XPS Pensions Group

XPS Insights
January 2024

Q1 2024 outlook for pension scheme trustees and employers

What you **need to know**

- The long-awaited general code of practice from The Pensions Regulator (TPR) is expected to be in force from 27 March 2024.
- The Department for Work and Pensions (DWP) has stated that the defined benefit (DB) funding and investment strategy regulations are expected to be published early in Q1 2024. However, they are only expected to apply to schemes with valuation dates towards the end of 2024 when the DB funding code is hoped to be finalised.
- To support its objective of encouraging pension schemes to invest more in productive finance, the Government intends to make it easier for employers to benefit from surplus in DB schemes. During winter 2023/24, the DWP will consult on the detail for changes to the surplus rules and on expanding the role of the Pension Protection Fund (PPF) as a public sector DB consolidator.
- The Autumn Statement also confirmed that consolidation in the defined contribution (DC) space remains high on the Government's agenda. Proposals for a 'pot for life' model are being explored in a new call for evidence, which runs until 24 January 2024.
- Meanwhile, with the date of the Spring Budget now confirmed as 6 March 2024 bringing no clarity on the date of the next election, there is limited time to consult, consider and enact any policy change.

Actions you can take

- **Digest** TPR's general code of practice and **review** how your scheme's current governance framework compares to the requirements in the code.
- **Understand** how the DB funding regulations and TPR's funding code may impact your scheme.
- **Monitor developments** in the Government's policy to increase investment in productive assets and to encourage consolidation in the DB and DC pensions landscapes.
- **Consider responding** to the upcoming consultations about DB surplus rules, expanding the role of the PPF, as well as the call for evidence on the proposed 'pot for life' approach.
- As at this time every year, **consider** whether any actions could be taken to reduce your PPF levy for the next year.

Key expected developments in Q1 2024 at a glance

Key item	When?	DB Impact?	DC impact?
TPR's general code of practice due to be in force	27 March 2024	✓	✓
DB funding regulations due to be published	Early 2024	✓	✗
Consultations on DB surplus rules and establishing public sector consolidator	Early 2024	✓	✗
Closing date for call for evidence on proposed 'pot for life' model	24 January 2024	✗	✓
Spring Budget	6 March 2024	?	?

The finer detail: Key developments

General code of practice

TPR's new general code of practice (consolidating ten of the existing codes of practice and introducing new governance requirements) was laid before Parliament on 10 January 2024 and is expected to be in force by 27 March 2024. Its laying period in Parliament is 28 days.

New DB funding regulations & funding code of practice

The DWP has stated that the DB funding and investment strategy regulations will be published in final form in early 2024 and are expected to have an effective date of April 2024. However, they will not apply to valuations until after TPR's funding code is finalised. This is expected to be over the course of 2024 and we understand the current aim is for the new rules to apply to schemes with valuation dates towards the end of 2024.

The Work and Pensions Committee (WPC) has raised concerns about possible conflicts between the Chancellor's Mansion House reforms (which aim to encourage pension schemes to invest more in productive assets) and the DB funding code. TPR has noted that it believes its latest draft of the DB funding code is consistent with the Government's policy as it allows for pension schemes to invest in growth assets.

DB schemes: surplus and consolidation

The Chancellor's Autumn Statement provided further details on the Government's agenda for DB schemes. As part of its policy to support investment in UK productive assets, the Government intends to facilitate DB schemes running on for surplus with appropriate safeguards put in place and making surplus extraction easier. It has also announced a reduction in the tax charge on surplus refunds from 35% to 25% with effect from 6 April 2024.

Two DWP consultations are expected over the winter:

- The first, on the detail for changes to the surplus rules. This is expected to cover a wide range of areas including levels at which surplus is extracted, how to reflect covenant, whether to provide a statutory override for sponsors, facilitating increases to members' benefits from surplus, and extending PPF cover to 100% of benefits on an opt-in basis.
- The second, on expanding the role of the PPF to act as a public sector consolidator, by 2026. The intention behind this is to give DB schemes that are unattractive to commercial providers another route to discharge their liabilities.

DC schemes: 'pot for life' and deferred small pots

The DWP believes there is a case for a 'lifetime provider' model for workplace DC pension savings, as automatic enrolment and frequent job changes mean that employees may otherwise end up with several pension pots with the inefficiencies and sub-optimal outcomes this can bring. The DWP's call for evidence, which closes on 24 January 2024, explores individuals having a single DC 'pot for life' so they can direct pension contributions to be paid into their existing pension scheme when they change jobs.

Meanwhile, the DWP has confirmed that it will proceed with the multiple default consolidator option for eligible deferred pension pots under £1,000. An industry delivery group to support the DWP to work through the issues involved in implementing the plan is due to be launched in early 2024.

PPF levies for 2024/25

The PPF has confirmed a 50% reduction in the target levy estimate for 2024/25, down from £200m to £100m. This means the vast majority of schemes can expect to pay a lower levy in 2024/25 compared to 2023/24, all else being equal. Schemes should continue to consider what action can be taken to reduce future levies and ensure that correct information is submitted to the PPF by the relevant deadlines.

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