PLACARD

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CALM BEFORE THE STORM?

After the whirlwind that was the last few months of 2022, the relative stability of early 2023 seemed like a blessing, but it didn't take long for events to stoke the fire again with the Work & Pensions Select Committee stirring the pot of pensions reform arising from the LDI 'events' of the autumn and – more recently – the Chancellor surprising all with some adventurous pension tax reforms. For a short period there was even a little excitement that humanity may have been shooting down extra-terrestrial objects in North America, but we'll perhaps park that one for the time being!

The pensions industry, as ever, is busy, and I'm sure there were more than a handful of people who spent the period of limbo between Christmas and New Year ploughing through TPR's second consultation on the revised Funding Code. The Single Code of Practice is also due "imminently" (it's 'oven ready' as one observer put it), and the number of consultations ongoing and coming up suggests a busy year ahead for the ACA and its various committees.

Much of the critical thinking is focused on the future: how can we best manage DB risks; how can we bring CDC to the wider population; how can DC be adapted to improve member outcomes; how can we better engage the public with their pensions. Consolidation in some shape or form is an answer to a lot of this, but we need to be aware of the systemic risks that this creates, as the LDI crisis showed. When Tony Blair and William Hague join the consolidation bandwagon (see below) systemic risk becomes a real concern! After all, who knows what we will have to deal with next?

Tom Hargreaves, Editor

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Cracking the Code

It's fair to say that TPR's planned update of the Code of Practice on Scheme Funding has had a lot to overcome, contending with a global pandemic alongside three changes of Prime Minister since the publication of the White Paper in 2018. The **second consultation** was launched in the wake of the LDI crisis and in an economic environment where interest rates are higher than they have been since November 2008.

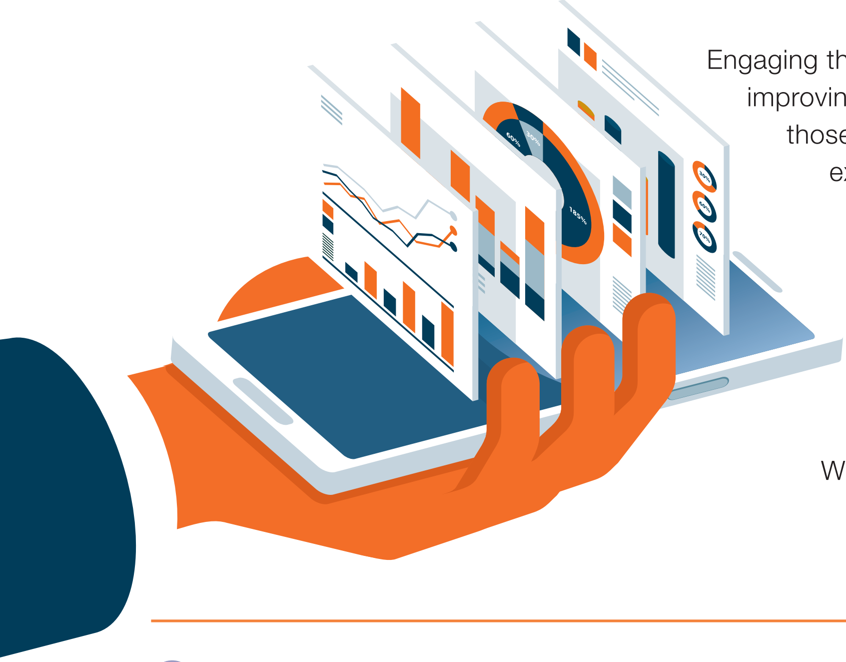
The fundamental objective, though, has remained unchanged throughout and it boils down to this: making sure that trustees and sponsors have a clear strategy for dealing with schemes and their risks in the long term. This messaging has been signposted for a while now, in particular through the Annual Funding Statements, and many schemes will have a strategy in place and be part of the way along the journey. Amongst other things, it's important that the well-prepared schemes are not penalised for their foresight.

The small fly in the ointment is that DWP's regulations are expected to continue to evolve and we await a response to that consultation with interest. It feels like there is light at the end of the tunnel, but there will still be plenty for DWP and TPR to work through once TPR considers the breadth of responses, including our own to the draft **Regulations** and **Code** over the next few weeks.

The results of the ACA's survey on the Funding Code, conducted in January, highlight that many of the key stakeholders remain very unsure about how the proposed new funding code will impact on schemes and sponsors.

New Minister agrees: Don't dash for dashboards

Another thing that has been coming for some time is the dashboard. This is a great concept, building on what many administrators and providers have been doing for some time, and whilst the pensions industry is rarely accused of rushing into things, it is absolutely vital that the dashboard launch is done correctly. It's now reasonably clear what will be expected of trustees, schemes and administrators. The question is can the industry deliver on this on top of the increasing workload in other areas? It goes without saying that it would be an absolute disaster if members of the public were to become disenfranchised with dashboards after their first experience, even putting aside the time and cost of developing this.



Engaging the public with their pensions is a key way of improving outcomes in retirement, but if there are those who see only half the pensions they are expecting to see when they log in then this is more likely to have the opposite effect. The ACA made written representations to the new Pensions Minister, Laura Trott, that appropriate time should be taken now to make sure that the concerns expressed above are considered fully and that this should prompt a pause in the timetable. We were glad she recognised that need.

Communicating CDC

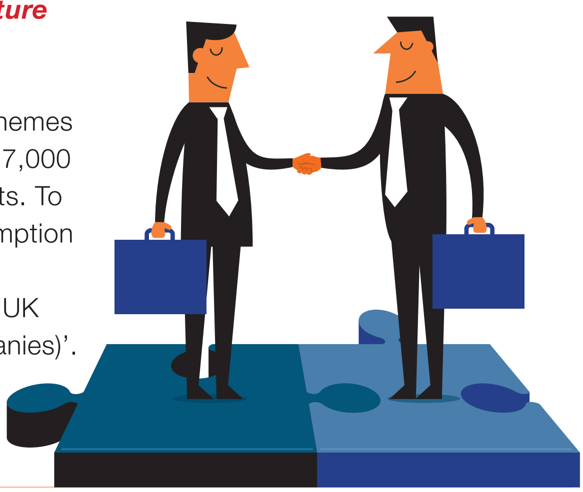
CDC continues to evolve, and the latest consultation sets the stage for members outside of the largest employers to access CDC, either through multi-employer / Master Trust arrangements or decumulation vehicles. Allowing access to CDC for smaller employers makes this a genuine option for those considering alternatives where DB has become too expensive, or for employers wanting to take more of a risk-sharing approach with its employees. We have **responded** positively to the opening up of new opportunities.

Since the introduction of flexi-access drawdown with the pensions freedoms, one of the main risks to DC members is that their drawdown pot runs out while they still need it. Having access to CDC in the decumulation phase will help solve this problem, provided that the income stream is high enough to begin with. The sharing of risk is a key component of CDC that will need careful communication to ensure members know what they are getting into, and this is particularly the case in the decumulation-only case (where members are effectively buying a product). However, for those in a DC world looking for more security, the key risk always remains that what you get out is determined by how much you put in.

Consolidation

With news the IFS is joining with Abrdn to launch a private sector-led Second Pensions Commission to rejuvenate plans for UK pension reform, two 'big guns' have joined the siren calls from DWP, TPR and others for greater consolidation in the pensions sector. None other than those old adversaries Tony Blair and William Hague have joined forces in their recent publication ***A New National Purpose: Innovation can power the future of Britain***, where they recommend:

'The DB system should be consolidated from over 5,000 schemes to 100 or less and the DC system should shrink from over 27,000 individual employer schemes to a smaller set of master trusts. To encourage consolidation, the pension capital-gains tax exemption should only remain for funds with over £25 billion under management and that allocate 25 per cent of their funds to UK assets (for example infrastructure, equities or growth companies)'.



Now there's a wake-up call!

Capital ideas

In an industry where innovation is rife, it is a slight shame to see that, on the face of it, capital-backed products seem to have stalled.

Clara-Pensions completed TPR's assessment process in November 2021, but we await confirmation of a first transaction and the superfund market remains a market of one at this stage. There was also much talk around capital-backed journey plans following the first transaction in April 2020, but again there has not yet been anything further.

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There has, however, been plenty of work going on in the background on both fronts, with Clara working on prospective transactions and a number of new providers looking to quote in the CBJP market – the LDI crisis is unlikely to have helped here as the goalposts for many schemes changed almost overnight e.g. some now find themselves much closer to a potential buyout. Innovation takes time, and after a number of near misses it looks like 2023 might finally be the year that these vehicles get off the ground.

Pension tax

There are times when it's good to get together and agree rules that govern the way we behave for the longer-term. Pensions taxation is one such area and that's why at the ACA we've long argued for a thoughtful review of the regime, ideally striving for a cross-party consensus. If you want people to save hard-earned cash to meet the shortfall most will inevitably have after they've received their modest State Pension, they need to be able to trust that tweaks to the pension tax regime won't spirit away their savings. Unfortunately, we've seen little stability or consensus in the area of pension taxation in recent times. When Government's aren't tweaking the rules to raise a few million here or there, they are surprising us all with new 'freedoms' or 'new simplification' or – as with the latest change – simply surprising us!

That's all well and good if the surprises are good enough to stick the test of time or are the product of a hard-worked out new consensus between the political parties – like the AE reforms. But if they're not, whilst they may bring a short-term glow, there's every chance there will be pain on the horizon if the occupants of the political deckchairs change or Government finances need a further pinch (having set a cap on the level of tax-free cash that can be taken, it is easy to see that being lowered).

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