2023 – the year of the consultation

The *Pensions Age* year in review often claims that the past year has been one of the busiest yet for the industry and 2023 is no different, as the industry was hit with wave after wave of consultations and measures. However, a number of initiatives have faced significant delays, with several updates still awaited as the industry prepares for the new year

January –

- Then-Pensions Minister, Laura Trott, announced a raft of new DC measures in an effort to create "fairer, more predictable, and better-run pensions"
- The government launched a consultation on 'major' changes to the NHS Pension Scheme
- Focus on liability-driven investment (LDI) issues continued following the autumn 2022 volatility, as both the Work and Pensions Committee (WPC) and the Treasury Committee heard evidence from industry experts

February –

- The Pensions Regulator (TPR) announced plans for an ESG non-compliance initiative
- LDI inquiries continued, with the Industry and Regulators Committee also holding evidence sessions

March –

- The Department for Work and Pensions announced plans for a 'reset' on the Pensions Dashboards Programme (PDP)
- The DWP announced its support for a Private Member's Bill on plans to expand auto-enrolment (AE)
- Chancellor, Jeremy Hunt, confirmed plans to abolish the lifetime allowance (LTA) as part of his Spring Budget 2023
- TPR launched a new regulatory initiative on value-for-member assessments
- The WPC switched focus away from LDI, as it announced plans for a new inquiry into the broader DB landscape

April -

- TPR's 2023/24 Corporate Plan revealed a delay in the launch of the new DB Funding Code, from October 2023 until April 2024
- TPR confirmed that it had assessed and authorised the UK's first collective defined contribution (CDC) pension scheme, the Royal Mail Collective Pension Plan
- Capita confirmed that it had experienced a cyber incident and that there was evidence of "limited data exfiltration from the small proportion of affected service estate which might include some customer, supplier or colleague data
- TPR provided updated LDI guidance, alongside updated LDI guidance from the Financial Conduct Authority (FCA)

May -

- TPR updated its guidance on dealing with employer stress or distress to reflect the "ongoing but different" challenges facing the economy
- The DWP launched a call for evidence on the alternative quality requirement for DB and hybrid pension schemes that are used for AE
- An industry coalition of over 20 pension schemes and providers launched to tackle UK pension inequalities, the Pensions Equity Group

June -

- The government shared an update on the PDP reset
- The WPC urged TPR and DWP to 'halt' their existing plans for a new DB funding regime
- The DWP published its review of the 2021 pension transfer regulations, confirming plans to work with TPR and the industry on potential changes to improve the pension transfer experience
- The DWP published its first official report on the gender pensions gap, estimating that the gap was at 35 per cent for private pension savers

July -

- Chancellor Jeremy Hunt's first Mansion House speech revealed plans to "unlock" up to £75bn of additional investment from DC and Local Government Pension Schemes

August -

- TPR provided updated DB superfunds guidance and DC illiquid investments guidance

September –

- The Private Member's Bill to extend AE cleared parliament and was granted Royal Assent
- The Pension Protection Fund (PPF) launched a consultation on plans to halve the levy for 2024/25 to £100m
- The Pension SuperFund confirmed that it had been mothballed after three unsuccessful attempts to complete the assessment process

October –

- The DWP launched a consultation on potential plans to increase the general levy on occupational and personal pension schemes, in an effort to mitigate the ongoing deficit in levy funding

November –

- Chancellor, Jeremy Hunt, provided further updates on a number of pension reforms and initiatives as part of his Autumn Statement 2023
- MP for Blackpool North and Cleveleys, Paul Maynard, was appointed as the new Pensions Minister as part of Prime Minister, Rishi Sunak's, ministerial reshuffle
- Clara Pensions agreed the first UK superfund deal with Sears pension scheme

Winter 2023/24 -

- The government is set to launch a consultation to explore how the PPF could act as a DB consolidator and consider how rules around DB surpluses could be relaxed
- Further updates on a number of initiatives are hoped to appear, including a consultation on AE changes, and updates on the notifiable events regime

The DB Funding Code wait continues

Despite a strong start to the year with a consultation on TPR's draft code of practice, progress since has been much slower, as TPR's 2023/24 Corporate Plan revealed a delay in the launch of the new code, from October 2023 until April 2024.

Both DWP and TPR also faced calls to delay the code, following concerns that the proposed approach is not sufficient to allow open schemes to thrive and could run counter to the Mansion House reforms.

The regulator and government have since hit back at these concerns, arguing that the revised code will still allow DB schemes to invest in a diverse range of assets, with specific consideration for open schemes.

Yet, whilst both the former Pensions Minister, Laura Trott, and TPR had previously slated further updates for autumn 2023, it has since been revealed that the supporting regulations would not be introduced to parliament until 2024, while TPR's code of practice will be shared "on the appropriate timeline".

Supporting the NHS

Efforts to address the impact of pensions taxation on NHS doctors continued this year, as the government announced a number of measures to address staffing difficulties and encourage retired doctors back. This included 'major' changes to the NHS scheme itself, as well as broader plans to axe the Lifetime Allowance (LTA), and increase the annual allowance from £40,000 to £60,000.

Whilst a well-intended announcement, the news prompted backlash from the Labour Party, which threatened to reinstate the LTA should it be elected at the next General Election.

Industry experts also raised concerns that the changes could inadvertently threaten to 'backtrack' on the ability to inherit pension pots tax free.

However, the Autumn Statement brought reassurance that the changes will not require income tax to be payable on inherited pensions where the person dies before age 75, with the abolishment of the LTA confirmed in the November Finance Bill.

Rising prices hit pensions

The cost-of-living crisis was a key concern over the past year, as many were forced to think more carefully about where their pay is going, and whether they could afford regular pension contributions amid rising prices.

Those in retirement were also hit by an increase in costs, as rising food and fuel prices saw the Pensions and

Lifetime Savings Association's minimum living standard increase by 19 per cent, prompting concern that some savers could look to their pension to save money.

These concerns were exacerbated after data from HMRC showed that the government repaid a total of £61.3m to people who overpaid tax when they flexibly accessed their pensions in Q3 2023, up from £33m in Q3 2022, which industry experts highlighted as evidence of the pressure the cost-of-living crisis is playing on everyday finances.

More recent figures from the government have since provided some reassurance, however, revealing that AE had held up well amid the Covid-19 pandemic and cost-of-living crisis, with just 0.8 per cent of workplace pension savers actively stopping contributions in 2022/23.

Looking back on LDI

The past year saw a continued focus on liability-driven investment (LDI) following the autumn 2022 gilt market volatility, with inquiries and evidence sessions held by a number of parliamentary committees.

The regulators and Bank of England also took steps to address concerns following the volatility, issuing new guidance designed to build greater resilience for the future. This included confirmation that TPR expects trustees to only invest in leveraged LDI arrangements which have put in place an appropriately sized buffer, and that this must include an operational buffer specific to the LDI arrangement to manage day-to-day changes, in addition to the 250 basis points minimum to provide resilience in times of market stress.

The government has since accepted a number of the recommendations made around LDI *[read more on page 16]*, with particular plans to improve the amount of data held on LDI in DB pension schemes.

However, despite the changes made, LDI has remained a key theme within the WPC's inquiry on DB, with the committee pushing both TPR and PPF to quantify scheme losses experienced as a result of the LDI issues, particularly in relation to the impact on the Wilko pension scheme.

Highs and lows for superfunds

2023 finally brought an update on DB superfunds, as Clara Pensions announced that it had agreed the UK's first superfund deal with the trustees of the Sears Retail Pension.

The DWP also finally shared a response to its 2018 consultation on superfunds, confirming plans for a permanent superfund regime. However, Clara Pensions remains the only authorised superfund, after The Pension SuperFund (PSF) confirmed that it had been mothballed after three unsuccessful attempts to complete the assessment process. However, *Pensions Age* understands that the idea for the PSF has not been scrapped for good, and that it is waiting for TPR to provide an update on further guidance to make the proposition investable.

Push for AE reform continues

2023 saw encouraging progress around the 2017 AE reforms, with a Private Member's Bill to extend AE to lower earners and younger workers receiving Royal Assent in September.

Yet despite hopes that a consultation on the implementation of the changes could be seen in autumn, this has yet to appear.

However, employers have already begun to take note, as Morrisons became the first employer to announce changes to its pension offering in light of the increased cost under the proposed changes.

And the government is already facing pressure to begin work on the next lot of AE reforms in the meantime, with various industry organisations calling on the government to look to increase minimum AE contributions.

Triple lock conundrum

As is the case every year, the state pension triple lock has remained a hot topic of debate, with research from the Institute for Fiscal Studies (IFS) revealing that maintaining the triple lock could increase spending by anywhere between a further £5bn and £45bn per year by 2050.

However, industry experts suggested that a break in the triple lock would be unlikely in 2023 given the political weight that the mechanism holds, and the potential for a looming General Election.

Indeed, the Chancellor's Autumn Statement confirmed that the government would stand by the promise in full, with pensioners set to receive an 8.5 per cent increase from April 2024.

Yet future promises are less clear, as whilst the Liberal Democrats recently confirmed in their party manifesto that they would opt to maintain the triple lock, Labour and the Conservatives are yet to follow suit.

A push to productive finance

Pension scheme investments have been a key theme in 2023, across both DB and DC. Yet whilst previous years have seen growing focus on the environmental, social and governance impact pension money had, the past year has instead focused on the need to support the UK economy.

Indeed, Chancellor, Jeremy Hunt, announced a number of measures over the past year designed to 'unlock' pension scheme money to encourage greater investment in the UK, including measures in his Autumn Statement and Mansion House reforms *[read more on page 10]*.

The pensions industry has shown some support for the measures, with backing for the Mansion House compact growing as the year goes on. The compact aims to encourage increasing the proportion of UK pension assets invested in unlisted equities through a voluntary pledge by DC schemes to allocate 5 per cent of their assets to unlisted assets by 2030.

However, industry experts have emphasised the need to ensure that member outcomes remain the first and foremost priority.

Dashboards delayed

Work on pension dashboards took a hit in 2023, as whilst industry support for the project has remained strong, resourcing and tech issues prompted the government to announce a dashboards 'reset' in March 2023.

The DWP has since confirmed that amended regulations will include a connection deadline of 31 October 2026, with the remainder of the staging timeline to be set out in guidance, which PDP is expected to engage with the industry on imminently.

The DWP and PDP have both repeatedly stressed, however, that the 31 October 2026 connection deadline is not the Dashboards Available Point (DAP), and that the DAP "could be earlier" depending on industry efforts.

In line with this, the DWP also confirmed that TPR will be ready to enforce the proposed staging guidance for pensions dashboards, with those schemes that choose to hold off on preparations to face scrutiny over the reasoning for this.

Despite the delays, industry efforts have continued, as 2023 saw the first public demonstration of how the dashboards could work in practice.

And further work is underway, as the PDP confirmed that it will be looking to engage with the industry on dashboards connection guidance in "autumn 2023", with engagement on the dashboards standards also set to take place over winter 2023/24.

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