



Thoughts for uncertain times

UK Pensions Agenda

April 2020

1. Covid-19

The Pensions Regulator has issued guidance for sponsors and trustees about the challenges that arise in these extraordinary times – including requests to defer scheduled payments to schemes – and what trustees should consider in discussions with employers. It has also set out [various regulatory easements](#) to help schemes, which will remain in place until at least 30 June 2020.

Action – Have regard to this guidance when considering making any changes to agreed payment schedules. Continue to monitor the position of sponsors, the operation of the scheme and the need to communicate with members. Develop contingency plans for problems that might emerge. For more detail on the implications of the virus, [see our coronavirus hub](#).

2. Pension scams

Industry regulators are [concerned about an increase in pension scams](#) during the pandemic as a result of members' fears over falling markets and pressures on personal finances. Members are being urged to be cautious but trustees [also need to be aware of](#), and ensure they give proper attention to, the heightened risk of scams.

Action – Ensure that appropriate due-diligence in relation to transfers is in place and where administrators are struggling to carry out all administrative functions in the current climate, consider how best to protect members. Watch out for legislation in the [Pension Schemes Bill](#) which could require even more due diligence to combat scams.

3. DB funding code

The Regulator has started consultation on the [new DB funding code](#). Schemes will need a long-term funding objective which aims to reduce reliance on the employer covenant over time. Schemes will either be able to use "fast track" prescribed valuation assumptions or engage more with the Regulator and justify why a more bespoke valuation approach is appropriate.

Action – Start to consider what your scheme's long term journey plan should look like. The revised code is intended to come into force in 2021. Consultation has been extended to 2 September so there is still time to respond. More detail is set out in [our speedbrief](#).

4. Pensions Regulator's powers

The [Pension Schemes Bill](#) contains new, widely-drafted criminal offences and powers for the Regulator to impose fines of up to £1 million for actions which jeopardise the payment of scheme benefits. There has been considerable comment on the width of some of these powers: during the passage of the Bill through the Lords, the Government confirmed that it was not its intent to interfere with routine business activity.

Action – Once the current lockdown restrictions have been eased, look out for more detail from the Regulator on when and how it will use its new powers. For more detail on when the new powers will apply, [see our speedbrief](#).

5. Dashboard

The Money and Pensions Service has issued an [update on the implementation of the dashboard](#). Because of the scale and complexity of the UK pensions industry, a staged approach is being adopted. The expectation is that in the first phase, no more information will be required than is already available to members. There will be a formal consultation later in the year on what data will be needed.

Action – Watch out for the consultation on data. Consider whether your scheme will have any problems in meeting the requirements of the dashboard and if so, what can be done now to improve data quality.

6. Climate change

The [Pension Schemes Bill](#) allows for regulations which would require trustees to report on the governance they have around climate change risk. If these provisions become law, they will require very significant work by trustees. In addition, a consultation has been launched on non-statutory guidance for trustees on assessing, managing and reporting climate-related risks in line with recommendations of the [Taskforce on Climate-Related Financial Disclosures](#).

Action – Consider any existing governance around exposure to climate change risk and whether changes need to be made.

7. Trusteeship

The Regulator has issued a [response to its consultation on the future of trusteeship](#). It intends to review the current trustee knowledge and understanding requirements and consult on them (as part of its new super code) in early 2021. It will set out expectations for different trustee roles in different types of scheme and there are likely to be continuing education requirements of 15 hours per year for lay trustees and 25 hours per year for professional trustees. The trustee toolkit will also be revised.

Action – Watch out for the consultation in early 2021 on the new super code as it is likely to contain significant changes, particularly in relation to the Regulator's expectations of trustees. For more details, [see our speedbrief](#).

8. Professional trustees

The PMI has launched a [new accreditation programme](#) for professional trustees. It is understood that the Association of Professional Pension Trustees also intends to provide alternative accreditation. Both programmes will follow the standards set out by the [Professional Trustee Standards Working Group in 2019](#) and both appear to have been welcomed by the Pensions Regulator.

Action – It appears that there will be alternative routes to accreditation for professional trustees and currently, the Pensions Regulator has no preference. Look out for developments in this area.

9. Changes to RPI

The Government is [consulting on whether RPI should be aligned with CPIH](#) sometime between 2025 and 2030. The Government's role is relevant because of the use of RPI in index linked gilts and therefore the consultation is limited to considering the impact of any change on gilts and does not focus on any pensions-specific issues.

Action – RPI is typically 1% per year above CPIH so the change could make a significant difference for schemes using RPI for indexation and revaluation. The change will also have implications for gilt yields and may already be impacting on scheme transfer values. Watch out for any announcements from the Government on the outcome of the consultation.

10. Update on GMP equalisation

HMRC has [issued guidance](#) on the lifetime and annual allowance implications of GMP equalisation. Generally, equalisation uplifts will not be treated as accrual for annual allowance purposes or result in the loss of lifetime allowance protections. However, the guidance does not apply where conversion is being used to achieve equalisation and more is expected from HMRC on this.

Action – Where a scheme is considering conversion, watch out for more guidance from HMRC. Without additional clarity, there is a danger that conversion could result in members accruing additional benefits for lifetime and annual allowance purposes.

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