Master trust agenda

Q2 2023

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	Actions
Spring Budget – pensions tax changes (new) • With effect from 6 April 2023: – the standard AA will increase from £40K to £60K – the money purchase and tapered AAs will increase from £4K to £10K. The threshold for the taper will increase from £240K to £260K – the LTA charge will be removed – the maximum possible PCLS will be frozen at £268,275 (25% of the 2022 / 23 LTA) – existing rights to higher PCLSs will be grandfathered for those with certain tax protections. • The LTA will be abolished from 6 April 2024.	• We recommend liaising with your sponsor / provider to understand proposed member / IFA communications on this. Typically we are seeing sponsors / providers telling individuals to take independent financial advice before taking any action based on the proposed changes, particularly as a change in the governing political party could affect the proposed removal of the LTA. • As the LTA framework will remain in place until 6 April 2024, you should check that your master trust's operational teams continue to operate LTA checks when paying benefits and to issue benefit crystallisation event statements.
Combatting pension scams (new) • PSIG has issued an interim practitioner guide which aims to help trustees and administrators follow the conditions on transfers that came into force in November 2021. • As issues with the regulations remain, PSIG intends to update this guide and issue a revised code once these have been resolved. The DWP is due to revisit the regulations (as part of a scheduled review) by May 2023.	• You should review your transfer processes in light of the guide.
Pensions dashboards (updated) • The Pensions Dashboards (Prohibition of Indemnification) Act has received Royal Assent. When it comes into force (date as yet unspecified), it will expand the scope of the prohibition on occupational pension scheme trustees and managers of personal pension schemes from reimbursing themselves out of scheme assets for fines and civil penalties relating to breaches of the pensions dashboards legislation. • PASA has published guidance on "what to say to savers" as well as an addendum to its data matching guidance. While, PDP has created a series of "myth busting" videos. • In March 2023, it was announced that more time is needed to deliver the "complex technical solution" which will enable pension providers and schemes to connect to the dashboard architecture. A further update from the DWP is expected before Parliament's summer recess.	• Despite the delay to deadlines, we recommend master trust trustees continue to keep abreast of their sponsor / provider's progress with dashboard readiness programmes. In particular, as there are no planned changes to the legislation, many clients are finding it helpful to agree a position on key themes, for example matching criteria.
Changes to investment disclosure requirements and the charge cap (updated) • Trustees must: – disclose and explain their policies on illiquid investments in the default SIP (or the main SIP for CDC schemes) the first time that it is revised after 1 October 2023 (or by 1 October 2024 at the latest) – publicly disclose and explain the percentage of assets in the default fund(s) (or scheme as a whole for CDC schemes) that are allocated to certain asset classes in their annual chair's statement, starting with the statement for the first scheme year which ends after 1 October 2023. • Since 6 April 2023, "well-designed" performance-based fees have been excluded from the DC default charge cap and, subject to transitional provisions, the current ability to smooth the incurrence of performance fees over a five year moving average has been removed.	• Make sure these changes will be addressed as and when they apply to your master trust. For those master trusts with scheme year ends of 31 March, the changes to the chair's statement will not impact until next year, but take care to check whether or not changes are needed to any SIP if you revise it on or after 1 October but in time for your chair's statement deadline of 31 October. You may wish to bring forward finalising your SIP for this year's statement to a date on or before 30 September. • We also suggest you plan in liaising with investment advisers and platform providers well in advance to ensure they can provide any necessary data.

Current issues cont.

TPR publishes equality, diversity and inclusion ("EDI") guidance (new)

- TPR has published EDI guidance for governing bodies (including trustees and scheme managers) and employers. It includes:
  - "pointers for chairs", who TPR sees as playing a key role in making boards more diverse and inclusive
  - a recommendation that trustees develop and maintain an EDI policy
  - advice for employers on EDI-related considerations when appointing a chair or professional trustees.

For further details, please see our DC briefing.

Consultation: value for money ("VFM"): a framework on metrics, standards and disclosures (updated)

- The DWP, TPR and the FCA have consulted on proposals to require trustees and managers of DC occupational pension schemes, as well as the providers and IGCs of workplace personal pension schemes, to disclose, assess and compare the VFM of their schemes. A response is expected in the summer.
- The new framework, which will look across the key elements of investment performance, costs and charges, and quality of services, is intended to:
  - encourage greater transparency and standardisation of reporting across the DC pensions market, allowing trustees to make more informed investment and governance decisions and employers to better compare the value and performance between DC schemes when deciding where to automatically enrol their employees
  - drive and support the further consolidation of schemes, where this is in savers' best interests.
- The changes would be implemented in phases, applying initially to default arrangements in active and legacy DC schemes.
- While the proposals are already fairly detailed and, for example, set out deadlines for publication and obtaining data, both the FCA and the DWP expect to conduct further consultations with proposed changes to FCA rules / regulations in due course.

TPR campaign on climate and ESG non-compliance (updated)

- TPR has published a blog which explains why ignoring ESG factors is no longer an option for trustees and sets out the details of its planned regulatory initiative ("RI") into SIPs and implementation statements ("ISs").
- The RI will start in autumn 2023, as the ISs prepared and published for scheme years ending on or after 1 October 2022 should reflect the DWP guidance from June 2022. It will have two phases:
  - a check that all trustees have published their SIPs and ISs (where required)
  - a review of a cross-section of SIPs and ISs. This review will be qualitative and only relate to the climate, ESG and wider sustainability provisions in the documents.
- TPR plans to finalise the details for the second phase and the schemes it intends to include in its analysis "over the coming months". The outcome of the review will be shared with industry to highlight good practice.

Actions

TPR publishes equality, diversity and inclusion ("EDI") guidance (new)

- Familiarise yourself with the guidance for governing bodies and ask your sponsor / provider to explain how the new EDI guidance is embedded into master trust member communications. You should ensure you have a developed EDI policy if you have not already done so.

Consultation: value for money ("VFM")

- Start to liaise with your provider / administrator / VFM adviser to consider how you might address the proposals, in particular the specified framework data, in your VFM assessment.
- Although final legislation on this is still some way off 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.

TPR campaign on climate and ESG non-compliance (updated)

- Initial analysis has highlighted a number of schemes did not provide valid website addresses for their SIPs and ISs. You should ensure your master trust is compliant with its investment disclosure duties and that correct information is provided in scheme returns.
- Take into account TPR's comments when preparing your next climate report.

Current issues cont.	Actions
Consultation: extending opportunities for CDC schemes (updated) • This consultation sought views on: – proposals for broadening CDC beyond single or connected employer schemes to accommodate multi-employer schemes – the potential for CDC decumulation only products. • It focused specifically on how the existing CDC authorisation and supervision regime might be harnessed to accommodate these new designs, the challenges involved, and legislative changes that might be required.	• As master trusts act as a key decumulation vehicle for DC pension savers, the outcome of this consultation will be of vital importance to the future shape of decumulation in master trusts. • We understand that the response to this consultation is likely to be published shortly.
The FCA's new consumer duty • In July 2022, the FCA set out 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.	• Whilst master trusts are not directly in scope, master trust trustees should keep abreast of these developments as it may impact on how sponsors / providers (who are subject to the Duty and who are service providers to the master trust) will interact with the scheme and their pension product development.
Supporting DC savers in the current economic climate • TPR has published a guidance statement outlining its expectations of DC scheme trustees in light of the current market conditions when they are: – communicating with and supporting members, and – reviewing governance and investment arrangements. • In particular, TPR expects trustees to target their efforts towards members most "in need of help". • In a blog, TPR reiterated this call to arms, asking trustees to use its guidance to protect savers who are close to retirement and could be impacted depending on the investment strategy of their scheme.	• The statement contains a checklist to help trustees develop an action plan to review their scheme's governance and investment arrangements. You should document your consideration of these recommendations and implement any which are appropriate for your scheme.
General code (updated) • TPR is in the process of transposing all of its codes of practice into one single code. We now understand it will be known as the "general code". • The draft code contained 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), it is expected that some of the draft code will apply to master trusts in practice. For example, aspects relating to legal requirements for DC schemes and best practice governance.	• While the requirements on ESOGs and ORAs do not technically apply to master trusts, we recommend that you carry out a brief cross check against the relevant parts of the draft code to ensure 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 TPR will expect these requirements to be in place.) • When the final code is published, cross-check your current systems and processes generally against the other relevant sections and consider whether and how to address any gaps or discrepancies.

On the horizon	Comments
Expansion of automatic enrolment (new) • A Private Members' Bill is currently working its way through Parliament. The Bill will not result in any immediate change but will give the Secretary of State powers to: – abolish the lower earnings limit for contributions, so that statutory default DC contributions are paid from the first pound earned, and – reduce the age for being automatically enrolled, which is currently 22. • There will be a statutory requirement to consult before using these powers. • Laura Trott, the Pensions Minister, has confirmed that the Government hopes to consult on the implementation approach and timetable for expanding auto-enrolment "in the autumn".	Master trust trustees should keep an eye on these changes as they will have a big impact on their membership numbers.
Call for evidence: addressing the challenge of deferred small pots (updated) • The DWP's call for evidence to inform the development of policy options for large-scale automated consolidation solutions to address the growth of deferred small pots in the automatic enrolment workplace pensions market closed on 27 March 2023. • It focussed on: – a default consolidator model (where members would either elect to or be defaulted into a consolidator scheme after a period of deferral), and – pot follows member (where an individual's pension benefits are automatically transferred to their new employer's scheme when they change jobs) although other actions such as member exchange (where schemes agree to transfer their deferred pots to the member's current scheme) and enabling more member engagement are still on the table. Member exchange has already undergone limited testing.	Whatever solution(s) are implemented are likely to significantly impact the master trust market given the number and value of small pots in master trusts as a result of automatic enrolment and consolidation. Master trust trustees should keep a watching brief on this issue, we know a number of your sponsors / providers have been involved in industry wide initiatives (as have Sackers) looking at how this issue can be solved / mitigated.
Advice vs guidance (updated) • At a conference in March 2023, Therese Chambers, Director of Consumer Investments at the FCA confirmed that the FCA and the Treasury will be carrying out a joint holistic review of the boundary between advice and guidance. • The review is intended to provide the parties with "a detailed understanding of how the boundary is operating and its impact on consumers". • Pensions accumulation and decumulation products will be in scope (unless they contain safeguarded benefits, such as GMPs or GARs).	One to keep an eye on. Changes could impact member communications.