While some would be forgiven for hoping that 2024 will be a quieter year for the pensions industry, it doesn't look like that will be the case. The Chancellor's Mansion House reforms and Autumn Statement, alongside the DB Funding Code and General Election, mean that this year looks set to be one of the busiest yet. We look at these key issues in more detail.

The year ahead: Pensions in 2024

Following another busy year in the pensions sector, Jack Gray looks ahead at 2024's expected deluge of proposals and initiatives that look set to transform the pensions landscape

Pot for life/small pots

"The 'pot for life' reforms will be a focus for many debates in 2024, after the government announced its consultation in November 2023," says TPT Retirement Solutions DC director, Philip Smith. "In principle, these reforms could be a game-changer for retirement outcomes, by making it much easier for members to manage and monitor their pension savings. However, creating pots for life would represent a huge operational challenge for schemes and employers. It would require a significant overhaul of the entire DC pension system. The changes are likely to be expensive and require substantial efforts from regulators, schemes, and employers to implement."

Fidelity International director, workplace investing, James Monk, adds that it's difficult to talk about 2024 without mentioning pot for life, describing it as a significant change in workplace pensions policy. "Under a pot-for-life scenario, we will see the responsibility to choose the best provider put in the hands of the individual, in a scenario that we know is most likely to be unadvised, and therefore the quality of the decision making to be questionable," he notes.

"There simply isn't enough transparency around the service, costs and investment strategy for members to make quality decisions on such an enormously complex offering, which has a huge potential to negatively impact the outcomes of a generation."

Aegon head of pensions, Kate Smith, also highlights that the development of the Department for Work and Pensions' (DWP) approach to implement its proposed multiple consolidator model in 2024 will likely, along with pot for life, help address the number of small pots.

Value for money
Alongside pot for life, the government's 2023 Autumn Statement included an update on the value for money (VfM) framework. "The DWP and regulator's VfM framework will continue to take shape over 2024," comments Kate Smith. "This aims to improve member outcomes, standardising the metrics used to assess and compare DC schemes and by removing consistently underperforming schemes through consolidation into larger higher performing schemes. Although there is no implementation timeline, trustees will be keen to see how they are stacking up."

PLSA director of policy and advocacy, Nigel Peaple, states that there will be "much work" to help with the development of the VfM framework and on proposals to put a duty on pension schemes to provide more decumulation support to members.

Monk adds that the VfM framework will result in a significant shift in mindset for employers from cost to value. "A big part of the accelerated shift to value will be driven by the increased transparency of splitting the investment charge from the servicing charge and offering consultants and advisers greater ability to isolate the value offered by investment solutions," he continues.

"It will also establish whether the servicing costs do in fact drive a better member experience and improved outcomes. This increased transparency and accelerated shift towards value will likely open the door for the DC industry to think more seriously about true private markets adoption and the most appropriate way of accessing these markets to drive increased investment value and outcomes."

DC pension investment
This adoption of private market assets and investing for 'UK growth' is something the government has been pushing for, and it seems that this drive will continue in 2024. Just Group group communications director, Stephen Lowe, notes that if there is common theme from the Mansion House speech and Autumn Statement, it is that the policies broadly support the 'building back better' agenda. "Plans outlined in the Mansion House speech, with added details provided after the Autumn Statement, outline a vision of 'British growth driven by British financial firepower' with the promise of higher pensions all round – £1,000 a year to the average worker – and better public services," he says.

Janus Henderson Investors director of institutional business, DC, David Whitehair, adds: "From an investment perspective, following the Mansion House Compact we can expect to see more DC schemes exploring the role of alternatives and private markets and how they could fit into default fund design. Whilst it is likely we will see new allocations across the market, these will remain at low levels given the cost implications and governance complexities of incorporating private markets.

"Other areas of focus from a DC investment perspective will likely be schemes continuing to evolve portfolios in the wake of challenging markets in recent years. Whilst new opportunity presents itself in fixed-income markets, with the interest rate cycle potentially peaking and possible declining yields offering the prospect of returns enhanced by capital gains, we can still expect to see schemes looking for more diversified exposure across fixed-income sectors."

Monk adds that DC schemes will "undoubtedly" allocate further money to private markets in 2023, and emphasises that the route early adopters take may have long-lasting implications for the industry and there will be challenges along the way.

Meanwhile, Philip Smith expects substantial innovation in the DC pension market this year: "DC schemes are now moving towards investments that diversify risk and promise superior long-term returns for members. This presents a distinctive opportunity for the DC master trust sector to be at the forefront of developing these investment strategies with an increased allocation to illiquid assets."

Auto-enrolment
Another key theme in the DC pensions space this year is auto-enrolment (AE), with a Private Member's Bill to extend AE being introduced last year. The industry has been calling for the reforms for years, and it hopes they will be implemented in 2024.

"Adequacy of contributions remains the biggest challenge for DC pension provision," argues Society of Pension Professionals president, Steve Hitchiner. "We are expecting secondary legislation in 2024, to reduce the minimum age for AE from 22 to 18, and to remove the lower limit on qualifying earnings. These measures will be helpful, but fundamental review is needed, to increase minimum contributions over time, and to extend AE to casual workers."

Philip Smith concurs: "The introduction of AE has significantly reshaped the DC market for members, fostering the development of well-governed master trust pension schemes that are adept at delivering stable and satisfactory outcomes. We expect this trend to continue with the expansion of AE to younger and part-time workers in 2024. This reform could substantially improve the retirement outcomes of thousands of employees once implemented."

Further developments in AE could be seen this year, with Pensions Management Institute director of policy and external affairs, Tim Middleton, noting that pressure remains on the government to increase minimum contribution rates and "we may see early moves to increase the minimum rate to 12 per cent of qualifying earnings".

Collective DC

Last year witnessed the authorisation of the first collective DC (CDC) scheme in the UK, and it seems like this progress may continue in 2024. "There is strong consensus between the principal parties about the benefits of CDC, and it is likely that we will see extensive consideration of how it might be implemented in the UK," Middleton says. "It is likely that we will see a consultation on decumulation-only CDC schemes, and this may well be followed by discussion of establishing a whole-life CDC master trust."

Whitehair adds that development in the decumulation space will likely take place in 2024 and, with Royal Mail's CDC scheme going live, he expects more DC schemes, particularly master trusts, to be watching on with "keen interest". "CDC has been touted as a possible solution for decumulation following a traditional DC accumulation phase," he notes.

DB pensions

One of the key themes of 2023 was the significant improvement in DB pension schemes' funding levels, the record level of de-risking activity, and evolving endgame solutions. "For many DB funds, healthy funding levels mean thinking about the long term – will they aim for a traditional buy-in/buyout or seek to 'run on' or opt for a DB master trust or DB superfund," says Peaple. "We will be arguing for pension schemes to be given the widest range of options, including the DB superfund regime to be put on a statutory basis as soon as parliamentary time allows."

Van Lanschot Kempen head of investment strategy UK, Alastair Greenlees, adds that the status quo of endgames is "truly broken", with desire in the industry to explore other options to buyout and run-off. "Government intervention, changing make-up of trustee bodies, sponsors becoming interested in surpluses, not seemingly endless deficits, all combine to create a backdrop of both uncertainty, but opportunity and interest in new solutions," he continues. "De-risking and insurance transactions will continue in 2024, the latter at its highest ever level, but not as the only show in town."

Hitchiner comments: "A range of policy options for DB schemes will be explored in 2024, with two important consultations expected in the early part of the year. The DWP will consult on reducing barriers to returning surpluses, including the possibility of 100 per cent Pension Protection Fund (PPF) benefit coverage in exchange for a higher levy. The DWP will also consult on a separate public consolidator run by the PPF, for schemes where other consolidation options are unavailable."

Further key developments expected include The Pensions Regulator's (TPR) long-awaited DB Funding Code and General Code, with Hitchiner noting that the path for the DB Funding Code is a little clearer, as legislation is expected for April and a revised Funding Code for the autumn.

"Our number one priority will be making the case for greater flexibility in the DB Funding Code, especially for open DB schemes or closed schemes with a longer investment time horizon," states Peaple. "This works for DB schemes and supports UK growth. Importantly, we will be grappling with the promised 'winter' consultation on a public sector consolidator for DB schemes."

Lifetime allowance

One thing we know for certain is that the government will abolish the lifetime allowance (LTA) from April. "From a regulatory perspective we start with one big known and rapidly move into increasing uncertainty," says LCP head of research, David Everett. "The big known is that the abolition of the pensions tax LTA will be on the statute book before the General Election, whenever it is called. HMRC has done pretty much all the heavy lifting on this, in remarkably short order, and everyone now needs to gear up to operate the new regime from 6 April 2024, particularly scheme administrators."

However, Lowe queries whether the abolition was a simplification of pension rules, noting that the abolition of the LTA signalled the introduction of two new allowances. "That gives advisers, providers and administrators around four months to get to grips with the details," he says.

Kate Smith adds that the industry is "rightly concerned" about the feasibility of the April 2024 deadline.

General Election

Despite all the potential developments in 2024, one thing looms over pensions policy like nothing else: This year's General Election. We are yet to find out exactly when it will take place, but industry commentators are concerned it could affect progress on pensions policy, with Everett saying there is a "clear risk" that the election could intervene at the wrong time and "throw up into the air things that are on the verge of being delivered".

"The most significant development in 2024 will be the General Election and the possibility of a change of government," argues Middleton. "Therefore, it would be logical to focus on policies pursued by the current government that are likely to be retained by any successor."

Monk concludes: "Irrespective of the winner of the next General Election, there is likely to be a focus on pension policy, with Labour already promising to look holistically at pension policy. As such, this represents a huge opportunity and also the potential for huge disruption."

Written by Jack Gray