Master trust agenda
Q2 2024

Sackers

This quarterly bulletin sets out current and future developments affecting master trusts, so you can check what should be on your agenda.

Current issues	Actions
Removal of the LTA (updated) • The Finance Act 2024 ("FA04") came into force on 6 April 2024, marking the end of the LTA. Key measures include: – the removal of the LTA regime, including LTA excess lump sums and most benefit crystallisation events that triggered LTA testing – the introduction of two new tax-free lump sum allowances: the lump sum allowance and the lump sum and death benefit allowance, and a new testing and reporting regime – individuals holding a valid LTA protection will retain their rights to a higher level of tax-free lump sum, as well as to higher tax-free parts of lump sums and lump sum death benefits. • The Pensions (Abolition of Lifetime Allowance Charge etc) Regulations 2024 came into force on 6 April 2024. These regulations address various issues in the FA04 and provide a statutory override to help scheme rules continue to operate as intended where they contain benefit limits based on the LTA. The override expires on 5 April 2029. • Further regulations to address other issues in the FA04 are expected. In a recent newsletter, HMRC noted that certain members may wish to delay transferring or taking their benefits until these regulations are in force. • HMRC has published various pieces of guidance and continues to do so, including a consolidated and updated version of its FAQs. It has also begun to update its pensions tax manual to reflect the changes. A list of updated pages is available here.	• Master trust trustees should consider with their legal advisers and scheme sponsor / funder if any rule amendments are needed in light of the changes. • Member communications will need to be updated to reflect the changes. • Trustees should note that we are expecting further amendments to the legislation to correct certain technical errors and may wish to hold off making rule amendments until these points are clarified.
Pensions dashboards programme ("PDP") (updated) • The DWP published its Pensions dashboards: guidance on connection on 25 March 2024. This sets out a phased timetable for schemes to connect to the pensions dashboards ecosystem and be ready to respond to "find" and "view" requests. Key points include: – master trust schemes with 20,000 or more members will need to connect by 30 April 2025, master trust schemes with 5000-19,999 members will need to connect by 31 May 2025 and master trust schemes with 1000-4999 members will need to connect by 30 June 2025 – the guidance is not mandatory but trustees must "have regard to it", ie they must be able to demonstrate how they have taken it into account in any decision-making – failure to meet the statutory deadline, or to have regard to the guidance, could result in enforcement action from TPR or the FCA (as appropriate). • Updated data standards have been published and the PDP is preparing to publish information and to set up an online hub on connection later in 2024. • New DWP guidance was published on 12 April 2024 to help trustees prepare illustrations of potential annual income from a member's DC pot. • The FCA has modified its dashboard rules for pension providers to enable firms to connect to the dashboards digital architecture ahead of the statutory deadline of 31 October 2026, in line with the DWP's connection guidance, even if they are unable to comply with the relevant COBS rules in respect of all of their member data at the point of connection. • The PDP intends to launch a user testing and planning group later this year, to help plan and co-ordinate user testing activity that will inform when dashboards may become publicly available.	• With under a year until the first connection date, all master trusts should be preparing to connect to the dashboard ecosystem. Trustees can use TPR's guidance and checklist, along with PASA's connection readiness guidance, to help with this.

Current issues cont.

Advice / guidance boundary review

- The FCA has consulted on proposals for addressing the advice gap. Our response can be viewed here.
- The policy paper specifically asked for feedback about how the support trust-based master trusts provide is affected by the advice boundary for non-authorised persons and notes that the FCA is looking to understand how the proposals may affect FCA-authorised firms sponsoring a master trust, including at an operational level.
- We hope that, in response to this consultation, the FCA and DWP/TPR will provide further clarity on when trustees could be straying into FCA regulated activity/financial promotion territory, particularly in the context of master trusts sponsored by FCA authorised firms.

Actions

- The topic of advice and guidance is particularly relevant in the context of master trusts offering decumulation solutions and advice and guidance tools or services both to existing members and via a partnering arrangement, and in light of the DWP's proposal for there to be a legal duty for trustees to offer decumulation solutions, including a default option (see further below).
- Master trust trustees should ensure they seek legal input on any proposals from the sponsor in these areas, particularly where the sponsor is an FCA regulated firm and offers a wider portfolio of other regulated products and services.

TPR's new general code of practice (updated)

- The new general code of practice (the "Code") came into force on 28 March 2024.
- TPR has updated its guidance on assessing whether to report a breach of pensions law, alongside minor updates to various pieces of DC scheme guidance to align it with the new code, including administration and communicating with DC scheme members (formerly "communicating and reporting").

Actions

- While master trusts are exempt from the requirement for an effective system of governance and the corresponding own risk assessment, now that the Code is final trustees should cross check their current systems and processes against the relevant sections and address any gaps or discrepancies.

Supporting individuals in decumulation

- The Government intends to legislate "at the earliest opportunity" to place a legal duty on trustees to offer a range of decumulation services and products to members at an appropriate quality and price, either in house or via a partnership with a third party, which are suitable for their members.
- Members in trust-based schemes will need to be placed into a "default" decumulation solution by their pension scheme unless they make an active choice.
- In the meantime, schemes will be encouraged to develop a voluntary decumulation offering or to enhance their existing provision, with TPR planning to publish interim guidance on DC decumulation this year.
- The response to the information, guidance and communications element of the call for evidence on "Helping savers understand their pension choices" (from summer 2022) is still awaited.
- Our response to the call for evidence can be viewed here.

Actions

- Many master trusts already offer a full range of decumulation options and are looking to develop their propositions in this area further, and as such, are likely to be well placed when future guidance and legislation comes into effect in this space, although adaptations may well be needed to meet the new legal framework.
- Some master trusts are also partners for trust-based schemes seeking to offer a wide range of options to their members in decumulation and we expect this trend to accelerate as a result of the proposed new framework. Master trust trustees should consider how they wish to approach this prospect and, if appropriate, whether to extend or rework their decumulation offering, noting that the requirements around whether this needs to be in scheme for own trust or operating as a "bolt on" are currently unclear.
- Master trusts should keep an eye on what exactly is meant by the Government's proposals for schemes to offer a "default" decumulation option as this could impact significantly on the governance (and risk) attached to the provision of decumulation solutions from the master trust perspective. Clear communications to members once the position on this is more certain will be important.

Current issues cont.

Extending opportunities for CDC schemes

- A consultation on draft regulations to enable whole-of-life unconnected multi-employer CDC schemes was expected "early" this year.
- The DWP continues to work with the pensions industry to explore how to establish an appropriate CDC decumulation model for the UK.
- The DWP is considering how CDC could form part of the decumulation solutions that trustees will be legally required to offer, including a default option and a "lifetime provider model" (see detail below).
- On 27 February 2024, PASA published a paper on "initial observations on CDC developments". It outlines recent policy and regulatory references to CDC arrangements and the likely impact on administration.

Actions

- As master trusts act as an increasingly key decumulation vehicle for DC pension savers, and particularly given the Government has made it clear it sees CDC as forming a key part of future decumulation solutions, master trust trustees should have a view to this when considering decumulation solutions.
- We are aware that some providers are looking to explore CDC as part of their wider retirement solution proposition. Master trust trustees will need to understand their own provider's proposition developments in this space.

Deferred small pots

- The Small Pots Delivery Group is considering how best to implement the proposed multiple default consolidator approach and is expected to provide proposals on various aspects, including the role and function of the clearing house, in late 2024.
- A central objective of this approach is a considerably more consolidated master trust market.
- Under the proposals,
  - a small number of schemes would be authorised to act as automated consolidators for deferred small pots, with a central "clearing house" acting as a central point to store and manage data and inform schemes where to transfer
  - pots of up to £1,000, that were created since the introduction of automatic enrolment, would become eligible for automatic consolidation 12 months after the last contribution is made, with the Secretary of State required to review the pot size limit at regular intervals.
- Consolidator schemes would need to meet certain authorisation criteria and members would be able to choose their designated consolidator or opt out if they wished.
- The Government is also looking into a "lifetime provider model" in place of the existing workplace pension framework, so as to reduce the number of individuals creating multiple new DC pots. A call for evidence sought views on how this might work and what central architecture, including data standards, would be needed. Our response can be viewed here.

Actions:

- The default consolidator proposals will significantly impact the master trust market given (i) the number and value of small pots in master trusts as a result of automatic enrolment and consolidation, (ii) the practical implications of administering the proposals, and (iii) the potential for market distortion if not carefully managed.
- Master trust trustees should discuss the practical implications of the default consolidator proposals with their providers. We understand that there is significant concern in the industry as to how workable the proposals are (particularly in relation to the operation of the clearing house given the issues with the dashboard programme to date).
- The "lifetime provider model", if developed, would represent a complete shift from the current workplace pension model to pension schemes becoming a retail product. This could have fundamental consequences for master trusts, so trustees should ensure they keep a watching brief.

Investment in illiquids including private markets

- Trustees must include their policy on investment in illiquids in their Statement of Investment Principals the first time it is updated after 1 October 2023.
- Part of the Government's 2030 vision, as announced in the Autumn Statement, is to expand the range of quality investment vehicles to ensure sufficient opportunities to invest in high-growth UK companies.
- On 24 January 2024, TPR published new guidance for occupational pension scheme trustees who are considering investing in private markets. It calls on trustees to ensure they have an appropriate level of knowledge and understanding to be able to work with their advisers to fully consider how accessing private market assets may meet their needs.

Actions:

- Encouraging investment in illiquids including private markets is a focus for the current Government, particularly in larger schemes as a result of DC consolidation. Master trust trustees should be considering their policies on investment in illiquids including private markets and what, if any, action they wish to take in terms of their investment strategy/underlying fund structures.
- Master trust trustees should assess whether their knowledge and understanding of private market assets is sufficient and, if not, seek appropriate training from both their investment and legal advisers.

Automatic enrolment

- A Bill on automatic enrolment has received Royal Assent. It contains regulation-making powers to abolish the lower earnings limit for contributions and to reduce the age for automatic enrolment. The Government intends to consult on implementing these changes, "at the earliest opportunity".

Actions:

- Master trust trustees should keep an eye on these changes as, if they are introduced, they will impact significantly on the master trust market.

Current issues cont.

VFM (updated)

- The response to the consultation on a common framework for VFM ("the Framework") confirms that:
  - the Framework, which looks across the key elements of investment performance, costs and charges and quality of services, will be introduced broadly as originally proposed. There have been some easements which are particularly useful for master trusts, for example reporting investment returns gross, instead of net of cost, and collating charges information on a comparable cohort basis (both reducing the number of data points to disclose). However, the reforms will nonetheless require extensive public disclosures to be made by master trusts in Q1 of each year once introduced
  - implementation will be phased, starting with "active" default arrangements
  - comparisons against other schemes of sufficient scale will be required alongside a RAG assessment, and there will be tightly defined criteria to prevent gaming or comparison against poorly performing schemes
  - the current value for members assessment will be phased out as the Framework is introduced.
- The FCA and TPR will be given powers to prevent consistently poorly performing schemes from taking on new business from employers.
- For now, the chair's statement will remain. Consideration will be given to how its requirements can be managed down and ultimately phased out.
- The FCA's consultation on draft rules on VFM for contract-based schemes is awaited. Trust-based schemes are encouraged to engage with it to ensure there are no barriers to implementing the framework in the trust-based environment.
- TPR published a blog on 21 March 2024, arguing that "challenge and disclosure must become the norm if savers are to get value from their pensions". TPR expects to increasingly use disclosure of value for money, including the proposed VFM framework, and other data to "constructively challenge" trustee decision-making so that savers' interests are "really being met".

Actions

- Whilst the exact date of introduction of these changes is not yet known, early thought will need to be given to how the proposed data can be collated, disclosed and ultimately compared. Ensuring comparability of the data is the most challenging aspect of the changes.
- We are liaising closely with the Regulators as well as other key stakeholders in the industry on this issue. Whilst the draft FCA rules, which are expected soon, will not affect master trusts directly, our expectation is that the provisions will need to be broadly mirrored by the DWP in corresponding legislation, so master trustees should pay close attention to these once published.

Stewardship (updated)

- The Financial Reporting Council is undertaking a review of the UK Stewardship Code 2020 to make sure that it supports growth and the UK's competitiveness. The revised Code is likely to be published in early 2025.
- Following its 2023 consultation, the Taskforce on Social Factors has published its guide on incorporating social factors into trustee investment and stewardship decision-making. Accompanying publications are intended to provide frameworks of good practice and allow for the assessment of materiality. These include a "quick start" guide to help trustees begin to identify and monitor the social risks and opportunities of their scheme's investments.
- In addition, the PLSA has published best practice case studies on how trustees can incorporate social factors into investment strategies. They are intended to support trustees by offering tangible examples of investment approaches that seek to maximise returns, as well as making a positive impact on social factors.

Actions

- Master trust trustees should start to identify and monitor the social risks and opportunities of their scheme's investments.

TPR's corporate plan (new)

- On 3 May 2024, TPR published its Corporate Plan 2024 to 2027, setting out its priorities for the next three years. Its ultimate "vision" is for there to be fewer, well-run schemes, delivering good outcomes for members, from joining a pension scheme through to retirement. To help achieve this, TPR is planning to:
  - evolve its supervisory approach to master trusts, developing the FCA and TPR VFM framework
  - engage with the market to ensure good quality consolidation vehicles, such as the emergent CDC market
  - in the case of trusteeship, ensure high standards through increased focus on "new and increasingly significant professional trustee entities" and "closer engagement with the professional trustee industry" and the wider promotion of the general code.

Actions

- Master trust trustees should keep a watching brief on the development of TPR's supervisory approach to master trusts and increased focus on professional trustee entities.

Current issues cont.

FCA publishes anti-greenwashing guidance (new)

- On 23 April 2024, the FCA published guidance to help firms meet the requirements of the "anti-greenwashing" rule that any reference to the sustainability characteristics of a product or service is "consistent with the sustainability characteristics of the product or service, and is fair, clear and not misleading". The rule will come into force on 31 May 2024 and apply to all FCA-authorised firms.
- The wider labelling and sustainability disclosure requirements will begin to apply to certain investment products from 31 July 2024. These rules will not initially apply to pension products, but the FCA will consider extending the regime to include such products in the "medium term", working with the DWP and TPR.

Actions

- It remains to be seen exactly how the new anti-greenwashing, fund labelling and sustainability disclosure requirements will flow through to occupational and trust-based pension schemes.
- Master trust trustees may wish to voluntarily adopt the labelling of the underlying FCA regulated funds in which the scheme invests. Being able to promote a default as being invested in funds with a "sustainability focus" could be a key differentiator amongst providers, and this could also enable trustees to label self-select funds more clearly.
- Where a master trust is tied to a provider whose products are already subject to the new labelling and disclosure requirements, its trustees may well choose to pass those disclosures through to their members.

Equality, diversity and inclusion ("EDI") updates (new)

- On 19 March 2024, TPR published the results of its 2023 diversity and inclusion survey. There was broad consensus that diverse and inclusive pension boards are important for good decision making (84%), good governance (83%) and good member outcomes (85%). The survey highlighted "the lack of trustee diversity in terms of protected or visible characteristics such as ethnicity" although most trustee boards were seen as diverse in other ways such as skills, life experience and professional background.
- In a blog discussing TPR's EDI strategy and disclosures, TPR set out three tips for trustees looking to improve their scheme's standards:
  - look to the wider pensions industry to take advantage of good practice. For example, scheme sponsors may have policies that schemes could consider adopting where relevant
  - engage with TPR's EDI guidance, including thinking about diversity more widely than just through more visible characteristics
  - recognise the "value everyone plays in driving this agenda".

Actions

- Master trust trustees should use TPR's guidance for practical ways to improve board diversity and inclusion.
- Master trust trustees should note that TPR encourages trustees to create an EDI strategy or action plan for their scheme.

Climate reporting (new)

- On 11 April 2024, TPR released the findings from its analysis of a representative sample of climate reports. When preparing reports, TPR asks trustees to consider:
  - giving information such as scheme size, structure of DB sections and popular DC default funds early in the report to provide context for readers
  - where reports reference specific investment mandates, explaining their size in relation to total scheme assets to help readers understand an issue's materiality
  - providing plain English summaries for members.
- Recommendations to improve scenario analysis include:
  - providing commentary on the challenges and limitations of the scenario analysis undertaken
  - taking these challenges and limitations into account when drawing conclusions about the scheme's exposure to risks.

Actions

- Master trust trustees should take TPR's comments into account when preparing their climate reports.