Master trust agenda
Q3 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
Proposed changes to the General Levy (new) • The DWP has published a consultation on the General Levy, seeking industry views on the options for mitigating the "ongoing deficit in levy funding" over the next three tax years: – continuing with the current levy rates and structure – retaining the current levy structure and increasing rates by 6.5% a year – its preferred option of increasing rates by 4% a year plus an additional "premium rate" for small schemes from April 2026. • The consultation closes on 13 November 2023.	• Master trust trustees should keep a watching brief on this issue and consider the impact of potential levy increases.
Value for money ("VFM") (new) • Over the last couple of years, the DWP, TPR and the FCA have been working closely to establish a common assessment framework for VFM across the DC market ("the Framework"), culminating in a joint consultation earlier this year. • The joint response confirms that: – the Framework, which looks across the key elements of investment performance, costs and charges and quality of services, will be introduced broadly as originally proposed. There have been some easements which are particularly useful for master trusts, for example reporting investment returns gross, instead of net of cost, and collating charges information on a comparable cohort basis (both reducing the number of data points to disclose). However, the reforms will nonetheless require extensive public disclosures to be made by master trusts in Q1 of each year once introduced – implementation will be phased, starting with "active" default arrangements – comparisons against other schemes of sufficient scale will be required alongside a RAG assessment, and there will be tightly defined criteria to prevent gaming or comparison against poorly performing schemes – the current value for members assessment will be phased out as the Framework is introduced. • For now, the chair's statement will remain. Consideration will be given to how its requirements can be managed down and ultimately phased out. • The intention is to legislate "when parliamentary time allows" and we can expect consultations on draft regulations and FCA rules to address the detailed requirements.	• Whilst the exact date of introduction of these changes is not yet known, early thought will need to be given as to how the proposed data can be collated, disclosed and ultimately compared. Ensuring comparability of the data is the most challenging aspect of the changes. • The FCA, TPR and the DWP are keen to engage with master trusts and other key stakeholders in relation to the proposed new VFM framework so it would be helpful if you could provide any feedback to us on the operation of the framework from a practical perspective. We are liaising closely with the Regulators as well as other key stakeholders in the industry on this issue.
Extending opportunities for CDC schemes (new) • Following a consultation in January 2023, the DWP intends to proceed with proposals to extend the legal framework to allow unconnected multi-employer CDC schemes and CDC decumulation-only products. • A further consultation on draft regulations to enable unconnected multi-employer CDC schemes is planned for the autumn. Legislation for CDC decumulation only products remains some way off.	• As master trusts act as a key decumulation vehicle for DC pension savers, and particularly given the Government has made it clear it sees CDC as forming a key part of future decumulation solutions (see above), master trust trustees should keep a close eye on developments in this area. We are aware that some providers are looking to explore CDC as part of their retirement solutions so we await the detail of the decumulation only proposals with interest. Master trust trustees will want to understand their own provider's proposition developments in this space.

Current issues cont.

Deferred small pots (new)

- The DWP has published the response to its January call for evidence and a new consultation taking forward proposals for a framework to enable multiple default consolidators (and rejecting the "pot follows member" alternative approach).
- A central objective of this approach is a considerably more consolidated master trust market.
- Under the proposals:
  - a small number of schemes would be authorised to act as automated consolidators for deferred small pots, with a "clearing house" acting as a central point to store and manage data and inform schemes where to transfer
  - pots of up to £1,000 would become eligible for automatic consolidation 12 months after the last contribution is made, with the Secretary of State required to review the pot size limit at regular intervals.
- To reduce the risk of detriment to members whose pots are automatically transferred, consolidator schemes would need to meet certain authorisation criteria and members would be able to choose their designated consolidator, or opt out if they wished.
- Master trust schemes will be required to apply to be default consolidators. Work will be undertaken with the FCA in relation to the potential for providers to be authorised to act as consolidators in relation to their contract-based schemes.

Actions

- These proposals will significantly impact the master trust market given (i) the number and value of small pots in master trusts as a result of automatic enrolment and consolidation, (ii) the practical implications of administering the proposals, and (iii) the potential for market distortion if not carefully managed.
- Master trust trustees should discuss the practical implications of the proposals with their providers. We understand that there is significant concern in the industry as to how workable the proposals are (particularly in relation to the operation of the clearing house given the issues with the dashboards programme to date) and as such, we expect that it may be some time before any changes here are actually introduced. We suggest however that master trusts continue to keep a watching brief on this issue.

Supporting individuals in decumulation (new)

- The Government has published its response to the product and services element of its 2022 call for evidence on helping savers understand their pension choices, as part of a new consultation on a policy framework to support individuals using their pensions savings in decumulation.
- The DWP proposes placing a legal duty on trustees to offer decumulation services, either within their scheme or via a partnership with a third party, which are suitable for their members, including a "default" option for less engaged members.
- The DWP wants trustees to consider how CDC could feature in their decumulation solution in the future.
- In the meantime, the DWP will work with TPR to issue guidance for trustees on offering decumulation products.

Actions:

- Many master trusts already offer a full range of decumulation options and, as such, are likely to be well placed to comply with future guidance and legislation in this space. Some are also partners for trust-based schemes seeking to offer a wide range of options to their members in decumulation and we expect this trend to accelerate as a result of the proposed new framework. Master trust trustees should consider how they wish to approach this prospect and, if appropriate, whether to extend or rework their decumulation offering.
- Master trusts should keep an eye on what exactly is meant by the Government's proposals for schemes to offer a "default" decumulation option as this could impact significantly on the governance (and risk) attached to the provision of decumulation solutions from the master trust perspective.

Trustee skills, capability and culture (new)

- Against the backdrop of an "evolving and more complex regulatory environment", HMT and the DWP launched a new call for evidence ("the Call") which focussed on three key areas:
  - trustee skills and capability
  - the role of advice
  - other barriers to trustee effectiveness.
- The Call asked whether there should be a certain proportion of accredited trustees on trustee boards and, in particular, whether master trusts should have a greater proportion of accredited trustees than other schemes.
- Views were also sought on whether the way in which fiduciary duties are interpreted or exercised could be holding schemes back from exploring a broader range of investments, including less liquid assets.

Actions:

- Many master trusts already have fully independent boards. Whilst boards typically include representatives from professional trustee firms, there are also a number of independent trustees who are not affiliated to a professional trustee firm and/or who do not have specific accreditations. No timetable has been given for the introduction of any changes but, should changes be made, they may well be material for some master trust trustees. Affected trustees should keep a watching brief on developments.

Current issues cont.

Actions

Finance (No.2) Act 2023 (new)

- Under the Finance (No.2) Act 2023, the following changes came into force retrospectively with effect from 6 April 2023:
  - the standard AA increased from £40K to £60K
  - the money purchase AA increased from £4K to £10K
  - the minimum tapered AA, which works by reducing the AA by £1 for every £2 of income over the taper threshold, increased from £4K to £10K, and the taper threshold increased from £240K to £260K
  - the LTA charge was removed, with benefits exceeding the LTA now taxed at an individual's marginal rate
  - the maximum tax-free PCLS an individual can take is frozen at £268,275 (25% of the 2022/23 LTA). However, members with certain LTA protections will retain their entitlement to a higher PCLS
  - certain other lump sums which were previously subject to an LTA charge of 55% are now taxed at the recipient's marginal rate.

Actions:

- 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.

Removal of the LTA (new)

- The Finance Bill 2023-24 ("the Bill") paves the way for the LTA's removal from 6 April 2024.
- The Bill:
  - introduces measures to manage the taxation of member and death benefit lump sums on and from 6 April 2024
  - clarifies the position going forwards regarding LTA and lump sum protections, as well as the future function of benefit crystallisation events (which currently trigger a test against the LTA).
- We are still waiting for details of any transitional arrangements, including how to factor in benefits coming into payment now, and the inevitable new reporting and disclosure requirements have yet to emerge.

Actions:

- Master trust trustees should ensure detailed records are being kept of member and death benefit lump sums to avoid issues arising when the new statutory requirements are disclosed.
- Looking ahead, trustees should liaise with their sponsors and administrators, and consider how their own (sub-committee's) oversight processes will need to be updated.

Pensions dashboards (updated)

- Following the "reset" announcement earlier this year, a revised statutory deadline of 31 October 2026 has been introduced for all schemes to connect to the dashboards ecosystem.
- A revised staging timetable will be set out in guidance which the Government will publish following collaboration "with industry this year", and trustees will need to "have regard" to the guidance when deciding when to connect.
- TPR has updated its dashboards guidance, and is considering what, if any, changes need to be made to its compliance and enforcement policy.

Actions:

- Despite the delay to deadlines, we recommend master trust trustees continue to keep abreast of their sponsor / provider's progress with their dashboard readiness programmes. Many clients are finding it helpful to agree a position on key areas with their sponsor / provider / administrator, for example matching criteria, as well as continuing any data cleansing work.

Changes to investment disclosure requirements and the charge cap (updated)

- Trustees must:
  - disclose and explain their policies on illiquid investments in the default SIP 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) 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 but must be reported in the chair's statement and, subject to transitional provisions, the current ability to smooth the incurrence of performance fees over a five year moving average has been removed.
- On 24 August 2023, TPR published revised guidance which takes account of the above developments.

Actions:

- 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 2023, the changes to the chair's statement will not impact until next year (unless any of your funds are subject to performance-based fees which will need to be disclosed), but take care to check whether or not changes are needed to any SIP reviewed / revised on or after 1 October but in time for your chair's statement deadline of 31 October 2023. 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.

The FCA's new consumer duty (updated)

- On 31 July 2023, the FCA's consumer duty came into force for new products and services and existing products and services that are open to sale or renewal. Closed products and services will be brought into scope from 31 July 2024.
- The duty is intended to set "higher standards of consumer protection" by requiring firms to take action to deliver good outcomes for consumers.
- The duty includes new rules for the treatment of those customers who are in vulnerable circumstances. The FCA has published a webpage aimed at financial advisers, setting out the FCA's expectations of how firms should support consumers with characteristics of vulnerability that may impact their decision making.
- 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.
- See our blog for details of how the duty may impact trustees.

Actions

- Whilst master trusts are not directly in scope, master trust trustees should consider liaising with their sponsors / service providers to the master trust (who will be subject to the duty if they are FCA regulated) to understand how the new requirements will interact with the master trust and pension product development more generally – particularly where the sponsor / provider wishes to signpost pension "adjacent" services from or alongside the master trust.

TPR campaign on climate and ESG non-compliance

- A TPR blog 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, and 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.
- The outcome of the review will be shared with industry to highlight good practice.

Actions

- 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.
- Ensure your SIPs and ISs meet the requirements and recommendations in the DWP guidance.
- Take into account TPR's comments (from its review of the first tranche of climate reports published) when preparing your next climate report and ensure it is linked correctly in the annual report and accounts and is publicly available on a website. Note that the first fine has been issued in relation to a scheme's failure to publish its TCFD report. Master trusts' reporting in this space is a particular area of focus for TPR.

On the horizon	Comments
Extension of automatic enrolment • A Bill on automatic enrolment has received Royal Assent. It contains regulation-making powers to abolish the lower earnings limit for contributions and to reduce the age for being automatically enrolled. • Laura Trott, the Pensions Minister, has confirmed that the Government hopes to consult on regulations implementing these changes "in the autumn".	Master trust trustees should keep an eye on these changes as, if they are introduced, they will impact significantly on the master trust market.
Advice / guidance boundary review (updated) • The FCA has published an update on its joint review of the advice / guidance boundary with HMT. • The review aims to ensure that consumers get the help they want, at the time they need it, and at a cost that is affordable, to help them make informed financial decisions. • A policy paper is due to be published in the autumn.	One to keep an eye on, particularly where master trust sponsors also operate in this space and/or have a workplace personal pension book of business, as this could impact on the provision of guidance and advice services available to master trust members.