What's on the horizon for DC?

Welcome to LCP's latest quarterly DC update. Here you'll find our views on the developments over the last three months, and actions to think about.

In this edition :

- Key market updates
- What's coming up in 2017?

Since our last DC update:

- Following the trigger of Article 50 in March, Theresa May has called a snap General Election for 8 June;
- Lifetime ISAs are now active;
- The Pension Advice Allowance is now available for some members and there have been musings around potential changes to the definition of financial advice;
- The MPAA might not be reducing to £4,000pa; and
- We had the last Spring Budget, thankfully, it was fairly light on pension matters! Phew!

Trumping adequacy – the highlights video

Our fourth DC conference saw over 200 delegates embrace ideas that will help us trump adequacy in DC pensions.

In case you missed it, **watch the highlights video**. We hope to see you at next year's event.

Market updates

Brexit is triggered

The Prime Minister has now sent the notification of withdrawal from the European Union, setting in train a process that may last for two years or more.

Negotiations will start soon - we think we will see some changes to certain areas of UK pension law in due course. Please see our News Alert for more information.

HM Treasury raking in extra tax from Freedom and Choice regime

Buried on page 49 of the Budget policy costings paper are details of how much extra tax revenue the Government has received since April 2015.

In the Government's own words this "was initially estimated to raise around £0.3 billion in 2015-16 and £0.6 billion in 2016-17. In the event, the measure has raised far more than anticipated – £1.5 billion in 2015-16, while our latest estimate for 2016-17 is £1.1 billion".

Can pension schemes learn something from populist politics?

In this blog, Mark Jackson highlights how we are entering a new era in global politics, economics and financial markets – how will this influence retirement outcomes over the next decade?

Take me to the blog

Lifetime ISA goes live

Lifetime ISAs (LISAs) went live on 6 April, although at the time of writing we are only aware of three providers, Hargreaves Lansdown, Nutmeg and The Share Centre, who are currently offering the LISA.

There has been reluctance from high street banks and providers due to the perception that people do not understand the LISA, coupled with the risk of another mis-selling scandal.

We expect other providers, and the banks, to introduce their LISAs later in 2017 and we will provide further updates in future editions of this bulletin.

Accessing pensions advice

The Pension Advice Allowance (PAA) has now come into force. This enables pension schemes to allow members with DC funds to use up to £1,500 on a tax-free basis (up to £500 on each occasion) to help meet the cost of regulated retirement financial advice. It is not mandatory, and many providers in the market are not set up to facilitate PAA at the current time.

In addition, regulations have been laid that provide for a new £500 Class 1 NICs disregard for payments and reimbursements by an employer of the costs of pensions advice. However, the Government confirmed on 25 April that this will no longer go ahead.

Find out more about the Pensions Advice Allowance in our News Alert.

Pension providers' IGC reports published

The end of Q1 has seen a large number of pension providers' IGCs issue their 2017 reports. The main findings were:

- In many cases, the IGC reports demonstrate that charges have been brought down (eg axeing early exit fees).
- Providers generally feel that they offer good value for money, although some challenges remain with older products on charges.
- There is a continued focus on ensuring member investment strategies remain appropriate.

IGCs also acknowledge that transparency of investment transaction costs is a key consideration. These are often wrapped within the investment returns associated with a particular fund. Improved transparency in this area will help trustees, governance committees and members ascertain the true cost of certain investment options.

Is the Money Purchase Annual Allowance now £4,000 or £10,000?

On 25 April a trimmed Finance Bill speeding through Parliament before Election shut-down dropped the clauses implementing the controversial reduction in Money Purchase Annual Allowance from £10,000 to £4,000. But (this) Government "will legislate" for it post-Election.

Our latest pensions bulletin gives more details on this announcement and we will keep you updated as things develop further.

Auto-enrolment earnings limits confirmed

The Government has confirmed that for 2017/18 the lower and upper limits for qualifying earnings will rise to £5,876 pa and £45,000 pa respectively, and the earnings trigger will remain at £10,000 pa.

Are your communications up to date on this issue?

What's on the horizon?

New definition of financial advice

Last year HM Treasury consulted on changes to the definition of financial advice such that regulated firms will only be seen to be giving financial advice where they provide a personal recommendation. The new definition is expected to come into effect on 3 January 2018 and could have a significant impact on help that can be given to your members when making complex decisions about their pension arrangement.

The Treasury says that the wider definition of advice set out in the Regulated Activities Order (ROA) 2001 will remain in place for unregulated firms. What this means is that:

- Regulated firms will be able to provide more advanced guidance services that would have been caught by the current RAO definition, without being subject to the higher regulatory requirements associated with regulated advice.
- As now, unregulated firms will not be able to provide these more detailed and tailored guidance services.

The Treasury says that this dual approach mitigates the risk of consumers being scammed.

As always, care is needed to ensure your members seek appropriate guidance in order to make the most of their pension given their individual circumstances.

Is DC getting responsible investment right?

In her latest blog, Laura Myers considers how DC pension schemes are tackling responsible investment and environmental, social and governance issues.

Take me to the blog

State pension age update was as expected

In his first regular review of the State Pension Age (SPA) John Cridland, who was appointed Independent Reviewer of State Pension Age, has resisted the urge to propose radical changes to its design.

Further detail can be found in the full Cridland report, but he proposes retaining a universal SPA, with key recommendations including:

- SPA should rise to age 68 over a two year period starting in 2037 and ending in 2039.
- SPA should increase in line with earnings.
- There should be additional support for those working past SPA and for carers.
- People should have access to a “mid-life MOT” to encourage them to take stock and make realistic choices about work, health and retirement.

Before 7 May, Damian Green, Secretary of State for Work and Pensions, must make a further report accepting these recommendations or not.

Pensions dashboard prototype revealed

HM Treasury is to ensure the pensions industry designs, funds and launches a digital interface enabling an individual to view all their retirement savings in one place.

It appears that the dashboard will be offered by a range of different providers rather than a single, central service. The project remains on course to be available to consumers by 2019.

For those that are interested more information can be found on the ABI website pension dashboard project page.

Department for Work and Pensions consults on charge cap

Draft regulations have been published for consultation by the Department of Work and Pensions (DWP) which:

- implement a cap on early exit charges for occupational pension schemes; and
- introduce the second stage of the ban on member-borne commission for occupational pension schemes used for auto-enrolment purposes.

Early exit charges must not be applied to new joiners from 1 October 2017. For existing members on 1 October 2017 there cannot be early exit charges greater than 1%, any charges below 1% cannot be increased and new charges cannot be applied.

The proposals are consistent with those applied to personal and stakeholder pension schemes but apply from 1 October 2017 rather than 31 March 2017.

You should ask your pension provider to confirm to the trustees and/or governance committee how this will impact your members, if at all, from 1 October 2017.

DC to DC transfers

The DWP has launched a call to evidence on how the current provisions on DC bulk transfers without member consent could be improved.

At present, trustees wishing to transfer benefits without member consent must comply with certain regulations that were written with DB pensions in mind, and were not necessarily designed to operate in the DC arena. In particular, the regulations are often difficult to interpret in a DC context and it is widely acknowledged that changes are needed. The call for evidence closed on 21 February 2017 and we will provide further details on this important topic when they are available.

The fee paradox: LCP investment management fees survey 2017

Our latest survey reveals that DC platforms can offer benefits over accessing funds directly.

Our key finding:

£5.5k lower fee pa to access a passive global equity fund via a DC platform when investing £10m in the fund.

Find out more about your managers’ fees by **downloading the full survey here.**

LCPHorizon

Insight into action

Have you seen what's new in LCP Horizon?

Unique and game-changing, our online tool LCP Horizon gives you the control while enhancing member outcomes.

And we keep improving it.

We are always looking at ways we can make things easier for our clients, and continuing to develop the functionality of LCP Horizon is a key focus for us.

New features for 2017 include:

- A series of 'nudges' designed to increase member engagement by delivering clear, timely and to the point messages.
- Bringing investment strategies all under one roof, so that we can focus on member outcomes and better understand journey risks.
- Greater governance control, so that you can demonstrate your DC offering provides value and generate a plan to become market leading.

Want to see these time-saving new features in action?

Ask for a demo from one of our DC experts, or book at **www.lcphorizon.com**

Developed in response to clients' needs and very obviously supporting businesses and trustees to be more efficient and have greater insight into their schemes.

Judge, UK Pensions Awards

LCP Horizon is very innovative – allowing trustees to monitor strategies in real time.

Judge, UK Pensions Awards

Any questions?

If you would like any assistance or further information on the issues raised, please contact our DC team or the partner who normally advises you at LCP.

Philip Audaer - Principal
philip.audaer@lcp.uk.com
+44 (0)20 7432 6777

Laura Myers - Partner
laura.myers@lcp.uk.com
+44 (0)20 7432 6639

Simon Jackson - Consultant
simon.jackson@lcp.uk.com
+44 (0)20 7432 6767

Sohail Singal - Associate Consultant
sohail.singal.lcp.uk.com
+44 (0)20 7432 7781