

Q2 2024 outlook for pension scheme trustees and employers



What you **need to know**

- The long-awaited general code of practice from The Pensions Regulator (TPR) came into force on 28 March 2024.
- TPR's revised funding code of practice is expected to be available in June 2024. Some aspects of the new funding regime, for example the definition of significant maturity, will be clarified within the code.
- TPR's consultation on the form and content of the statement of strategy closes on 16 April 2024. Views are sought from trustees and advisors on the proposed approach.
- The Department for Work and Pensions (DWP) is running a consultation on options for defined benefit schemes, closing on 19 April 2024. The consultation covers surplus extraction and establishing a public sector consolidator.
- The Financial Conduct Authority (FCA) is expected to open a consultation on a new framework for assessing value for money (VFM) for DC pensions.
- TPR is undergoing an organisational restructure in anticipation of a more consolidated pension scheme market in future years. Temporary heads of new regulatory function areas will be appointed from April 2024.
- The appeal in the Virgin Media case regarding section 37 liabilities will be heard in June 2024. We expect the outcome will be available in late summer/autumn 2024.
- The Lifetime Allowance (LTA) will be abolished from 6 April 2024 and will be replaced by the new Lump Sum Allowance and Lump Sum and Death Benefit Allowance.



Actions you can take

- **Review** your scheme's current governance framework against the requirements in the general code.
- **Look out for** TPR's funding code and consider how it may impact your scheme.
- **Consider responding** to the consultations about DB surplus rules, the statement of strategy and the value for money framework.

Key expected developments in Q2 2024 at a glance

Key item	When?	DB Impact?	DC impact?
Consultation on statement of strategy closes	16 April 2024	✓	✗
Consultation on options for defined benefit schemes closes	19 April 2024	✓	✗
FCA's consultation on VFM framework opens	Spring 2024	✗	✓
TPR's revised funding code of practice to be published	June 2024	✓	✗

The finer detail: Key developments

General code of practice

TPR's general code of practice is in force from 28 March 2024. Trustees can perform a gap analysis on their current governance framework against the requirements of the general code. Any identified gaps need to be addressed in a proportionate manner.

New DB funding code of practice

TPR aims to publish its funding code of practice in June 2024, following the publication of the finalised draft of the funding and investment strategy regulations earlier this year. The code will contain further detail delegated from the regulations, including the definition of significant maturity. It will also include guidance on how allowance for future accrual and new entrants may be made within the calculation of scheme maturity. The new regulations and code will apply to schemes with effective valuation dates on or after 22 September 2024.

Consultation on options for DB schemes: surplus and consolidation

The DWP is proposing new guidance or a code should be drawn up by TPR to support trustees and safeguard member benefits for schemes that run on and extract surplus. The DWP is also seeking views on a statutory override to allow schemes to access surplus and a suitable threshold to apply. The use of further tax legislation to incentivise running on is being considered, on top of the reduction in the tax charge on surplus refunds from 35% to 25% (effective from 6 April 2024).

The Government is also consulting on a public sector consolidator for schemes unattractive to commercial consolidators. In response, the Pension Protection Fund (PPF) have released an outline of its initial views on the structure of a public sector consolidator.

VFM for DC schemes

The FCA is expected to launch a consultation in spring 2024, covering the detailed rules to be applied for a new VFM framework for DC workplace pensions. The new framework intends to shift the focus to long-term value and improve transparency of VFM in the market. Schemes will be required to compare their offering against the market, with consideration given to the potential benefits arising from increased scale and greater consolidation. Stakeholders in workplace DC schemes are encouraged to respond.

TPR organisational restructure

TPR will create three new regulatory functions from April: Regulatory Compliance, Market Oversight and Strategy, Policy and Analysis, each with a new Executive Director. The reorganisation is in response to changes in the pensions industry in recent years and expected consolidation into the future. TPR's statutory objectives remain unchanged.

Appeal in Virgin Media section 37 case

In June 2023, the High Court ruled that an amendment to a scheme's rules was invalid without a section 37 certificate to confirm that the Reference Scheme Test continued to be met. This ruling potentially introduces additional liabilities to schemes contracted-out between 1997 and 2016, where they cannot produce the required section 37 certificates. The appeal is scheduled for 25-26 June 2024. The outcome will likely be published in late summer/early autumn 2024.

Lifetime Allowance abolished

The LTA will be abolished from 6 April 2024. Trustees should consider how to communicate the change to members, ensure that administrators are ready to implement the new reporting requirements and check if amendments are needed to scheme rules.

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



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