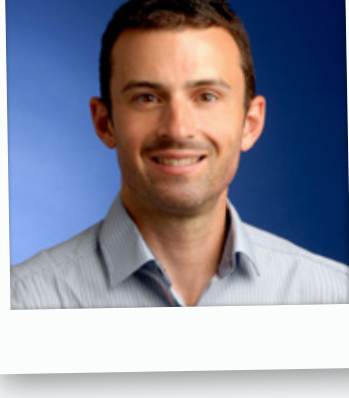


Regulatory Outlook



Foreword

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Welcome to this quarter three regulatory update. The third quarter of the year is typically quieter for new policy announcements given the summer break but much continues to evolve.

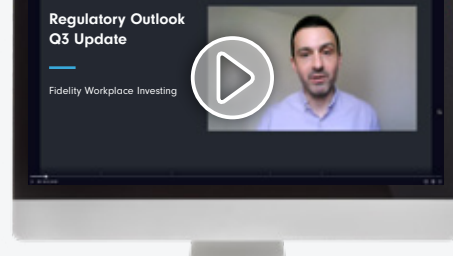
In July the Treasury published its consultation response on the proposed increase to the normal minimum pension age. In a previous update I talked about our concerns over the proposed protection regime which would allow members to retain a pre-existing entitlement to draw benefits from age 55 in certain circumstances. However, as initially conceived it would create huge complexity and confusion. Pleasingly the Government stated that it intends to address the issues but the draft legislation hasn't achieved that aim and we continue to lobby for change.

Also in July the DWP proposed new regulations to increase the take-up of Pension Wise guidance pre-retirement similar to the rules proposed by the FCA a few months earlier. Frustratingly, they are similar but not identical. The differences are relatively minor but will be noticeable and therefore confusing for pension scheme members who often have multiple pension pots across both regulatory regimes. We are pushing for the more consistent approach that was committed to.

Value for money assessments are a hot topic as the Government looks to drive greater transparency and consolidation of smaller schemes. In mid-September the Pensions Regulator and the FCA issued a joint discussion paper positioning a common framework for more transparent, comparable and evidence based assessments of value. The joint approach is good to see and we look forward to working with the regulators as that framework develops.

The big pensions development of the quarter related to the State Pension and the one-off suspension of the triple-lock. The impact of the pandemic created the political will to break the manifesto commitment and implement a one-off removal of the earnings link within the triple lock. From a pensions perspective I think that was the right thing to do. It would have been wrong to use the statistical anomaly in earnings inflation as a basis for more permanent change.

Looking forward, I believe now is the time to consider the right and stable basis for the future of the UK pension system as a whole. We live in a more volatile economic and political environment and a resilient future strategy is needed taking into account the state pension alongside the development of the automatic enrolment regime. DWP is starting to review the future of automatic enrolment and in meetings seem open to working on a broader strategy.



Find out more from James Carter as he talks through the key themes in more detail.

Workplace Investing



What are the Government and Regulators thinking about?



Increasing the normal minimum pension age (NMPA): consultation response and draft legislation – July 2021

HM Treasury responded to the consultation launched in February of this year, confirming that they will increase the NMPA to 57 from 6 April 2028.

In the consultation response, pleasingly, the Government noted that it intends to address two of the key concerns raised regarding the proposed protection regime: 1) the retrospective impact from linking the eligibility for protection to the date in February 2021 when the original consultation was launched; and, 2) individual (but not block) transfers leading to the loss of a protected pension age.

However, there remains a great deal of uncertainty around how the protection regime will work and discussion with Government officials continues. Guidance has not yet been published and draft legislation is subject to change, so it will be some time until we have certainty on how the increase to 57 will be implemented and how the protection regime will work.

We have updated the warnings placed within our transfer in and out member communications to reflect the outcome of the consultation.

This is a complex issue and as such we have provided a [detailed overview for schemes here](#).



DWP: Stronger nudge to pensions guidance – July 2021

In our Q2 Regulatory outlook, we highlighted that the FCA were consulting on a stronger nudge to guidance for those accessing their pensions and in July, DWP launched a consultation looking at similar rules for occupational schemes.

The desire from Government and the FCA is to increase the consumer use of Pension Wise. To achieve this, they are proposing that pension providers must offer to book consumers a Pension Wise guidance appointment when accessing pension benefits (and some of those who are transferring their pension).

When used, Pension Wise receives extremely positive feedback from pension scheme members and is a hugely valuable service. Fidelity strongly supports the intention of increasing members' engagement with their pensions and encouraging further take-up of Pension Wise's services.

However, we believe engaging members earlier in their retirement journey will be more impactful and avoids them becoming frustrated at perceived 'barriers' they face at the point of drawing their benefits. By this time, they often feel they have made their decisions and want to transact quickly, so they are less likely to take up Pension Wise guidance.

We are concerned that the rules for occupational schemes differ to contract based schemes and have highlighted these concerns when we met with DWP.

No further action is required currently, and we await DWP's response to the consultation.



Interim response to the consultation on TPR's new code of practice – August 2021

The Pensions Regulator (TPR) has been consulting on their plans to consolidate their 10 existing codes of practice (CoP), which largely focus on TPR's expectations for the governance and administration of schemes. Whilst TPR are not yet in a position to provide a full response to the consultation, they have provided some of their interim thoughts, prior to providing a full response.

In this consultation TPR had also sought views on their proposals for schemes which invest in unregulated assets as well as the framework for schemes which will be required to complete an Own Risk Assessment (ORA).

TPR acknowledged that it had inadvertently created a position that would affect well-governed, typically larger, schemes that hold unregulated assets as part of a well-managed investment strategy and therefore, will not be proceeding in the way it had been drafted. However, TPR will now consider other options to achieve their policy aim, whilst allowing schemes with liquidity risk management plans and prudent investment strategies to continue to invest and maintain exposure to unregulated assets.

TPR acknowledged that schemes had raised concerns about the amount of work completing the ORA would create, the timescales, and the burden it would place on smaller schemes. TPR stated that they were working through responses and to identify possible changes or guidance requirements and re-examine the timeframe for the ORA's introduction and the frequency schemes should renew it.

There is no firm publication date for the new code, but it is unlikely to become effective before summer 2022.

A single code of practice will make it significantly easier for trustees to find the information that they are searching for. The response to their proposals on unregulated assets is in line with the Government's continued interest in pension scheme investment in illiquid assets. We look forward to TPR releasing further guidance and confirming timescales for the implementation of the ORA.



FCA and TPR outline a framework for value for money in defined contribution pension schemes – September 2021

The FCA and TPR published a joint discussion paper on developing a common framework and related metrics for assessing value for money (VfM) in defined contribution pension schemes (workplace and non-workplace). The key elements that will make up the proposed framework for disclosing information include investment performance, scheme oversight - including data quality and communications, and costs and charges.

The framework and agreed metrics are expected to result in the availability of more comparable and consistent disclosure of information which will make it easier for IGCs and trustees to assess the VfM their schemes offer. The regulators expect this will help drive future improvements in value through lower costs and charges, improved risk-adjusted investment performance and higher standards of services.

We are supportive of the regulatory focus on ensuring that members are in schemes which represent good value for money and are particularly pleased that the FCA and TPR are working together to create alignment for trust based scheme members and contract based scheme members alike.

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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