PLACARD

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STATE OF THE NATION

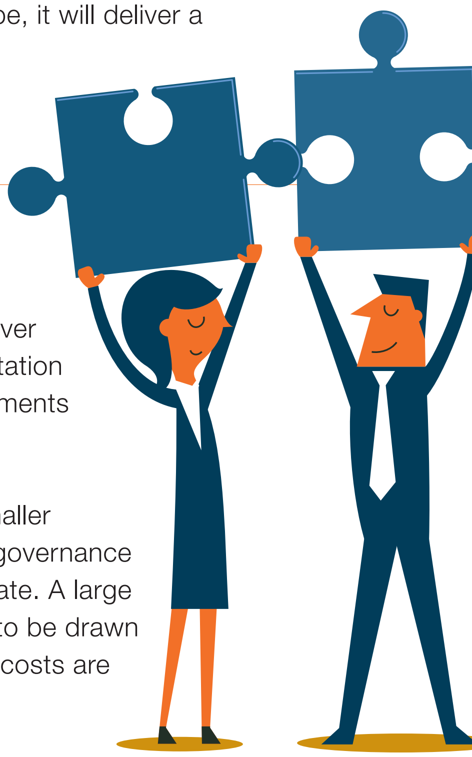
After a brief lull during the Winter, the pensions industry is once again full steam ahead on a number of different fronts. This is recognised by TPR's Annual Funding Statement which, whilst retaining an element of guidance on funding valuations, recaps the many other issues that trustees and sponsors should be thinking about. Perhaps it is time to think about dropping a word from its title.

That TPR feel the need to comment so widely highlights the level of uncertainty that exists on a number of different fronts at the moment. The content of the *Pension Schemes Act 2021* had been mooted for some time, but it is only now that we are starting to get some flesh on the bones, and even then only sparingly. Trustees and sponsors will be looking to TPR and to their advisers to help them navigate the current environment to ensure they are reflecting the direction of travel whilst dealing with the possibility of moving goalposts further down the line.

However, that is not to say that the detail should be rushed, particularly when it comes to the funding code. Part of the reason for the delay with this is the sheer volume of responses to the initial consultation, and TPR is right to take the time to consider the feedback and ultimately, we hope, it will deliver a framework that is fit for purpose in today's environment.

Tom Hargreaves, Editor

When is consolidation not consolidation?



Replacing 10 codes of practice with a single, "consolidated" code was never going to be a straight-forward task, but we were disappointed that TPR's consultation included no clear summary of which requirements are new, what existing requirements have been removed and which are simply consolidation.

Of the new requirements, the 'Own Risk Assessment' may raise concerns for smaller schemes and is the latest in a list of additional governance-related costs. Good governance is clearly an important part of running a scheme, but this needs to be proportionate. A large number of schemes with fewer than 100 members are exempt (and the line has to be drawn somewhere), but there remain many at or slightly above that level where running costs are an issue, particularly post-Covid. Click **here** for further details of our response.

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Pension Schemes Act 2021 in practice

In the last few months, we have started to see the potential fruits of the PSA21 tree planted earlier in the year with consultations from TPR on its draft guidance on the new criminal offences and from DWP on TPR's Contribution Notice and information gathering powers.

The potential for criminal sanctions has been a hot topic for trustees, sponsors and advisers alike, though firm conclusions have been held back in expectation of TPR's guidance. Given the wide set of scenarios that these sanctions could potentially be applied to, **our response to the consultation** calls for further clarity to avoid the risk of unintended consequences.

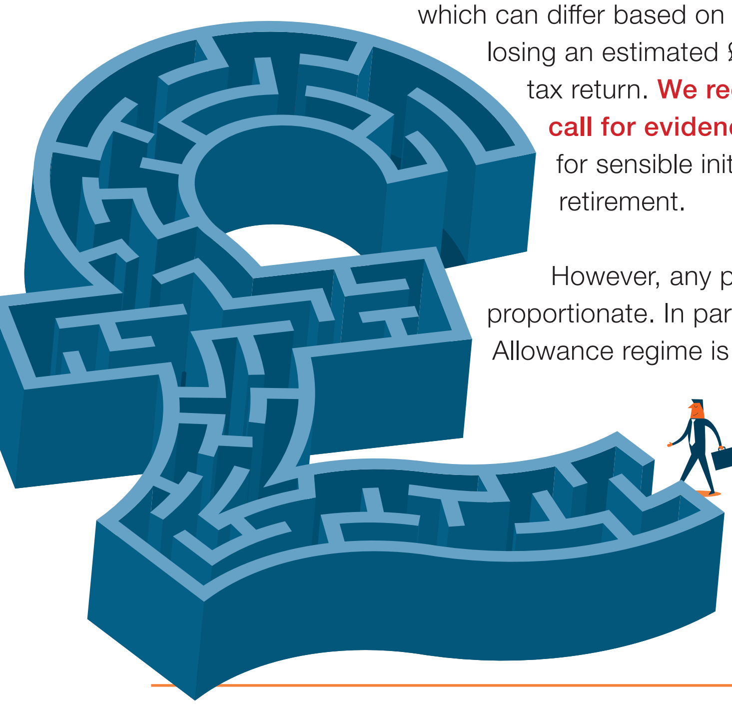
Uncertainty was also the theme of **our response to DWP's consultation**, in particular around the employer resources test and the possibility of 'normal' corporate activity resulting in exposure to a potential Contribution Notice.

Ultimately, we believe this lack of certainty could indirectly weaken schemes through overly cautious behaviour, e.g. by discouraging investment in companies that sponsor DB schemes or stifling sponsors trying to improve their fortunes post-Covid. It would be a shame if measures brought in to better protect schemes ended up doing more harm than good.

Dealing with pensions tax complexity

We have repeatedly called for a review of the current pensions tax regime, and given rumours swirling around the March Budget were relieved that the Chancellor did not attempt to bring in major changes prematurely. Such a review needs to be carefully considered rather than being used as a knee jerk reaction to increase tax revenues post-Covid.

Complexity is not just limited to working out where tax payments fall due, but also how tax relief is claimed, which can differ based on the arrangement and results in higher-rate taxpayers losing an estimated £750 million in tax relief by not claiming this through their tax return. **We recently responded to the Office of Tax Simplification's call for evidence** on third-party data reporting to express our support for sensible initiatives that make it easier for individuals to save for their retirement.



However, any proposals would need to be realistic, manageable and proportionate. In particular, any automatic management of the Annual Allowance regime is unlikely to be practical (especially for DB savings) and may well be time-limited if the regime as a whole is soon to be overhauled. A recent response from Government, to calls for a review the pension tax regime from the Treasury Select Committee, suggests the Treasury see reform as being in the 'too difficult' tray at the moment with other post-COVID-19 financial challenges taking priority.

Looking back at DC freedoms

It is now more than six years since the Pension Freedoms started to offer DC retirees the option to, amongst other things, cash in their pension and buy a certain brand of Italian sports car. The latest element of the Work and Pensions Committee Inquiry into protecting pension savers focuses on accessing pension savings, and **our response** calls for the industry to aim higher. Whilst there is strength in the individual elements, the system is disjointed and access to the full range of flexibilities remains mixed, particularly across different types of arrangement.

Our *Pensions: Build back better* report noted that 62% of employers think that more flexibility would increase employee saving, so it's important that this flexibility is accessible. Continued consolidation in the DC market will likely help with this.

With choice often comes complexity, and there remains a black hole in the guidance and advice system which needs to be filled, not only for the 'at-retirement' decisions but also in terms of greater engagement through the accumulation phase. Those who have engaged with their pension savings during their employment are more like to be engaged and informed when they retire. The ACA was invited to expand on our comments in front of the Work & Pensions Select Committee in mid-June.

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Professional standards

As the world in which we give our advice changes, professional standards need to keep up. **Our response** to the FRC's initial call for feedback as part of its post implementation review of the TASs highlights the success of the TASs in improving the standard of technical actuarial work across the industry. The principles-based standards give actuaries the opportunity to use their judgement and take a proportionate approach to meet the needs of users of our advice, which can be extremely varied.

However, more recently the approach to delivering advice has evolved to become more interactive, and potentially incorporating 'real-time' information. With an increasing focus on long-term objectives and journey planning, this trend seems unlikely to reverse. Our response suggests that this should be a key factor for the FRC to consider.

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Climate change

In June the **Climate Risk Group responded** to the Work & Pensions Select Committee's Inquiry: Pensions Stewardship and COP26.

Earlier in the year the **Group responded** to the DWP's consultation: Taking action on climate risk: Improving governance and reporting by occupational pension schemes. The ACA's view is that climate risk management is very important, however, it's an area that most trustees are still getting to grips with and where complete information is not yet always available. The ACA has called for the Pensions Regulator to have a major role in helping schemes understand what is required of them.

Forthcoming activity

- Many more consultations over the Summer from all and sundry!
- 2021 ACA Pension trends survey will be seeking responses over the Summer.
- Sessional meetings will continue virtually for the time being but we are exploring a return to some 'in person' meetings from the Autumn (COVID-willing).
- Our next Autumn Conference will again be web-based, but we hope that we may return to organising 'in person' conferences from the Spring of 2022.

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Placard is the periodic briefing and discussion paper of the Association of Consulting Actuaries. Please note that the views expressed in this publication are not necessarily the views of the Association and can reflect those of individual authors.

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