

Regulatory Outlook



Foreword

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In this issue...

- Data standards for dashboards
- Small pots
- Climate related risks and opportunities
- Response to the charge cap consultation
- Increasing the minimum pension age
- Considering the 'S' of ESG
- An overview of the Pension Schemes Act

Obviously 2020 was a challenging and unusual year for pension scheme members, employers, trustees, pension providers and Government. But the volume and pace of policy initiatives only took a momentary pause and the Pensions Minister continues to push for quick progress.

The landmark event of the first quarter of 2021 was the Pension Scheme Bill finally concluding its journey and becoming law in February. Now the Pension Schemes Act 2021 (the Act), it lays the foundations for the pensions dashboard, climate change disclosure and for trustees to restrict transfers in order to combat pension scams. All of those will be reliant on subsequent regulations to enable powers and set out the finer detail, but it's great that the Act has passed.

Looking ahead through the year, there are a number of open policy issues awaiting formal consultations or feedback. The Financial Conduct Authority (FCA) is committed to consulting on climate change disclosure requirements applying to pension providers in the first half of this year. The Department for Work and Pensions (DWP) is very busy – we are expecting draft regulations on pension transfers and scams quickly and responses on simpler annual benefit statements and on changes to the value for members framework, which will prompt the consolidation of smaller DC schemes not able to evidence value.

With a slightly longer view, the Pensions Minister has mooted a second pensions bill in this parliamentary term. Our best guess at this stage is that might be used to bring forward the extensions to the automatic enrolment regime which the Government positioned in its 2017 review. Also perhaps primary legislation as needed to address small pension pots. The broader economic and political environment might dictate whether passing a second bill turns out to be feasible.



Find out more from James Carter as he talks through key themes, including pension dashboards and the minimum pension age, in more detail.

Workplace Investing



What are the Government and Regulators thinking about?



Data standards for dashboards – December 2020

What is it?

The Pension Dashboard Programme have released the data items they expect schemes to provide as part of the first phase of dashboards. The initial focus is on 'find and view' which includes basic information on the scheme and an estimated retirement income.

It is key that trustees and providers are clear on the data items that the dashboard will require, so this is welcome progress. We are in the process of reviewing the data items included in the paper and do not currently have any concerns about our ability to provide data to the dashboard.

We look forward to the dashboard programme providing timescales on when trustees and providers will be compelled to share data with the dashboard, we will continue to keep clients abreast of progress.



Small pots – December 2020

What is it?

Small pots remain on Government and industry agendas. It is widely acknowledged that the growth in the number of small, deferred pension pots is not in the interests of pension schemes or its members.

In December 2020 the small pots working group issued a progress report, recommendations included exploring member led consolidation options and master trusts looking at a proof of concept for exchanging member pots without consent. To achieve this, the Association of British Insurers (ABI) and the Pension and Lifetime Savings Association (PLSA) have set up a small pots co-ordination group to set priorities and direction of travel, with a focus on simplifying the transfer process and exploring member led options.

We have been invited to join the small pots co-ordination group, and are keen to ensure that the sub-working groups focus on achieving the right outcomes for members as well as the industry. The first meeting was in March 2021 and there will be a progress update this summer.



Climate related risks and opportunities – January 2021

What is it?

DWP have released a response to their initial consultation along with draft regulations which confirm that they will largely proceed with their governance and reporting proposals, as outlined in [August 2020](#).

The requirements are currently only aimed at larger schemes and are being phased in from 1 October 2021. However, the Government has said it will review whether to bring smaller schemes into scope in 2023.

Tell me more...

Trustees will be required to meet and report on climate change governance requirements aligned to the Taskforce on Climate Related Financial Disclosures (TCFD) recommendations. Schemes with net assets of more than £5bn, authorised master trusts and authorised collective money purchase schemes will need to comply from 1 October 2021. Schemes with net assets between £1bn and £5bn will need to comply from 1 October 2022.

The first TCFD report will need to be produced within 7 months of the scheme year end.

This outcome was expected and we are supportive of the regulatory intent. Impacted schemes should take action to ensure that they can comply with the regulations.



Response to the charge cap consultation – January 2021

What is it?

DWP confirmed that there would be no change to the charge cap and that it would remain at 0.75%. However, DWP did confirm that it would go ahead with the proposal to ban 'flat fees' on pots of less than £100.

Tell me more...

DWP observed that a reduction in the cap could stifle innovation and limit the opportunity for schemes to invest in a wider range of assets. The concern on flat fees was that they could erode the pot entirely.

Since this response was provided, DWP have also looked at incorporating performance fees into the charge cap and smoothing performance over 5 years to encourage trustees to invest in more illiquid assets.

We did not feel that a reduction in the charge cap was necessary or appropriate. Fidelity do not operate any flat charging structures and are keen to see regulations coming into force to ban these on pots of less than £100.



Increasing the minimum pension age – February 2021

What is it?

An increase to the normal minimum pension age (NMPA) has been on the Government agenda for some time. HMT's consultation confirms the intention to raise the NMPA from age 55 to age 57 from 6 April 2028.

Tell me more...

The consultation asks for views not just on the increase of the NMPA but also the 'new' protection regime which will apply for all types of registered pension schemes.

The proposed timetable is to publish draft legislation in summer 2021 and to implement the changes through the Finance Bill 2022.

As this has been the Government's intention for some time now, this change is likely to go ahead (although there is no draft legislation yet) and the NMPA will increase to 57. However, we are concerned by the complexity of the proposals on protected pension ages as well as the ambiguity on the practical application. Most importantly, proposals appear to have a retrospective impact (to the consultation date) for members. This means that those who have transferred their pensions are in an ambiguous position until HMT confirm their intentions. To ensure that members are aware of the potential implication, we have added warnings to the transfer in and transfer out communications.

We are responding directly to HMT and feeding into industry body responses too.



Considering the 'S' of ESG – March 2021

What is it?

DWP have released a call for evidence to understand more about how pension scheme trustees are taking social factors into account in their investment strategy. Their concern is that trustees are largely focusing on environmental factors to the exclusion of social and governance factors.

Tell me more...

There are no proposed changes to the existing requirements for occupational pension schemes within this consultation. Government states that climate related issues are the most immediate risk, however, it was never their intention for trustees to focus solely on this.

There is already a legal duty for trustees to consider social factors and we would expect any concerns about trustees not adhering to the law to be addressed by The Pensions Regulator.

An overview of the Pension Schemes Act 2021

The Act lays out legislation for the following areas:

- **Pensions dashboards** – the Act enables 'qualifying pension dashboards' to be set up. It is very light on detail which will be provided in subsequent regulations.
- **Climate change** – this is the legislation which allowed the draft regulations on climate related risk and opportunities to follow.
- **Scheme transfers** – this allows the 'statutory right to transfer' to be restricted and for trustees to ask for further information from members before agreeing to a transfer, which will be particularly helpful in combatting pension scams.
- **Regulatory powers** – provides new powers to The Pensions Regulator (TPR) which include new criminal and civil penalties and enhanced information gathering powers.
- **Scheme funding** – requires DB scheme trustees to determine a funding and investment strategy in writing and submit to TPR.
- **Collective Defined Contribution (CDC) schemes** – sets out the legal framework for CDC's, this type of scheme is largely being introduced to support the Royal Mail pension needs. Further legislation would be needed to allow wider use of CDC, for example in multi-employer schemes.

Workplace Investing



Important information

This material is for the attention of UK schemes sponsors, trustees and their advisors and is not to be relied upon by private investors or pension scheme members. The views expressed by Fidelity and the third parties in this newsletter may no longer be current and should not be taken as a recommendation to take any course of action.

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