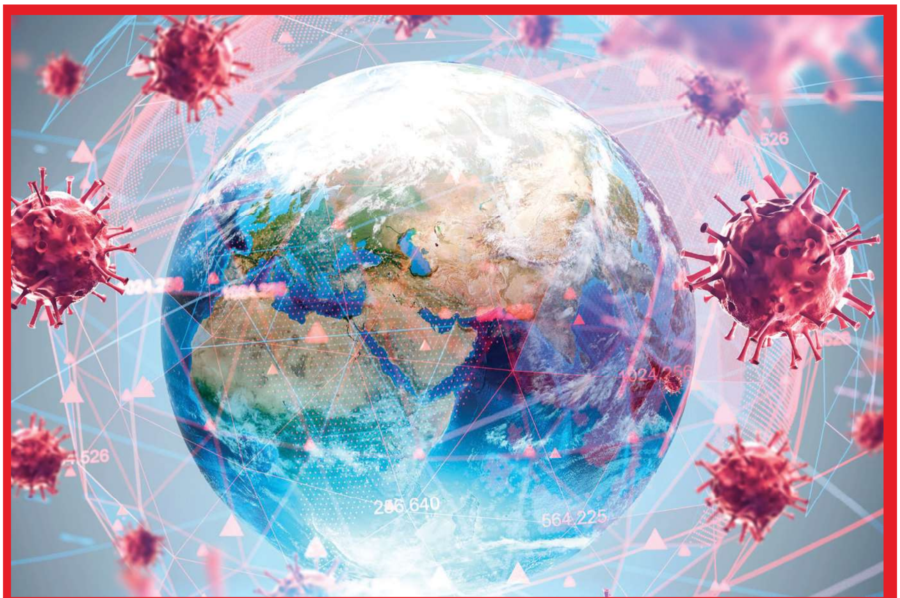
2020: A year in review

This year has been a rollercoaster for the pensions industry. The Covid-19 pandemic has forced pension professionals to adapt to and survive in the most challenging circumstances, all while the Pension Schemes Bill has been making its way through parliament and a barrage of new regulations were introduced. Jack Gray takes a look back



Adapting to a pandemic

As the Covid-19 pandemic swept the globe, the pensions industry and its regulators had to move quickly to minimise its impact. The Pensions Regulator (TPR) issued guidance and eased its regulatory activity, urging trustees to accept employers' requests to defer deficit recovery contributions (DRCs) and extending the late contribution payment reporting deadline. Its guidance updates emphasised employers' continued responsibility in paying minimum contributions and included several provisions around scheme valuations and transfer requests.

Sponsor insolvencies were, and still are, a threat to schemes, and the Pension Protection Fund (PPF) has been vocal in its ability to support them, while TPR published trustee guidance on protecting schemes from potential insolvencies. Throughout the year, the PPF has been releasing defined benefit (DB) scheme funding updates, with the overall deficit rising from £35.4 billion at the end of 2019 to a high of £199.5 billion in July. Despite the obvious impact of the pandemic, many have commented on how well the industry has coped with the challenges so far. The government's Coronavirus Job Retention Scheme assisted employers with their pension contributions for furloughed workers and although there has been an increase in savers pausing or cutting contributions, and accessing their pensions, it may not have been as widespread as first feared.

Progressing legislation

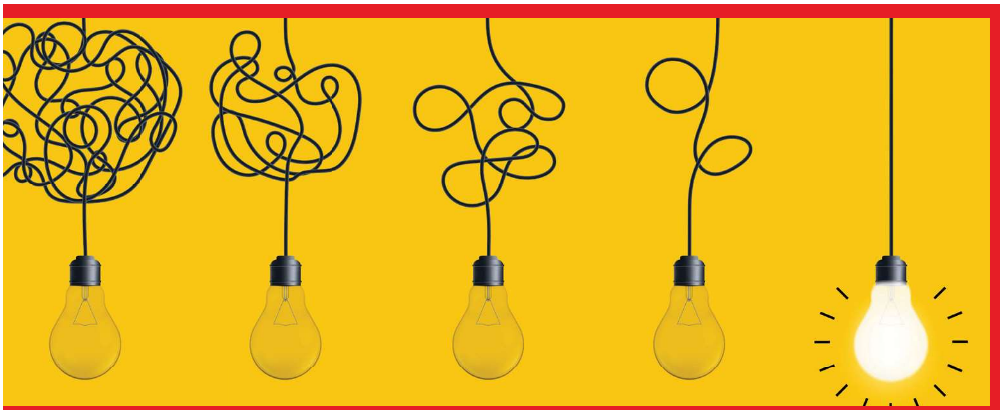
While the coronavirus has been testing the industry, the Pension Schemes Bill has been working its way through parliament. The bill promises to shake up the pensions landscape with the framework for the introduction of pensions dashboards and collective defined contribution (CDC) schemes, expanding TPR's powers, and requiring schemes to adopt and report against Task Force on Climate-related Financial Disclosures (TCFD) recommendations, among many other changes. The bill began its journey to becoming law in early January when it was introduced to the House of Lords. The Lords raised concerns about new criminal sanctions included in the bill, the scope of CDC legislation and detail on dashboards. The government was defeated on four amendment votes in the Lords before it moved on to the House of Commons, where all four amendments were rejected. Amendments were also proposed in the Commons, with some, such as increased powers to stop pension transfers in danger of scam activity, approved. At the time of writing, the bill has passed the report stage and third reading in the Commons and is with the Lords, where they will vote on the proposed amendments and, if in agreement, move the bill to receive royal assent. Pensions Minister, Guy Opperman, has stated his confidence in the bill becoming law by the end of the year and suggested there will be a further pensions bill this parliament.

Dashboards on the horizon
With the framework for the pensions dashboards expected to be in place by the end of the year, the Pensions Dashboards Programme (PDP) announced that the non-commercial dashboard will launch in 2023. In October, the PDP published a timeline for its development, including agreeing the architecture of the dashboards, completing procurement for a supplier for the digital architecture and setting the first version of data standards by the end of the year. Phase two will see development and testing in 2021, followed by connecting volunteer pension schemes and providers in phase three in 2022. In 2023, schemes and providers will be compelled by both legislation and Financial Conduct Authority (FCA) rules to connect to the dashboard ecosystem. The Money and Pensions Service (Maps) confirmed that the dashboards will include state pension data.

Consolidating small pots
It is hoped that the introduction of dashboards will help alleviate the small pensions pots issue. Since the introduction of auto-enrolment (AE), the number of small, dormant and deferred defined contribution (DC) pots has increased, leading to concerns that they could be eroded by flat fee charging structures. The Work and Pensions Committee (WPC) chair, Stephen Timms, has been vocal on the issue, writing to industry members asking for their solutions, while the Department for Work and Pensions (DWP) created a cross-sector working group to assess and make recommendations on ways to address the number of deferred, small pension pots. The government has also continued its campaign in promoting consolidation. In September, it published a consultation that proposed for smaller DC schemes to be expected to initiate wind up and consolidate if they do not offer sufficient value to members.

Codification
In addition to its superfund guidance, TPR has been consulting on its new DB funding code. It launched the consultation, which proposed creating a 'twin-track' approach for scheme valuations, in March. Trustees that are able to demonstrate that their scheme valuation meets TPR criteria for a compliant scheme will be able to follow the 'fast track' route, which is more straightforward but prescriptive, while those who cannot prove that they meet those criteria or prefer a tailor-made approach can select 'bespoke', which offers greater flexibility but requires more supporting evidence on their approach. The submission deadline expired on 2 September, following an extension. The proposals received a mixed response from the industry, with concerns raised around mission creep and the fast-track parameters.

Introducing superfunds
As the landscape moves towards consolidation, TPR launched its interim regulatory framework for DB pension consolidation vehicles in June. The guidance aimed to ensure that savers in DB schemes that move to superfunds are protected in the period prior to government legislation being passed. It was published for those setting up and running a superfund, and explained how they will be assessed and regulated. Later in the year, the regulator outlined its 'gateway principles' for DB superfund transactions in guidance for trustees and sponsoring employers of DB schemes considering a transfer to a superfund. Trustees are expected to demonstrate why a transfer is in the best interest of members, as well as how it would meet a series of 'gateway tests', which trustees must ensure have been met.



Simplification

In October, the government confirmed that it is pushing ahead with legislation around simpler annual benefit statements. It revealed plans for a consultation on a mandatory approach to simpler statement templates for DC schemes. This will take the two-page statement template originally developed during the course of the 2017 review of AE, and included in the initial simpler statements consultation, as the starting point in considering the length, content and design, before working with the industry on the detailed design. Following the implementation of secondary legislation required for AE DC schemes, the government will evaluate the impact to inform a further consultation on how a similar approach for all remaining schemes could be delivered.

Protecting members

After Frank Field lost his seat in the December 2019 General Election, Stephen Timms was elected as the new WPC chair in January. Much of his work in the WPC this year has been focused on pension scams. The Covid-19 pandemic has been hard on people's personal finances and led to concerns that this would cause a rise in scam activity. The WPC launched an inquiry into pension scams in July, working with industry groups to understand and remedy the issue. TPR and the Pension Scams Industry Group (PSIG) launched an industry-wide campaign in November, calling on trustees, providers and administrators to pledge to six commitments, including following the PSIG Code of Good Practice. To help support members' best interests, the FCA moved ahead with its ban on contingent charging for DB pension transfers in October, although some exceptions remain.

Saving the world

Opperman has been vocal in his support of making UK pensions 'greener' and 2020 has seen several changes in this area. Since October, trustees have been required to publish an implementation statement alongside their scheme annual reports and accounts, describing whether certain climate-related policies in their statement of investment principles (SIP) have been followed and disclose the trustees' voting behaviour. Additionally, in August, the DWP launched a consultation proposing requirements for larger workplace schemes and master trusts to publish climate risk disclosures and have effective climate-related governance, strategy, and risk management in place from October 2021. It also proposes that large schemes report on climate risks in line with the TCFD recommendations by the end of 2022.

GMP rumbles on

DB trustees that provided Guaranteed Minimum Pensions (GMPs) will be expected to revisit and, where necessary, top-up historic cash equivalent transfer values (CETVs) that were calculated on an unequalised basis if an affected member makes a successful claim. In a High Court judgment on 20 November, Justice Morgan ruled that Lloyds Banking Group pension scheme trustees are responsible for equalising the GMPs for members who transferred out of one of its DB pension schemes, in the latest chapter in GMP court cases. The ruling is expected to have far-ranging consequences for the wider DB landscape, and will impact DB schemes that provided GMP, accrued between 17 May 1990 and 5 April 1997.

Inflation reform

Late in November, the government announced that the Retail Price Index (RPI) will be reformed to align with Consumer Price Index including owner occupiers' housing costs (CPIH) no earlier than February 2030. Although the government committed to making the change at the later proposed date to mitigate its impact, it said no compensation would be offered to the holders of index-linked gilts. Some have estimated the impact to pension schemes to be as much as £100 billion.

Written by Jack Gray