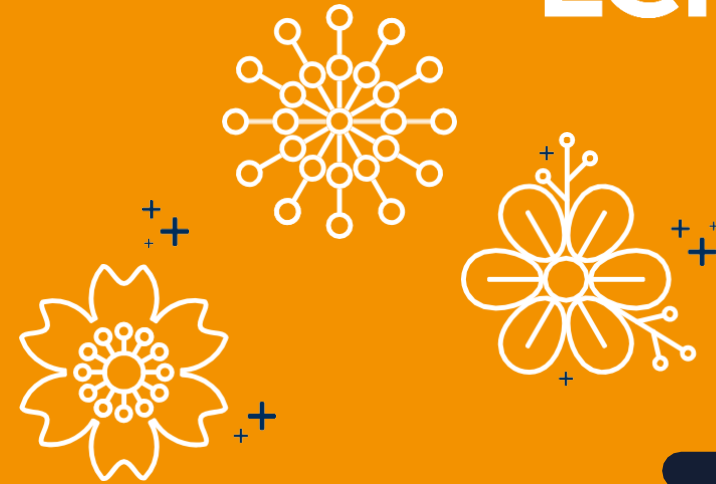


# DC update

Welcome to LCP's latest quarterly DC update, in which you will find our views on key developments in the DC arena over the last three months, together with any actions and issues heading your way.

May 2023



## What's inside?

1. Spring Budget – what did we learn?
2. Government policy and guidance developments
3. Pension scams and cyber crime
4. Pensions Dashboards
5. Responsible investment and climate change – what's new?
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## Spring Budget – what did we learn?

### Blockbuster changes proposed to pension taxation

HMRC has published two new sets of guidance for members on the LTA protections, in the context of the changes arising from the Budget.

- The first set of guidance attempts to explain how the Budget changes the higher tax-free lump sums that can now be taken from registered pension schemes by those with LTA protections (several now have 'frozen' caps on this lump sum); and
- The second is a reminder that there are now two sorts of vulnerable LTA protections (Enhanced and Fixed) – those where a successful application was received by HMRC before 15 March 2023, and those after: this explains how the latter set can still be lost.

## DC and Financial Wellbeing Conference

**Wednesday 17 May 2023, 12:00pm – Royal Institute of British Architects (RIBA)**

We hope you are able to join our upcoming DC and Financial Wellbeing conference, 'Steadying the ship in challenging waters'.

We're delighted that British adventurer and businesswoman, Debra Searle MVO MBE, will be joining us as our keynote speaker. LCP's Head of DC, [Laura Myers](#), will also share the stage with Directors from the PLSA, former Pensions Minister and LCP Partner, [Sir Steve Webb](#), and other industry specialists to discuss key issues affecting pensions and savers today.

This year our conference will be in the afternoon, starting with a light lunch. We would be delighted if you could attend the drinks and canapé reception at the end of the Conference.

**[Secure your place here.](#)**

# Government policy and guidance developments

## Government takes the sting out of pensions tax but some changes could be short-lived

On 15 March 2023 the Chancellor announced the most dramatic changes to pensions tax in almost 10 years. Whilst some adjustments to the regime had been trailed in advance, the sheer scale of the changes was completely unexpected. Our views on these changes can be found [here](#).

## Productive investment and DC schemes

The Chancellor also promised to include measures in the 2023 Autumn Statement to “unlock productive investment from defined contribution pension funds and other sources”. The Government plans to launch a Long-Term Investment for Technology and Science initiative “with a view to establishing new investment vehicles to crowd-in investment from institutional investors, particularly defined contribution pension funds, to the UK’s most innovative science and technology companies”. You can read more about this [here](#).



## TPR review announced

The DWP has announced the appointment of Mary Starks to lead a review of TPR, with the report due to be delivered by the end of May 2023. The review will examine how it is performing and where it can improve, providing greater efficiency and value to taxpayers.

## Auto-enrolment extension to go ahead - at last

A Government-backed Private Member’s Bill is to be used as the vehicle for the Government to deliver on the conclusions arising from its 2017 auto-enrolment review. The Bill, which had its second reading on 3 March 2023, proposes:

- A reduction from 22 as a lower age limit from which the employer duty to auto-enrol applies – but with regulations now able to set this lower age. The policy intent is to reduce the lower age limit to 18; and
- The potential removal of the lower limit for the qualifying earnings band (currently £6,240 pa) by which minimum contributions are calculated, so that contributions would be calculated on all earnings up to the upper limit of the band (currently £50,270 pa). Regulations aim to deliver on the detail which could allow for the lower limit to be reduced for a period of time ahead of its potential removal.

You can read more about this [here](#).

## Finance Bill provides for top-up payments for low earners contributing via net pay arrangements

A new clause in the Finance (No.2) Bill will place a duty on HMRC to make top-up payments directly to individuals whose personal contributions to occupational pension schemes operate under the ‘net pay’ arrangement method. These top-up payments will only be made to individuals whose total taxable income in a tax year is below their personal allowance. The aim is to end the current tax disadvantage, compared to low earners contributing to schemes that operate the relief at source method. The clause will come into force for 2024/25 onwards: you can read more about it [here](#).

## LCP responds as DWP consultation season closes

On 27 March 2023 the deadline passed for three important DWP consultations (CDC schemes, the DC value for money framework, and DC small pots). LCP has been active in drafting our responses and assisting others with their submissions. You can find a summary of our thoughts [here](#).

Value for money in DC schemes has long been on the Government’s radar, and rightly so. A new consultation is the latest step in a journey that began over four years ago. If these proposals come to fruition, they will shake-up the current governance framework for both trust and contract-based DC pension schemes radically. So these proposals should be of interest for anybody involved in running DC schemes. You can find out more detail, including LCP’s viewpoint, [here](#).

## Government policy and guidance developments

### TPR to check up on value for money assessments

TPR is to check that trustees of DC schemes with total assets of less than £100m (which have been operating for more than three years) are complying with regulations that came into force on 1 October 2021, which requires them to generate an annual value for money assessment starting from the first scheme year that ends after 31 December 2021. This follows a survey in 2022 which revealed that only 17% of schemes required to complete the assessment had done so, and that 64% were unaware of their statutory obligation. TPR plans to publish the results of this survey later this year.

### Illiquid investment policy regulations finalised

Draft regulations relating to new illiquid investment policy initiatives for certain DC and CDC schemes, issued by the DWP in January came into force from 6 April 2023.

These regulations introduce an exemption for performance-based fees from this date, contain “disclose and explain” illiquid investment policy requirements that will take effect from the end of the first scheme year after 1 October 2023, along with a requirement (for certain DC schemes only) to disclose and explain in their annual Chair’s Statement, the allocation of assets to different asset classes in their default arrangement(s).

### No change to State Pension Age before the General Election

The Government’s review of State Pension Age has been published, alongside two reports that have informed the Government’s conclusions.

The conclusions drawn from the review are that the legislated for rise from 66 to 67 will take place as planned between 2026-28, but that there will be no change (for now) to the rise from 67 to 68.

You can read more about this here.

### Pensions Regulator issues EDI guidance

TPR has launched guidance on equality, diversity and inclusion (EDI) for occupational pension schemes. There is separate guidance for trustees and employers, together with an overview.

Read more about this here.



### TPR publishes its Corporate Plan

On 21 April 2023 TPR published its corporate plan for 2023/24 which sets out its direction for the next year and provides an overview of its priorities from 1 April 2024 onwards.

The plan contains a long list of activities on which TPR intends to make progress over the next 12 months, which include:

- An increased focus on value for money (see above); and
- The publication of the long-delayed General Code of Practice. This is now promised for Q2 2023. Quite why it has been so delayed since the proposals were consulted on over two years ago remains unclear .

Beyond 2023/24, TPR intends :

- To work with the DWP to explore options to provide better protection for members at the point of decumulation in DC schemes. This follows a call for evidence that closed in July 2022;
- To assess the feasibility of mandating that a professional trustee sits on each trustee board, or of accrediting or authorising professional trustees with the aim of driving up governance standards; and
- To help schemes prepare for dashboards. However, this presumes that the “reset” announced in March 2023 does not generate another lengthy delay.

You can read more about TPR’s corporate plan here.

# Pension scams and cyber crime

## Pension scams – TPR withdraws its reporting guide

The [guide to reporting pension scams](#) published last June has been removed from TPR’s website.

Its current expectations on reporting now forms part of its [Avoid pension scams](#) webpage. This includes the instruction to email the FCA about all transfers of concern and also to report potential scams to the FCA (after reporting to Action Fraud).

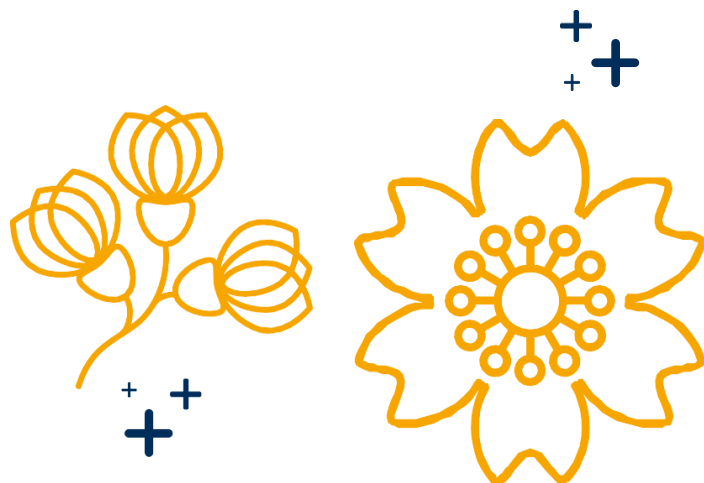
In addition, the FCA would like to hear from schemes or trustees who have carried out checks and have serious concerns about a pension transfer. In a recently published [webpage](#), the FCA is particularly seeking reports on:

- Individuals who provide unauthorised advice on pension transfers; and
- Increases in the volume of transfers using the same adviser.

## Industry Group provides interim guidance on 2021 anti-scam regulations

The Pensions Scams Industry Group has [issued](#) a new Interim Practitioner Guide, together with a useful Short Summary Guide.

You can read more about this [here](#).



# Pensions Dashboards

## Government announces Pensions Dashboards delay

Pensions Minister Laura Trott has [announced](#) that there will be a reset of the deadlines by which pension schemes must connect with the Pensions Dashboard. The reason given is that “additional time is required to deliver the complex technical solution to enable the connection of pension providers and schemes”.

Since the announcement, the Pensions Dashboards Programme has [published](#) FAQs on the issue: TPR has also updated its [initial guidance](#): Laura Trott has [said](#) that she is working towards new deadlines before the summer recess.

## PASA issues further guidance on Pensions Dashboards

The Pensions Administration Standards Association (PASA) has [published](#) two new sets of guidance aimed at administrators. The first is entitled “What administrators, providers and service centres should say to savers who enquire about dashboards before they become universally acceptable”. The second is via an addendum to PASA’s data matching convention guidance, which was last updated in August 2022.

## Seeing your scheme data through a dashboard lens

Traditional approaches to scheme data will not work in the ‘dashboard world’, where it will be essential that data is kept up-to-date to ensure the highest possible accuracy of matches when the public asks for details. LCP has partnered with a digital identity provider, a major credit reference agency and a large DB scheme to assess the quality of scheme data for dashboard purposes.

The results are very striking and show both the challenges facing schemes but also the potential for a major step up in data quality which will be of benefit not just for dashboards but for other purposes. This is discussed in greater detail in [this webinar](#), with input from LCP’s Sir Steve Webb.

# Responsible investment and climate change – what’s new?

## TPR announces increased focus on ESG and climate change reporting compliance

TPR has launched a campaign to “make sure that trustees are meeting their environmental social governance (ESG) and climate change reporting duties”.

The campaign will include schemes with more than 100 members being contacted by email to check whether they are complying with the regulatory requirements relating to statements of investment principles and implementation statements, focusing on the investment policies regarding financially material ESG and climate factors.

TPR states that it will be conducting a review of statements of investment principles and implementation statements over the summer, the outcome of which will be shared with the industry to highlight good practice.

You can read more, including the potential fines for non-compliance, [here](#).

## TCFD reporting – helpful TPR review of first wave reports

TPR has published its review of the first wave of TCFD (taskforce on climate-related financial disclosures) reports, which includes some important pointers for both “tranche one” schemes (master trusts and relevant assets of £5bn or more) carrying out their second reports and “tranche two” schemes (more than £1bn) carrying out their first.

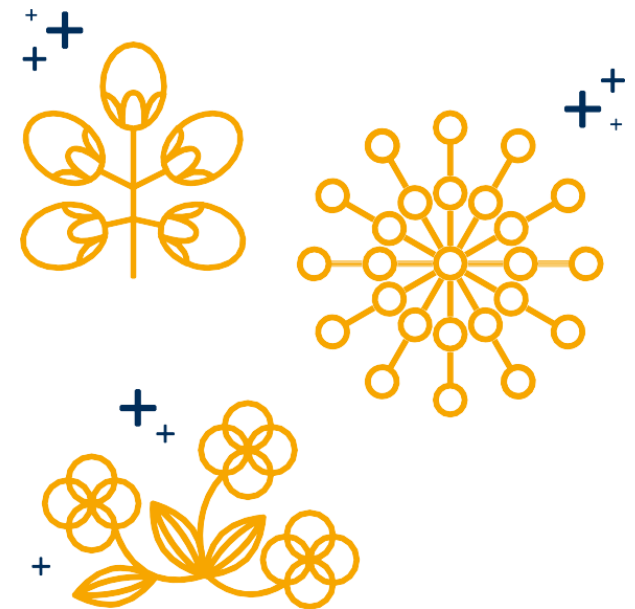
This review will be very helpful for those involved in the preparation of upcoming TCFD reports and will assist in their refinement and improvement. The review clarifies TPR’s expectations in an area where market practice is at an early stage of development; we are pleased to see that the focus is on raising standards rather than box-ticking compliance.

In a subsequent blog published on 14 April 2023 by Nicola Parish, Executive Director of Frontline Regulation at TPR, action points are provided for trustees following the review. These include the following in relation to those within scope of producing such reports:

You can read more about this [here](#).

## Government updates its Green finance strategy

The Government has updated its Green finance strategy originally launched in July 2019. Its strategy for ‘greening’ UK finance focuses strongly on encouraging private sector financing of the climate transition. On pensions the update says remarkably little that is not already known, but we now have a time (Autumn 2023) for the consultation on UK green taxonomy and the review of the regulatory framework for effective stewardship, in Q4 2023.





# LCP Insight

## Employee wellbeing: Supporting good financial futures

In its fourth year, our latest financial wellbeing report reveals some stark trends. Here are some of the key findings from our survey of 10,000 UK employees.



Increased borrowing and reduced savings impact financial resilience



Employees do not feel confident that they can achieve their desired retirement goals



Employee recruitment and retention is the biggest concern for organisations



Poor financial health is impacting the organisation bottom line - an estimated £1.1 million a year for a 2,500 employee firm



Mental and physical health impacts resulting from wellbeing concerns continue to rise



Access the report [here](#).

If you would like a personalised breakdown by industry or region to help you identify specific trends or challenges, please contact [Heidi Allan](#), Head of Financial Wellbeing.

## On-demand webinar: creating conversations to support good financial futures

Watch this webinar to hear Heidi Allan, Sir Steve Webb, and David Millar, LCP's Head of Communications, discuss some of the recent findings from our latest financial wellbeing research.

Chaired by Ashley Mould, this session explores:

- how the right communications approach can engage employees
- striking a balance between employers providing education and support whilst allowing personal choice
- creating a supportive workplace environment for employees to thrive
- how to empower employees to make better financial decisions by having a robust financial wellbeing strategy in place.

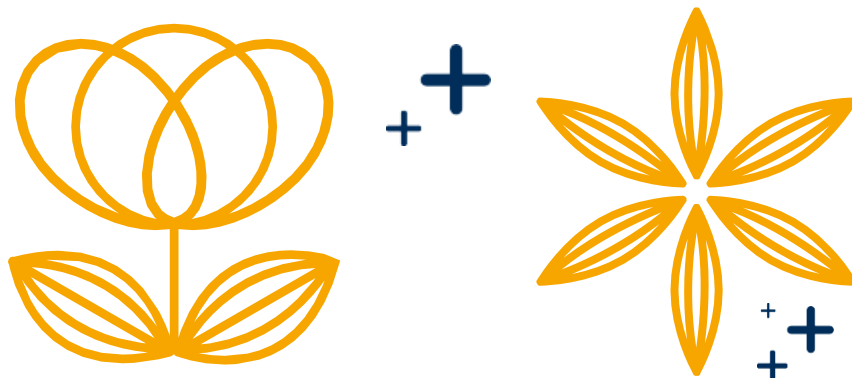
### Lydia Fearn promoted to Partner

We're pleased to announce that Lydia Fearn has been promoted to Partner. Lydia initially worked for the firm between 2007 – 2013. From 2013 she gained valuable experience at Barclays, Redington and Capita, before re-joining LCP in 2022. Lydia's specialist areas include DC Pensions and Investment.



### Protecting members with the 'Self-Select-Sweep'

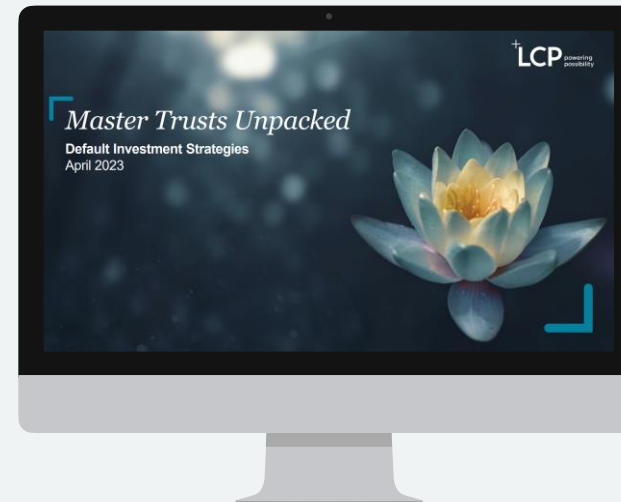
LCP's Nigel Dunn provides his view on why more needs to be done to protect members who have self-selected their own pension investments.



### Master Trusts Unpacked 2023: Default Investment Strategies

In its second year, this report reviews fund performance during 2022 to assess how the big sell-offs in equity and bond markets and the fall in Sterling impacted master trust default strategies. We also highlight some of the risks of a lack of diversification and how this has impacted performance during 2022.

Looking ahead to 2023, we expect investment markets to remain volatile, which will provide tricky conditions for master trusts to navigate. You can find the report [here](#).



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For further details, visit our [preference centre](#).

## *Any questions?*

If you would like any assistance or further information on the contents of this Update, please contact one of the team below.



*Laura Myers*  
Partner, Head of DC  
[laura.myers@lcp.uk.com](mailto:laura.myers@lcp.uk.com)  
+44 (0)20 7432 6639



*Philip Audaer*  
Principal  
[philip.audaer@lcp.uk.com](mailto:philip.audaer@lcp.uk.com)  
+44 (0)20 7432 6777



*George Currie*  
Senior Consultant  
[george.currie@lcp.uk.com](mailto:george.currie@lcp.uk.com)  
+44 (0)20 3824 7424



*Ellen Wallace*  
Associate Consultant  
[ellen.wallace@lcp.uk.com](mailto:ellen.wallace@lcp.uk.com)  
+44 (0)20 7432 0633



*Alex Clark*  
Associate Consultant  
[alex.clark@lcp.uk.com](mailto:alex.clark@lcp.uk.com)  
+44 (0)20 3824 7410

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