November 2023

In Sight

This Quarter's Round-Up

Regular Features

PPF Levies for 2024/25 and Beyond

The Pension Protection Fund (PPF) has consulted on its 2024/25 levy rules and on some initial suggestions for how the levy should be calculated in the longer term. The consultation closed on 30 October.

2024/25 Proposals

The PPF is proposing to collect £100 million in levies in 2024/25, compared with £200 million in 2023/24. Two changes are proposed to the levy methodology, which are needed to achieve the £100 million levy estimate:

- Reducing the scheme-based levy multiplier from 0.0019% to 0.0015%.
- Increasing the risk-based levy scaling factor from 0.37 to 0.40.

Continued on next page

In isolation, the scaling factor change would increase levies, but this is more than offset by the expected improvement in scheme funding levels. The PPF expects over 60% of schemes to pay no risk-based levy in 2024/25 and, for those that do, it expects the average risk-based levy to reduce by 40% (although there will be significant variation by scheme). Overall, 99% of levy payers are expected to see their levy fall compared to the current year.

The PPF is also considering changes to the asset class guidance on reporting schemes' asset splits on the Scheme Return and reducing the number of credit rating providers used in calculating insolvency risk for the larger sponsors/guarantors. It will confirm any changes in due course.

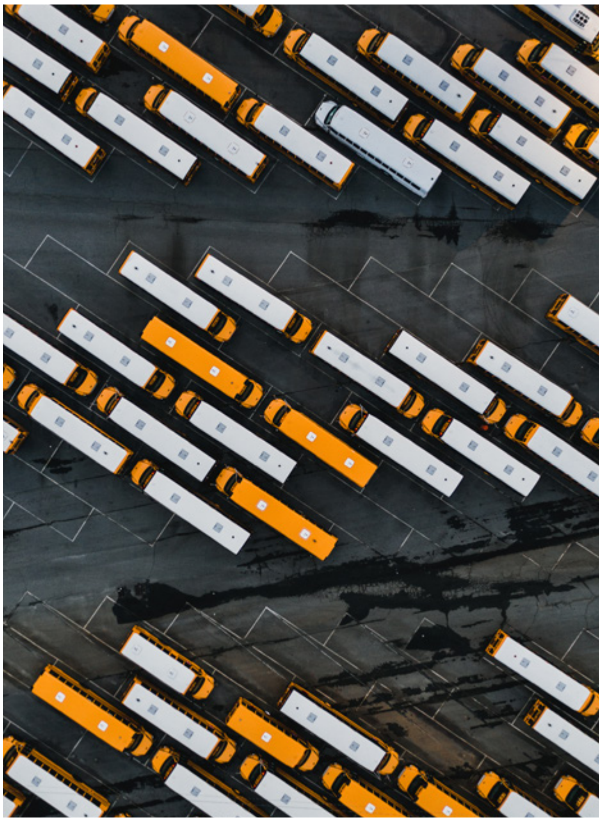
The final 2024/25 levy determination is expected to be published in December 2023, with invoicing due to begin in autumn 2024.

Action

The main deadline for submitting information to the PPF for 2024/25 levies will be midnight at the end of 31 March 2024.

All schemes will need to consider the revisions to the asset class guidance for the Scheme Return (assuming these are confirmed).

Trustees/employers should consider obtaining an estimate of their scheme's potential 2024/25 levy and consider any appropriate mitigating action. Whilst almost all schemes are expected to see a levy reduction, there may be options available to reduce levies even further.

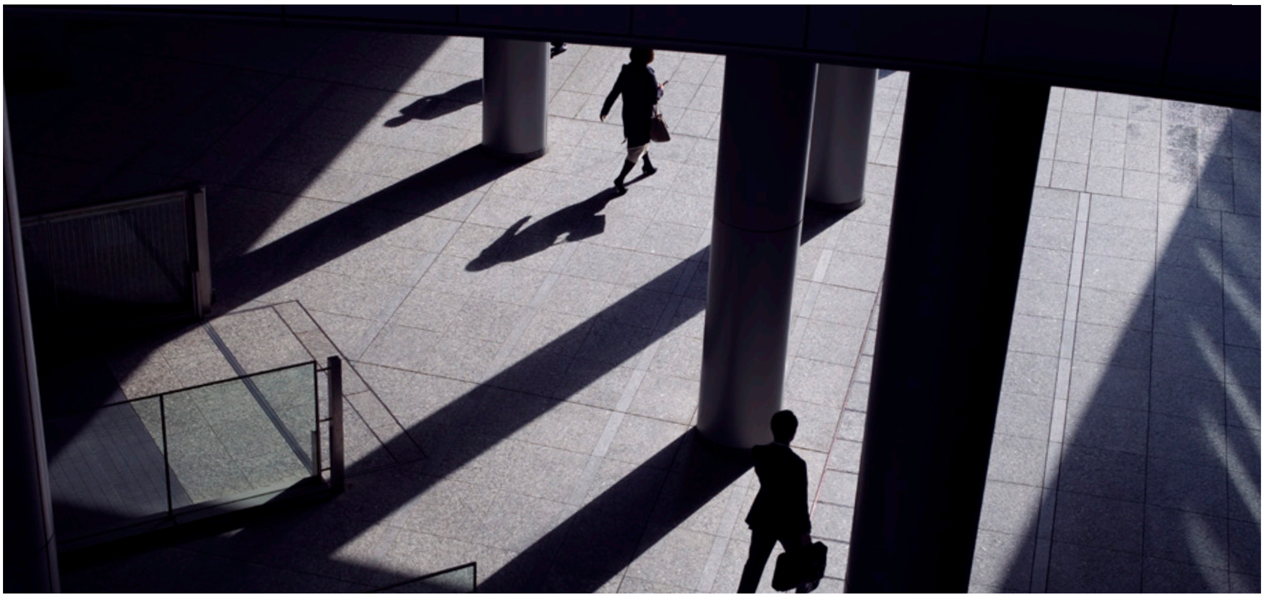


Possible Future Changes

The 2024/25 proposals continue the process of transitioning towards a lower and simpler levy, however the PPF says it is effectively prevented from reducing the levy further because of the legal limit on the extent to which the levy can be increased each year. Reducing the levy further would restrict the PPF's ability to respond to a funding challenge if one should arise in future. It has therefore concluded that it needs to maintain annual levy income of at least £100 million unless the legislation changes.

The consultation seeks views on some initial suggestions for ways in which this could be achieved by spreading the levy across more schemes. The PPF believes this is preferable to the risk-based levy falling on a declining number of schemes as funding levels continue to improve. The PPF's formal proposals will be set out in a further consultation in Autumn 2024.

Other Pension Scheme Levies



Consultation on the General Levy

The Department for Work and Pensions (DWP) is consulting on changes to the structure and rates of the general levy over the next three tax years. The general levy is payable annually by occupational and personal pension schemes to cover the costs of the Pensions Regulator, the Pensions Ombudsman, and the pensions-related activities of the Money and Pensions Service. Several years of growth in these bodies' activity has resulted in a significant deficit.

The DWP is seeking industry views on three options:

1. Continue with the current levy rates and structure.
2. Retain the current levy structure and increase rates by 6.5% per year for all schemes.
3. Increase rates by 4% per year for all schemes, plus an additional £10,000 premium for small schemes (with fewer than 10,000 members) from April 2026. This is the government's preferred option.

The deficit is forecast to grow under the first option, and may require greater rises in the levy in the future. The other options are forecast to remove the deficit by 2030/31. The consultation closes on 13 November 2023.

FRC Levy for 2023/24

The Financial Reporting Council (FRC) levy, relating to actuarial standards and regulation, is a non-statutory arrangement, based on an understanding between the insurance and pension sectors and the Actuarial Profession. It is met by three groups:

- The Actuarial Profession.
- The insurance levy group, comprising life and general insurance companies.
- The pension levy group, comprising larger pension schemes that are subject to the general levy. These schemes are identified based on information on scheme membership provided to the Pensions Regulator in its scheme returns.

The pension levy is currently applied to all schemes with 5,000 or more members. For 2023/24 it has been set at £2.80 per 100 members (up from £2.70 for 2022/23), as set out in the FRC's latest fact sheet.

Pensions Regulator Update

DWP Review of the Pensions Regulator

The DWP has published the findings from its independent review of the Pensions Regulator. The review was undertaken in early 2023 to ensure that the Regulator remains fit for purpose, and to consider whether it is still required as a public body.

The report concludes that the Regulator is broadly well-run and well-regarded, and has a coherent strategy focussed on clear outcomes with the interests of savers at its heart. The report makes 17 recommendations for improvement, centred around three themes: risk and growth; compliance and enforcement; and digital transformation and value for money. There is no explicit timeframe for implementation of the recommendations.

DB Superfunds Guidance Updated

Following an engagement exercise with industry stakeholders earlier in 2023, the Regulator has updated its guidance on DB superfunds for prospective ceding trustees and employers. This will be of interest to trustees and employers considering transacting with a superfund to transfer their scheme's liabilities. The Regulator has also updated its guidance for those setting up and running superfunds.

A blog explains key areas where the guidance has been updated; these include changes to ease the way for schemes transferring to a superfund, changes to funding expectations, signalling a change on profit extraction and greater clarity on expectations for the assessment process. The guidance, first published in 2020, sets out the Regulator's approach to regulating such transfers and forms part of its interim regulatory regime.

The DWP has consulted on a legislative framework for authorising and regulating superfunds — i.e. a permanent regime; its consultation response was issued in July 2023 and the Government intends to bring forward primary legislation as soon as parliamentary time allows.

Working More Closely With Administrators

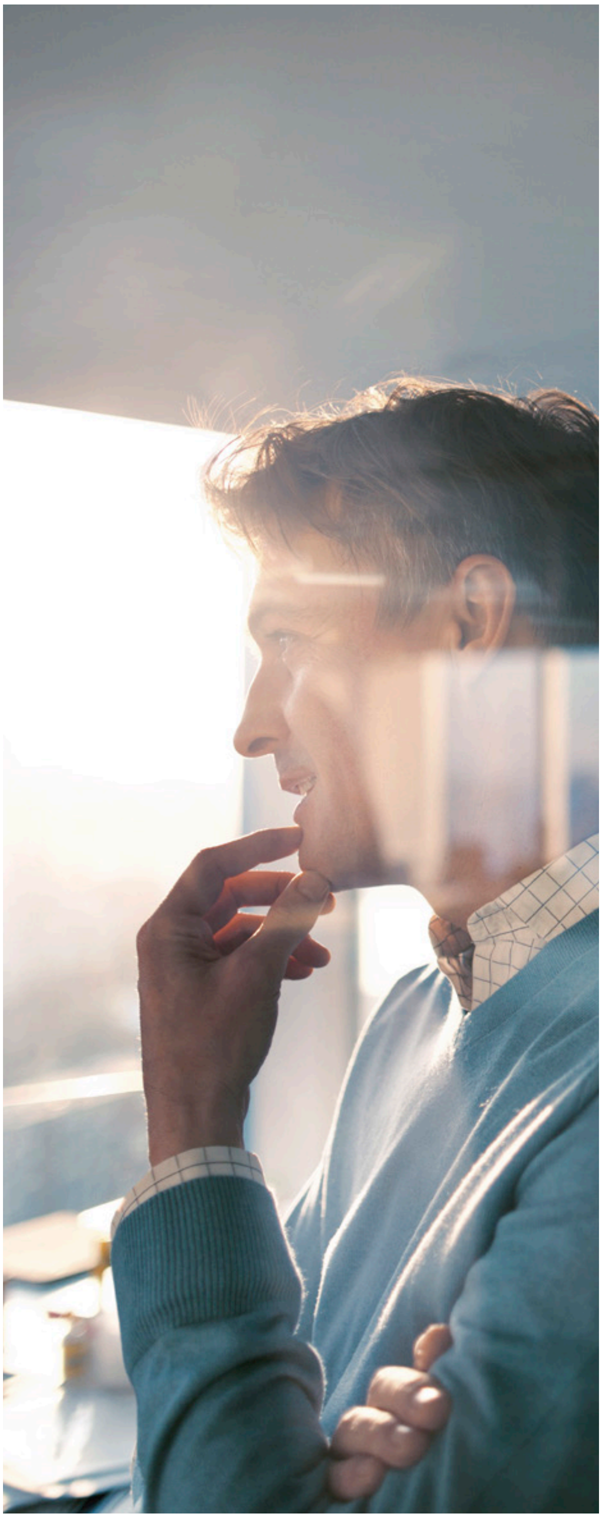
The Regulator has said that it plans to work more closely with pension scheme administrators, recognising that they have a crucial role to play. A recent blog outlines its new approach, following a successful pilot that involved working voluntarily with one firm to explore potential risk areas.

The Regulator is looking to expand its work with administrators and intends to establish open, two-way relationships with several strategically important firms to understand the challenges and tackle the risks. The following have been identified as key focus areas: systems and processes; data quality; trustee focus, understanding and willingness to pay; member engagement and communication; and pensions dashboard readiness.

Contribution Notice Upheld

The Upper Tribunal, in its first substantive case regarding the Regulator's contribution notice (CN) powers, has upheld a decision to issue a CN for £1.875 million to be paid into the Meghraj Group Pension Scheme by Anant Shah, the former owner of the scheme's sponsor.

The Regulator investigated a series of payments made from the sponsor (which had entered a creditors' voluntary liquidation) to its parent company and determined it was reasonable to issue a CN against two targets, including Anant Shah. The Regulator settled its case against the other target before the hearing. The Tribunal agreed that it was reasonable that Anant Shah should pay a CN of 50% of the sum that should have been paid into the scheme, plus an uplift to take account of the period since the acts. The judgment also accepted the Regulator's view that the amount of a CN should not be purely compensatory or limited to the loss to a scheme.



Signposting Members to Midlife MOT

The Regulator has published a blog on the government's enhanced digital Midlife MOT, an online tool intended to help older workers take stock of their finances, skills and health. The Regulator urges pension schemes to encourage take-up among their members, providing some text that schemes can draw on for their own communications.

The money section of the digital Midlife MOT covers issues such as debt, budgeting, insurance, and pensions, bringing together various tools and resources. The idea is that members can educate themselves on the pensions basics, check state pension forecasts, find any lost pension pots, and calculate target retirement incomes. The Midlife MOT is particularly aimed at those aged 45 to 65 but can be used at any age.

The Regulator suggests that schemes integrate the Midlife MOT into the support they already offer their members; and it suggests including this link to the Midlife MOT, so that the DWP can capture where visitors are being referred from.

Action

Trustees should consider whether they wish to signpost members to the Midlife MOT.

DC Guidance on Investing in Illiquid Assets

The Pensions Regulator has updated its defined contribution (DC) code of practice, and its accompanying guidance on Communicating and reporting and DC investment governance in order to help DC schemes comply with new regulations on illiquid investments.

As reported previously, the requirements apply to trustees of 'relevant schemes' (most DC and hybrid schemes — unless the only DC benefits are AVCs). To recap, trustees must:

- State and explain their policy on investing in illiquid assets in their **default fund statement of investment principles** (default SIP). This must be done when the default SIP is first updated after 1 October 2023, and by 1 October 2024 at the latest. Illiquid assets are those that cannot easily or quickly be sold or exchanged for cash and include any such assets held in a collective investment scheme.
- Disclose the asset class breakdown for each of their scheme's default arrangements in the **chair's statement**, from the first scheme year that ends after 1 October 2023.
- Disclose (in the chair's statement) any **performance-based fees** incurred in each of their default arrangements that are excluded from the charge cap, calculated as a percentage of the average value of the assets held in those defaults; and assess the extent to which these fees represent good value for members.
- Have regard to statutory guidance when reporting on asset allocation and performance-based fees.

The Regulator says it intends to closely monitor the impact of these changes and the approach trustees are taking to investment to deliver the best retirement outcomes for their members.

Action

Trustees of schemes in scope should familiarise themselves with the updated guidance, to help them comply with these new requirements.

Climate-Related Disclosures

First Fine on Climate Change Reporting

The Pensions Regulator has announced that it has issued its first fine for failure to publish a TCFD (Task Force on Climate-related Financial Disclosures) report on time. Although the report was produced by the 31 July 2022 deadline, an administrative error (a faulty URL) meant that it was not properly published until 10 days later. Failure to correctly publish a climate change report on time carries a mandatory penalty, with a minimum of £2,500. In this case, the trustees were fined £5,000 in May 2023, and the matter was resolved in July 2023 when they paid the penalty.

Since 1 October 2021, the first wave of schemes — those with assets of £5 billion or more — have had to comply with the climate risk governance requirements, and to report on how they have done so. The second wave of schemes — those with between £1 billion and £5 billion of assets — have had to comply with the requirements since 1 October 2022. All schemes in scope must publish their TCFD report on a publicly available website within seven months of the scheme year end.

The Regulator says that it takes climate change requirements extremely seriously and that it "will and must act by using the mandatory fining regime set out in law". It notes that this will continue as it analyses the second phase of climate change reporting.

Climate Scenario Analysis

The Regulator has posted a blog on how trustees can make climate scenario analysis 'decision-useful'. This is the latest in a series of communications released as part of its campaign to make sure trustees are meeting their climate change reporting duties.

The blog says that recent research has highlighted the limitations of current models and scenario analysis, with some published outcomes appearing to seriously underestimate the financial risk from climate change. It goes on to explain what trustees can do to drive change, including improving their knowledge and understanding of climate issues, so that they feel confident to question and challenge their advisers and the output from climate scenario analysis.

Action

Trustees should consider whether improvements could be made to their scheme's climate scenario analysis in light of the Regulator's comments and for their next TCFD reports.

Transition Disclosure Framework

The Transition Plan Taskforce has published its best practice Disclosure Framework. FCA rules already require listed companies to disclose their transition plans – steps a firm will take to align its core business with a net-zero future – on a 'comply or explain basis'.

The government will consult on new requirements for the largest companies – whether listed or private – to disclose on a consistent basis.

Nature-Related Risks, Biodiversity and Social Factors

Like climate risk, biodiversity and nature-related risks can have financial consequences to pension scheme investments, and there has been an increased focus on this area.

Taskforce on Nature-Related Financial Disclosures

The Taskforce on Nature-related Financial Disclosures (TNFD) has published its final recommendations on a risk management and disclosure framework that will help organisations identify, assess, manage and disclose nature-related issues.

The 14 recommended disclosures fall into four main areas: governance, strategy, risk and impact management, and metrics and targets. These are aligned with the Task Force on Climate-related Financial Disclosures (TCFD — see page 7). The intention is that nature-related disclosures will be consistent with climate-related reporting.

The TNFD framework is voluntary and there is currently no suggestion that these disclosures will become mandatory for pension schemes. For those that do wish to adopt some or all of these disclosures, there is a suite of additional guidance material. The TNFD will track voluntary market adoption on an annual basis through a status update report, beginning in 2024.

Why Biodiversity Matters

The Pensions Management Institute, in partnership with the Zoological Society of London, has published a guide on biodiversity and nature risk. The guide is intended to help pension schemes and trustees develop their own policy around biodiversity and nature-related risk, understand the risks, and engage with asset managers.

Taskforce Consults on Social Factors

The Taskforce on Social Factors is consulting on how the pensions industry can better integrate social factors into investment decisions.

The cross-industry Taskforce was established by the DWP to help pension scheme trustees understand social factors and how they can be included in their Environmental, Social and Governance (ESG) policies. Its new guide is intended to provide trustees with the tools to identify and monitor social risks and opportunities and develop consensus in approaching these across the pension investment landscape. This is to help embed social factors within schemes' investment decisions and stewardship policies.

The guide contains three sections:

- **Social factors and pension funds —** looks at why material social factors are important from an investment perspective.
- **Social factor data —** discusses data trustees can use to manage social factors.
- **Addressing social factors in pension portfolios —** sets out a framework providing baseline, good and leading practice indicators.

There are additional supporting materials for trustees, with a directory of data sources, guidance for effective stewardship and case study examples.

The consultation closes on 1 December.

News on Pensions Dashboards

The Pensions Dashboard Programme, responsible for delivering dashboards, has published an update on its programme reset (the term it is using for the implementation delay). Having completed an assessment of the challenges faced by the programme, it has found no major issues with the central digital architecture that sits at the core of the dashboards ecosystem, and is currently planning the next stage. A further progress update report is due this Autumn.

In the meantime, the Pensions Dashboards (Amendment) Regulations 2023 are now in force — as previously reported, these introduce a final connection deadline of 31 October 2026, which sets a backstop for the staging dates for occupational pension schemes. The Financial Conduct Authority (FCA) has made corresponding changes to the connection deadline for contract-based schemes such as personal pensions.

The recommended staging timeline for individual schemes is to be set out in guidance, rather than regulations — the guidance is to be developed by the DWP this year in collaboration with the pensions industry. The regulations make clear that trustees must have regard to this guidance once it is published and the Pensions Regulator has updated its own guidance on failing to comply with pensions dashboards duties, to clarify how it interprets this requirement. It makes clear that not having regard to the guidance on staging timelines will be a breach and sets out its expectations on how trustees might demonstrate how they have had regard to the guidance.

In addition, the DWP has updated its guidance on how to defer connection to the pensions dashboards infrastructure, to reflect the new timeline. As before, applications can only be made in very limited circumstances.

Separately, Standard Life has confirmed plans to deliver a pensions dashboard, making it the first provider to commit to a commercial dashboard. It has partnered with Moneyhub and intends to be ready for launch when the FCA's regulatory approval process is in place.

Action

Trustees — and employers working with them — should continue with preparations for pensions dashboards.

Automatic Enrolment Reform

The Pensions (Extension of Automatic Enrolment) Act 2023 has received Royal Assent. It is intended to introduce legislation that will enable:

- A reduction in the lower age limit at which workers must be automatically enrolled, from 22.
- The reduction or removal of the lower qualifying earnings threshold.

This is in line with proposals within the government's 2017 review of automatic enrolment — to reduce the age limit to 18, and remove the earnings threshold so that minimum contributions are calculated from the first pound earned — which it intended to introduce in the mid-2020s.

There is currently no timetable for the changes to come into effect; the Act gives the Secretary of State powers to make implementing regulations following consultation. The government intends to launch a consultation on the implementation approach and timetable later this year.

News Round-Up

Updated Divorce Guide

The Pensions and Lifetime Savings Association (PLSA) has updated its Pensions Sharing on Divorce Guidance. This includes a range of suggested charges for various stages of the pension sharing process, as well as a flowchart showing the circumstances when charges can be made. However, the guidance notes that the suggested amounts are indicative only and that schemes may feel that it is appropriate to charge higher or lower amounts than those set out, depending on the specific circumstances of each member's request.

The updated guidance will apply from 2 January 2024.

Action

Trustees may wish to review their charging structure against the updated guidance.

Guidance on DB Data Accuracy

The Pension Administration Standards Association (PASA) has published new guidance on data accuracy for defined benefit (DB) schemes. It is intended to support schemes in ensuring that benefits are calculated and administered correctly. The guidance explains how schemes can help achieve this by having signed-off benefit and data specifications, high levels of automation and a benefit audit programme. This complements existing PASA guidance on data quality and is intended to further help trustees improve their data — which should be a priority for all schemes.

Inquiry Into Norton Pension Schemes

The House of Commons' Work and Pensions Committee has launched an inquiry into the collapse of the Norton pension schemes, with the aim of ensuring members of collapsed pension schemes are better protected and supported in future. The inquiry will look at the Pensions Regulator's approach to preventing loss of pension assets through fraud or dishonesty and whether there is scope to speed up the process of assessing eligibility for compensation. It will also examine the role played by bodies such as independent trustees and the Pension Protection Fund (which is the administrator of the Fraud Compensation Fund). The inquiry began with a call for evidence that closed on 27 October.

Ruling Restricts Changes to Future Benefits

In a case relating to the BBC Pension Scheme, the High Court ruled that the BBC cannot modify its DB scheme rules to reduce future benefits for members. In the ruling, the judge rejected the BBC's claim that a scheme rule that forbids alterations that adversely affect members' "interests" applies only to benefits they have already accrued; instead, the judge found that "interests" must include anything that would leave members worse off, stating that the interests in scope have the potential to include a forward-looking element. The BBC has confirmed that it has been granted permission to appeal the decision; the hearing is expected to take place in 2024.

MaPS Review of Pension Scams

The Money and Pensions Service (MaPS) has published a report setting out findings from a review into pension scams in the UK. The review considered evidence on the scale of pension scams; the impact on victims; the types of scams and tactics used; key risk factors; and current trends.

The headline findings are that:

- Evidence on the true scale of pension scams is limited.
- The financial and emotional cost of pension scams is high.
- Scammers adapt their techniques to the context.
- Scam tactics are subtle and seamless.
- Scams can happen to anyone.

According to the report, scams are grossly underreported, and there is inconsistency and gaps in data collection. The resulting lack of clarity hinders government and the industry in understanding the true prevalence of pension scams.

The report recommends strategies and interventions that could help reduce the risk of scams and offer better support to victims. It says that many of the proposed solutions can be implemented within MaPS' existing offerings, strengthening services such as Pension Wise's Pensions Safeguarding appointments.

Professional Trustees — Review of Accreditation Scheme

The Association of Professional Pension Trustees (APPT) has published a paper outlining a review of its accreditation scheme for professional trustees, launched in 2020. A separate accreditation scheme, APTitude, is run by the Pensions Management Institute (PMI).

The report has been published to help inform the joint DWP/HM Treasury call for evidence on improving the skills of pension trustees, launched as part of the Mansion House reforms (see the August edition of In Sight). The call for evidence included questions around the possible introduction of accreditation requirements.

The APPT concludes that in most respects its scheme is pitched at an appropriate level and would still be fit for purpose if accreditation became mandatory, although it suggests several refinements.

On the Horizon

Here are some key future developments affecting pensions:

Autumn 2023

- Regulator's single code — to be called the General Code — expected to be laid before Parliament.
- DWP consultation expected on proposals to extend automatic enrolment eligibility and benefits.
- DWP consultation expected on collective defined contribution (CDC) schemes.

November 2023

- The Chancellor's Autumn Statement will take place on 22 November.

2023

- Guidance on dashboards connection timetable expected.

April 2024

- Regulations and revised DB code of practice on scheme funding expected to come into force.
- Lifetime allowance expected to be abolished (lifetime allowance charge has already been removed).
- Low earners in net pay schemes earn top-up payments (payable from 2026/27).

2024

- Subject to consultation, climate change governance and disclosure requirements may be extended to smaller schemes (assets under £1 billion).
- Extension of notifiable events framework.

31 October 2026

- Backstop connection deadline for pensions dashboards (but individual scheme target dates are expected to be earlier).

Training and Events

Dates currently scheduled for our pensions training seminars are set out below.

All London seminars will take place at The Aon Centre.

For further details, you can find a copy of our training brochure and book our courses online at: www.aon.com/pensionstraining.

Please contact us to discuss your training needs: pensionstraining.enquiries@aon.com

Pensions Training Courses	Dates
Defined Benefit — Part 1	23 January and 24 January 2024 (Webinar, a.m.) 20 March 2024 (London) 5 June 2024 (London) 3 September and 4 September 2024 (Webinar, a.m.) 6 November 2024 (London)
Defined Benefit — Part 2	5 December 2023 (London) 27 February and 28 February 2024 (Webinar, a.m.) 23 April 2024 (London) 17 July 2024 (London) 8 October and 9 October 2024 (Webinar, a.m.) 11 December 2024 (London)
Defined Contribution	6 March 2024 (London) 16 October 2024 (London)
Pension Governance Committee	28 November 2023 (London, a.m.) 21 May 2024 (Webinar, a.m.) 26 November 2024 (London, a.m.)
Aon Pensions Conference 2024	**Dates**
A multi-city event for those who manage or govern pension schemes. Register for your place here.	20 February (Leeds) 27 February (Bristol) 5 March (Edinburgh) 12 March (Manchester) 19 March (London) 26 March (Birmingham)

Other Events

Aon participates in a variety of sector-specific conferences and exhibitions as well as holding regular seminars, webinars, conferences and events focusing on key issues of client interest.

To find out more about our events, go here.

Contact Us

If you have any questions on In Sight, please speak to your usual Aon consultant or contact:

Helen-Mary Finney

+44 1252 768 392
helen-mary.finney@aon.com

About

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