Master trust agenda

Q3 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 (updated) • The DWP's consultation response announced limited changes to dashboards' policy. However, the staging deadlines for the first two cohorts, large master trusts and large DC schemes used for auto-enrolment, have been deferred by two months to 31 August and 30 September 2023 respectively. • The PDP issued a consultation on the draft standards for dashboards which closed on 30 August 2022. The standards outline the mandatory requirements for dashboard providers and pension providers, detailing how operationally, technically and in practice they must meet their legislative duties. • TPR published initial guidance for schemes in June 2022, and launched its "deadline" campaign which urges trustees to take "action now" to ensure they are ready for their staging date.	• Liaise with your provider (and/or external administrator) to understand key practical issues including how data will plug in to the dashboard and how your master trust fits into your provider's wider 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. • Developments are coming thick and fast so we suggest you keep a watching brief.
Joint statement on transfer regulations (new) • Changes to the transfer regime came into force from 30 November 2021, restricting the statutory right to transfer unless certain conditions are met. • Depending on the circumstances, this includes assessing whether any red flags (heightened risk of a scam) or amber flags (potential scam) are present. A red flag stops the statutory transfer, whilst an amber flag pauses it, pending the member taking guidance from MaPS (see our Hot Topic for more detail). • On 5 July 2022, TPR and the DWP published a joint statement which acknowledged that concerns have been expressed about applying the regulations where overseas investments (any overseas investment is an amber flag) or small-scale incentives (any incentive being offered is technically a red flag) feature in the transfer. TPR has updated its guidance in light of these concerns, but the regulations themselves have not been amended. • The DWP will revisit the regulations as part of a scheduled review, which is due by the end of May 2023.	• We are seeing a number of queries from master trusts on the transfer requirements in light of the TPR/DWP joint statement, particularly around the use of incentives, overseas investments, and the impact of "clean" lists. • Master trust trustees should consider the extent to which transfers can and should be discretionary rather than statutory and agree parameters for use of the discretionary transfer route with their administrator/provider. • Whatever route is chosen, the trustee discharge and the interplay with the Origo discharge is key. Please speak to us about this to ensure the master trust trustees have appropriate protection.

Oversight of investment consultants and fiduciary management (new)
• Regulations designed to integrate into pensions law relevant aspects of the CMA Order came into force on 1 October 2022.
• The Order excluded master trusts for which an investment consultancy ("IC") and/or a fiduciary management ("FM") firm is the scheme strategist and/or the scheme funder from its requirements.
• The above exclusion from the requirement to tender for FM services continues under the regulations. However, under the regulations all master trusts are now required to:
  ◦ set objectives for their IC provider
  ◦ review and, if appropriate, revise these objectives at least every three years and without delay after any significant change in investment policy
  ◦ review the performance of each IC provider against its objectives at least every 12 months
unless the provider is a scheme trustee, or a trustee owned company.
	• Master trusts which were not required to comply with the requirements for investment consultants under the Order must have put objectives in place by 1 October 2022.
	• Where objectives were set before 1 October 2022, trustees must complete a review of those objectives within three years of the date they were first set, so a deadline may be looming.

Changes to charge cap (new) • In the "Mini Budget", the government announced that it intends to bring forward draft regulations to remove "well-designed performance fees" from the charge cap.	• Liaise with your investment consultants and fund managers to understand how this could impact your default offering.

Current issues cont.	Action / Comment
Climate risk (new) • Since 1 October 2022, trustees of occupational pension schemes with £1bn or more in relevant assets and authorised schemes (including master trusts) are now required to measure and report on the "Paris alignment" of their investment portfolios.	• Liaise with your consultants and us to ensure the measurement and reporting of this additional metric is addressed from 1 October 2022.
Easements to employer-related investment ("ERI") restrictions (new) • The DWP issued its response to a consultation which included proposals to remove certain restrictions on ERI from DC master trusts with 500 or more active employers. • With effect from 1 October 2022, the ERI restrictions no longer apply in relation to each participating employer, but instead apply in relation to the scheme funder and scheme strategist, or persons associated with or connected to them. • The amendments do not apply to smaller master trusts, as the DWP considers that the cost of monitoring ERI breaches is manageable for schemes with less than 500 active employers. It also believes such schemes carry a greater risk of an employer having undue influence on investments.	• This change is intended to enable schemes to access a broader range of investment options. Seek advice from your investment consultant about the potential impact on your current portfolio.
Increase to normal minimum pension age ("NMPA") (updated) • 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. • HMRC has updated the PTM, but guidance on transitional provisions is yet to come.	• 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.
#PensionAttention (new) • Coordinated by the ABI and the PLSA, the Pension Attention campaign is running from September to November 2022 and is the product of an unprecedented cross-industry collaboration led by 17 providers and schemes representing approximately 45 million savers and customers. • Following the passing of Her Majesty Queen Elizabeth II, as a mark of respect planned live shows have been postponed from 12-16 September to 31 October to 4 November.	• If your master trust is not already involved, consider whether to join and / or whether to run a concurrent engagement campaign to harness any momentum this generates.
Simpler annual statement • From 1 October 2022, trustees of DC AE schemes are 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.	• 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.
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 these requirements to be in place.) • Cross-check your current systems and processes generally against the other sections of the draft code (where relevant to DC) when it is in final form and consider whether and how to address any gaps or discrepancies.

Current issues cont.

Action / Comment

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.

Action / Comment:

- For any master trusts currently preparing their first chair's statement for a scheme year ending after 1 October 2021, liaise with your investment consultant and us to ensure all the required information on net returns and illustrations is provided.
- 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.

On the horizon

Action / Comment

Helping savers understand their pension choices **(new)**

- The DWP has carried out a call for evidence which explored what support members of pension schemes need to help them make informed decisions about how to use their savings.
- Separately, the DWP is considering whether CDC schemes could help it to achieve its goals. The DWP is engaging with a range of interested parties on how CDC might be extended beyond single or connected employer schemes and is also exploring how decumulation-only CDC models might work.

Action / Comment:

- As master trusts act as a key decumulation vehicle for DC pension savers, the outcome of this call for evidence and any subsequent consultations could be of vital importance to the shape of decumulation in master trusts going forward.
- The DWP intends to undertake targeted discussions with interested parties. Consider whether you would be open to engaging with the DWP on this issue if you are not already involved in these discussions.

FCA policy statement on new consumer duty **(new)**

- The FCA has published a policy statement which sets out the final rules and guidance for a new Consumer Duty ("the Duty") that will set higher expectations for the standard of care firms give consumers.
- The Duty will apply from 31 July 2023 to all new products and services, and all existing products and services that remain on sale or open for renewal. It will apply to all closed products and services from 31 July 2024.
- Occupational pension schemes regulated by TPR are not in scope. However, FCA authorised firms creating a product and operating pension schemes for occupational pension scheme trustees would need to comply with the Duty if they can determine or materially influence retail customer outcomes.

Action / Comment:

- Whilst not of direct relevance to master trusts, master trust trustees should keep abreast of these developments.

Data Protection and Digital Information Bill introduced into Parliament **(new)**

- The government intends to update and simplify data protection requirements in the UK, introducing more flexibility, reducing burdens on organisations while still maintaining high data protection standards.
- This Bill sets out numerous measures relating to personal data and other information, including reforming the ICO, clarifying the rules on international transfers and cross-border transfers of personal data, and establishing a framework for the provision of digital verification services.

Action / Comment:

- With data protection a key component of the upcoming dashboard requirements, master trust trustees should keep an eye on this one.

Draft pensions tax legislation **(new)**

- The government published draft legislation and policy papers in connection with several pensions tax measures, including a new system to make top-up payments to low earners contributing to "net pay" pension arrangements who do not receive the 20% tax relief which is automatically applied in "Relief at Source" pension arrangements.
- This policy was promised in the Autumn Budget 2021 and will take effect in the 2025-26 tax year in relation to contributions made from 2024-25 onwards.

Action / Comment:

- As payments will be made to individuals directly this should not necessitate changes to master trust administration.

On the horizon cont.	Action / Comment
Joint FCA/TPR statement on value for money • Following their September 2021 discussion paper, the FCA and TPR issued a joint statement in May 2022 which confirms that they intend to develop common measurements for value for money (“VfM”) which will span trust and contract arrangements and will require trustees and providers to disclose data on investment performance and quality of service, as well as on costs and charges, in a consistent and standardised format. • 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 their proposals towards the end of 2022.	• 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 quantitative factors in a meaningful way is complex.

Solutions for small pots (updated)
• The Small Pots Cross-Industry Co-Ordination Group published a report in June 2022 exploring solutions to tackle the issue of small deferred pension pots in the AE workplace pension market.
• The group recommends that the following consolidation models should be considered in the future as potential solutions:
  ◦ a “pot follows member” model, which could be used where an employee moves jobs
  ◦ a multiple “Default Consolidators” model, where certain pots could automatically be transferred
  ◦ a “Member Exchange” model which would merge small deferred pots into a member’s active pot.
	• 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.