Pension News Update (July 2021)

Call for evidence on consolidation in the DC market

1. On 21 June 2021, the DWP published a Call for Evidence on barriers to greater scheme consolidation in the UK defined contribution (DC) pension market, in particular for schemes with between £100 million and £5 billion of assets.

2. This follows recent confirmation that DC schemes with total assets below £100 million will be required to annually assess whether their scheme provides value for members and to report the outcome to the Pensions Regulator (TPR), as well as in their annual chair's statement sent to members. If trustees conclude that their scheme does not provide good value for members, the expectation is that they will take immediate action to start winding up and consolidate members into a larger, better run pension scheme, unless they can make improvements to their scheme, both rapidly and cost effectively.

3. The new call for evidence focuses on how to increase consolidation for medium to large schemes with a focus on schemes between £100 million and £5 billion.

4. The consultation closes on Wednesday 30 July 2021.

Conditions for Transfer regulations

5. On 14 May 2021, the Department for Work and Pensions (DWP) published a consultation on draft regulations designed to empower trustees and pension providers to prevent transfers to potential scam arrangements.

6. To achieve this, the draft regulations set out four new conditions, at least one of which must be met before a member will be entitled to a statutory right to take a transfer. The conditions are:

   6.1. **Condition 1 – low risk schemes:** A transfer to one of a number of types of receiving scheme that present a low scams risk, by virtue of the requirements of those schemes e.g. authorised master trusts, public service schemes.

   6.2. **Condition 2 – employment link:** If the transfer is not to one of those listed types of scheme within condition 1, the transfer can proceed if the member has demonstrated an employment link between themselves and the occupational pension scheme they wish to transfer to.

   6.3. **Condition 3 - residency:** Where the transfer is to a Qualifying Recognised Overseas Pension Scheme (QROPS) and condition 2 does not apply or is not satisfied, they will be required to demonstrate residency for at least six months in the same financial jurisdiction as that of the scheme to which they wish to transfer.

   6.4. **Condition 4 – warning flags:** If none of the other conditions apply, then the trustees or scheme managers must decide if any of the prescribed red or amber flags are present. Red flags include indications that the member has been incentivised or pressurised to transfer etc. Amber flags include unclear or high fees, unorthodox investment structures etc. Should any red flags be present, the transfer may not proceed. If any amber flags, are present the member must be referred to and provide evidence of having taken specified scams guidance provided by the Money and Pensions Service (MaPS).

7. The consultation closed on 10 June 2021 and a joint response was submitted by the Trustee and RPMI.

TPR’s Annual Funding Statement 2021

8. TPR has published its latest Annual Funding Statement for trustees and sponsoring employers of occupational DB pension schemes. It is particularly relevant to schemes with valuation dates between 22 September 2020 and 21 September 2021.

9. The statement emphasises the need for trustees to determine how employer covenant has been impacted by Covid-19 and Brexit and to assess whether they are on track to reach their long-term funding target.

10. The statement also provides an update on the timing of TPR’s second consultation on its new scheme funding consultation, with this expected to take place towards the end of 2021. TPR also states that it does not expect the new code to come into force until late 2022 at the earliest.

11. On 24 June 2021, TPR published its annual funding statement analysis for 2021, intended to give further context to the 2021 Annual Funding Statement but not to supersede it. The analysis shows that most major asset classes invested in by UK pension funds achieved substantially positive returns over the three years to 31 December 2020 and the three years to 31 March 2021. An aspect that will counter this is that the Covid-19 crisis is expected to affect the employer’s covenant and affordability.

12. TPR have not attempted to quantify the potential impact of COVID-19 on schemes’ mortality experience or assumptions but recognise that some trustees will need to make changes to their technical provisions and recovery plans to take account of changes in the strength of the employer covenant, the scheme’s funding level and employers’ affordability.