

# Regulatory Outlook



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Welcome to this regulatory update covering news and announcements from the first quarter of 2022.

In opening, I wanted to mention the announcement of an **industry led engagement campaign** which Fidelity will be sponsoring and of which we played a key role in founding. It was announced in early April by the ABI and PLSA with direct support from the Pensions Minister. The campaign will run in autumn this year aiming to help people understand the basics of pensions in preparation for the era of the pensions dashboard. We are extremely pleased to support this campaign and believe it will prepare people to engage with their pensions more effectively.

During Q1 we saw consultations from DWP, FCA and the Financial Reporting Council setting out **proposals for how pension schemes will need to connect to the dashboard ecosystem** to manage, find and view requests from dashboard users, also when schemes of different types and size will need to connect.

We still don't know exactly when the dashboard will be launched to consumers and there are some key issues which still need to be clarified by the dashboard programme, government, and regulators.

There is now real momentum behind the initiative but lingering uncertainties on key legal issues and the readiness of the technology ecosystem mean there will have to be a crescendo of activity through this year which is perhaps not ideal. We continue to work closely with the dashboard programme and industry bodies.

In January **DWP published its final regulations for the stronger nudge to pensions guidance**, following the FCA doing the same in Q4. Pleasingly the DWP aligned the implementation date to that of the FCA (1 June 2022) but disappointingly there remain differences in the two sets of regulations which make them more complicated to operate and risk member confusion. When used, the consumer feedback on the Pension Wise service is extremely positive. The sticking point is that not enough people are using it. Research by the Money and Pension Service suggested that the stronger nudge may only increase engagement with Pension Wise to around 11%.

The Parliamentary Work and Pensions Committee recently stated that a much higher target needs to be set for the use of Pension Wise. I agree wholeheartedly and maintain that this nudge policy, whilst well intentioned, intervenes at the wrong moment in a member's retirement planning. Alongside our implementation of the nudge requirements we will be looking at how we encourage the use of Pension Wise, as well as our own engagement tools, earlier, and before members have settled on a plan and begin a transactional journey.

Finally, I was pleased to see the Government confirm that it **will not be progressing further policy to prompt the consolidation of larger pension schemes** at this time. This is an example of where it is important to let the impact of previous policy changes be seen before layering further change and burden on trustees and scheme managers.

I hope that, and the fuller updates below, give you some useful insight. Please speak to your usual Fidelity contact if you have any queries or feedback.

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

January and February 2022

# Pension dashboards

It has long been Government policy intention to create an online view of all consumers' pension pots, allowing consumers be reconnected to their lost pensions.

Whilst the pace has been slow historically, the programme is now developing at speed and the implementation and future of dashboards is much more certain, but the key details and milestones are still being consulted on.

In January 2022 the Department for Work and Pensions released a consultation on the draft regulations for connecting to pensions dashboards and in February 2022 the FCA released a mirror consultation. The consultations both broadly require trustees and providers respectively to:

- Connect to the digital architecture so that they can receive 'find' and 'view' requests.
- Process 'find' requests to identify and register any pensions that they hold for an individual.
- Respond to 'view' requests to provide certain information on the pension pots they hold for an individual.



## Fidelity thinks...

We are fully supportive of the policy intention behind dashboards, it is essential that pensions industry is brought into the 21st century. As the number of jobs an individual has in their lifetime increases, the ability to digitally trace and view multiple pension entitlements becomes even more important.

However, Fidelity and the industry more widely continue to have concerns about the time it has taken to get draft regulations into consultation, with these being released in January and February this year, there is little time between now and the mandatory connection date for most schemes next year.

In addition, whilst schemes will be required to connect to the dashboard ecosystem from June 2023, the public will not be able to access their pension data until the 'dashboard available point'. This is the point that a critical mass of schemes have been connected to the dashboard ecosystem, however, the date for this has not yet been released by the pension dashboard programme.





## Pensions dashboards – FAQs

**Whilst much of the detail on pension dashboards is still in consultation, we thought it would be helpful to provide some answers to frequently asked questions. Please note that the answers are subject to change.**

### Q What is the pension dashboard?

The aim is to reconnect consumers to their lost pensions and provide a digital view of an individual's total pension entitlement, including state pension.

### Q How will pension dashboards work?

The dashboard will require multiple parties and technical services to be connected in order to work. Together they will create what is known as the 'dashboard ecosystem'. This will include a digital identity service, to ensure that the person logging onto the dashboard is who they say they are. A consent and authorisation service to ensure that the user is clear that they are sharing their data with multiple parties in order to find their pension pots. And a pension finder service 'PFS' to push find data to providers to see if they have a pension record matching the user.

No data is stored within the ecosystem, it simply traces and temporarily transmits the pension data for the individual to view on the dashboard.

### Q What will the user experience be like?

Once the dashboard is launched, users will be able to log onto their chosen dashboard service, verify their identity and within seconds will be able to view their pensions. Some data may take up to 10 days to arrive, for example Defined Benefit scheme income projections.

### Q What information will individuals be able to view?

The pension dashboard will give the user basic information about their pension, such as who it is with, how much it is currently worth, what kind of income it may provide at retirement and contact details for the provider should they wish to know more. It will also include web links to key scheme documents such as the Statement of Investment Principles and the scheme's costs and charges.

### Q Which schemes will need to connect with the pension dashboard?

All UK-based occupational pension schemes with active and/or deferred members, public service pension schemes, personal pensions and stakeholder schemes will need to connect to the dashboard ecosystem. However, it has been proposed that schemes will not need to provide information on their pensioner members.

### Q When will schemes need to connect to the pension dashboard?

Pension schemes will connect to the pension dashboard technology in three waves, with a staggered approach being proposed. Wave one will include Master Trusts, Personal Pensions and Stakeholder schemes who will connect by June 2023, followed by large schemes (more than 1,000 members). Medium schemes will follow in the next wave by October 2025 with small and micro schemes in the last wave in 2026.

### Q When will pension dashboard go live?

Currently, there is no confirmed launch date for individuals being able to access their pension information through the pension dashboard.

# Increasing the normal minimum pension age

## January and February 2022

In our Q4 2021 regulatory update, we reported that Treasury had published the Finance Bill 2022. This Bill received Royal Assent in February which confirms that the normal minimum pension age (NMPA) will increase to 57 from 6 April 2028. We also reported in Q4 that Treasury had closed the door early for members wanting to transfer to a scheme with a protected pension age. For the first time, HMRC have provided its interpretation of the increase and published a summary within its January Pension Schemes Newsletter. The summary helps close off some of the industry confusion around implementation.



### Fidelity thinks...

We have commented in previous regulatory updates about a lack of clarity around how the NMPA protection regime will work. The NMPA rules and regulations are complicated. We still await confirmation of how Government will handle the transitional issues, such as how members who reach 55 before 6 April 2028, but not 57 will be treated, especially those who have started accessing benefits. We expect this will require further consultation and regulation before it can be resolved.

Having reviewed the scheme rules for our products, we can confirm that the Fidelity Master Trust, the Group Personal Pension, and the Group Stakeholder Plan all confer a right to draw benefits at age 55 and not the NMPA.

Trustees need to review their scheme rules to determine whether their scheme has a protected pension age of 55 or not. Trustees who are unsure should seek legal advice to determine their schemes position.



# Stronger nudge to pensions guidance

## January 2022

DWP has now published its final rules for the 'Stronger nudge to pensions guidance' which will come into force on 1 June 2022. This now brings the start date into line with the FCA rules which we included in our Q4 2021 regulatory update. The DWP rules capture not only DC scheme benefits but also DC AVCs held within a DB scheme.

Whilst the DWP rules have moved closer to those of the FCA, there are still differences between the two. Notably, on how an individual can opt out of receiving guidance and when it is necessary to re-nudge an individual who has already taken guidance or advice.

TPR have also updated their Communicating and Reporting: DC schemes guidance to take account of the 'Stronger Nudge' requirement which provides information on how to apply the new requirements in practice.



### Fidelity thinks...

We were disappointed that DWP did not take the opportunity to align the two sets of regulations following the industry's request as the approaches in regulation require members of different schemes to receive a different experience based on the type of scheme they are in. However, we are now developing our approach to implementing these changes and are working towards finding solutions to ensure that our members receive as consistent an experience as possible, regardless of the type of scheme they are a member of.





# Facilitating investment in illiquid assets

The Government maintains their focus on how to increase the investment into illiquid assets by DC schemes and have released further consultations on how to achieve this, and have also provided responses to some consultations from 2021.

In October 2021 the Government introduced measures to improve the governance and value for money and to drive consolidation in schemes with assets under £100m. In our Q2 update last year, we discussed the Government's intention to further drive consolidation of schemes valued between £100m and £5bn. At the time we shared our concerns about the lack of evidence to support the need for consolidation within this bracket. There is no evidence to suggest that schemes of this size have governance or value for money issues, this was more to increase investment in illiquid assets. In March we received the response from Government on this call for evidence. Responses to the consultation were mixed, some were supportive of increased illiquid asset opportunities, however others were concerned that there would be disruption in the market if consolidation was forced too quickly and that the benefits of consolidation were overstated, and the costs and risks poorly understood. As a result of the feedback received, and data from TPR showing that consolidation is 'continuing to take place at a healthy pace', the Government will not take any further action at this time. They will, however, work closely with TPR to monitor the impact of the value for members assessment for schemes with less than £100m in assets.

Along with the response to the call for evidence, DWP also provided a response to the 'Enabling Investment in Productive Finance' consultation which proposed removing performance fees from the charge cap. DWP reported that responses from the industry were mixed with some welcoming the measures as a step towards removing barriers for pension schemes to access private markets and illiquid assets. Whilst others strongly opposed the proposals citing a lack of evidence to support such a change. Subsequently, DWP will not take forward the proposal at this time but intends to consult on 'principle-based draft guidance' and draft regulations regarding performance fees in the future but they did not provide a timescale.

## Consultations

Future proposals from DWP included introducing a requirement for trustees to 'disclose and explain' their policies on illiquid investments as well as their default asset allocation. In addition to this, DWP are considering where there are restrictions in place for trustees which prevent their ability to invest in illiquid assets and are considering relaxations on employer related investments within large master trusts.



### Fidelity thinks...

We are supportive of DWP listening to industry concerns surrounding forced consolidation solely for the purpose of increased investment in illiquid assets. The further consultations look at very narrow issues surrounding investments in illiquid assets and we look forward to seeing how DWP develop their policies in this area.



# In other news...

## TPR issues guidance for Trustees on the conflict in Ukraine

TPR has issued guidance for trustees on the conflict in Ukraine. TPR briefly set out its expectations for trustees at this time, this includes talking to advisers about any action the trustees may need to take, depending on the scheme's investment, risk management or employer covenant exposures. Other areas that TPR expects trustees to consider are the heightened risk of cyber attacks and the increased risk of financial crime, including scams and whether these processes remain adequate or need to be reviewed.

## TPR consults on draft Code of Practice for Collective Defined Contribution (CDC) schemes

The draft Code of Practice proposes how TPR will assess CDC schemes against the authorisation criteria at the initial application stage and throughout supervision, much like when master trust authorisation and supervision was introduced. There is a particular emphasis on member communications given the unfamiliarity and complexity of CDC schemes. The regulations on CDC schemes are due to come into force on 1 August 2022.

## Fraud compensation levy ceiling set to increase

DWP has published its final regulations and is to proceed with its plans to increase the fraud compensation levy ceiling from 30p to 65p per member for master trusts and from 75p to £1.80 for other eligible schemes from 1 April 2022. The rates are increasing as there are currently insufficient assets within the Fraud Compensation Fund to meet claims and the Government is to make a loan to the PPF to cover potential compensation payments. The increase in the fraud compensation levy ceiling will allow the PPF to set the fraud compensation levy at levels that will enable it to repay the Government loan by 2030/31.

## TPR publishes further climate change guidance and updates its quick guide to the chair statement

The new climate risk governance and reporting requirements are being phased in and will apply to schemes with £1 billion or more of relevant assets from 1 October 2022. To support trustees, TPR has published an appendix to its climate change guidance which illustrates the types of steps that trustees and advisers could consider taking in respect of meeting the Occupational Pension Schemes climate change governance and reporting duties. In addition, TPR's quick guide to the chair's statement has been updated. For chair's statements for scheme years that fall after 1 October 2021, it states it is acceptable to attach to the statement any information or documents that are required to be 'stated' or 'included' as part of it. Prior to March 2022, the quick guide suggested that, the default SIP and the illustrative examples were the only documents that could be attached to the statement.

## Call for evidence on State Pension Age

The Government launched its review of the State Pension Age, which takes place every 6 years. The independent review will make recommendations to government on future policy regarding the State Pension Age. To that end, DWP have launched a call for evidence, requesting information in relation to intergenerational fairness, changes in the nature of work, sustainability and affordability and metrics for setting the State Pension Age. The government will then consider the findings of the report as part of its review of the State Pension Age.

## The Spring Statement

The Chancellor gave his Spring Statement with cost of living and personal tax changes grabbing the headlines. But what about pensions? Despite the usual rumours there were no changes made to pensions taxation. However, the basic rate of income tax (in England) is planned to reduce in April 2024 from 20% to 19%.



## Workplace Investing



### Important information

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