XPS Pensions Group

XPS Insights
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# Q4 2023 outlook for pension scheme trustees and employers

## What you **need to know**

- In his Mansion House speech on 10 July 2023, the Chancellor set out a series of initiatives aimed at enabling the financial sector to unlock capital for industries and increase returns for savers, while supporting UK economic growth. XPS has been busy contributing to the debate and responding to the four pensions-related consultations, all of which closed on 5 September.
- We now await further announcements in the Chancellor's Autumn Statement, scheduled for 22 November 2023.
- The industry is expecting the long-awaited general code of practice from The Pensions Regulator (TPR) to be laid before Parliament imminently.
- In the meantime, it seems timely to take stock of the Government's shifting direction of policy by providing – in a nutshell – XPS's view on the various proposals. We also comment on a number of other key developments, some of which are now long overdue.

## **Actions** you can take

- **Consider** the likely implications for your scheme of the Chancellor's Mansion House initiatives.
- **Be ready** to respond following likely announcements in the Chancellor's Autumn Statement.
- **Look out** for TPR's new general code of practice.
- **Prepare** to comply with defined contribution (DC) investment disclosures and new requirements for statutory money purchase illustrations (SMPIs), both of which take effect from 1 October 2023.
- **Watch out** for your Pension Protection Fund (PPF) levy invoice and consider if any actions could be taken to reduce levies for 2024/25.

## **Mansion House consultations** at a glance

| Consultation/call for evidence | XPS view |
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| Options for defined benefit (DB) schemes | Some straightforward changes to DB surplus legislation could improve outcomes for members and sponsors, but all of this must put member security first. |
| Pension trustee skills, capabilities and culture | Any move to mandate some form of accreditation for all trustees needs to be balanced with avoiding raising the bar to an extent that it exacerbates the existing challenge of filling trustee vacancies. |
| Helping savers understand their pension choices: supporting individuals at the point of access | XPS strongly agrees that when a DC member wants to access their pension savings, more support and access to the full suite of flexibilities is necessary. Any agreed proposals should to be implemented by legislation, with guidance to support trustees. |
| Ending proliferation of small deferred pension pots | The proposed solution shows a good level of versatility, allowing members to take ownership of the process applied to their funds. However, some practicalities and outcomes need exploring further. |

# **The finer detail**: Areas we are waiting on

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| **Mansion House consultations** | The Chancellor's Mansion House initiatives aim to enable the financial sector to unlock capital for industries, increase returns for savers and support UK economic growth. In short, this means that new options for pension scheme strategy may emerge and there will be legitimate areas that sponsors may want to explore with trustees once these are set out in legislation. XPS is engaged in contributing to the debate and the work being done by the Government. |
| **General code of practice** | TPR's new general code of practice (consolidating ten of the existing codes of practice and introducing new governance requirements) is expected by industry to be laid before Parliament imminently. However, once this happens there must then be a period of 40 parliamentary sitting days before it can come into force. |
| **DB funding code of practice & regulations** | Following last year's consultation on the draft funding and investment regulations, we understand final legislation is now expected to be laid in autumn 2023, and come into force over summer 2024. This aligns with the timescales noted in TPR's 2023-24 Corporate Plan for the new DB funding code, which has been postponed until April 2024. |
| **Work and Pensions Committee (WPC) inquiry into DB schemes with liability-driven investments** | In June 2023, the WPC outlined its recommendations in response to the actions taken by the Department for Work and Pensions (DWP) and TPR following the gilts crisis last autumn. The Government was due to respond by 23 August 2023; however, we understand that the response is now expected in November 2023.<br>A key recommendation was reviewing the draft Funding and Investment Strategy regulations to consider the impact on financial stability of DB pension schemes. |
| **WPC inquiry into future of DB schemes** | Following the WPC's initial (March 2023) inquiry and subsequent oral evidence sessions, we await the review's outcome. |
| **Notifiable events regime** | We continue to await the DWP's response following its consultation on proposed changes to the notifiable events regime, which closed in October 2021. |

## **Key developments** expected in Q4 2023

**New DC disclosures:** Trustees are required to disclose and explain policies on illiquid investments in the first default statement of investment principles (SIP) published after 1 October 2023, and by 1 October 2024 at the latest. Trustees must also report on (and publish) the asset class allocation for each of the scheme's default arrangements in their annual Chair's Statement from the first scheme year ending after 1 October 2023. TPR has updated its guidance for DC scheme trustees regarding the disclosures.

**Changes to guidance on statutory money purchase illustrations (SMPIs):** The Financial Reporting Council (FRC) is responsible for the assumptions used to produce SMPIs sent annually to members of DC pension arrangements, as set out in AS TM1. A new version of AS TM1 (v5.0), which applies to all SMPIs issued on or after 1 October 2023, introduces several key changes, including the way in which accumulation rates are determined.

**PPF levy rules:** The PPF has begun consulting on its levy rules for 2024/25. The rules have been designed to significantly reduce levies overall, continuing the downward trend of the previous four years. The consultation closes on 30 October 2023 and the final rules are expected in December 2023.


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

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