NORTON ROSE FULBRIGHT

What to look out for in Defined Contribution Pensions in 2022

UK pensions briefing

Background

Defined Contribution (DC) schemes are now the principal vehicles for retirement savings in the UK. The Pensions Regulator (TPR) recently published its 12th edition of DC Scheme Return Data. This highlighted that 65% of all private sector workplace pension memberships are in DC schemes with memberships rapidly increasing. Clearly the success of auto-enrolment has played a significant role in this rise, but closure of private sector defined benefit schemes to replace them with a DC benefit also continues across the industry. Concern remains over whether DC members are getting good value. New scheme assessments and reporting requirements are being introduced to ensure that DC scheme "savers" get a meaningful pension at retirement. This briefing looks at some recent changes and developments to be aware of in this area.

Things to consider and/or act on in 2022

Change	What is on the table	Action	Timing
Net Investment Reporting	From the first scheme year after October 1, 2021, all DC schemes must carry out and include details of their net investment return in their annual Chair's Statement. Statutory Guidance details the required data and format for the net investment return calculation.	Trustees must ensure that they calculate their scheme's net investment return having regard to the Statutory Guidance and prepare the relevant statement.	Alongside next iteration of the Chair's Statement
Value for Members Assessment	From the first scheme year ending after December 31, 2021, trustees of schemes with less than £100m assets which have been operating for at least three years must conduct an annual assessment of how their schemes deliver value for members (VFM). This requires an analysis of their costs, charges, administration and governance in comparison to three other schemes.	Trustees must consider if they are required to carry out a VFM assessment. If in scope, trustees must, having regard to the Statutory Guidance, carry out the assessment and report on the outcome accordingly. Trustees will need to consider how to present the outcome taking into account the communication needs and preferences of the scheme membership.	Alongside next iteration of the Chair's Statement

	An explanation of the assessment and outcome must be reported in the annual Chair's Statement, published on their website and reported to TPR by the annual scheme return. If a scheme does not demonstrate good VFM, trustees must consider scheme wind up, transfer or undertake scheme improvements within the scheme year. In this instance trustees ought to begin wind up or take corrective action immediately and report this to TPR (rather than wait until a report is submitted by scheme return).	The DWP has published a call for evidence on barriers to further consolidation of medium to large schemes. Potentially, the scope of the VFM assessment may be extended to include schemes with between £100m and £5bn of assets in an effort to bring about greater consolidation. This remains under review but larger DC schemes should keep an eye out for developments.	
DC Charges	To protect savers who rely on default investment options, "flat fees" cannot be charged on members' benefits held in a default fund which is used for auto-enrolment where the value of benefits is below £100 or to apply such charges would reduce benefits below that threshold. This will apply from April 6, 2022. The Government is consulting in respect of the annual limit that can be charged to savers in default arrangements within DC schemes known as the charge cap. It proposes to amend the charge cap to accommodate well-designed performance fees so savers can benefit from high return investments in illiquid assets. Responses were due by January 18, 2022. This proposed change has so far received a mixed response with concern to keep costs low.	Trustees will need to ensure that they meet these requirements and have governance processes in place to check fees are correctly charged. Trustees may wish to monitor publication of the consultation response.	**April 6, 2022** Consultation response awaited
Stronger Nudge	On receipt of an enquiry about pension options trustees must 'nudge' members to Pension Wise to benefit from pensions guidance before accessing or transferring their DC benefits. Pension Wise is a free government service. Trustees must offer to book an appointment and take reasonable steps to make the booking where the offer is accepted. If the offer is not accepted trustees must provide details of how to make the booking and explain an application cannot proceed unless pensions guidance is received or the member opts out. Trustees must confirm and record whether the consumer opted out of receiving guidance.	Trustees must ensure that administrators have in place adequate resources and procedures to meet the Stronger Nudge requirements.	**June 1, 2022**

Member Communications	From October 1, 2022, annual benefit statements of DC schemes used for auto enrolment must not exceed one double-sided sheet of A4. Statutory Guidance provides a template. The annual statement must be concise and enable the member to understand how much is in their pension, savings over the statement year, how much they could have at retirement and what they could do to have more at retirement. Additional material can be included but "layered" in separate documents. The DWP may legislate for a common annual statement "publication date" or "statement season" but the industry response has not been enthusiastic. This initiative may in any event become unnecessary with the introduction of Pensions Dashboards.	Trustees and administrators must, having regard to the Statutory Guidance, check and redesign their member statements and ensure that their communications meet the new disclosure requirements.	**October 1, 2022**

Looking further ahead – what next?

In April 2021 the DWP completed a review of the various DC governance and charges requirements introduced by the Occupational Pension Schemes (Charges and Governance) Regulations 2015, which included the requirement to produce an annual DC Chair's Statement. The review concluded that the Government should reconsider the provisions relating to the chair's statement. This echoed concerns by many trustees and service providers to the DC industry that the rigid process and detail specification around the chair's statement has become costly and cumbersome, often resulting in a document which is not user-friendly for members. The DWP has not since provided any further update on this potentially welcome development but trustees and managers should keep a watching brief on possible future changes to the annual chair's statement and how it is prepared.

A Private Member's Bill was introduced to the House of Commons at the start of this year which proposes to extend auto-enrolment to all jobholders aged at least 18 and to remove the lower qualifying earnings threshold over a four year period from 2023. While the Government has indicated support for this type of reform at some stage, it does not look like this will become legislation that soon. The DWP has confirmed that the current AE triggers and thresholds will remain unchanged for 2022/3.

It is clear that the Government sees provision of protection of DC benefits as a key area of scrutiny and regulatory focus. As such from a public policy perspective it seems DC regulation and complexity will continue to be subject to evolution in the coming years and this area is very much a 'watch this space'.

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