion paper, on 24 May 2022, the FCA and TPR issued a joint statement which confirms that they intend to develop common measurements for value for money ("VfM") which will span trust and contract arrangements and require trustees and providers to disclose data on investment performance and service, as well as on costs and charges, in a consistent and standardised format.
- The FCA and TPR both recognise that creating a framework for VfM data disclosure will be complicated, but essential to enable meaningful comparisons to be made. They therefore intend to take time to work through some of the more detailed issues, including whether or not to require a benchmark for costs and charges.
- Engagement with industry and consumer groups will continue in the coming months with TPR, the FCA and the DWP aiming to publish a consultation setting out proposals towards the end of 2022.

Action / Comment

- Start to liaise with your provider / administrator / VfM adviser to consider how your VfM assessment in the future might encompass both trust and contract-based pension provision. Keep a watching brief on what data might need to be disclosed by your master trust.
- Although final legislation on this is still some way off, holistic assessments of VfM across a range of factors are a clear direction of travel for both regulators and it is likely that master trusts will need to be early adopters. Early planning is essential as comparing qualitative and quantitive factors in a meaningful way is complex.

Stronger nudge to pensions guidance

- The regulations which implement the "Stronger Nudge" to pensions guidance came into force on 1 June 2022, alongside similar FCA changes for contract-based schemes.
- Subject to certain exceptions, trustees of occupational pension schemes must 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.

Action / Comment

- You should already have liaised with your provider / administrator 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 regime remain)

Current issues cont.	Action / Comment
• 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.	• 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 trustees' obligations where the provider delegates administration services to third parties.
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") are 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 expects 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.
• We are still waiting for the DWP's response to its consultation 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 well 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.

Facilitating investment in illiquid assets
• With the aim of improving the accessibility of illiquid assets for DC pension scheme investment, the DWP has consulted on proposals to:
  ◦ amend the SIP requirements to ensure that DC schemes disclose and explain their policies on illiquid investments
  ◦ require DC schemes with over £100m in assets to publicly disclose and explain their default asset class allocation in their annual chair's statement
  ◦ amend the current restrictions on employer-related investments ("ERI") for authorised master trusts with 500 or more active participating employers.
• The changes to ERI are due to come into force on 1 October 2022. No timing was suggested for the other proposals.
	• Consider the impact of the proposed changes on your master trust.

Current issues cont.	Action / Comment
Simpler annual statement • With effect from 1 October 2022, trustees of DC auto-enrolment schemes will be required to issue simpler annual benefit statements to their members (excluding pensioners). • 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. • In autumn / winter 2022, there will be a co-ordinated industry campaign led by the ABI and the PLSA to boost people's understanding and engagement with their pensions. "Engagement season" is intended to complement the pensions dashboards and simpler statements.	• 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.
Default fund charge cap • Regulations on the de minimis pot size for the imposition of the flat fee element of the combination charge came 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. • Having "taken on board" the "mixed reaction" to its 2021 consultation on exempting certain performance-based fees from the charge cap, the DWP will consider how to address the concerns raised and intends to consult on principle-based draft guidance alongside any proposed consultation on draft regulations.	• 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" ("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.	• 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
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.

For information	Action / Comment
Call for evidence on the case for greater consolidation • Following its call for evidence on the case for greater consolidation, the DWP has decided not to introduce any new regulatory requirements with the sole purpose of consolidating the market in 2022.	• Ultimately the market is still expected to contract and the Government may well take steps to achieve this, just not this year.
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 published an "initial update" in September 2021 and was expected to report on consolidation solutions in May 2022.	• 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.