2021: A year in review

2021 may be remembered as one of the most transformational years in history for the sector. Recovery from the Covid-19 pandemic was pursued alongside a barrage of new regulations and consultations, with the industry never being more active in communicating and cooperating with the government and regulators. Jack Gray looks back on a hectic year

January

With the Pension Schemes Bill still making its way through parliament, the government started the year with the confirmation that occupational pension schemes with more than £5 billion in assets and authorised master trusts would be required to have effective climate risk governance, strategy and reporting in place from 1 October 2021.

Following its consultation, the Department for Work and Pensions (DWP) also revealed that the requirements would be extended to schemes with more than £1 billion in assets the following year. A consultation on bringing all other occupational schemes in scope of the regulations will be launched in 2024, following a review.

Alongside climate requirements, January saw the Dormant Assets Scheme expanded to include pensions and investments. The government estimated that the change would unlock £800 million for use in charitable causes due to the amount of dormant assets held in pensions and investments.

February

In arguably the biggest change the pensions sector has seen since the introduction of pension freedoms, the Pension Schemes Act was passed in February. It included a swathe of new regulations, powers and requirements, including extended powers for The Pensions Regulator (TPR), measures to address pension scams, climate risk regulations, a framework for the upcoming pensions dashboards and regulations for the introduction of collective defined contribution (CDC) schemes.

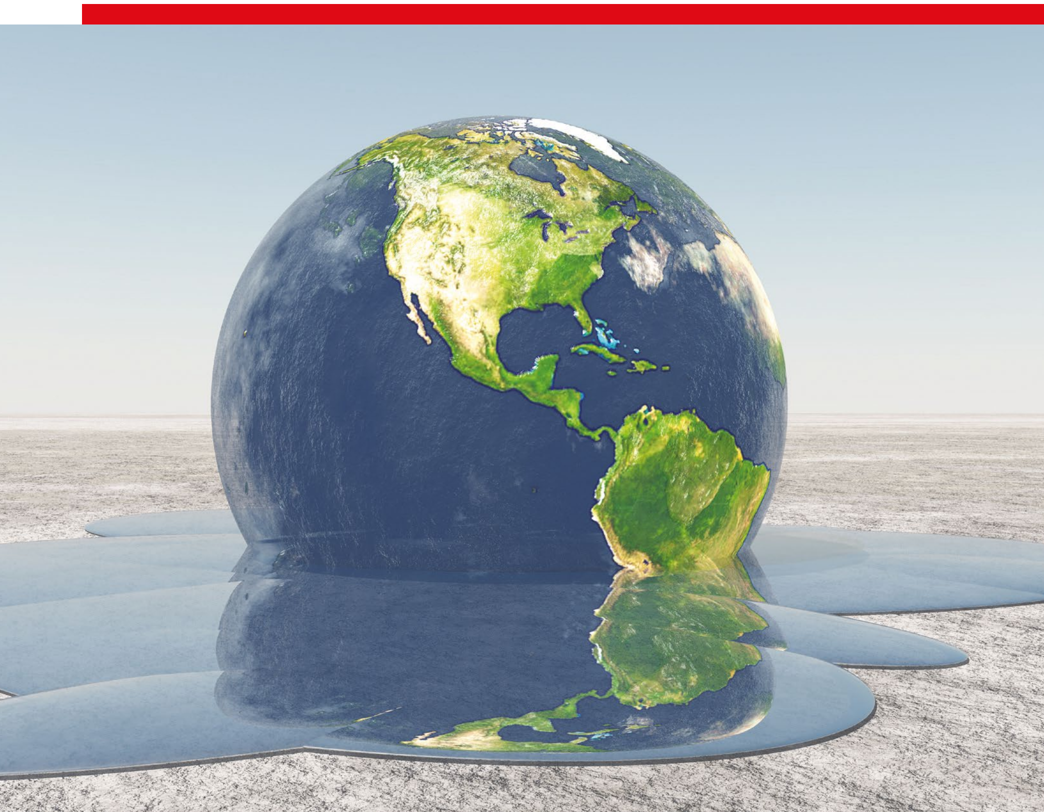
Described as a "historic day for UK pensions" by Pensions Minister, Guy Opperman, the bill was nearly 18 months in the making, after being introduced in the Queen's Speech in October 2019, and saw several failed and successful amendments.

During the month, the government also set out plans to increase the normal minimum pension age from 55 to 57 in April 2028. The hotly debated plan to increase the age at which people can access their pension without incurring a tax penalty was confirmed in July.

March

March saw Chancellor, Rishi Sunak, deliver his Spring Budget. Like many Budgets before it, the pensions industry was discussing the possibility of reform to the pension tax system and auto-enrolment. However, as is the case with many Budgets, the industry was left underwhelmed as the biggest pension announcements were the freezing of the lifetime allowance until 2026 and a consultation on removing barriers to increase DC schemes' investment in a broader range of assets.

In what would prove to be a theme for the year, TPR published a consultation on regulations introduced by the Pension Schemes Act. The regulator sought views on how it planned to use its new criminal powers to investigate and prosecute those who avoid employer debts to pension schemes or put savers' pensions at risk, with the result of the consultation published in September.



of DC schemes used for auto-enrolment in May. Under the proposals, the universal charging structure would have been based on a single percentage charge for member-borne costs, but the government put the proposal on the backburner later in the year following industry feedback.

The same consultation also revealed that the government was going to press ahead with its proposed ban on flat fees on pots worth less than £100.

Progress on the long-awaited pensions dashboards was shown in May, with the Pensions Dashboards Programme (PDP) launching a call for input on the order and timings for the staged compulsory connection of pension providers to the dashboards ecosystem, in what was highlighted as a "huge milestone" by the industry. Work is still ongoing, with alpha testing beginning this month (December).

April

Addressing another key theme for 2021, TPR launched its Climate Change Strategy in early April. It detailed its plans to support trustees through the changes in climate change-related regulations and how the regulator would enforce the new requirements outlined in the Pension Schemes Act. The strategy outlined what guidance it will be issuing to help trustees adjust and TPR's aims for the role of pensions in the fight against climate change.

Meanwhile, the Universities Superannuation Scheme (USS) saga continued, with April marking the month that Universities UK proposed an alternative path to the scheme's 2020 valuation to try and bring costs down. It aimed to prevent "unaffordable" increases to contributions through scheme reform, but the University and College Union (UCU) warned the changes would likely lead to strike action, a prediction that was proved to be correct later in the year.

May

In continued work to simplify pension scheme charging frameworks, the DWP proposed moving to a single, universal charging structure for default funds

June

In June, the government continued to pursue its goal of consolidating the DC pensions market. It issued a

consultation that sought views on the barriers and opportunities for increased consolidation amongst DC schemes with between £100 million and £5 billion in assets.

The call for evidence follows a previous consultation that proposed for schemes with assets below £10 million to wind up and consolidate if they did not offer sufficient value to members.

The June 2021 consultation called for industry feedback on the barriers to schemes with less than £100 million winding up and consolidating, and asked the sector for potential solutions to those barriers.

The government also launched consultations on changes to the cost control mechanism and the discount rate methodology used for public sector pension schemes. Changes proposed included moving to a reformed scheme only design that would remove allowance for legacy schemes in the cost control mechanism and widening the corridor to 3 per cent. Later in the year, public sector unions would seek judicial reviews against the Treasury over its use of the cost control mechanism.

July

CDC pension regulations were consulted on in July in preparation for the introduction of the scheme structure to the UK market. The industry was asked its opinion on draft regulations outlining what CDC schemes must do to become authorised, to operate effectively in the market under regulatory oversight and what happens if changes must be made to their schemes. Queries were also raised around specific elements of the draft regulations, such as the proposed fee structure and schemes divided into sections.

The Aon/Willis Towers Watson merger saga was concluded in July, as Aon decided to terminate its proposed acquisition of its competitor. Following months of developments, including agreed sales to address competition concerns, the final straw appeared to be the US Department of Justice filing a civil antitrust lawsuit to block the merger.

August

TPR announced that it would not be proceeding with plans to limit pension schemes' investments in unregulated assets to 20 per cent in August. The government had been making efforts to encourage schemes to increase their investments in long-term illiquid assets and the regulator noted that consultation responses warned that the proposal could restrict such investments. TPR also acknowledged that its plan has "inadvertently" created a position that would affect well-governed schemes.

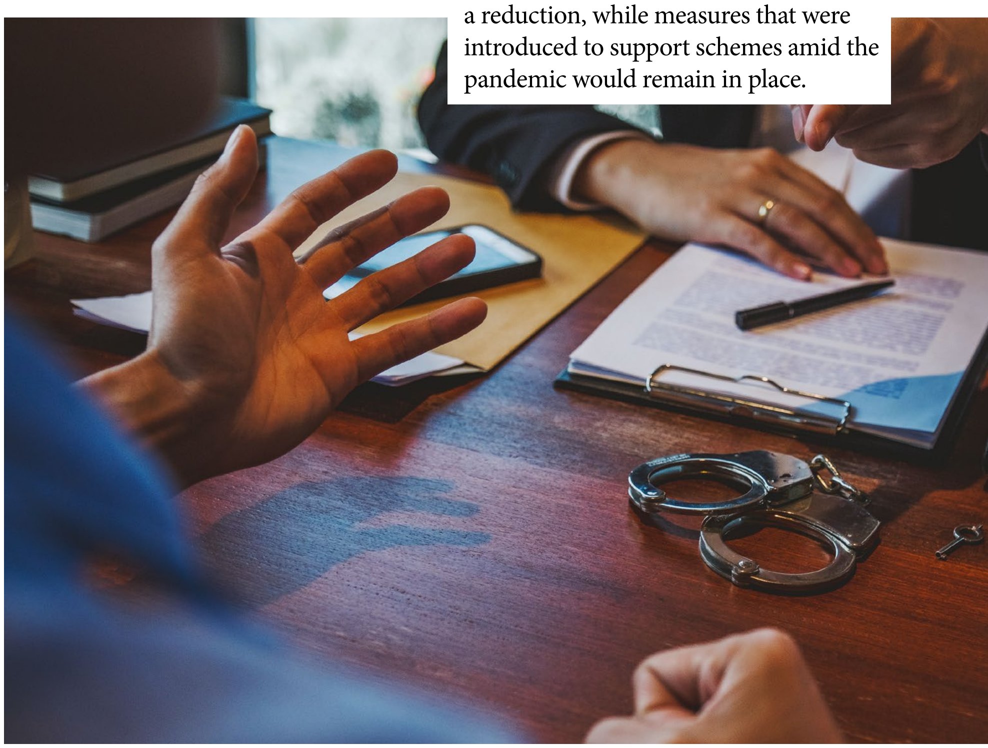
The regulator stated that it would "explore options" for achieving its original policy goal of protecting members of poorly run schemes, whilst allowing schemes with liquidity risk management plans and prudent investment strategies to maintain exposures to unregulated assets.

September

Regulations introduced by the Pension Schemes Act continued to be fleshed out in September with TPR's update on how it plans to use its new criminal powers to prosecute those who put people's pensions at risk and its consultation on its approach to its other powers introduced by the act. TPR published a detailed case study illustrating how it expects to use its new powers and identified common scenarios where it would not usually expect to consider the use of the powers.

The consultation focused on three draft policies, outlining its approach to overlapping powers, monetary penalty powers, and information gathering powers, including the use of section 72 notices, and new interview and broader inspection powers.

Meanwhile, the Pension Protection Fund (PPF) published a consultation on the levy rules for 2022/23, which estimated that there would be a £105 million fall in the levy to £415 million. It revealed that 82 per cent of schemes that pay a risk-based levy are expected to see a reduction, while measures that were introduced to support schemes amid the pandemic would remain in place.



October

October's Autumn Budget announcements were overshadowed by the announcement that simpler annual benefit statements would be introduced from October 2022 and that the government was planning to introduce a statement season. Simpler statements were initially proposed to come into force in April 2022, but the government set back the implementation date following industry feedback. At the Pensions and Lifetime Savings Association Annual Conference, Opperman confirmed that he intended to legislate for a statement season, whereby all pension statements would need to be sent out during a specified time period.

The Autumn Budget contained a long-awaited potential solution to the net-pay anomaly, whereby low earners in net-pay arrangements would receive top-up payments in respect of contributions made from 2024/25 onwards. A government consultation on further changes to the regulatory charge cap for pension schemes was also announced, which aimed to unlock institutional investment to drive innovation.

November

Despite an already busy year, November could prove to be perhaps the most impactful month for the pensions industry in 2021 after February's Pension Schemes Act. Regulations on trustee powers to block suspected scam pension transfers were revealed, alongside the confirmation that the rules would come into force on 30 November. Situations where a transfer should be blocked or investigated were outlined by the government, although some warned that MoneyHelper could face a capacity crunch if trustees adopted an "ultra-cautious" approach to the regulations.

November also saw the government U-turn on its normal minimum pension age plans. The government abruptly closed the window of time during which people could either join or transfer into a scheme that can offer a protected pension age of 55 or 56 following stakeholder concerns. The window was initially proposed to run until 5 April 2023. The government confirmed it would be increasing the normal minimum pension age to 57 in April 2028.

The government also confirmed that it would ban flat fee charges as part of a combination charge on default DC pensions used for auto-enrolment with pots worth less than £100 from April 2022. The change will apply to both active and deferred pots. Alongside this, the DWP stated that consultation found a "broad majority" was opposed to the introduction of a single, universal charging structure for DC default funds used for auto-enrolment and would put the proposal on the backburner while considering its next steps.

Adding to an already jam-packed month, public sector organisations GMB Union, the British Medical Association (BMA) and the Fire Brigades Union (FBU) all sought Judicial Reviews against the government over the use of the cost control mechanism on public sector pension schemes. All three claimed the Treasury was making pension members pay for the cost of the McCloud ruling through the cost control mechanism.

Written by Jack Gray