LCP DC update

LCP INSIGHT CLARITY ADVICE

Welcome to LCP's latest quarterly DC update, where you will find market and legislative updates, our latest thinking and highlights from the 2019 DC and Financial Wellbeing Conference.

May 2019

In this edition:

Market & legislative updates

Master Trust authorisation – the dust begins to settle

The Pensions Regulator's (TPR) latest snapshot of the Master Trust market is interesting, as it shows us the latest position now that the deadline to apply for authorisation (30 April) has now closed.

As at the deadline:

- 29 applications were received and a decision is yet to be reached, and 5 have already been approved (including Willis Towers Watson and Legal & General)
- 5 schemes have been granted an extension to submit their application
- 9 schemes have already exited the market, 35 have triggered their exit and will transfer their members to an alternative Master Trust or other appropriate vehicle.

This suggests we are looking at a potential market of 39 authorised Master Trusts if all remaining current and potential applications are successful (which is not certain). Assuming so, this means the market has contracted by around 50%. Given the wide variety of design options (mass-market/own-brand etc), this makes the provider selection process crucial.

Market & legislative updates continued

Chair's statement fines upheld by Courts

TPR issued a press release announcing that two of its fines issued for non-compliance were upheld or partly upheld in Court hearings after the trustees in each case appealed against the penalties issued for non-compliant Chair's statements.

Importantly (in TPR's own words): "The judges on both tribunal cases agreed that penalties for non-compliance were mandatory, the Chair's statements were non-compliant with the law and TPR was right to issue the fines".

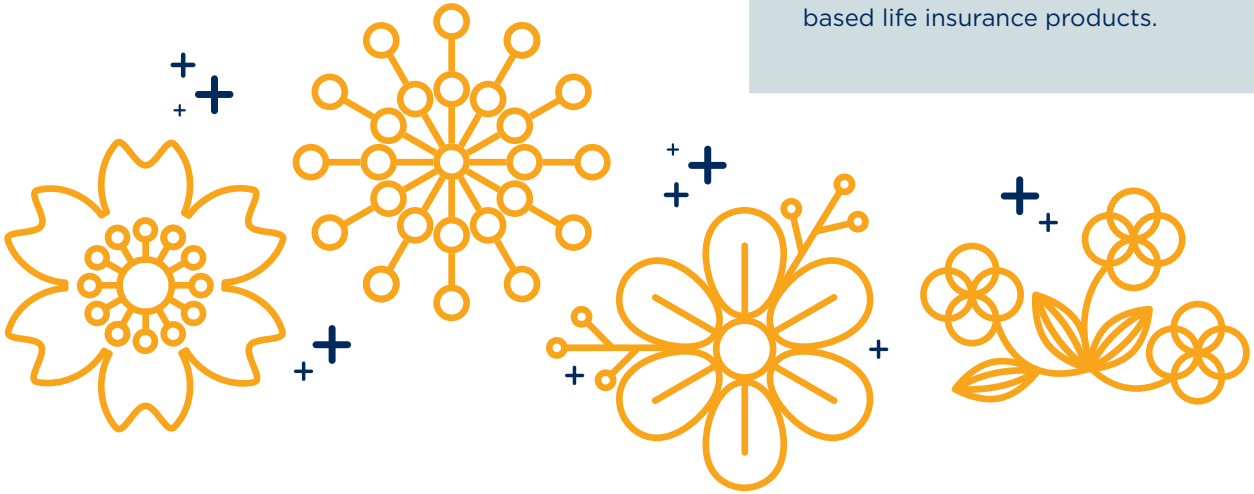
This is an important reminder to ensure that your statements are accurate and compliant. The level of detail and supporting evidence now needed in statements is significantly greater, so get in touch with our DC team if you need help.

Increased oversight for IGCs on ESG policies and other matters

In April, the Financial Conduct Authority (FCA) launched a wide-ranging consultation which proposes changes to the duties of Independent Governance Committees (IGCs) and Governance Advisory Arrangements (GAAs) regarding Environmental, Social and Governance (ESG) issues, value for money assessments of drawdown investment pathways, and other matters. The new proposals include:

- **New duty to report on ESG issues** - the FCA is proposing a new duty for IGCs to report on their firm's policies on ESG issues, consumer concerns and stewardship, for the products that IGCs oversee.
- **New ESG guidance for pension providers** - the FCA is also proposing related guidance for providers of pension products and investment-based life insurance products.
- **IGCs to assess value for money in drawdown investment pathways** - the FCA is proposing to extend the duties of IGCs to include independent oversight of the value for money of their firm's investment pathway solutions.
- **Prominent publication of IGC annual reports** - there is also a proposal that IGC annual reports should be made "appropriately prominent" on their firm's website, with prior year reports for comparison.

These proposals provide yet more evidence that 2019 is likely to be the year when ESG issues really start to achieve much greater prominence. Although it's the ESG aspect of the consultation that has grabbed the headlines, the extension of IGC oversight to cover drawdown investment pathways could potentially have the greater impact on improving outcomes for members, so this is to be welcomed. Further information on the proposals can be found in in this pensions bulletin.



Market & legislative updates continued

ONS confirms three-quarters of employees are now in workplace pension schemes

Some interesting statistics are to be found in a bulletin published on 12 April 2019 by the ONS.

- 76% of UK employees are now members of a workplace pension scheme, a modest gain of 3% since 2017, but a considerable increase of 29% since 2012, when Automatic Enrolment was first introduced.
- In 2018, the proportion of employees with DC workplace pensions (34%) almost equals that with defined benefit pensions (36%).
- The proportion of pension scheme membership increases as earnings increase. In 2018, 38% of those earning between £100 and £200 a week in the private sector were members of workplace pension schemes; the proportion rises to 89% for those earning at least £600 a week.
- The clear majority (85%) of DB pension scheme members received employer contributions equivalent to 12% or more of their earnings in 2018, while just 8% of defined contribution members received employer contributions of this amount.

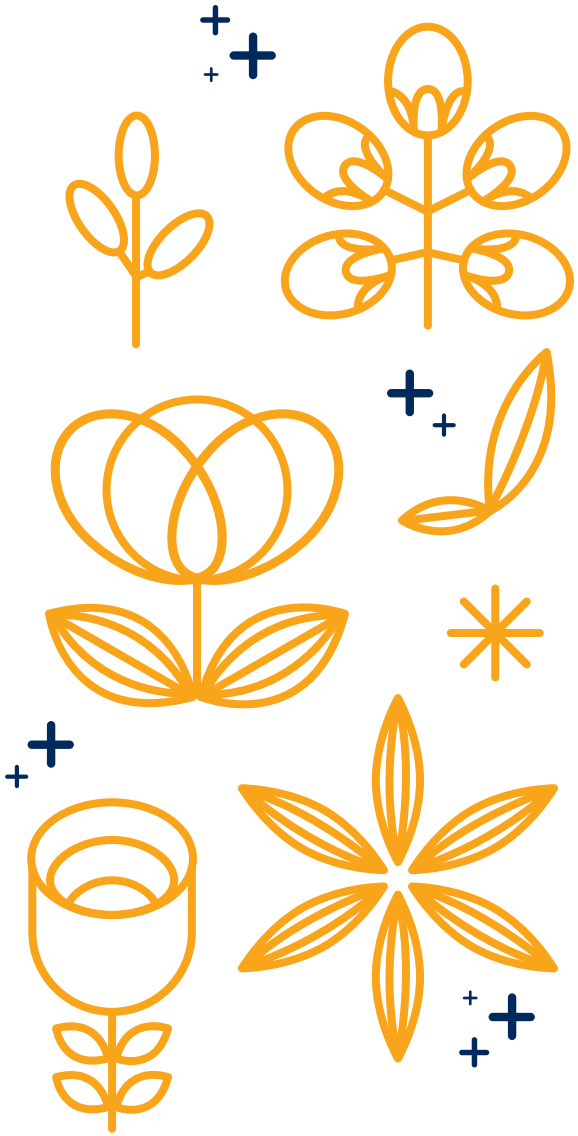
Pensions dashboard – the Government responds

On 4 April 2019, the Department for Work and Pensions (DWP) responded to its December consultation with an overall message that the much-delayed dashboard is to go ahead, but in a phased manner.

The DWP has tasked the Delivery Group to undertake the following during 2019:

- Create a clear and comprehensive roadmap for delivering the digital architecture for dashboards
- Work with the industry on setting data standards to both provide clarity to schemes and to feed the results of the user testing into the creation of standards which allow consumer facing dashboards to work
- Design a robust governance and security framework to enable information to be supplied by schemes to consumers via dashboards
- Work with the industry on its readiness to provide data via dashboards

The Government plans to include State pensions in the dashboard and it "will work to make this happen as soon as possible". Further details can be found in this pensions bulletin.



Our latest thinking

Master and Commander?

In this blog, Philip Audaer discusses Master Trusts and debates the apparent inevitability that existing DC schemes will be assimilated.

"Resistance is futile. Lower your shields and surrender your ships. We will add your biological and technological distinctiveness to our own. Your culture will adapt to serve us."

So said the Borg in Star Trek. And when you look at what's been happening in the DC arena over the last few years, it's certainly tempting to conclude that all DC schemes will eventually be assimilated into 'the Collective', which in this context means Master Trusts.... **Read more**

Wake-up to DC governance

In this blog, Helen Stokes discusses the benefits of good DC governance and emphasises why it is worth striving towards.

Now let's be honest, no-one jumps out of bed thinking about DC governance. But how do you get it higher up on your to-do list?

You have to start by asking yourself why you want good DC governance. It is not just completing checklists, ticking boxes, pacifying regulators or appeasing incessant consultants. It is also not just something that only trust based schemes have to think about. Companies using a Master Trust or a GPP cannot be hitting the snooze button but should also be striving for gold standard DC governance... **Read more**

Making financial wellbeing more than a tick box exercise in 2019

In this blog, Laura Myers discusses financial wellbeing and how you can help your employees by using data to identify the pressures they're facing.

The phrase "financial wellbeing" was the HR buzzword of 2018, but what does it really mean? And how can we make sure that any solutions designed to help employees are relevant and effective in 2019?

Why does financial wellbeing matter?

With living costs rising and the housing market (as well as rent, including first month deposits) still out of reach for many, financial pressures on individuals are continuing. Research from the CIPD shows that 19% of employees have lost sleep worrying about their finances, and that one in four UK workers feel that money worries affect their ability to do their job, with that number rising to one in three for workers aged between 25 and 34. It comes as no surprise that when we look at the impact on retention and absenteeism these worries are having a detrimental impact on performance at work... **Read more**

Auto-enrolment contributions on the increase, but how much is enough?

In this blog, Laura Myers takes stock of the success of the auto-enrolment following last month's rise in minimum contributions.

Following April's rise in the minimum auto-enrolment contribution, Laura Myers takes stock of the policy's success to date, and its prospects to boost pensions savings to sufficient levels in the future.

There's much to celebrate. According to the Government's latest auto-enrolment evaluation report, 84% of eligible employees – some 17.7million people – are participating in a workplace pension, to the tune of more than £90 billion in 2017.

Those assets are set to swell now that the rise in minimum contribution levels from 5% to 8% of qualifying earnings has kicked in. Based on a median annual salary of just under £30k p.a., total contributions for the average worker will rise by just shy of £700 per year. But as we've argued before, even 8% in combined (employer and employee) contributions doesn't go far enough if most people are to enjoy the standard of living in retirement that they expect. We believe that double that (around 16%) is closer to the mark. **Read more**

Highlights from the 2019 DC & Financial Wellbeing Conference

AI and the future of business

Daniel Hulme

There are two definitions of Artificial Intelligence (AI), and the most popular one is the weakest, which is getting machines to do things that humans can do. Over the past decade, due to advances in technologies like deep learning, we have started to build machines that can do things like recognise objects in images, and understand and respond to natural language. Humans are the most intelligent things we know in the universe, so when we start to see machines do tasks once constrained to the human domain, then we assume that is intelligence... **Read more**

The story behind £20 billion of unclaimed pensions

Hayley Williams

The ABI recently reported that 1.6 million pension pots worth nearly £20 billion could go unclaimed.

It cited more frequent job changes and house moves as the main reasons why people lose track of and fail to claim all their pensions. Insurance providers and pension scheme trustees make considerable efforts every year to reunite people with lost or forgotten pensions. They also regularly remind members about the Government's tracing agency but the problem seems to be getting worse. **Read more**

How responsible investment could help engage DC savers

Nigel Dunn

Time and time again we are told that young people want their savings invested in a responsible way. But when it comes down to it, very few choose to invest in this way. In fact, the truth is very few pension scheme members choose to invest in anything at all and nearly all of them end up in the default strategy. Auto enrolment means the prospect of engaging a member in their investments is harder than ever.

Maybe we should accept defeat and conclude that members are never going to engage with their investments. But what would happen if we gave them what they want? Would members engage with their investments if they were sent messages about things they are interested in? If young people want to invest responsibly, what would happen if we invest responsibly for them? **Read more**

Any questions?

If you would like any assistance or further information on the contents of this update, please contact any one of the team below.

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

Tim Box
Senior Consultant
tim.box@lcp.uk.com
+44 (0)1962 872739

Ellen Wallace
Associate Consultant
ellen.wallace@lcp.uk.com
+44 (0)20 7432 0633

Naznin Chowdhury
Analyst
naznin.chowdhury@lcp.uk.com
+44 (0)20 7432 7741