INSIGHT

DEVELOPMENTS IN OCCUPATIONAL PENSIONS

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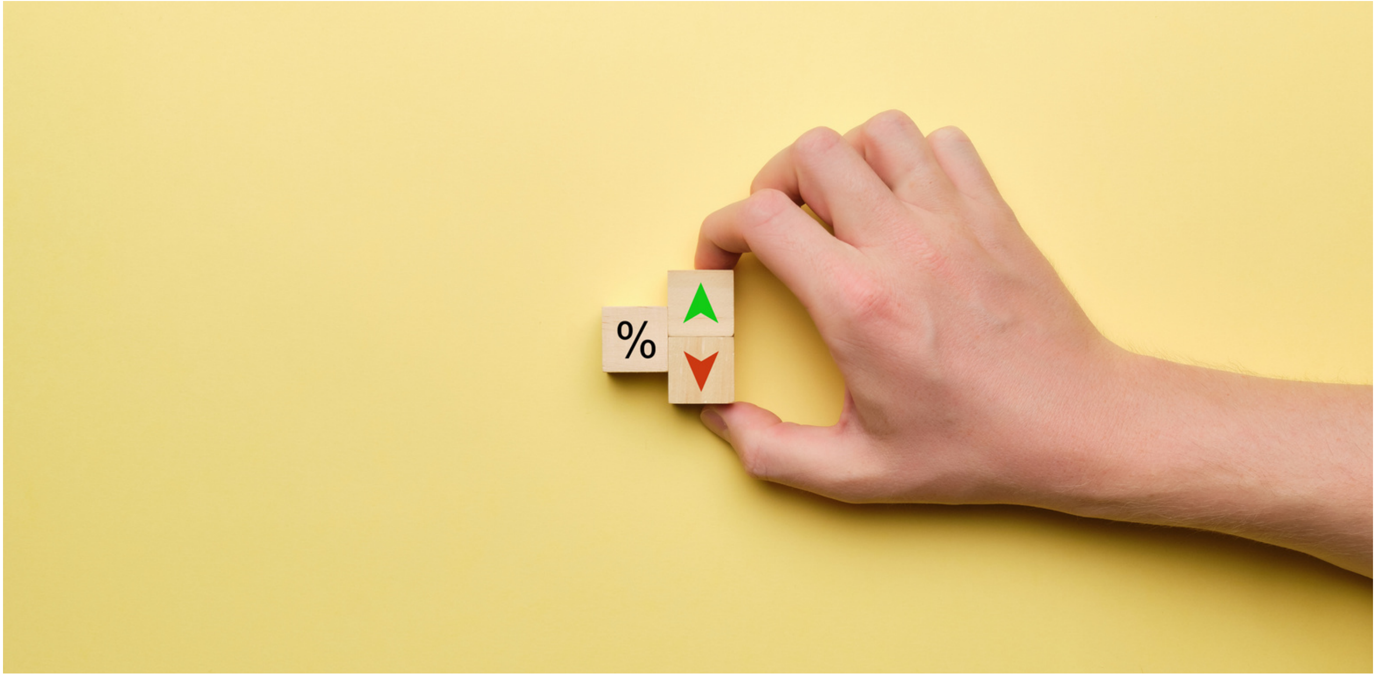
hughespricewalker

CONTENT

PPF CONSULTATION 2024/25 LEVY RULES



The Pension Protection Fund (**PPF**) has published its consultation for the 2024/25 levy year rules. It intends to set the levy estimate at £100m, which is a £100m reduction from the levy estimate for 2023/24 and is the lowest levy estimate the PPF has ever set. The PPF's intention is to hold the levy estimate at this level for future years, unless there is a significant change in either the risks the PPF faces or its legislative framework.

The two main changes from the 2023/24 are an increase in the levy scaling factor from 0.37 to 0.40 and a decrease in the scheme-based levy multiplier from 0.000019 to 0.000015. It is expected that no other significant changes will be made as the PPF has expressed a wish to make limited changes this year.

The PPF expects that 99% of schemes will see a decline in their total levy between the 2023/24 and 2024/25 levy years. On average, schemes are expected to see a 25% reduction in the scheme-based levy and a 40% reduction in the risk-based levy.

The PPF confirms in its consultation that it intends to delay any revision to the asset stress factors, despite the significant volatility in interest rates over the last year. It appears likely that the 2025/26 levy rules will include changes such as increasing the investment stresses by considering worse economic scenarios and introducing an additional factor on the liabilities.

The consultation is running from 11 September 2023 to 30 October 2023 and the conclusions are expected to be published in December 2023.

If you would like any further information, including details on how HPW can help you to monitor your PPF levy, please speak to your usual HPW contact.

EMPOWERING SAVERS, NURTURING GROWTH AND EMBRACING INNOVATION THROUGH MANSION HOUSE REFORMS

The Chancellor unveiled a set of innovative 'Mansion House reforms' aimed at unlocking capital within the financial services sector for the most thriving industries. These measures are geared not only to enhance savings returns but also to foster economic growth across diverse sectors.

Empowering Savers and Nurturing Growth

At the core of these reforms lies a commitment to empower savers and provide essential funding for high-growth enterprises. With the UK boasting the largest pension market in Europe, valued at an impressive £2.5 trillion, the government is channelling efforts to optimise outcomes for pension savers. A new industry-led initiative commits major Defined Contribution (**DC**) pension providers to allocate a minimum of 5% of their default funds to unlisted equities by 2030. This strategic move ensures secure pension investments as well as injecting vital funds into high-growth sectors, fostering innovation and economic vitality.

Additionally, the government is exploring avenues for greater government involvement in establishing investment vehicles. Collaborating with institutions like the British Business Bank, these initiatives are set to bolster the financial landscape, creating a robust platform for growth and innovation.

Becoming the Global Capital for Capital

The reforms also focus on attracting the world's most dynamic companies to establish and expand their operations within the UK. By fortifying the country's position as a premier listing destination, the government is actively incentivising global enterprises to call the UK home.

A new development is the introduction of an 'intermittent trading venue,' set to launch before the end of 2024. This innovative platform acts as a bridge between private and public markets, providing private companies smoother access to capital markets before their public listings. By easing this transition, the UK aims to facilitate a seamless pathway for businesses to thrive and innovate.

Embracing Opportunities of the Future

To support these ambitious reforms, the government is revamping the financial services rulebook. The objective is clear: to create a growth-friendly regulatory framework, positioning the UK as a sign of stability and innovation. Through the 'Smarter Regulatory Framework,' the government is streamlining regulations, making them more competitive and tailored to the UK's unique position outside the EU. This overhaul ensures financial stability while safeguarding consumers' interests, striking a delicate balance between growth and responsibility.

Moreover, the UK government is actively embracing technological advancements. Initiatives like the 'Digital Securities Sandbox' foster the integration of cutting-edge digital asset technology into financial markets. This technological integration enhances efficiency and adaptability, ensuring the UK remains at the forefront of financial innovation.

2023 DASHBOARD NEWS!

July 2023: the Pensions Administration Standards Association (**PASA**) issued a brief update outlining the importance of maintaining accurate data. PASA recommends that in addition to mortality screening which is regularly carried out by many schemes to ensure pensioners are alive and remain living at the address held in payroll records, schemes should consider checking address data for all members. The update provides examples of data sources that may be checked against and explains that schemes may prefer to appoint third party agencies to access available data sources on their behalf.

Details of the Dashboard guidance issued by PASA can be found Here.

9 August 2023: The Department for Work and Pensions issued updated guidance on The Pensions Dashboards Regulations 2022 relating specifically to deferred connection to the Pension Dashboard. The guidance covers relevant occupational schemes (those with more than 100 active, deferred and pension credit members) for which an overall connection deadline exists of 31 October 2026. The overall deadline in legislation is 31 October 2026, however dashboards may be made available to the public earlier than this.
Applications to defer connection by up to 12 months can be made if the trustees/managers can provide evidence to show that, before 9 August 2023:

- they had embarked on a programme to transfer the data held by the pension scheme to a new administrator; and / or
- they had entered into a contract containing an obligation to retender the administration of the scheme and the timetable for this is reasonable and conflicts with the staging deadline for the scheme.

Evidence that complying with the deadline would be disproportionately burdensome or would put personal data at risk is also required. Permission to defer can only be given once.

The 2022 Regulations require applications to be made within 12 months of regulation 15(2)(aa) coming into force. Regulation 15(2)(aa) came into force on 9 August 2023, therefore the latest date for making an application would be 8 August 2024. If this is relevant to your scheme, details on how DWP will consider applications can be found Here.

TPR has recently published a Pension dashboard checklist. Read our News to find out more about it.

Next Steps
HPW continues to liaise with its software provider on the options available. Your HPW consultant will provide you with updates once guidance on the new staging dates is available to ensure all data is available and in the correct format.

OPTIMISING PENSION OUTCOMES: EXPLORING TRUSTEE COMPETENCE AND ADVISORY PRACTICES THROUGH THE CALL FOR EVIDENCE

In the dynamic landscape of occupational pensions, trustees play a vital role in managing nearly £2 trillion of assets for savers. However, concerns arise, especially among smaller schemes, regarding trustees' awareness of their duties and obligations. Aiming to ensure savers receive maximum benefits, the UK government has issued a Call for Evidence (now closed) focusing on the following three critical areas.

Trustee Skills and Capability:
Chapter 1 seeks insights on the current state of trustee capabilities. The government is exploring potential policy options such as trustee registration, accreditation requirements, and professionalism to enhance trustee competence.

The Role of Advice:
Chapter 2 delves into the advisory process, acknowledging the complexity of investment choices. Trustees often seek advice, and this chapter aims to ensure that advice is of high quality, enabling trustees to make well-informed decisions. It also emphasises the need for trustees to comprehend and question the advice they receive.

Barriers to Trustee Effectiveness:
Chapter 3 addresses the challenges faced by trustees, including fiduciary duties and the adequacy of existing frameworks. It examines whether trustees have the necessary time and support to achieve their duties effectively, with a focus on ensuring decisions align with the long-term interests of savers.

Through this comprehensive examination, the government aims to bridge the gaps in trustee capabilities, improve governance, and facilitate investments in high-growth opportunities, ultimately maximising outcomes for pension savers and contributing to the growth of the UK economy. The Call for Evidence seeks input from various stakeholders to inform future policies, fostering a more secure and prosperous retirement landscape for all.

The government will publish its response to this call for evidence on the GOV.UK website in line with normal government practice.

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2024 STATE PENSION INCREASE SET TO BE SUBSTANTIAL

The basic and new state pensions receive increases under a triple lock mechanism, where the increase is the higher of earnings growth, inflation or 2.5%.

Average annual earnings growth in May to July 2023 was 8.5%, from data published by the Office for National Statistics (ONS), and the September inflation figure was 6.3%, therefore the State pension increase is expected to be based on the average annual earnings growth. Based on this 8.5% increase, the full new state pension would rise from £203.85 per week to £221.20 per week, while the full basic state pension would rise from £156.20 per week to £169.50 per week.
This high increase follows the 10.1% increase applied to the state pension in April 2023, based on the September 2022 inflation figure.

Some industry figures have welcomed the increase: Aegon pensions director, Steven Cameron, commented that the increase will “pack a positive punch for pensioners’ purchasing power”.

However, other industry experts have raised concerns: LCP commented that a large pension rise will result in more pensioners paying income tax. HMRC figures suggest that between 2022/23 and 2023/24, the number of individuals aged 65 and over who pay income tax rose from 7.73m to 8.5m due to the April 2023 state pension increase, and a further 650,000 may fall into that bracket following the April 2024 increase.

There have been suggestions from the industry that the triple lock could be moved away from a year-on-year comparison of earnings growth, inflation and 2.5% to a comparison of average figures, for example over three years, in order to make the state pension increase fairer and more predictable.

TRUSTEES CAN BE PERSONALLY LIABLE WHERE A BREACH IS DISHONEST

In August 2023 the Pensions Ombudsman (**TPO**) finally made its very lengthy determination totalling 60 pages in a case initially investigated by its Pensions Dishonesty Unit.

The TPO found both the sole trustee and administrator liable for maladministration and breaches in responsibility and awarded exceptional compensation to the complainants.
As background to the case, the complainants, Mr A, Mr S and Mrs S transferred funds into a scheme after being assured of a high return on investments. The scheme invested primarily in storage units and car parking spaces.
The complainants stated that they received negligible information about the scheme and their investments from either the trustee or administrator and the promised investment returns had not materialised with the investment companies going into administration.

They therefore raised a complaint with TPO about the failure of the trustee and administrator to provide appropriate information and that the investments had been unsuitable and they had lost their pension funds.

Initially TPO held an oral hearing so all sides could put forward information and views, however neither the trustee nor the administrator attended or engaged with the TPO in its investigations.

Eventually, the trustee put forward his defence that he had no pensions expertise, had done his very best and was suffering from severe ill health. He believed that by investing in both storage units and car parking spaces there was investment diversification. In his opinion, the complainants had some experience in financial services and had been keen to transfer and invest in the scheme.

Decision

TPO upheld the complaints for the following reasons

- The trustee breached his statutory investment duties, including the requirement to have regard to the need for diversification of investments and the requirement to obtain proper advice in writing before investing scheme assets.

- The trustee failed to have in place the necessary internal controls to ensure the sound administration of the scheme.

- The trustee failed to take any steps to seek or appoint a replacement for himself as Trustee when he became too ill to carry out that role, and failed to alert TPR of the fact that no active trustee was in place, and therefore failed to fulfil his duty of care.

- The trustee's actions and omissions were neither honest nor reasonable and is not entitled to any relief from personal liability for the financial consequences of his breaches of trust.

- The administrator failed to provide information when requested to do so and failed to administer the scheme properly which amounts to maladministration.

The TPO determined that the trustee should pay a total of £24,000 to the 3 complainants for the exceptional maladministration causing injustice. He was also ordered to pay back into the scheme an amount equal to all missing funds (for all members), plus interest. The administrator was directed to pay £3,000 to each of the 3 complainants.

TPR's Revised Guidelines - Transforming DC Pension Investments

TPR has revised its guidance to support defined contribution (**DC**) pension schemes in adhering to new regulations designed to guarantee that DC schemes explore all investment opportunities comprehensively, aiming to provide the maximum value for savers.

From 1 October 2023 trustees are required to disclose their investment policy regarding illiquid assets in the statement of investment principles for default arrangements and the asset class breakdown for each of their scheme's default arrangements in the chair's statement.

Additionally, regulations have been relaxed to allow trustees to explore funds with performance fees, with a requirement for transparent disclosure of these fees in the chair's statement.

Pension dashboard checklist

TPR has recently published an article on pension dashboard emphasising the challenges of approaching large projects and specifically addressing the preparation for implementing pensions dashboards.

To address the overwhelming nature of this task, the article introduces a dashboards preparation checklist.

This tool breaks down the project into manageable tasks, allowing schemes to collaborate with third parties and assign specific responsibilities.

The checklist emphasises the importance of accurate data, outlining key milestones for schemes, such as understanding the personal data received from dashboards and planning to improve it if necessary.

Download TPR checklist here.

Key priorities for TPR at the PLSA annual conference

Nausicaa Delfas, CEO of The Pensions Regulator (**TPR**) gave a speech on the key priorities for TPR.

She outlined three main priorities:

1. protecting savers' money;
2. enhancing the system through effective market oversight and better practices; and
3. supporting innovation in savers' interests.

Click here to read the speech.

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