

Q3 2023 outlook for pension scheme trustees and employers



What you **need to know**

- Work is ongoing for many pension schemes to ensure they are well protected against extreme market movements following the Autumn 2022 gilts crisis and continued market volatility. Inflation has remained a major concern for the Bank of England, as shown by a further, larger than expected, rise in interest rates in June 2023. There is speculation that the Chancellor will set out plans to encourage pension scheme investment in the UK economy at the 10 July Mansion House speech.
- The Work and Pensions Committee (WPC) has now published its report on defined benefit (DB) pensions with liability-driven investments (LDI), following calls for evidence in October 2022 and February 2023. Unsurprisingly, the report's recommendations mean that, over the coming months, we can expect a greater regulatory focus on the risks presented by LDI. A further delay to the long-awaited new scheme funding regime has been recommended by the WPC. We await the Government's response.
- The Pensions Regulator (TPR) has just issued its trustee-wide survey to measure progress on equality, diversity and inclusion (EDI) on trustee boards. Responses will be collated over the summer.
- We still await developments from TPR on the general code, and a consultation response on the new joint value for money (VFM) framework is also due.
- On the pensions dashboards front, following the 'reset' announced in March 2023, a new single connection deadline of 31 October 2026 has been announced, and a revised staging timeline will be set out in guidance.



Actions you can take

- **Continue to monitor the impact of market movements on your DB scheme** to ensure it is well protected against short-term yield changes and **understand** the negative impact of continued high inflation on funding levels.
- **Look out** for more from the Government and TPR in response to the recommendations in the WPC's report.
- **Ensure** compliance with TPR's climate change reporting requirements and **follow** relevant guidance.
- **Look out** for TPR's survey on EDI and **consider** if any actions should be taken for your scheme.
- **Continue** with preparations so that your scheme is ready to supply good quality and accurate data for use in dashboards.

Key expected developments in Q3 2023 at a glance

Key item	When?	DB Impact?	DC impact?
TPR's trustee-wide survey on EDI progress	July 2023	✓	✓
Finance (No. 2) Bill due to be enacted (giving retrospective effect to the Spring Budget's lifetime allowance changes)	July 2023?	✓	✓
TPR's general code of practice due to be laid in Parliament	Summer 2023	✓	✓
Government due to respond to WPC's recommendations	August 2023	✓	✗
DWP/TPR/FCA response to consultation on joint regulatory framework for measuring value for money in DC schemes	Summer 2023	✗	✓



The finer detail: Key developments

WPC inquiry into DB schemes with liability-driven investments (LDI)

Whilst the WPC acknowledges the actions taken by the DWP and TPR in response to the gilts crisis last autumn, the report sets out several key recommendations to manage this risk in the future. These include: 1) TPR should require trustees to report regularly on their use of LDI and develop a strategy for engaging more closely with schemes based on the results; and 2) The DWP should consider restricting the use of LDI whilst measures to improve scheme governance standards are implemented. However, perhaps the key recommendation is for the DWP and TPR to halt their existing plans for the new DB funding regime, at least until they have produced a full impact assessment for the proposals. Currently, April 2024 is the expected effective date for the new regime.

The Government is due to respond to the recommendations by 23 August 2023.

Pensions dashboards

Further to the dashboards 'reset' announced in March 2023, draft regulations have been laid, setting 31 October 2026 as the new mandatory connection deadline for all in-scope schemes. A revised timetable for connection will be set out in guidance (rather than legislation); the Government will publish this following collaboration 'with industry this year'. TPR has also updated its initial dashboards guidance to reflect the revised connection timetable.

Despite the delayed implementation, TPR urges trustees to push ahead with their dashboard preparations, making time to assess the quality and accuracy of their data. The Pensions Administration Standards Association (PASA) has published various guidance and a checklist of actions to support with preparations, with further guidance due in the coming months.

Climate and ESG (environmental, social and governance) reporting

Following a review of schemes' annual climate reports, TPR has launched an initiative to check trustees' compliance with their ESG and climate change reporting duties. Phase one will start in autumn 2023, with TPR checking that all schemes required to publish their statement of investment principles and implementation statement have done so. In phase two, TPR will review a cross-section of these documents, in relation to the climate, ESG and wider sustainability provisions included. TPR wants to move away from 'vague and generic' disclosures, and will instead focus on the extent to which trustees have adopted the DWP's guidance. TPR will publish examples of good practice, but also warns of enforcement action where trustees have not made a 'reasonable effort to define their policies'. Further guidance is expected to support trustees in meeting TPR's expectations.

Finance (No. 2) Bill 2023: changes to taxation of pension benefits

The Finance (No. 2) Bill, which legislates for the tax changes announced at the Spring Budget, is due to receive Royal Assent by mid-July 2023. Some of these changes will apply retrospectively from 6 April 2023, including the removal of the lifetime allowance (LTA) tax charge, with the LTA to be removed altogether from 6 April 2024.

Equality, diversity & inclusion (EDI)

TPR previously published guidance aimed at improving diversity across trustee boards. TPR has now launched a trustee-wide survey to gather more data on these diversity levels and to allow TPR to measure industry progress. Responses will be collated over the summer.

Future of DB schemes

Following the WPC's initial (March 2023) inquiry considering the future of DB pension schemes, it is now holding a number of oral sessions before publishing the review's outcome. Further industry discussion can be expected in the meantime.

Some questions posed in the WPC's LDI inquiry that are still outstanding are also due to be picked up in this review.

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



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