XPS Pensions Group

XPS Insights
April 2023

Q2 2023 outlook for pension scheme trustees and employers

What you **need to know**

- Following the gilts crisis last autumn and its impact on defined benefit (DB) pension schemes, we continue to see statements and guidance from various regulators, with the aim of preventing a similar crisis happening again.
- The Pensions Regulator (TPR) has recently confirmed that implementation of the new DB funding code and regulatory regime will now be delayed until April 2024. Similarly, we are still awaiting TPR's new single code of practice, currently expected in spring 2023. The Department for Work and Pensions (DWP) has also announced a delay to the launch of pensions dashboards.
- In the Spring Budget, the Chancellor announced material easements to the taxation of pension savings, in order to facilitate those over age 50 entering or returning to the workforce.
- The DWP and TPR have launched initiatives to provide value for money (VFM) for savers in defined contribution (DC) schemes. Meanwhile. the Pension Scams Industry Group (PSIG) issued interim guidance on combating pension scams, providing some clarity on the 2021 transfer regulations.

Actions you can take

- **Review** your hedging arrangements in light of the gilts crisis to ensure they are robust.
- **Continue** with preparations so that your scheme is ready to supply data for use in pensions dashboards.
- **Understand** the implications of changes to the taxation of pension benefits and consider reviewing scheme benefits in light of those changes.
- **Look out for** the outcomes from the DC-related consultations and ensure your scheme complies with the VFM Regulations (if applicable).
- **Consider** updating your pension scams due diligence processes in light of PSIG's interim guidance.

Key expected developments in Q2 2023 at a glance

Key item	When?	DB Impact?	DC impact?
TPR's single code of practice due to be laid in Parliament	Q2 2023?	✓	✓
TPR's annual funding statement	April 2023	✓	✗
PPF levy deadline for certifying deficit reduction contributions and exempt transfer applications	5pm on 28 April 2023	✓	✗
DWP's scheduled review of 2021 transfer regulations	May 2023?	✓	✗
PPF levy deadline for certifying full block transfers	5pm on 30 June 2023	✓	✗
Further information on pensions dashboards	By 20 July 2023	✓	✓

The finer detail: Key developments in more detail

Liability-driven investments	Following the gilts crisis last autumn, the Bank of England's Financial Policy Committee has recommended that TPR: (i) specifies minimum resilience levels for LDI funds and that the size of the yield shock to which LDI funds should be resilient should be at least 250 basis points; and (ii) should be able to consider financial stability on a 'continuing basis'; for example, by including this in its objectives. On 24 April 2023, TPR and the Financial Conduct Authority (FCA) released statements and guidance regarding LDI management. TPR's new guidance builds on its previous statements from October 2022 and November 2022 and provides practical steps for trustees to manage risks when using leveraged LDI arrangements. The FCA has also issued recommendations on asset managers being aware of suitability of LDI funds for their clients. Both sets of guidance point towards the direction the LDI market needs to take to meet regulatory expectations, without any specific regulatory changes.
Pensions dashboards	In March 2023, the DWP announced a 'reset' of the Pensions Dashboards Programme to allow additional time to prepare for the introduction of dashboards. A further update is expected before the start of the summer parliamentary recess. TPR has also updated its initial guidance on dashboards to reflect the reset. However, although the implementation timetable is now changing, the actual requirements are not, so trustees should continue to ensure they are preparing for connection.
Spring Budget 2023: Changes to taxation of pension benefits	Following the Budget announcements, on 6 April 2023, the standard Annual Allowance increased from £40,000 to £60,000, whilst both the Money Purchase Annual Allowance (for those who have already accessed their pension savings) and the tapered Annual Allowance increased from £4,000 to £10,000. The Lifetime Allowance (LTA) tax charge has also been removed from 6 April 2023, before the LTA itself is abolished from 6 April 2024. For members without LTA protection, the maximum pension commencement lump sum, set at 25% of the LTA, has been frozen at £268,275.
DC developments to provide better value for savers and to create fairer pensions	Early in 2023, the DWP unveiled a range of measures aimed at delivering better value for DC savers. These included a consultation on a new joint regulatory VFM framework to improve transparency, comparability, and competition between DC pension schemes. A response to this consultation is now expected by the end of Q2 2023. Separately, TPR has launched an initiative to investigate in-scope schemes that either have not completed a VFM assessment, or do not make the required improvements following it. Communication to trustees will begin 'later this year'.
Combating pension scams: interim guidance	PSIG's Interim Practitioner Guide provides guidance on how to deal with statutory and discretionary transfers under the 2021 transfer regulations, as well as guidance on how to apply the red and amber flags. The DWP is due to publish the outcome of its scheduled review of these regulations by May 2023.

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

t 0131 378 9036

e ilona.spanczer@xpsgroup.com

t 0118 313 0700

e caroline.ekins@xpsgroup.com

@xpsgroup

xpspensionsgroup

XPS Pensions Group