Pension News Update (June 2021)

Conditions for Transfer regulations

1. 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.

2. 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:

    2.1. **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.

    2.2. **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.

    2.3. **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.

    2.4. **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).

3. The consultation closes on 10 June 2021.

Simpler annual statements for DC members

4. On 17 May 2021, the DWP published a consultation on simpler annual benefit statements.

5. The consultation seeks views on the draft regulations and accompanying statutory guidance, which would introduce new requirements for the length and format of annual workplace pension benefit statements of certain DC workplace pension schemes used for automatic enrolment. The regulations are intended to come into effect on 6 April 2022 and apply to statements issued from that date.

6. The draft statutory guidance sets out, in 5 sections, how information in a statement should be provided:

    6.1. **Member and pension scheme details** – to include the personal details of the member; their employer; the pension scheme provider etc.

    6.2. **How much money the member has already in their plan** – to include amongst other information, contributions credited to the member; the total amount of money saved by the member to date; and any monies transferred into the pension scheme by the member from other pension schemes.

6.3. **How much income they could have when they retire** – An illustration and explanation of how much their funds could be worth at retirement

6.4. **What a member could do to give themselves more income in retirement** – Trustees are encouraged to an illustration showing how saving more may generate an increased pension pot at retirement, and the impact changing the age at which they plan to retire could have.

6.5. **Details on finding out more about the plan and how the member can use their money**.

7. Whilst pension schemes are able to use their own branding the guidance states that it must not obscure the flow of information as detailed in the guidance, nor increase the length of the annual statement beyond the limit of one double sided A4 sized paper.

8. The consultation closes on 29 June 2021.

Improving the consumer pensions journey

9. On 18 May 2021, The Pension Regulator (TPR) and the Financial Conduct Authority (FCA) published a joint call for input asking the pensions industry how consumers can make informed decisions about their pension at key points throughout their working lives.

10. The call for input acknowledges that the pensions and retirement income markets have evolved significantly in recent years, with automatic enrolment, pension freedoms and a shift away from defined benefit (DB) to defined contribution (DC) Schemes changing the way many people save into and access their pension savings. The responses will aid TPR and the FCA strategy to improve consumer understanding and decision-making.

11. The Call for Input closes on 30 June 2021.

TPR's Annual Funding Statement 2021

12. 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.

13. 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.

14. 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.

Code of Practice 12: Contribution Notices Consultation

15. On 27 May 2021, TPR published a consultation on an updated version of Code of Practice 12 together with code-related guidance.

16. TPR has the power to issue Contribution Notices, which are broadly demands to pay a set amount of money to a pension scheme, and were previously triggered where actions had caused a 'material detriment' to the schemes ability to provide benefits.

17. The Pension Schemes Act 2021 added two further tests that can prompt TPR to issue a Contribution Notice: the employer insolvency test, and the employer resources test. As a result, TPR is updating its Code of Practice to explain the circumstances in which it will consider issuing a Contribution Notice on the basis of these two new tests.

18. The consultation closes on 7 July 2021.

Pension Dashboards update

19. The Pensions Dashboards Programme (PDP) set up by the Money and Pensions Service (MaPS), is responsible for designing and implementing the dashboard ecosystem to make pensions dashboards work.

20. On 13 May 2021, the PDP published their latest progress update report outlining the work undertaken over the last six months and confirming the programme remains on track. Based on current timelines dashboards will be ready to be offered to consumers from 2023 with voluntary connection to the dashboard by some pension providers available in 2022.

21. Due to the numbers involved and in an attempt to try to smooth implementation and mitigate operational risks, pension providers' connection to the pension dashboard ecosystem will be staged. On 27 May 2021, the PDP published a Call for Input seeking views on the proposed stages. The proposal is that this would comprise of three waves:

    21.1. **Wave one:** largest schemes (1000+ memberships)

    21.2. **Wave two:** medium schemes (100 to 999 memberships)

    21.3. **Wave three:** small and micro schemes (99 or less memberships)

22. Wave one would start in April 2023 and run for up to two years and would consist of three distinct cohorts:

    22.1. **Cohort one:** master trusts and FCA regulated providers of personal pensions, starting spring 2023

    22.2. **Cohort two:** defined contribution (DC) schemes used for Automatic Enrolment (AE), during 2023

    22.3. **Cohort three:** All remaining occupational schemes with 1,000+ memberships (in order of size) with the largest defined benefit (DB) schemes to on-board in 2023

23. Wave two is expected to be not before 2024 with the date for wave three to be determined.

24. The call for input closes on 9 July 2021.