XPS Pensions Group

XPS Insights
January 2022

2022 outlook for pension scheme trustees and employers

What you **need to know**

- 2021 turned out to be another very busy year for pension schemes. Whilst the ongoing COVID-19 pandemic continued to dominate the news headlines, the Pension Schemes Act 2021 (the Act) made it onto the statute books.
- Although some of the Act's provisions have already been brought into force, the remaining measures are expected to take effect in 2022 and 2023. These include new regimes for defined benefit (DB) scheme funding and notifiable events, together with more details on pensions dashboards.
- Stronger governance requirements are expected, and trustees will need to assess how effective their governance processes are.
- Climate-related change will remain a hot topic, as schemes with £1bn or more in assets are brought into scope of the new governance and reporting requirements from October 2022.
- Further developments on consolidation and charges in defined contribution (DC) schemes are also expected.

Actions you can take

- **Watch out for further regulations and guidance** providing details of the Act's measures.
- **Monitor developments** on the scheme funding regime (such as The Pensions Regulator's (TPR's) new code of practice and new regulations on scheme funding) **and consider their impact**.
- **Prepare to review** governance processes when TPR's new single code of practice is finalised.
- Prepare for the **new climate change governance and reporting requirements** as smaller schemes are brought into scope.
- Plan for how to meet the future requirement to **supply data for use in pensions dashboards**.

Key expected developments in 2022

Key item	Description	DB Impact?	DC impact?
New funding regime	Funding and investments set in line with long-term strategy	✓	✗
New notifiable events regime	New notifiable events and requirement to provide notice and statement (formerly called 'declaration of intent') on corporate activity	✓	✗
Climate change	New governance and reporting requirements to be extended to more schemes	✓	✓
Simpler annual benefit statements	Introduction of two-page annual benefit statements for members of certain DC schemes	✗	✓
Collective Money Purchase (CMP) schemes	New framework for risk-sharing DC schemes	✓	✓
Pension dashboards	Trustees should start to prepare for supplying data for dashboards	✓	✓

The finer detail: Key developments in more detail

Scheme funding regime	Consultation on new DB funding regulations is now expected in spring 2022, with TPR's second consultation on its DB funding code of practice due to follow in late summer. Once in force, trustees will be required to put in place a long-term funding and investment strategy, to be agreed with the sponsoring employer.
New notifiable events	The Act will introduce two new notifiable events and a duty to provide a notice and statement to TPR about certain corporate activity. The DWP has consulted on the necessary regulations, which are expected to take effect on 6 April 2022.
Climate-related change	From October 2022, the new climate change governance and reporting requirements will be extended to apply to certain schemes with £1bn or more in assets. Such schemes may also be required to calculate and disclose a metric setting out how their investments are aligned with the Paris Agreement goals. The DWP has issued statutory guidance, whilst TPR has finalised its own guidance and enforcement policy.
Judicial review of RPI reform	The trustees of the BT, Ford and M&S pension schemes have been granted a judicial review of the Government's decision to replace the Retail Prices Index with the Consumer Prices Index including owner-occupier housing costs from 2030. The hearing is due in summer 2022. The outcome could potentially have significant funding implications for DB schemes.
Collective money purchase (CMP) schemes	Regulations to enable single and connected employers to set up CMP schemes have been finalised and will take effect on 1 August 2022. TPR is to consult on its related code of practice in 2022.
DC charges	From 6 April 2022, regulations will introduce a 'de minimis' pot size of £100 below which flat-fees cannot be charged. This will apply to members of DC schemes used for auto-enrolment who have small pots in the default fund. The DWP is also consulting on removing performance-based fees from the charge cap; this would apply from 1 October 2022, if taken forward.
Normal minimum pension age (NMPA)	The Finance Bill 2021-22 includes measures to increase NMPA from age 55 to 57 from April 2028. Although the change is several years away, trustees should plan their member communications, especially regarding how the associated protections will work.
Single code of practice	TPR's single code of practice will bring together 10 of its 15 existing codes and is not expected to take effect before summer 2022. Trustees will be required to produce an annual 'own risk assessment', to evaluate their effective system of governance and risk controls in place.
Annual benefit statements	From 1 October 2022, DC schemes used for auto-enrolment will be required to provide members with 'simpler' annual benefit statements covering just two sides of A4 paper. Legislation introducing a 'statement season' is also a possibility.
Pension dashboards	Regulations on dashboards are due to be laid in 2022, with mandatory onboarding expected to be phased in from April 2023.
Consolidation	TPR approved the first DB superfund – Clara-Pensions – in November 2021. The market is now expecting to see some schemes enter a superfund. There is also some debate on whether more schemes may consider a DB master trust. The DWP's call for evidence on barriers to greater consolidation in the DC market could mean further developments here.

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

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