

Q3 2022 outlook for pension scheme trustees and employers



What you **need to know**

- Q2 2022 was disappointingly quiet in terms of expected developments.
- Following a consultation in 2021, the Department for Work and Pensions (DWP) was expected to lay regulations to extend the scope of the notifiable events regime from 6 April 2022. However, that date passed with no sign of either the consultation response or final regulations being laid. It's a similar case for the DWP's long-awaited consultation on the new defined benefit (DB) scheme funding regulations – this is now expected in the summer.
- The Pensions Regulator (TPR) is expected to lay its finalised single code of practice before Parliament this summer, and this will require all occupational pension schemes to establish and operate an effective system of governance, including internal controls.
- Regulations introducing Collective Money Purchase (CMP) schemes will take effect from 1 August 2022. TPR's related code of practice has also been laid before Parliament, which means it should be in force in time for trustees to apply for authorisation to operate a CMP scheme from 1 August 2022.



Actions you can take

- **Look out** for the DWP's consultation on the DB scheme funding regulations and **consider the impact on your scheme**.
- **Ensure processes are in place** to minimise the risk of non-compliance with the notifiable events regime, and **look out** for the regulations coming into force.
- In advance of TPR's new single code of practice coming into force, **consider carrying out a gap analysis** to identify what changes to governance policies and processes may be required.
- If you are considering benefit design, **assess** whether a CMP scheme might now be an option, or **consider reviewing its viability in the future** if new types of CMP scheme become available.
- Trustees of schemes with assets of at least £1bn **should already be taking action** to comply with the new climate-related governance reporting requirements **from 1 October 2022**, as well as with the new Paris alignment reporting requirement (which will apply to **all in-scope schemes** from this date).

Key developments expected in Q3 2022 at a glance

Key item	When?	DB impact?	DC impact?
Consultation on DB scheme funding regulations	Summer 2022?	✓	✗
Extended notifiable events regime	Summer 2022?	✓	✗
TPR's single code of practice	Summer 2022?	✓	✓
Chair's statement to include more onerous value for member (VFM) assessment	From 1 August 2022 ¹	✓ ²	✓
Regulations introducing CMP schemes	1 August 2022	✓	✓

¹ Depending on scheme year end

² Hybrid schemes only



The finer detail: key developments in more detail

DB scheme funding regulations

The DWP's consultation on the new DB scheme funding regulations is expected later this summer. TPR's second consultation on its revised DB funding code of practice is now due to follow later in the year, with the finalised code not expected to be operational until September 2023. Once in force, trustees will be required to put in place a long-term funding and investment strategy, to be agreed with the sponsoring employer.

Extended notifiable events regime

Regulations to be made under the Pension Schemes Act 2021 (the Act) will amend one existing notifiable event and introduce two new ones, as well as a new duty to provide a notice and statement to TPR about certain corporate activity. The DWP consulted on the necessary regulations in 2021; yet, as at the date of writing, neither the consultation response nor the finalised regulations have been published.

Single code of practice

TPR's new single code of practice will set out how occupational pension scheme trustees are to meet the requirement to 'establish and operate an effective system of governance, including internal controls'. Trustees of schemes with more than 100 members should also perform and document an annual 'own risk assessment' to evaluate their effective system of governance and risk controls in place. This assessment is distinct from a scheme's normal risk management processes, and the first one should be carried out within one year of the single code coming into force.

Value for members (VFM)

Trustees of DC arrangements with assets under £100m that have been operating for at least three years must undertake an annual, more onerous VFM assessment and report the outcome in their annual Chair's Statement and scheme return to TPR. This applies for scheme years ending after 31 December 2021, so the first Chair's Statements that must include this information are due by 1 August 2022.

Collective money purchase (CMP) schemes

The Act puts in place the regulatory framework for CMP schemes (also referred to as collective defined contribution (CDC) schemes). CMP schemes are money purchase schemes that have a (potentially adjustable) target level of benefits and allow risks to be shared collectively between members.

Final versions of regulations to enable single and connected employers to establish CMP schemes will take effect on 1 August 2022. TPR has consulted on a new code of practice for the authorisation and supervision of CMP schemes, and the final version of this is due to take effect from 1 August 2022. TPR also intends to issue guidance on certain aspects of the code.

Although CMP schemes will initially only be an option for large, well-resourced employers, consultation 'on a package of prospective design principles and approaches to accommodate new types of [CMP] scheme' is expected later this year.

Top 3 developments expected in Q4 2022

Simpler annual benefit statements: DC schemes used for auto-enrolment will be required to provide members with simpler, two-page annual statements from 1 October 2022.

Climate change governance and reporting: From 1 October 2022, trustees of in-scope schemes will be required to calculate and disclose a metric showing the extent to which their scheme's assets align with the Paris Agreement goals. The DWP has published its consultation response, alongside amended statutory guidance.

Facilitating investment in illiquid assets by DC schemes: The DWP has consulted on draft regulations to remove employer-related investment restrictions for large authorised master trusts. It has also proposed new 'disclose and explain' requirements for trustees of certain DC and hybrid schemes.

For further information, please get in touch with **Caroline Ekins**, **William Fitchew** or speak to your usual XPS Pensions contact.



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