KPMG

Pensions accounting, assurance and regulatory round-up

Private sector occupational pension schemes

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Introduction

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Welcome to the most recent edition of our Pensions accounting, assurance and regulatory round-up for private sector occupational pension schemes. This update covers a range of topics and considers developments from the Regulator, the DWP and the wider pensions industry.

If you have any queries or would like to discuss any of the matters herein further, please do get in touch with your usual contact at KPMG, Anne or Sarah, or email us.

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TPR: Guidance on COVID-19

Recognising the unprecedented challenges posed by the current COVID-19 situation, The Pensions Regulator ("TPR") has issued guidance including some regulatory easements. TPR is monitoring the situation and working with government, regulators and others to assess the most immediate risks whilst reaching out to trustees, administrators and employers who are concerned about their schemes. Regulatory initiatives have been suspended and events postponed or cancelled. The relationship supervision cycle has been scaled back with TPR contacting schemes to understand how risks arising from COVID-19 will be mitigated. Schemes will be contacted again over the Autumn of 2020. Several expected publications have been postponed including the consultation on the Single Modular Code. The DB funding code consultation deadline was extended until 2 September and we await the findings. This article looks at some of TPR's key themes. It is not intended to provide a comprehensive guide and scheme specific advice should be taken.

TPR recognises that the current situation is placing strain on scheme administration with levels of service affected and breaches occurring.

Trustees are advised to contact their administrators to discuss the providers' contingency arrangements and to ensure activities critical to the running of the scheme continue. Critical processes are defined as paying member benefits, retirement processing, bereavement services and processes required to ensure benefits are accurate (such as DC contribution investment).

Trustees are urged to work flexibly with administrators to ensure prioritised services are maintained, for example, by altering operating procedures (such as allowing electronic signatures), maintaining higher cash balances and keeping non-critical requests to a minimum. The risk of scam activity is also raised. In turn, administrators should notify trustees of affected services and keep a record of non-priority queries to action once resources are available.

TPR has issued further pieces of guidance for employers and trustees.

Guidance aimed at employers looks at DB scheme funding. TPR expects employers to be open with scheme trustees, providing adequate time and information for them to make a considered response.

A further piece of guidance is directed towards DB trustees, looking at funding and investment issues.

Trustees will need to engage with the employer and enhance covenant monitoring over the short to medium term.

The guidance suggests lines of enquiry for the trustees, around consideration of the impact of the situation on product demand, the assumptions behind forecasting, key payment dates and impacts on cashflows. Financing considerations are noted with, inter alia, enquiry around available borrowings and banking covenants. Trustees are encouraged to assess any other support which may be available to them, such as contingent assets, in line with TPR's existing Integrated Risk Management guidance.

Employers requests to suspend or reduce contributions are also covered. Although not many schemes were initially affected, it is possible that initial or extension requests may be made in the coming months, particularly as employer loan and banking covenant tests are impacted. Trustees may now have greater understanding and visibility of the employer's position and more detail around the business case for any suspension or reduction of contributions. Trustees should ensure that any agreement is in members best interests and is equitable for the scheme.

TPR: Guidance on COVID-19 (cont.)

TPR recognises that extension or a suspension may be appropriate but make clear that they do not expect a rolling arrangement and the suspension becoming the new 'normal' position.

Due diligence should be performed before agreement to any new suspension or reduction, enabling trustees to decide whether any deterioration is temporary or otherwise, potentially signalling a need for a new actuarial valuation.

Guidance indicates that trustees should put protection and mitigations in place where a suspension or reduction is accepted. Possible actions include:

— ensuring cessation of all corporate distributions

— agreement of triggers to recommence contributions

— agreement of legally enforceable creditor payment priority order

— fully understanding the terms of any refinancing involving variation to scheme contributions

— receipt of appropriate information to facilitate enhanced monitoring of the employer, and

— repayment of contributions due within the current recovery plan timeframe. Recovery plans should not be lengthened unless covenant visibility is good and professional advice sought.

Further short term suspensions may be appropriate even where there is little information available from the employer (less information indicating that shorter extensions would be appropriate) although trustees should be aware of variation to substantial payments, ensure compliance with their fiduciary duties and only agree where other creditors are also making concessions.

Requests for trustees to release security are also discussed, such requests rarely being in members best interests. Again, trustees should ensure equitable treatment for the scheme in such scenarios.

Trustees finalising valuations do not need to change the assumptions used but will need to understand recent experience in finalising a recovery plan. TPR accepts that such considerations may take time.

Recent market conditions, and consequently funding positions, have been highly volatile. Uncertainty and risk remain and trustees, with advisers, need to review the impact on their investments, including:

— review of expected cash flows, and variations to them

— amendments to investment strategy or mandates

— investment diversification

— derivative holdings

— counterparty exposures

— pre-agreed portfolio changes

— delegations and subcommittee operating procedures

— actions protecting members benefits in the event of employer difficulties

— trustees' IRM policy and monitoring, and

— investment and risk governance arrangements.

TPR: Guidance on COVID-19 (cont.)

Trustees may also wish to take advantage of some of the opportunities afforded in the current market.

TPR's guidance recognises that trustees may need to make difficult decisions and, in doing so, need to balance risks to the scheme against the benefits of supporting the employer. Protections should be sought to secure members best interests. Trustees may feel it appropriate to take relevant advice, particularly where competing demands are being made on the employer. Trustees are reminded to obtain relevant information, take advice where appropriate, adhere to provisions of the trust deed, make decisions in good faith and document decision-making and conclusions.

DB transfers are also noted with TPR recognising increased activity volumes and that delays may occur in finalising calculations. Guidance highlights possible extensions to allowable time frames and the risk of scam activity.

In the event of a breach, trustees should report to TPR – see later article on regulatory activity. TPR expects compliance with reporting requirements from 1 July emphasising that they cannot waive the obligation to submit recovery plans or report agreements to suspensions or contribution reductions which should be reported together with supporting documentation.

Separate guidance from TPR looking at auto-enrolment and DC pension contributions notes that employers' duties continue as normal and considers how the Government's support scheme integrates with this.

Further guidance for trustees looks at DC investments. Whilst stressing that the guidance does not override any legislation or scheme governing documentation, it expects trustees to 'do the right thing' for members and aims to support trustees by highlighting good practice.

The guidance acknowledges that, although they are invested for the longer term, members may have suffered heavy losses and may make inappropriate decisions crystallising those losses. There is also a danger of members opting out of schemes if earnings are reduced or if they are offered an attractive opportunity by scammers. Transfer activity, which should continue as it is deemed a 'core financial transaction', may also attract scammers. TPR recommends that trustees review their member communications highlighting these concerns and outlining what market volatility might mean to members, warning of the scam danger and encouraging members to seek advice.

The current market will present specific risks to portfolios and service providers which trustees will need to review and manage, for example, potentially suspending or refining any rebalancing and improving diversification of the investments held. Consideration should be given to the level of exposure to counterparties and timing of proposed transactions. If contributions are being diverted to a fund other than that selected by the member, a default fund may have been created. In this situation, trustees need to ensure that all default fund requirements are met.
Trustees will need to review scheme governance, in particular concerning continuity in the event of trustee unavailability, sub-committee operation, quora of meetings, delegations and authorisations. The trustees may wish to take this opportunity to review their longer term risk management arrangements and governance planning, and ultimately whether their membership would benefit from a transfer of benefit provision to a larger arrangement.

TPR: Guidance on COVID-19 (cont.)

The current market conditions could present opportunities. Trustees may wish to consider developing governance and investment arrangements to embrace these changes.

Trustees may be faced with sponsoring employers unable to make contributions to their scheme. As long as auto-enrolment requirements are not breached, and the scheme documentation allows, such reductions are generally permissible. Where the employer has at least 50 employees, consultation is required.

TPR has issued guidance that, if certain criteria are met (mainly that the employer is only proposing to reduce contributions for furloughed staff), then a regulatory easement will apply if the employer fails to consult for the required 60 days.

If a rule change is being considered and the power to do this rests with the trustees, trustees will need to ensure that this is in the best interests of scheme members before proceeding.

We will keep you updated on further guidance in future editions of Round-up.

TPR: Guidance on COVID-19 - regulatory aspects

TPR has updated guidance in relation to its regulatory and monitoring activities which adopts a more flexible approach to expected reporting and enforcement. Following easements originally introduced for the period to 30 June 2020, the requirement to report resumed from 1 July. This includes reporting for:

— Suspended deficit repair contributions,

— Late valuations or outstanding recovery plans,

— delays in CETV quotations or payments,

— Late audited accounts, and

— Master trusts.

TPR's guidance separately considers schemes in relationship-managed supervision, noting enhanced focus on near-term risks rather than standard activities. Such schemes will be approached individually. For other schemes, regulatory activity will be informed through assessment against risk indicators. The Regulator has stated that their general approach will be to 'assess breaches of administrative and compliance requirements on a case-by-case basis and respond pragmatically where these breaches are COVID-19 related.'

TPR's approach in certain areas of regulatory activity is clarified in the guidance. It is worth noting that the easements noted are fewer than in the original version of this guidance.

Chair's statements

TPR will continue to impose fines for non-compliance with the requirements for preparation of a chair's statement because the legislation does not give any discretion in relation to enforcement.

TPR will revert to reviewing chairs' statements submitted on and after 1 October as usual (unless schemes are notified otherwise). In an earlier easement, TPR had returned chairs' statements unreviewed. As statements were returned unread, this was not to be taken as a sign of compliance.

Note also that TPRs normal approach to enforcement in relation to late preparation of audited accounts will resume from 1 October.

Investment governance

From 1 October 2020, TPR will resume their normal approach to enforcement for non completion of SIP reviews.

Late payments of contributions

TPR have confirmed that from 1 January 2021, reporting of payment failures that are 90 days late should resume, rather than the 150 days allowed in an earlier easement.

Impact of COVID-19 on financial statements - guidance published

In May 2020, "Pension scheme reports and financial statements and related matters in the context of the COVID-19 pandemic" was issued, a joint publication from the Institute of Chartered Accountants in England and Wales ("ICAEW"), the Institute of Chartered Accountants of Scotland ("ICAS") and the Pensions Research Accountants Group ("PRAG").

The guide has been prepared to support not only pension scheme auditors with the additional challenges faced in the current environment, but also trustees and scheme accountants. The guide is relevant to private sector occupational defined benefit (DB) and defined contribution (DC) trust-based schemes, including hybrid schemes and DC master trusts preparing accounts under the Pensions SORP.

Because of the COVID-19 pandemic, trustees may need more time to complete their going concern assessments and auditors will have strengthened procedures in place in order to obtain sufficient and appropriate audit evidence. Companies and their auditors currently face unprecedented challenges in preparing and auditing financial information and the uncertainty created by COVID-19 has significantly increased the amount of evidence required as auditors of pension schemes. ISA (UK) 570 (Revised September 2019) is effective for periods commencing on or after 15 December 2019 and even if firms do not early adopt, the uncertainty created by COVID-19 has led to auditors needing to perform the enhanced risk assessment procedures and considerations over material uncertainties as set out in the revised Standard.

The guide is set out in sections which include TPR guidance on the deadline for finalising the annual report, ethical issues for professional accountants and auditors, the impact of the COVID-19 pandemic on the control environment of pension schemes and narrative elements of the annual report. Section 10 covers the consideration of going concern in the preparation of pension scheme financial statements.

The going concern assessment is not a new requirement but may require trustees to consider in more depth how COVID-19 impacts the basis of preparation of the financial statements and whether there are any material uncertainties in relation to going concern. The guide covers the trustees' assessment of going concern and what auditors are likely to request as part of the scheme annual audit. The document sets out going concern considerations specific to DB schemes, as well as for DC schemes and DC master trusts and DB multi-employer schemes.

Section 11 discusses other key accounting issues including fair value of investments and any impact of COVID-19 on the fair value hierarchy due, for example, stale pricing and potential delays to valuations of private equity. Section 12 provides an overview of audit issues for pension schemes and, stressing the importance of the requirement to obtain sufficient audit evidence. Going concern will be a key focus for the scheme auditor.

Impact of COVID-19 on financial statements - new guidance published (cont.)

Section 13 covers the auditor's statement about contributions and the potential impact on the statement of suspended or reduced contributions, particularly if the schedule of contributions is no longer effective.

The guide is to be read in conjunction with guidance issued by TPR and the FRC. (Refer to our earlier article on TPR: Guidance on COVID-19).

The guide is available from the following links:

ICAEW

ICAS

PRAG

DC Consultation: Improving outcomes for members of defined contribution pension schemes

The Government has issued a response to their earlier consultation 'Investment Innovation and Future Consolidation' this month together with a further consultation on regulations and statutory guidance. The new consultation runs to 30 Oct 2020.

Guy Opperman has stated that the government has *'an aspiration that all Defined Contribution (DC) scheme members should benefit from efficient and operationally resilient administration, first class investment governance, and access to innovative and diversified investment strategies. .... want all scheme members to benefit from a broader range of assets to improve the returns they achieve, and to drive new investment in important sectors of the economy.'*

The new document, entitled improving outcomes for members of defined contribution pension schemes, includes consultation on a number of broad areas and proposals for regulations and guidance. Aspects being consulted on include new statutory guidance on assessment of value for members.

In summary, the proposals made centre on the key topic areas noted below.

Consolidation

Consolidation of smaller schemes is seen as the most effective way for members to take advantage of benefits of scale including the ability to invest in a broader range of investments including illiquid and alternative investments, which may be unavailable to small schemes. The consultation notes that TPRs register holds some 3,000 DC schemes, of which approx. 2,000 have less than 100 members and 1,300 less than 12 members. Such schemes may expose members to higher charges and poorer standards of governance – this is borne out by TPR data.

Under the new regulations, expected to be in force on 5 October 2021, small schemes offering higher standards will be able to demonstrate their value to members. Schemes offering low value for members will be expected to wind up and consolidate into larger schemes. It may be possible for schemes to improve if trustees are confident that this is realistic in a reasonable period and would be cost effective or if valuable guarantees would be lost should the scheme consolidate. However, taking into account the time, skill, capacity and costs involved, wind up may still be a better option. The trustees chosen route is reportable to TPR who have the power to intervene should the need arise.

The consultation proposes that the new value for members assessment applies for schemes with less than £100 million in total assets and which have been operating for at least 3 years. In addition, schemes of all sizes will need to publish net returns for their default and self-select funds in their annual DC chair's statement.

A value for money assessment will need to be conducted annually, be included in the schemes DC chair's statement and cover the following:

— costs/charges and net returns (assessed relative to 3 comparative schemes)

— measures of administration and governance (assessed absolutely) which include:
  - promptness and accuracy of financial transactions;
  - appropriateness of default investment strategy;
  - quality of investment governance;
  - quality of record keeping;
  - quality of communication with members;

DC Consultation: Improving outcomes for members of defined contribution pension schemes (cont.)

- level of trustee knowledge, understanding and skills to run the scheme effectively (assessed across the trustee body as a whole); and
- effectiveness of management of conflict of interest.

Trustees will need to include the outcome of their assessment in their annual return and any necessary consequential actions.

The consultation seeks views on reporting of net returns – i.e. an appropriate period of look back, on whether the proposals encourage consolidation and on whether sufficient clarity is given on expectations on assessing and reporting value for members.

Diversification, performance fees and the default fund charge cap

The Ministerial foreword notes that *'Trustees' fiduciary duties require them to take account of all long term financially material considerations when deciding their investment policy.... It is ...Government's policy to ensure it is not putting up unnecessary or inadvertent obstacles to trustee decisions where these would limit trustees' ability to take full advantage of the broad range of asset classes available to them.'*

The consultation proposals aim to remove barriers to investment in more diverse instruments by addressing the measurement of performance fees and the charge cap. It proposes measures, to be effective from 5 October 2021, in three areas.

— Better enabling schemes to pay performance fees

When assessing the charges that scheme members have paid against the charge cap (which will be pro-rated for the part of the year a member has been in the scheme), trustees will exclude the performance fee element, if it is accrued each time the value of the investments is calculated.

A multi-year smoothing period is proposed as an alternative option in calculating performance fees to facilitate investment in a wider range of illiquid assets.

— Excluding the costs of holding 'physical assets'

Extant guidance notes that the costs of holding physical assets, such as real estate or infrastructure, are not included within the charge cap. The consultation puts that exclusion on a statutory footing.

'Physical assets' are defined as: an asset whose value depends on its physical form, including land, buildings and other structures on land or sea, vehicles, ships, aircraft or rolling stock, and commodities.

The proposals remove costs attributable to holding physical assets from the charge cap and provide a non-exhaustive list of excluded costs.

— Updating charge cap guidance to clarify treatment of underlying costs in investment trusts.

The consultation proposes clarification of the costs and charges included in the charge cap, indicating that schemes should look through all open-ended funds and all UK listed closed-ended investment funds and international equivalents to the underlying costs.

Other changes to legislation

Further amendments noted below are proposed to be in force from 05 October 2021.

DC Consultation: Improving outcomes for members of defined contribution pension schemes (cont.)

— Extending the requirement to produce a default Statement of Investment Principles ("SIP") to 'with profits' schemes

Because of the way the regulations providing for a default SIP requirement were drafted, no scheme with a benefits 'promise' (such as an older 'with profits' policy) is required to produce a default SIP. This is not in line with Government policy and proposals will require such schemes to produce a default SIP.

— Extending the costs disclosure requirements to funds which are no longer available for members to choose

Proposed amendments would extend the requirement to show charges and transaction costs to all funds which members are, or have historically been, invested.

— Excluding wholly insured schemes from some requirements of the Statement of Investment Principles

This measure supports a long standing exemption of wholly-insured schemes from the need to produce most sections of the SIP as the trustees have no discretion over the investment of the scheme's funds.

Updated reporting of costs, charges and other information: statutory guidance

The current consultation also proposes statutory guidance providing additional clarity on disclosure of costs and charges information. With the intention of making the disclosure of the impact of costs and charges simple and clear, it is suggested that:

— an illustration should be produced for each individual employer's default fund, but the scheme need only produce an illustration of: the default fund, the lowest charging self-select fund and highest charge self-select fund offered. Additional illustrations are encouraged where these would be useful to members.

— in schemes with multiple defaults:
  - the pot size used should be a median across the whole scheme,
  - the real-terms investment return only needs to be shown for each fund or arrangement for which an illustration is provided.

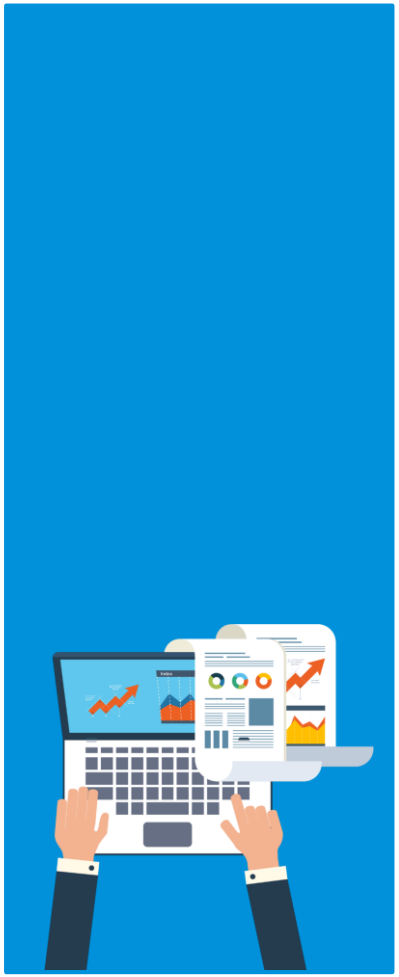
— the Statement of Investment Principles, the Chair's Statement (inclusive of charges and transaction cost information, value for money assessment and default SIP), and the relevant section of the Annual Report (the implementation statement) do not necessarily have to be produced as a single web-page or PDF document.

— when the Chair's Statement is circulated in print format, it can simply be a collation of all the relevant documents.

Industry reaction

TPR has welcomed the proposals stating that the initiatives around consolidation are in line with TPR's own aims – i.e. to ensure that all savers are able to access well run schemes which provide good value for money.

The Pension Schemes Bill



Guy Opperman has recently suggested that he expects the Pension Schemes Bill to become law by the end of 2020. The Pension Schemes Bill ("The Bill") completed its Second Reading in the House of Commons on 7 October and will now progress to the Committee Stage which is due to report by 5 November. The Bill, as originally highlighted by the Queen's Speech, aims "…To help people plan for the future, measures will be brought forward to provide simpler oversight of pensions savings. To protect people's savings for later life, new laws will provide greater powers to tackle irresponsible management of private pension schemes."

The main elements of the Bill were initially drafted as:

- Providing a framework for the establishment, operation and regulation of Collective Defined Contribution schemes;
- Strengthening the Pensions Regulator's powers and the existing sanctions regime. This will include introducing new criminal offences, with the most serious carrying a maximum sentence of seven years' imprisonment and a civil penalty of up to £1 million;
- Giving the Regulator enhanced powers to obtain the right information about a scheme and its sponsoring employer in a timely manner, backed up by penalties;
- Providing a framework to support pensions dashboards, including new powers for the Regulator which will include penalty fines, to compel pension schemes to provide accurate information to consumers. This will include provisions to amend the Pensions Act 2004 and to ensure relevant schemes comply;
- Creating regulations to set out circumstances under which a pension scheme member will have the right to transfer their pension savings to another scheme;
- Improving the defined benefit scheme funding system by requiring a statement from trustees on their funding strategy; and
- Amending the legislation for the Pension Protection Fund compensation regime to enable the Fund to continue to apply the compensation regime as intended and amend provisions relating to administration charges.

However, further provisions have subsequently been added requiring schemes to adopt and report against the recommendation of the Task Force on Climate-related Financial Disclosures (TCFD) and take the Government's net zero targets and the Paris Agreement into account while managing climate risk.

The Bill's Second reading was completed without a vote. However, the Opposition have stated that further measures, such as widening auto-enrolment, will be pursued in the Committee Stage. The Government have indicated their intent to introduce further measures against scams.

Industry reaction

Various industry commentators have welcomed the proposals. However, some disappointment has been voiced over the lack of any provision for a defined benefit consolidator or Superfund regime. Guy Opperman has recently suggested that a second Pensions Bill, which may look at Superfunds, is to be expected within the current Parliament.

TPR: Defined benefit funding code of practice - consultation

The first part of TPRs two part consultation on a proposed new funding regime closed on 2 September. The consultation was broadly welcomed. However, it is acknowledged that much of the detail remains outstanding until the second part of the consultation is published, including assessment approaches and the regime's application to large multi-employer arrangements. Some concern was raised around the regime becoming too prescriptive and potentially leading to a worsening situation for members and that schemes may be encouraged to 'level down' to FastTrack from currently higher standards.

Issued in March 2020, this first consultation looks at the framework of the revised provisions and the second will apply more detail about what the new Code and guidelines might look like. TPR is keen to understand any practical considerations and highlight any unintended consequences and also to form a view of 'what good looks like'.

The proposals introduce a new framework aiming to achieve a balance between security of member benefits and affordability to the employer, building on already familiar themes such as integrated risk management and long term planning.

Compliance with the proposed new approach is not likely be overly onerous for a well-run scheme, but is intended to improve the governance of those schemes currently taking an excessive amount of risk with their funding position. The new framework will rest on a series of key principles:

Compliance and evidence

Trustees will be expected to understand their scheme specific funding and investment risks and evidence how these risks have been assessed as acceptable and managed, comparing any risk to a tolerated risk position and demonstrating mitigation / support available.

Long term objective (LTO)

Mature schemes will be expected to be resilient to risk and have low dependency on the employer (a lower risk of requiring significant support).

Journey plans and technical provisions (TP)

Trustees should formulate a journey plan, linking to and aligning with Technical Provision (TPs), to a Long Term Objective (LTO) with decreasing investment risk.

Scheme investments

A scheme's investment strategy should be aligned with its funding strategy and have sufficient security, quality and liquidity considering both expected and unexpected cash flows. At maturity the asset allocation should have high resilience to risk, a high credit quality and level of liquidity.

Reliance on the employer covenant

A reducing reliance on the employer is expected over time.

TPR: Defined benefit funding code of practice - consultation (cont.)

Reliance on additional support

Schemes will be able to take account of additional support in valuations, provided that the support is provided at the right level to mitigate risks taken, it is valued appropriately and is legally enforceable and realisable.

Appropriate recovery plan ("RP")

Scheme deficits should be recovered as soon as they are affordable without compromising the sustainable growth of the employer.

Open schemes

The security of members' benefits is equally important in both open and closed schemes. Note that on 30 June an amendment to the Pension Schemes Bill was made requiring different approaches to regulation of open and closed DB schemes on the basis that 'the liquidity profile of an open and active scheme.....is very different from a closed scheme'.

A new regulatory approach: Fast track and Bespoke

Proposals in the consultation aim for greater direction to be provided, without being overly prescriptive. A twin track approach to valuation compliance is proposed – referred to as 'Fast Track' and 'Bespoke'. It is hoped that this approach will provide greater clarity on the expected standards to trustees, employers and their advisers. Evidence supporting adoption of either route will need to be submitted to TPR as part of the new statement of strategy introduced by the Pensions Bill 2020.

Schemes may switch between the two tracks at different valuations, recognising that scheme and employer circumstances may change over time.

Fast Track

The consultation document headlines the fast track approach as providing a streamlined route to compliance with the legislation comprising straightforward quantitative compliance.

If requirements are complied with, less evidence will be needed and minimum regulatory involvement can be expected.

The Fast Track route is relevant for schemes whose valuations comply with all aspects of TPR's requirements which, whilst not intended to be risk free, will represent a 'baseline of tolerated risks'.

Bespoke

This option provides more flexibility for valuations of schemes who cannot or who are choosing not to adopt the Fast Track approach to incorporate scheme and employer specific circumstances.

However, valuations adopting this approach will need to be more fully articulated and evidenced and may involve more regulatory involvement.

There are varied reasons for not adopting the Fast Track approach and the Bespoke approach is equally compliant with the legislation. A higher level of regulatory involvement can be expected as schemes will have to demonstrate how and why their approach differs from Fast Track and how any

TPR: Defined benefit funding code of practice - consultation (cont.)

additional risk is being managed. It is intended that Bespoke arrangements meet the key principles of the Fast Track standard whist allowing for additional flexibilities. For example, if additional risk on funding is accepted by trustees, there would be a need to demonstrate how that risk is managed which could involve, inter alia, putting contingent asset arrangements in place. TPR would expect such assets to be appropriately valued and be legally enforceable and accessible when needed.

Fast Track: key principles and options

Employer covenant

Balancing the needs of scheme members and the costs to employers is paramount. A higher degree of reliance on the employer may be justified, for example, for an immature scheme taking higher risks; the scheme then transitioning to a lower dependence position over time. TPR's second consultation will deal with the detail of this balance. Schemes with a stronger employer covenant may be in a position to take more risk.

The consultation looks at how covenant support should be integrated, recognising that visibility does not typically extend to beyond 3-5 years.

Assessment of the covenant is also considered looking at two options: the current 'holistic' approach or a simplified model resulting in a calculated value or metric. Retention of the current covenant grading system is proposed but views are sought on increasing the number of ratings.

Long term objective ("LTO")

The proposals indicate that, as they mature, schemes should seek to reduce reliance on the employer covenant and hold an asset portfolio which is resilient to risk. Once an LTO is identified, trustees can formulate a strategy to reach this 'end game' position whether that is to buy out, consolidate or run off the scheme. Views are sought on the definition of an LTO and assumptions relating to members benefits for those on the Fast Track route.

Journey planning and technical provisions

The 2020 Pension Schemes Bill requires technical provisions to align to the LTO. A journey plan sets out how schemes will achieve their destination LTO. This may not happen in a short timeframe. Technical provisions will not always match the LTO but should measure progress along a smooth journey plan towards it and will reflect the discount rates and investment strategy along the way. Once a scheme is fully funded on a TP basis, TPR would expect schemes to invest in accordance with their journey plan to move themselves towards a position of low dependency on the employer, introducing a recovery plan only if a deficit arises on a TP basis. The consultation seeks views on an appropriate journey plan 'shape' for Fast Track TPs, how much covenant reliance should be embedded and how to express fast track TPs and derive guidelines.

TPR: Defined benefit funding code of practice - consultation (cont.)

Scheme investments

The consultation suggests that a scheme's investment strategy and asset allocation over time should be broadly aligned with the funding strategy. Trustees will need to ensure that this strategy has appropriate security, quality and liquidity. TPR suggests proposals on how trustees may be able to demonstrate that risks in their investment strategy are supported. Options are outlined on a suitable reference point for measurement of investment risk, how to measure risk, and the definition of an acceptable level of risk at different scheme maturities and covenant strengths. Credit quality and liquidity guidelines for the Fast Track route are also considered.

Appropriate recovery plans

Affordability is key in considering recovery plans. TP deficits should be recovered as soon as possible whilst minimising the impact on employer growth. A balance is sought between risks to the scheme and flexibility for employers in managing cash flows. Evidence of affordability constraints will be required where longer recovery plans are proposed.

In such cases trustees will be expected to put in place suitable mitigations. Consultation responses are sought on appropriate recovery plan lengths and whether these should vary depending on the employer covenant.

Open schemes

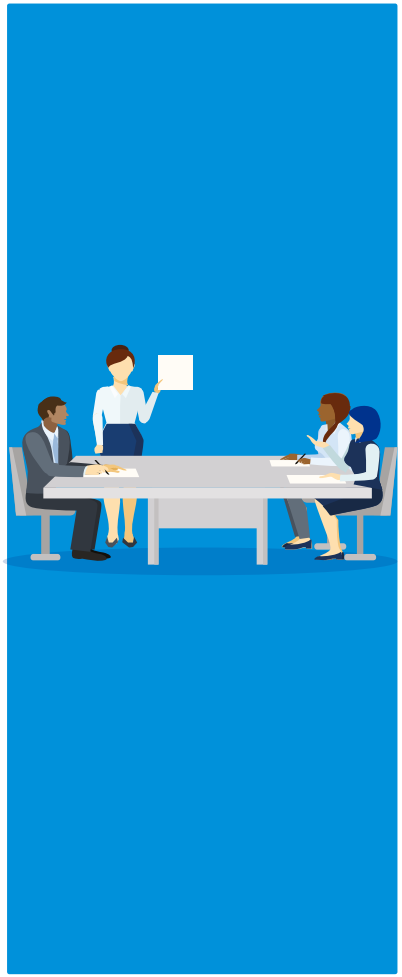
Open schemes mature more slowly (or not at all) as compared to closed schemes. However, the accrued rights of members in open schemes should have as much security as those in closed schemes. The consultation proposes to treat past service liabilities (TPs) and future accrual separately with all schemes having the same LTO of funding based on low employer dependency once they are more mature. The consultation seeks views on the method of calculation of TPs and the cost of future service benefits for open schemes.

To conclude:

The consultation will be followed by a second consultation later in 2020 which will incorporate feedback received in the current document. The revised Code is not expected to come into practice until late 2021.

(see earlier article: The Pensions Bill)

Taking action on climate risk: Improving governance and reporting by occupational pension schemes



On 26 August 2020, the Department for Work and Pensions ("DWP") issued a consultation "Taking action on climate risk: Improving governance and reporting by occupational pension schemes" to legislate for the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD").

Readers of past editions of Regulatory round-up will be aware already that the intention to legislate for the TCFD recommendations is not new. The Pensions Bill, which has already progressed through the House of Lords, will require climate risk governance and TCFD reporting by occupational pension schemes, and earlier this year, the Pensions Climate Risk Industry Group ("PCRIG") produced non-statutory guidance to help trustees align their reporting with the TCFD recommendations.

Criteria

The proposals are initially aimed at larger schemes and authorised schemes, with a twofold set of requirements: climate risk governance processes and the TCFD report itself.

— If a scheme has total net assets of £5bn or more* on the first scheme year to end on or after 1 June 2020, or is an authorised master trust / authorised scheme providing collective money purchase benefits on 1 October 2021, then the trustees must meet the climate governance requirements for the current scheme year from 1 October 2021 to the end of that scheme year, and (unless scheme is no longer authorised/ assets are <£500m) the next full scheme year to begin after 1 October 2021 to end of that scheme year.

Trustees must publish the TCFD report within 7 months of the end of the scheme year which is underway on 1 October 2021 or by 31 December 2022 if earlier, and within 7 months of the end of the next scheme year to begin after 1 October 2021, or by 31 December 2023 if earlier.

— If a scheme has total net assets of £1bn or more on the first scheme year to end on or after 1 June 2021 then the trustees must meet the climate governance requirements for the current scheme year from 1 October 2022 to the end of that scheme year, and publish the TCFD report within 7 months of the end of the scheme year which is underway on 1 October 2022 or by 31 December 2023 if earlier.

A link to the TCFD report must be included in the annual report and accounts produced for that same scheme year.

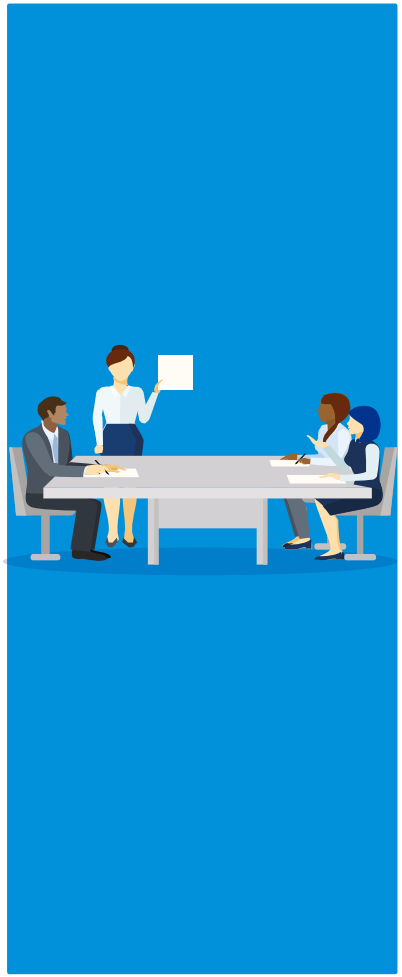
Schemes would remain in scope until assets fall below £500m at the scheme year end. The requirements would apply to authorised master trusts and schemes offering collective money purchase benefits from the point of authorisation and fall away from the point of de-authorisation.

Proposed rules are set out where schemes exceed thresholds where assets were previously below the limits, and for schemes that were once in scope but then fall below the threshold. From 1 June 2022 onwards, trustees of schemes whose net assets equal or exceed £1bn on the next scheme year end date should be required to implement the governance requirements, starting from one year after that scheme year end date. In addition, trustees would be required to publish their TCFD report within 7 months of the end of the scheme year to which the governance requirements apply, including a link to their TCFD report in their annual report and accounts produced for that scheme year, not the current scheme year.

Where assets fall below the £500m threshold at any particular scheme year end, the ongoing climate

*For hybrid schemes, combined asset totals should be used

Taking action on climate risk: Improving governance and reporting by occupational pension schemes(contd.)



governance requirements fall away with immediate effect, but scheme trustees would still be required to produce a final TCFD report within 7 months of the scheme year which had just ended and in respect of which the underlying governance requirements had applied. Schemes would then not come back into scope unless assets exceed £1bn.

A review will be carried out in 2024 with the possibility of extending the requirements to smaller sized schemes.

TCFD reporting

The Consultation proposes that regulations will require trustees to have effective governance, strategy, risk management, and accompanying metrics and targets for the assessment and management of climate risks and opportunities (see table on next slide for the TCFD recommendations), Trustees must then assess how the value of the scheme's assets / liabilities would be affected by different temperature rise scenarios and report the greenhouse gas emissions of their portfolio. Statutory guidance will be published which trustees must have regard to (or explain why they have not), and will set out the steps that trustees need to meet. Due to current potential data limitations, the DWP are proposing that trustees carry out the scenario analysis, calculate metrics and report against trustee-set targets "in so far as they are able".

As the TCFD reports are expected to be lengthy (if done well), then the proposal is that they should not form part of the annual report and accounts, but a reference to the website included where the full report can be accessed. Trustees must also provide TPR with the web address of where they have published the report via the scheme annual return submission. The DWP also proposes that links to the SIP, implementation statements and relevant sections of annual chair's statements should also be provided in the annual return.

A mandatory penalty is proposed where the trustees have failed to complete a TCFD report, with TPR also having discretionary powers to hand out other penalties.

Regulations vs. Statutory Guidance

The DWP points out that the language of the TCFD recommendations will be adapted to fit with pensions terminology whilst maintaining the "substance of the recommendations". To avoid lengthy regulations, the detail will be included in statutory guidance, together with examples and options for trustees to consider.

Audit requirements

At this point, there is no specific requirement for the TCFD report to be audited, but as there would be reference to it in the scheme annual report and accounts, the auditor would need to fulfil its responsibilities under ISA (UK) 720 on "Other information" – similar to the annual chair's statement and the new implementation statement. The DWP propose that a copy of the TCFD report is provided to the auditor in full at the same time as the annual report and accounts. The Consultation does go on to say that the DWP will continue to consider whether to strengthen the auditing requirements once the disclosures are firmly embedded in the trustees' reporting framework.

Conclusion

One hundred of the largest schemes will be required to publish climate risk disclosures by the end of 2022. If proposals are adopted, TPR will consider if trustees who meet the requirements should be deemed to have met the climate change standards set out in the forthcoming Governance Code (part of the Singular Code of Practice) estimated to be released by the end of this year.

The Consultation closed on 7 October 2020 and we will bring you further updates in future editions of Round-up.

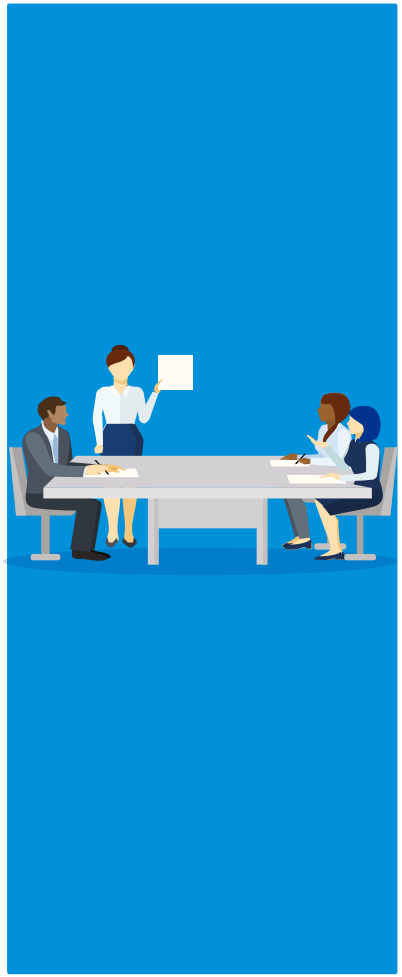
Taking action on climate risk: Improving governance and reporting by occupational pension schemes (contd.) - TCFD Recommendations

Governance	Strategy	Risk Management	Metrics and Targets
a) Describe the board's oversight of climate-related risks and opportunities	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long-term.	a) Describe the organisation's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	b) Describe the organisation's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas emissions, and the related risks.31
c)	c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

To underpin the recommendations, the Taskforce developed seven Principles for Effective Disclosures;

1. Disclosure should represent relevant information;
2. Disclosures should be specific and complete;
3. Disclosures should be clear, balanced and understandable;
4. Disclosures should be consistent over time;
5. Disclosures should be comparable among companies within a sector, industry, or portfolio;
6. Disclosures should be reliable, verifiable and objective; and
7. Disclosures should be provided on a timely basis.

Annual report disclosures relating to investments - reminder



Introduction

Since October 2019 trustees have had to update their Statement of Investment Principles ("SIP") to take account of the requirements of the amended Investment Regulations.

Policy disclosures required within the Annual Report

To recap, the amended Disclosure Regulations require certain policy disclosures to be included within annual reports. The changes to the contents of the SIP mean trustees will have to include these new policies in the first Annual Report that they prepare on or after 1 October 2019 – similar to how they previously disclosed, for example, their policy on the custody of the scheme's assets; details of any investments which were not made in accordance with the SIP and review of the investment performance.

Your audit team will be checking these new disclosures against our regulatory Disclosure Checklist.

NEW: Implementation statements

Legislation now includes provision which comes into force on 1 October 2020 requiring trustees to produce an implementation statement as part of their Annual Report. The content of the implementation statement depends on the type of scheme:

— **Relevant schemes (DC and Hybrid):**

i. How, and the extent to which, the SIP has been followed during the year

ii. Describe any review of the SIP undertaken during the year; and any change made to the SIP during the year. If there has been no statutory review in the year then state the date of the last such review

iii. Description of voting behaviour by or on behalf of trustees (including most significant votes cast) and state any use of proxy voter during the year

DC/Hybrid implementation statements should be included in the first annual report produced from 1 October 2020 and published online from that date.

— **DB schemes:**

A statement which must:

i. Set out how, and the extent to which, in the opinion of the trustees, the exercise of the rights (including voting rights) attaching to the investments and undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, trustees would monitor and engage with relevant persons about relevant matters) has been followed during the year, and

ii. Describe the voting behaviour by, or on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) during the year and state any use of the services of a proxy voter during that year.

DB Implementation statements should be included in the first annual report produced from 1 October 2020.

By 1 October 2021 DB schemes are required to publish their implementation statement on a publicly available website.

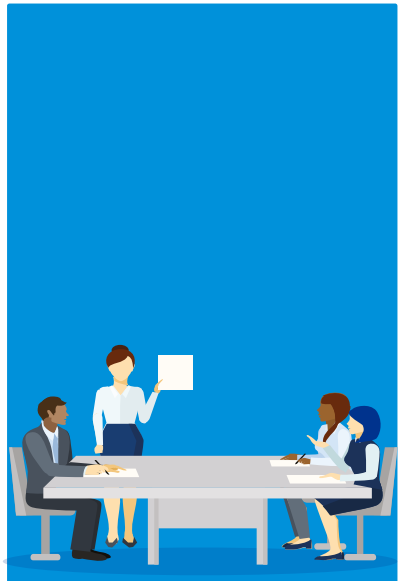
Trustees therefore need to consider the timing of the statement carefully and liaise closely with investment advisers if they have not already done so.

For more information on Trustees' investment duties and what is on the horizon, please refer to the later article in Round-up.

Trustees' investment duties: Summary of regulatory requirements - updated

Effective date	Requirement	Schemes effected
From 1.10.2020 (2018 Regs)	Produce an implementation statement (included in the annual report) setting out the extent to which the SIP has been followed in respect to how the trustees have implemented their voting and engagement policies. **Note: Guidance states that the implementation statement should be included in an annual report produced from 1 October 2020**	DB schemes
From 1.10.2020 (2018 Regs)	Produce and publish an implementation statement (included in the annual report) setting out the extent to which the SIP has been followed. This must be published online and members made aware of its availability in their annual benefit statements. **Note: Guidance states that the implementation statement should be included in an annual report produced from 1 October 2020 and published online from that date.**	DC schemes
By 1.10.2020 (2019 Regs)	Provide additional information in the SIP on engagement activities, including trustees' methods of monitoring and managing capital structure and actual / potential conflicts of interest. The SIP to include a policy in relation to the trustees' arrangement with any asset manager, setting out the following matters or explaining the reasons why any of the following matters are not set out: i. How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with trustees' policies; ii. How that arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term; iii. How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with trustees' policies; iv. How the trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range; and v. The duration of the arrangement with the asset manager.	DB & DC schemes
By 1.10.2020 (2019 Regs)	Publish SIP online.	DB schemes
By 1.10.2021 (2019 Regs)	Produce an implementation statement, which explains how and the extent to which the trustees have followed their engagement policies and describes the voting behaviour by or on behalf of the trustees (including the most significant votes cast by trustees by or on their behalf) during the year and state the use of the services of a proxy voter during the year.	DB & DC schemes **(therefore potentially increasing the detail if schemes produced a statement early, e.g. at 1.10.2020).**
By 1.10.2021 (2019 Regs)	Publish implementation statement (see above) on a publicly available website.	DB schemes

PLSA Implementation Statement Guidance



On 31 July 2020, the Pensions and Life Savings Association ("PLSA") issued their Implementation Guidance, a document produced by the Voting and Implementation Statements Working Group ("VISWG").

The group was set up earlier in the year to produce a guide to help trustees navigate their way through the new requirements of the Investment and Disclosure Regulations.

The guide provides practical support for all trustees, but recognises that there will be differences in scope for those schemes with pooled investment vehicles compared to schemes with segregated investments.

The guide sets out:

1. The legislative requirements;
2. High level general principles;
3. Additional more detailed considerations – "how" and "to what extent";
4. Considerations for voting disclosures; and
5. Communication advice.

Schemes will have different resource and governance capabilities and therefore trustees must prepare their statements to fit around any constraints.

With the introduction of such a new form of disclosure, as the preparation of implementation statements evolve, the PLSA will develop the guidance to follow best practice.

Additional Guidance

To accompany the Implementation Statement Guidance published in July 2020, the PLSA have now released two companion publications and their first Vote Reporting Template.

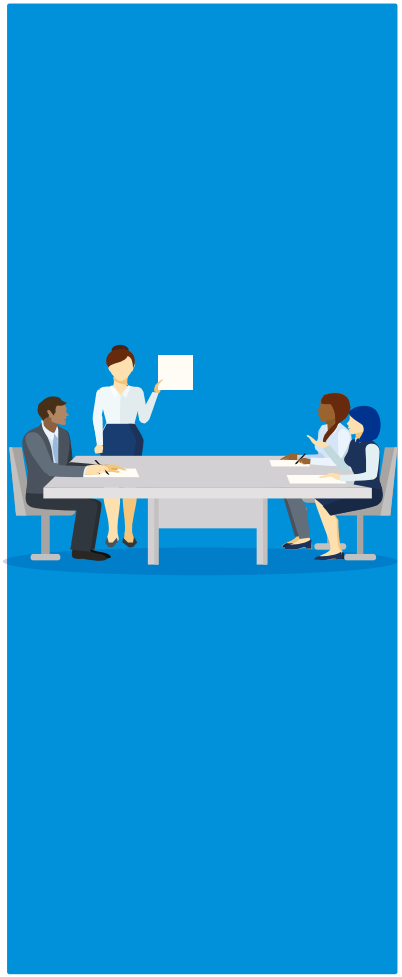
The "Vote Reporting Template for Asset Owners" guidance sets out an overview of the new Vote Reporting Template, how it forms part of the wider investment engagement work, the steps trustees need to take before presenting the Template to their managers and what they will get from the Template.

The "Vote Reporting Template for Asset Managers" provides support for investment managers and platform providers in using the Template to provide information on their voting activity to pension scheme clients.

Trustees are advised that although the Template has been tested with asset managers, the PLSA recognise that it will need to evolve over time.

For more information on the new requirements for your annual report, and a more detailed summary of the key points set out in the PLSA Guidance, look out for our publication "Implementation Statement Guidance" which can be obtained from your usual KPMG contact or from our website

TPR: DB Superfunds guidance



On 21 October TPR published guidance for prospective ceding trustees and employers who are considering a move into the evolving DB Superfund market. Such superfunds involve replacement of the scheme employer with a special purpose vehicle backed by capital injections from the employer and outside investors. Whilst a legislative framework (which is likely to include superfund authorisation) is awaited, TPR have set out an interim assessment and supervisory regime for superfunds and further guidance is still to come. Trustees and employers are encouraged to engage with the Regulator at an early stage in their considerations.

Key principles include the assessment of a superfund as:

— capable of being supervised by its trustees

— run by fit and proper persons with effective governance arrangements in place

— financially sustainable with adequate contingency plans in place to manage funding and an orderly exit from the market, and

— having sufficient administrative systems and processes in place to ensure it is run effectively.

Employers will need to apply for clearance before a transfer into a superfund. Employers and trustees will need to demonstrate why they believe moving to a superfund is in the best interests of members. Trustees will also need to demonstrate due diligence undertaken in respect of the transfer.

TPR will assess proposed transfers against 'gateway principles', outlined below:

1. A transfer to a superfund should only be considered if the scheme cannot afford to buy out now.

2. A transfer to a superfund should only be considered if a scheme has no realistic prospect of buy-out in the foreseeable future, given potential employer cash contributions and the insolvency risk of the employer.

3. A transfer to the chosen superfund must improve the likelihood of members receiving full benefits.

TPRs clearance process will consider potential detriment to the members and how this has been mitigated. Trustees will need to provide TPR with clear documentation considering the gateway principles prepared in conjunction with the employer. Clearance applications will need to set out how the principles have been met and the rationale for this view. Proposed transactions should take place within three months of the date of clearance. TPR expect to be notified of transactions when a clearance application is not appropriate.

The guidance outlines the employer's role in providing additional capital to the scheme to facilitate the transfer and in the provision of relevant information. Employers are also expected to pay for appropriate professional advice for both the trustees and themselves. Information required from the employer is expected to include:

— access to senior staff,

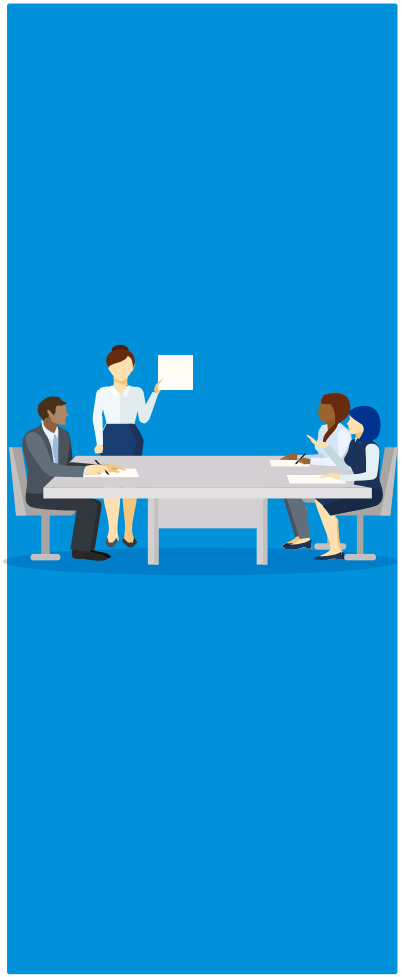
— financial forecasts and relevant management accounts,

— details of current capital structure, and

— relevant business strategy plans.

As noted above, even when considering superfunds previously assessed by TPR, trustees will need to undertake and demonstrate due diligence regarding their proposed solution. Such due diligence should be proportionate to the circumstances of the scheme but should include, inter alia, consideration of other available options with rationale for conclusions, review

TPR: DB Superfunds guidance (cont.)



of TPRs assessment of the superfund, consideration of what is on offer and whether that is appropriate for the members and, given any associated risks, how the position of members is improved. Trustees should also consider earlier corporate activity or value extraction causing material detriment to the scheme, identifying whether mitigations or further steps are possible. The decision to transfer to a superfund is complex; trustees will need to assess their own expertise and consider the need for an independent trustee and professional advice. Trustees need to be clear why a move to a superfund is preferable to remaining with the employer in terms of member security. Other options which provide economies of scale and improved governance and support may be appropriate.

Clear, open and honest communication with members will also be key as some may respond to the proposed transfer by moving their benefits elsewhere. Best practice should be followed in offering any member options, ensuring that any action is in the best interests of members, conflicts are managed, advice is sought and reviewed, communications are open, honest and timely, members records are up to date and transfer valued calculated correctly.

The superfund gateway principles

1. A transfer to a superfund should only be considered if a scheme cannot afford to buy out now.

Buy-out with an insurer is the preferred route as it provides additional security to members. This option should be chosen if available. Affordability should be assessed by a report from the ceding scheme's actuary within a month of the clearance application.

2. A transfer to a superfund should only be considered if a scheme has no realistic prospect of buy-out in the foreseeable future, given potential employer cash contributions and the insolvency risk of the employer.

As buy-out with an insurer is preferred, a transfer to a superfund is unlikely to be optimal if a scheme is within reach of affording a buy-out. This will depend on the scheme's funding level and employer covenant strength. Trustees should consider a period of up to five years and provide a rationale for their chosen timeframe.

Trustees need to consider the scheme's progress to a buy-out funding level in terms of their confidence in receiving the funds needed. Trustees need to assess the employer's ability and willingness to support the scheme and trustees will need to explain any decision not to seek professional covenant advice.

3. A transfer to the chosen superfund improves the likelihood of members receiving full benefits.

Careful consideration of the issues involved will be needed in trustees assessment of the third gateway principle.

Trustees will need to weigh up:

1. the likelihood of members receiving full benefits with a superfund (which is likely to be better funded than many schemes) against

2. the likelihood of members receiving full benefits if the scheme remains with the employer.

In assessing the first point, trustees will need adequate information and professional advice upon which to base their decision. This information includes any available TPR superfund assessments which will include clear details of what is being offered.

The assessment of the second point will be scheme specific. Trustees will need to consider their 'journey' to maturity and the possibility of any adverse experiences in reaching that point. In comparing the outcome against what could be achieved on transfer to a superfund, trustees will need to consider if the methodologies used in the comparison are consistent.

TPR: DB Superfunds guidance (cont.)

Member security into the future will also need to be taken into account in the trustees' analysis. Such considerations may involve modelling security of members' rights and trustees are recommended to seek advice based on their own circumstances. Factors which could be taken into account include, previous actions of the employer indicating their future support, potential improvements in governance, economies of scale and other options on offer.

Trustees are expected to document their considerations. Superfunds present potential risks, but TPR believe that in 'setting clear standards for how superfunds should operate, the level of capital they should hold, and through ongoing supervision of these areas,..... potential risks to savers will be substantially reduced'.

Clearance procedures could take three months or more. Trustees should start engagement early and it will be possible for employer to submit a draft clearance application to facilitate early discussion. Alongside discussion with the employer and scheme, TPR will communicate with the proposed superfund to ensure that it meets TPR's expectations.

The guidance also considers transfers to superfunds where there is no immediate severance from the employer and situations involving schemes emerging from the PPF assessment process. Transactions may also involve partial transfers into DB superfunds: a complex scenario in which trustees are encouraged to seek legal advice. Transactions where there is no immediate severance with the employer should follow the gateway principles but additional consideration will need to be given to the impact of the employer becoming insolvent or whether the arrangement is designed to ultimately remove the employer covenant. Trustees will need to consider whether how the proposed arrangements impact the outcome for members, using the best information at the time of the decision. Schemes emerging from PPF assessment will be likely to face a choice between buy-out with an insurer at current funding levels (member consent will be needed if benefit levels are reduced) or transferring to a superfund (aiming for full member benefits). Trustees will need to balance the level of risk against the level of benefits offered under the two options. TPR will publish a list of assessed DB superfunds. The new guidance has been welcomed by industry participants.

PASA: COVID-19 Guidance: The Road Ahead

In August, The Pensions Administration Standards Association ("PASA") released new guidance, 'COVID-19 Guidance: The Road Ahead' considering that, as restrictions due to lockdown ease, scheme administration is still operating in a very different way.

Overall, administrators have coped well with the crisis, perhaps the larger more so than the smaller. Now much will depend on the way firms implement their 'back to office' return plans, which will vary firm to firm.

PASA highlight that scheme visibility on the internet is key, particularly if remote working becomes the norm as postal and printing services will impact paper based solutions. A 'trilogy' of 'good data / web / email addresses for members' is noted as being essential to the delivery of efficient services. The guidance recognizes that there is still a proportion of the population who do not engage digitally and administrators need to ensure these people are not 'lost'. PASA suggest key questions for trustees here including assessing their communications strategy to ensure, inter alia, it is multi channel – i.e. phone, post and digital, assessing actions needed to ensure access for all and supporting this through data cleansing and benefit testing.

The guidance goes on to consider workflow, noting that for remote working to succeed, all records need to be electronic and all data cleansed (a key requirement of the Data Protection Act accuracy principle). The pandemic has shown that accurate member email addresses and mobile phone numbers are important; particularly in times of crisis.

Risks posed by cybercrime, fraud and error are also noted. Administrators should seek to confirm the accuracy of any manual calculations performed and track workflow through the lockdown period. The guidance suggests several questions directed towards administrators to enable them to appraise their position as they will need to return to full work strength as lockdown eases. Enhanced Management Information (MI) may have been made available to trustees during lockdown; this should continue if it facilitates good scheme governance. Lessons learned during lockdown should be incorporated into BCPs and consideration given to the practicality of offshore arrangements going forward.

Issues raised by restrictions around face to face meetings are also discussed – suggesting that perhaps technological improvements may offer enhancements, such as shortened meetings and virtual office tours.

The urgency of improved ID security is stressed – noting that the admin sector has traditionally lagged behind in this area in its reliance on paper documentation. Similarly, if lockdown has proved that digital signatures for investment management purposes have been a success, there is no reason why these should not continue to be used going forward. Administrators should include AVC managers and insured arrangements in any future lockdown contingency planning.

Employee wellbeing, collaboration, coaching and the need for continued training are also emphasized. This extends to recruitment, with some administrators surveyed by PASA not recruiting where there was a need to do so – something which could impact on the wellbeing of other team members.

PASA conclude that where COVID-19 has forced changes resulting in enhanced efficiency, then it is likely that these changes could be made permanent. This includes making use of technological solutions meeting differing member needs. Administrators will need to consider whether, and to what extent, flexible working will remain post COVID-19 and how their integral processes and technology will adapt to this new environment.

News in brief

Guidance: COVID-19 and your pension

In October, the PPF together with the Financial Conduct Authority (FCA), the Financial Service Compensation Scheme (FSCS), the Money & Pensions Service (MaPS), the Pensions Ombudsman and The Pensions Regulator (TPR) published guidance aimed at pension scheme members considering the remit of each of the organisations and how their operations have been affected by COVID-19.

The guidance forms a 'one stop shop' for scheme members wanting to understand the key risks associated with pensions during the COVID-19 pandemic and where they may be able to turn for help. The publication is segmented, with each contributory organisation setting out the scope of their work and key issues relating to their current operations.

Common themes emerge. The risk of scams is prevalent with scheme members urged to reject any unexpected offers of pension reviews, to check who they are dealing with, not to rush into anything and to seek impartial advice.

The MaPS section articulates how pension contributions are made when an employee is affected by the Job Retention Scheme and considers the risks faced by those considering accessing their pension pot from age 55.

The document also points readers towards how to access the resources of the different organisations, as relevant, including the PPF website's 'Retire Now' feature.

Guy Opperman, Pension Minister, offers a foreword recommending the guide as 'a valuable and comprehensive tool for anyone wanting to understand how their pension savings are protected and supported at this moment in time'.

Flexible Pensions: investment pathways

Pension scheme members proposing to enter non-advised drawdown of DC pots will benefit from the provision of investment pathways appropriate to their desired outcomes from February 2021 (delayed by COVID-19; originally August 2020).

Flexibilities introduced from 2015 allowed for scheme members to have a wider choice of benefits from their DC pension savings. Prior to 2015, the majority took benefits in the form of annuities. The 2015 provisions allowed for early withdrawals from a DC pot, subject to tax at the individual's marginal rate.

The flexible access provisions have been popular. Since their introduction, early access to DC pots has increased with over one million pots accessed and £30bn withdrawn.

Whilst the new flexibilities were welcomed, concerns have been raised about members not making well-informed decisions, with a Government consultation suggesting proposals for improvements and a cap on early exit charges.

A solution was proposed comprising two elements:

— Protection for savers through the offering of appropriate and simple default decumulation pathways (including allowing NEST to offer decumulation options) and

— The provision of more information to savers via an accessible 'pension passport' and provision of information to the pensions dashboard.

The FCA identified concerns that many savers opted for drawdown without taking advice or considering other options and found a lack of product innovation in the market, often with savers being defaulted into unsuitable cash or quasi-cash options. The requirement that providers should offer investment pathways to customers entering non-advised drawdown was actioned with the aim of guiding the non-advised saver towards an appropriate decumulation solution, thereby avoiding the pitfalls of poor decision making. However, the success of this policy will ultimately depend on quality pathways being made available to savers.

Government launches cross-sector Working Group to help address multiple small pension pots

On 22 September 2020, the Government launched a cross-sector Working Group with industry to assess and make recommendations, as an interim step, on ways to tackle deferred, small pension pots.

kpmg.com/uk