

# Q1 2023 outlook for pension scheme trustees and employers



## What you **need to know**

- Q4 2022 turned out to be very busy for the pensions industry. We saw unprecedented volatility in gilts yields, resulting in many defined benefit (DB) schemes having to act quickly to manage the impact on their hedging portfolios and funding levels. The fallout from that continues, with the Work and Pensions Select Committee conducting an inquiry into the use of liability-driven investment (LDI) strategies employed by DB schemes.
- On 16 December 2022, The Pensions Regulator (TPR) launched its second consultation on the new DB funding code of practice. Unusually, TPR is consulting before the regulations have been finalised. This means the new funding regime should remain on track to be in force for valuations with an effective date from 1 October 2023.
- The Pension Protection Fund (PPF) also confirmed its final levy rules for 2023/24, which will mean a significant reduction in overall levies.
- In early 2023, we can expect TPR's long-awaited single code of practice and a joint regulatory consultation on a common framework for measuring value for money in defined contribution (DC) schemes.
- With pensions dashboards set to go live in 2023, the Pensions Dashboards Programme (PDP) is consulting on mandatory design standards for presenting pensions information. TPR is also consulting on its dashboards compliance and enforcement policy.



## **Actions** you can take

Along with being aware of the changes, it will be important to reflect them in decisions being made now:

- **Understand** how the draft funding regulations may impact your scheme so as to inform discussions about funding and investment strategies, and **decide** whether to respond to TPR's second consultation on the new code.
- **Monitor** developments following the Government's inquiry into the use of LDI strategies by DB schemes.
- **Look out** for the consultation on a joint regulatory framework for measuring value for money in DC schemes.
- **Consider** carrying out gap analysis, in advance of TPR's single code of practice coming into force, to identify what changes to governance policies may be required.
- **Ensure** your scheme is taking steps to meet the requirement to supply data for use in pensions dashboards.
- **Consider** if any actions could be taken to reduce PPF levies for 2023/24.

## Key expected developments in Q1 2023 at a glance

Deadline	When?	DB impact?	DC impact?
TPR's second consultation on new DB funding code closes	24 March 2023	✓	✗
LDI strategies: further statements & investment guidance from TPR	Q1 2023?	✓	✗
TPR's single code of practice due to be laid in Parliament	Early 2023?	✓	✓
Consultation on joint regulatory framework for measuring value for money in DC schemes	Early 2023?	✗	✓
Pensions dashboards: closing date for responding to PDP's and TPR's consultations	16 & 24 February 2023 respectively	✓	✓



# The finer detail: Key developments in more detail

## New DB funding code of practice

TPR's second consultation on its new DB funding code of practice is underway. The draft code is TPR's interpretation of how trustees can comply with the legislative requirements set out in the Pension Schemes Act 2021 and the draft regulations.

The consultation also sets out more details of TPR's twin-track approach to assessing valuations and the proposed design of Fast Track, which will act as a filter for TPR's assessment of actuarial valuations. TPR proposes keeping Fast Track separate from the funding code itself. However, if a valuation submission meets a series of Fast Track parameters, TPR is unlikely to scrutinise it further and is less likely to engage with trustees.

The consultation closes on 24 March 2023. The final code is due to be laid before Parliament in the summer, ready for it (and the final regulations) to come into force, expected to be for valuations with an effective date from 1 October 2023.

## Liability-driven investments

A number of regulators, including TPR, have recently issued statements regarding the use of LDI, setting out their expectations in relation to levels of resilience to future market volatility. TPR's second statement focuses on scheme governance being sufficiently robust so that decisions can be made at speed in stressed market conditions.

In the meantime, the Work and Pensions Select Committee is conducting an inquiry into the regulation and governance of DB schemes with LDI strategies, which may result in changes to the legal and regulatory landscape. TPR has also promised an update on its views regarding LDI in its Annual Funding Statement in April 2023, and will issue further statements and investment guidance as necessary.

## Pensions dashboards

Final regulations setting out the requirements for pensions dashboards and schemes interacting with them are now in force. These also include the staging dates for connection to the dashboards ecosystem. The 12-month window for schemes wishing to request deferral of their staging date runs from 12 December 2022; the DWP's finalised guidance on this is now available.

Meanwhile, the PDP is now consulting on mandatory design standards and TPR is consulting on its draft dashboards compliance and enforcement policy. Both consultations close in February 2023.

## DC developments: illiquid assets and performance-based fees; joint framework for measuring value for money

The DWP has consulted on draft regulations and statutory guidance which aim to broaden the investment opportunities of DC schemes. Key proposals include exempting 'well-designed' performance-based fees from the DC regulatory charge cap, and requiring relevant DC schemes to 'disclose and explain' (i) their policies on illiquid investment in their default fund statement of investment principles; and (ii) their default asset allocation in their annual chair's statement. Significantly, the £100m asset threshold for requiring disclosure of asset allocation – originally proposed in the March 2022 consultation – has been removed. Final regulations are due to be laid in early 2023, ready to take effect from 6 April 2023.

In early 2023, TPR, the DWP and the Financial Conduct Authority are due to consult on a common framework for measuring value for money in DC schemes.

## Single code of practice

TPR's new single code of practice is now due to be laid early in 2023. It will set out how occupational pension scheme trustees are to meet the requirement to 'establish and operate an effective system of governance (ESOG), including internal controls'.

Trustees of schemes with more than 100 members will also have to conduct and document an annual 'Own Risk Assessment', evaluating the effectiveness of their ESG.

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



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