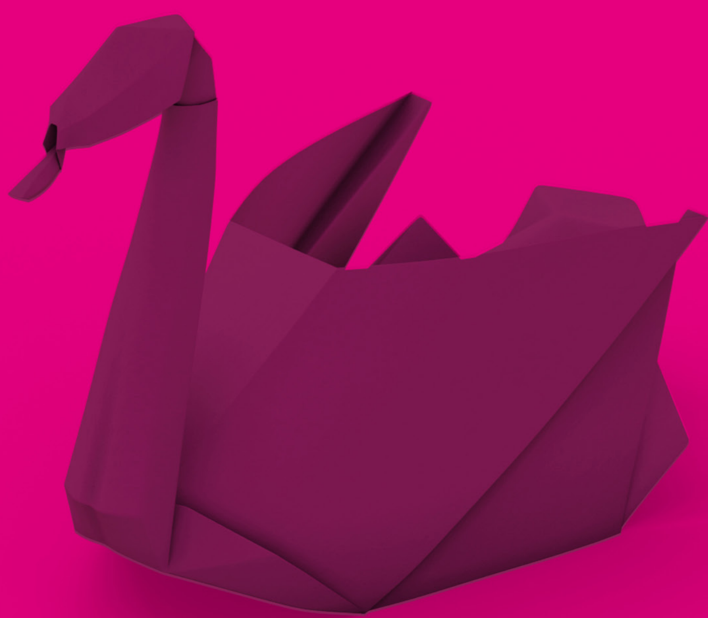
Your Quarterly Pensions Update

Dalriada Trustees – Industry Changes

Quarter 1 2022



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Contents

Introduction

The purpose of this report is to provide an update for pension scheme sponsors and trustees on recent industry changes in the quarter.

For your convenience, we have summarised the key developments and highlighted the necessary actions sponsors and trustees may need to take.

We also include links to further relevant information and any deadlines of which you should be aware.

We trust you will find the update useful and informative. If you require further information about how any of the topics covered might impact on your scheme specifically, please get in touch with Adrian Kennett (adrian_kennett@dalriadatrustees.co.uk) or your usual Dalriada contact.

NOTES

This document is aimed at providing you with generic information about recent developments in the pensions industry.

You should not take any action as a result of information included in this document without seeking specific advice in relation to the impact these matters might have on your scheme or company. Dalriada Trustees Limited accepts no liability for actions taken or not taken as a result of this document.

1 2021 Q4 Investment Update

As we closed out 2021, global equity markets had gone through another quarter of high volatility, yet finished at close to record highs, while inflation was rising across the globe. 2022 has not started with a change in fortunes, however.

Markets were volatile over the first quarter of 2022, with many asset classes posting losses driven by the Russian invasion of Ukraine, and even higher expectations for inflation than might have been forecast in late 2021. Emerging market equities with exposure to Russian assets suffered heavy losses as a result of the sanctions imposed on the country by the West, causing large investor selling and the inevitable significant decline of asset values.

The dependence on Russia as a major energy and commodity producer has been brought to the fore, with the war causing prices to considerably increase. Brent oil increased by around 33%, intensifying the increase in inflation. Gold also increased by approximately 6% over the period, due to its "safe haven" status and the potential inflation protection the commodity offers investors.

In response to the higher-than-expected levels of inflation, central banks were forced into action, with the US Federal Reserve raising interest rates by 0.25% and the Bank of England implementing an increase of 0.5%, pushing the base rate to 0.75%. The rise in rates caused losses for fixed income assets, as prices declined (i.e. yields increased). Investment grade credit, which is more exposed to rising interest rates, underperformed riskier high-yield credit. Credit spreads also increased, causing losses that were mainly driven by a rise in corporate bonds yields, as investors became risk averse in response to the war in Ukraine and rising interest rates.

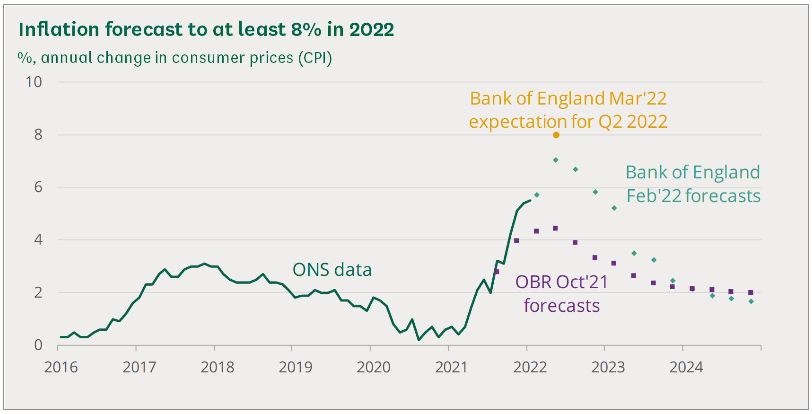
Long-term UK gilt yields increased by 0.65% to 1.74% over the quarter, driven by the Bank of England's decision to raise interest rates and the expectation of further rate rises in the coming months. All else being equal, the rise in gilt yields will decrease the value placed on pension schemes' fixed liabilities. Real UK gilt yields also increased over the quarter by 0.36% to -1.93%, due to rising nominal yields. All else being equal, this will act to decrease the value placed on pension schemes' real liabilities.

The significant upwards pressure on energy prices, and the increased economic activity globally as countries begin to recover from the Covid-19 pandemic, caused long-term inflation expectations to rise. All else being equal, this will increase the value placed on pension schemes' liabilities.

Basic Rate Income Tax cut to 19% by 2024

The Spring Statement is an opportunity for the Chancellor to provide an update on the overall health of the economy. It does not normally include major tax or spending changes. These are made once a year at the Autumn Budget.

However, this Spring Statement is exceptional in that it is delivered against a backdrop of rising fuel, energy and food costs. Prices have risen by 6.2% in the 12 months to February - the fastest for 30 years.



Key Points

- The Chancellor began with an overview of the latest economic and fiscal outlook from Office for Budget Responsibility (OBR).
- Fuel duty will be cut by 5 pence per litre for 12 months with effect from 6pm on 23 March 2022.
- For the next five years, homeowners will pay 0% VAT on energy saving materials, such as solar panels or heat pumps.
- The health and care levy (increase in National Insurance Contributions), to pay for NHS and social care spending, will go ahead as previously announced. However, the government will raise the threshold people earn before they pay National Insurance. From this July, people will be able to earn £12,570 a year without paying income tax or National Insurance.
- A tax plan will be published with a 'principled approach' to cutting taxes over this Parliament. According to the Chancellor, this will first help families, then create conditions for higher growth.
- Before the end of this Parliament in 2024, "for the first time in 16 years" the basic rate of income tax will be cut from 20p to 19p in the pound.

Pension aspects

There are very few direct references to pensions in the Spring Statement other than confirmation that "efforts to reform Solvency II and the pensions charge cap to unlock institutional capital into illiquid assets are ongoing".

The standard annual allowance will remain at £40,000. The lifetime allowance will remain at its 2020-21 level (£1,073,100) up to and including 2025-26.

In some ways, 'no news is good news' as rumours around adverse changes to the taxation of pension death benefits did not materialise.

However, the increase in National Insurance Contributions from this April was confirmed and so there is at least one possible action for workplace pension schemes; viz, salary sacrifice is, for most people, the most effective way to make pension scheme contributions.

All the Spring Statement documents, including the latest Debt Management Report, are available from the Spring Statement link on the following page.

Helpful Links

Background to Spring Statement 2022 - House of Commons Library (parliament.uk)

Consumer price inflation, UK - Office for National Statistics

Economic and fiscal outlook - March 2022 - Office for Budget Responsibility (obr.uk)

Spring Statement 2022: documents - GOV.UK (www.gov.uk).

3 Getting Pensions Dashboard Ready

Our February 2022 "Tea With a Trustee" webinar focused on Pensions Dashboards, discussing with a live audience, what Dashboards are, when they are due to be launched, their potential impact and what actions trustees need to take. You can watch the webinar here - Tea with a Trustee February 2022 - Getting Pensions Dashboard Ready - YouTube.

We kicked off with a reminder of what the Dashboards are, which is an interface to enable pension scheme members to view their pensions online - including State pensions. The largest schemes are being prioritised, with those having more than 1,000 members being part of the first wave between April 2023 and September 2024. The next wave are those with between 100 and 999 members between October 2024 and October 2025, followed by the smallest schemes whose staging dates are not yet known. Schemes can choose to connect to the Dashboards earlier than their staging date.

We followed on to discuss that there will be multiple Dashboards – there is one owned and provided by Money and Pensions Service (MaPS), while other organisations which meet the requirements will be allowed to develop and host their own Dashboard.

And of course, we emphasised the importance of data. Trustees will need to ensure data is of sufficient quality for the Dashboards and that calculations are automated to enable the systems to run accurate calculations for members.

Dashboards are expected to have the same level of security that members expect, and receive, from online banking and work continues on putting that level of security in place. In terms of data protection and GDPR, trustees will be required to fulfil their legal liability.

This will all be an enormous challenge for many administration systems and come at an increased cost for many trustees.

Audience questions

We were pleased to take a number of questions from the audience, some of which we have listed below.

Is the industry dashboard ready in terms of data/benefit quality?

There is an expectation that over the last few years trustees have been working with their administrator to cleanse the data to ensure it is of sufficient quality.

Given the problems with data for DB schemes, has consideration been given to launching the dashboards with just DC scheme data to start with?

The government wants all members to have access to their pension figures, not just defined contribution membership.

What should trustees be doing now in preparation?

Trustees should be speaking to their administrators to find out the state of their data and how Dashboard ready they are. Trustees will need to agree a plan to ensure that, when their scheme's staging date arrives, they can connect to Dashboards and provide members with their pension benefits.

Helpful Links

Pensions dashboards: consultation on the draft Pensions Dashboard Regulations 2022 (publishing.service.gov.uk)

4 The governance and administration of your pension scheme is changing

The law – 'then and now'

The law on the governance and administration of occupational pension schemes has changed.

– Previously, trustees of an occupational pension scheme had to 'establish and operate adequate internal controls'.

– Trustees must now 'establish and operate an effective system of governance including internal controls' and that system must be proportionate to the scheme in question.

The changes appear to be subtle, but they are important.

In practical terms, the change in the law means that trustees must still have internal controls. However, these must now form part of a wider and scheme-specific system of governance.

In addition, for schemes with more than 100 members, the change in the law requires trustees to "carry-out and document an own risk assessment".

However, unlike the requirement for an effective system of governance, the own risk assessment requirement is subject The Pensions Regulator's (TPR) code of practice that is not expected to come into force until summer 2022.

When the new code is published, trustees will have one year to carry-out and document their first own risk assessment; i.e. they will need to comply no later than summer 2023. Subsequent own risk assessments will then be required at intervals of not more than three years.

We already have a good idea as to what the new code will cover as its content is prescribed by regulations and TPR has consulted on a first draft of the code.

In a nutshell, once all of the new duties are in force, trustees will need to ensure that the governance and administration of their scheme is effective and they will need to evidence it.

Trustees of schemes that are subject to the own risk assessment duty, must also have in place a 'risk management function'. This may be a sub-committee of the trustees, or an independent body that reports to the whole governing body or relevant sub-committee.

The requirement for this function means that there will now be an explicit entity that has the operational responsibility for identifying and evaluating risks that a scheme is or could be exposed to, and then implementing and monitoring relevant controls.

Getting ready

As the requirements for an effective system of governance and own risk assessment build on the pre-existing provision for internal controls, a sensible place to start is to ensure that all your existing arrangements, procedures and systems are compliant and up to date. We have developed a checklist that could be used for this purpose and this can be obtained from your usual Dalriada contact.

Once the trustees are satisfied that their existing internal controls are fit for purpose, you are then prepared for TPR's new code and your first own risk assessment.

6 Cyber Risk and pension schemes: what to expect in the new Code of Practice

The Pensions Regulator (TPR) recently published guidance relating to the conflict in Ukraine. One of the preliminary points that TPR expects trustees to consider is 'cyber safety procedures in case of cyber-attacks'.

Whilst the Ukraine guidance does not set out in any detail what steps trustees should be taking, TPR's forthcoming single Code of Practice (the so-called 'super-Code') is expected to include a number of cyber controls.

A draft of the super-Code was published last year and we do not expect the section on cyber controls to change in any material respects. So, trustees can rely on the extracts below, from the draft Code, with a good degree of confidence.

What is cyber risk?

'Cyber risk' refers to the risk of loss, disruption or damage to a scheme or its members as a result of the failure of its information technology systems and processes. Governing bodies should take steps to reduce the risk of incidents occurring, and appropriately manage any incidents that arise. Properly functioning cyber controls will assist governing bodies in complying with data protection legislation and may reduce liabilities in the event of a data breach.

What are the duties of trustees?

Under section 249A of the Pensions Act 2004, governing bodies must establish and operate an effective system of governance including internal controls. These controls need to include measures to reduce cyber risk.

What measures should trustees adopt?

TPR's expectations for the governing body's processes and procedures are summarised below. Governing bodies are also expected to be aware of their responsibilities under the UK GDPR.

Assessing cyber risk	— Ensure the governing body has knowledge and understanding of cyber risk. — Understand the need for confidentiality, integrity and availability of the systems and services for processing personal data, and the personal data processed within them. — Have clearly defined roles and responsibilities to identify cyber risks and breaches, and to respond to cyber incidents. — Ensure cyber risk is on the risk register and regularly reviewed. — Assess, at appropriate intervals, the vulnerability to a cyber incident of the scheme's key functions, systems and assets (including data assets) and the vulnerability of service providers involved in the running of the scheme. — Consider accessing specialist skills and expertise to understand and manage the risk. — Ensure appropriate system controls are in place and are up to date (e.g. firewalls, anti-virus and anti-malware products).

Managing cyber risk	— Ensure critical systems and data are regularly backed up. — Have policies for the use of devices, and for home and mobile working. — Have policies and controls on data in line with data protection legislation (including access, protection, use and transmission). — Take action so that policies and controls remain effective. — Have policies to assess whether breaches need to be reported to the information commissioner (www.ico.org.uk). — Maintain a cyber incident response plan in order to safely, and swiftly, resume operations. — Satisfy themselves with service providers' controls. — Receive regular reports from staff and service providers on cyber risks and incidents.

Bringing it all together – an Information Security Policy

One way to address cyber risks, and at the same time evidence an effective system of governance, is to put in place a formal Information Security Policy. A comprehensive policy will cover cyber security and, in addition, set out the controls agreed by the trustees for the security of personal data used by the scheme. Provided it is regularly reviewed, such a policy will cover data protection laws and cyber risks in one 'living' document for both trustees and their service providers.

Helpful Links
Single code of practice consultation | The Pensions Regulator

7 Payment of discretionary death benefits

Punter Southall Governance Services Ltd v Benge & Anor (High Court, 1 February 2022)

In this case, the High Court approved a decision by the trustees of the BST Group Pension Scheme (the "Scheme") to pay death benefits to the deceased member's partner after objections were raised by the deceased's son.

Facts

Following the member's death in March 2010, the trustees considered the death benefits that might be payable, including whether to pay death benefits to the deceased member's partner.

The definition of 'dependant' in the Rules included someone who 'in the opinion of the trustees is (or was at the date of his death) dependent or interdependent on him for all or any of the necessaries of life'. The HMRC definition for authorised payments is similar. Based on the evidence provided, the trustees decided to award death benefits to the deceased member's partner.

Evidence of 'dependency'

- The member and his partner had been in a relationship for around 10 years before living together. At the date of the member's death, they had been living together for approximately 18 months.
- The member and his partner owned their main residence equally as joint tenants. They also owned property in Switzerland. The member contributed 100% of the purchase price for both.
- The member paid the majority of the outgoings in relation to the Swiss property.
- The member paid for the majority of refurbishment work to the main residence and the costs of furniture.
- The member paid for the majority of the couples' day-to-day living expenses including food and clothing.
- The member made provision for his partner in his will, particularly in relation to the properties.

In addition, the member's partner stated that she "could not have afforded to purchase either of these properties, or maintain them, without [the member's] support."

Decision

In approving the trustee's decision the court considered the term "necessaries" to be fact sensitive in relation to "class and position in life". So, in each case, what constitutes the "necessaries of life" will be specific to the circumstances of the member and the potential beneficiary.

The judge also considered that being dependant on someone for the "necessaries of life", is materially the same as the definition of dependant under the Finance Act 2004.

Comment

This is a useful decision. The context - relationships involving unmarried partners and children from a previous relationship - is not that unusual when it comes to considering death benefit cases. Further, the comments on the meaning of 'dependency' and the evidence sought for trustees to reach a proper decision are all instructive and relevant to any trustee dealing with a death benefit case. Trustees need to look at the circumstances and lifestyle of the potential beneficiary in question.

The judgment is also quite reassuring in terms of confirming judicial reluctance to interfere in a trustee decision provided that it is within the range of decisions which a reasonable trustee could make on the basis of the evidence.

Helpful Links

https://www.bailii.org/ew/cases/EWHC/Ch/2022/193.html

8 DC Update

The Pensions Regulator (TPR) has made a number of recent updates to its '21st century trusteeship guidance' . The revisions made include developing and regularly reviewing the scheme's business plan which, in turn, should help trustees to set a clear strategy. Trustees should also review the performance and effectiveness of the board annually and refer to the objectives in the business plan. When recruiting trustees, thought should be given to the needs of the board as a whole, including diversity. The chair should provide effective leadership, demonstrate decision-making skills, and encourage open and constructive debate. Trustee boards should meet often enough to maintain effective oversight and control.

TPR has also made some small changes to its Chair Statement 'quick guide'. The changes relate to how additional documents can be attached and referred to in Chair Statements. Trustees should ensure, when checking how they refer to the default Statement of Investment Principles (SIP) and illustrative examples, that this is in line with revised guidance.

On the subject of Chair Statements, in a recent First Tier Tribunal case , a pension scheme employer, which was also the trustee of the scheme, disputed a penalty notice issued by TPR for failing to comply with the requirement to produce a Chair's Statement. The notice required the employer to pay a penalty. The fact of non-compliance was not in dispute, but the employer argued that failure to provide the statement was unintentional and the result of a lack of knowledge of complex regulatory requirements. The tribunal held that the penalty notice was valid because, under the regulations, the imposition of a penalty notice was mandatory. The tribunal also added that the statutory provisions for trustees to have knowledge and understanding of (among other things) the law relating to pensions and trusts are 'clear and unequivocal'.

The Auto-Enrolment earnings trigger and the lower and higher level of qualifying earnings all remain unchanged at £10,000 p.a., £6,240 p.a. and £50,240 p.a. respectively.

Annual and Lifetime Allowance thresholds also remain unchanged:

- Standard annual allowance : Fixed at £40,000.
- Tapered annual allowance : Threshold income fixed at £200,000; adjusted income fixed at £240,000.
- Money Purchase Annual Allowance : Fixed at £4,000.
- Lifetime Allowance : will remain at its 2020-21 level (£1,073,100) up to and including 2025/26.

TPR has updated its guidance on communicating and reporting to include new information for trustees of DC pension schemes who will be in scope of the 'stronger nudge' regulations from 1 June. Under the new regulations, DC scheme trustees will be required to offer to book their members an appointment with Pension Wise when they apply to access their flexible benefits.

The regulations apply to the trustees of an occupational pension scheme where a scheme member or a survivor in relation to the member (relevant beneficiary), who has a right or entitlement to flexible (DC) benefits under the scheme, makes an application to transfer pension rights or start receiving pension benefits.

Another 2022 change is new regulations that mandate the use of simpler annual benefit statements for members of DC schemes that are used for automatic enrolment. From 1 October 2022, automatic enrolment schemes that only provide money purchase benefits must issue simpler annual benefit statements, having regard to statutory guidance and an illustrative template published by the DWP . Annual benefit statements issued after 1 October 2022 must follow the new simpler format.

Finally, for this DC update, the Department for Work and Pensions has launched a consultation on proposals and draft regulations on accessibility of illiquid assets for DC pension schemes . The consultation considers the government's responses to the 'Consultation on enabling investment in productive finance' that set out the exclusion of performance fees from the 0.75% cap on charges in default arrangements, and to the 'Future of the defined contribution pension market: the case for greater consolidation' consultation.

The DWP proposals would require DC pension schemes to disclose and explain their policies on illiquid investment and for schemes with over £100m of assets to disclose their current asset classes to members. The draft regulations remove certain employer-related restrictions that currently apply to large, authorised Master Trusts.

Helpful Links

21st Century Trusteeship | The Pensions Regulator

Ease (bailii.org)

Communicating reporting DC pension schemes | The Pensions Regulator

How to provide simpler annual benefit statements - GOV.UK (www.gov.uk)

Facilitating investment in illiquid assets by defined contribution pension schemes - GOV.UK (www.gov.uk)

9 Pensions Ombudsman roundup: lessons from recent determinations

Pension Scams, PO 11134, MR S

This determination includes a useful reminder of the criteria that must be met for a pension scheme member to acquire a statutory right to a cash equivalent transfer value (CETV) of their preserved pension scheme benefits.

In this case, involving a request to transfer to the Capita Oak occupational pension scheme, the member was not an 'earner' and, therefore, did not meet one of the criteria for a statutory right to a CETV.

Nevertheless, the transfer was still paid and turned out to be a 'scam'.

The Ombudsman noted that, in addition to the member not having a statutory right to a CETV, the scheme rules did not contain provisions to allow a transfer value on a discretionary basis.

Even though the member was given pension scam warnings, the Ombudsman directed that Mrs S be fully reinstated in the transferring pension scheme. In addition, a distress and inconvenience award of £2,000 was made.

The case is a reminder that, regardless of the checks made in respect of a receiving scheme, trustees must ensure they have either a legal duty, or a discretionary power, before paying a transfer value.

CAS-37620-T3T0, Mrs E

This was another determination relating to transfer values.

In this case, the member was provided with a Statement of Entitlement (i.e., a guaranteed transfer value was quoted, which would be honoured provided the member made a written application, with supporting information, to accept the transfer value within a three-month period).

Some, but not all, the necessary information was provided within the three-month guarantee period. The remainder was provided afterwards.

The scheme refused to honour the guaranteed transfer value. A new transfer value was calculated and a reduced amount paid.

The member claimed that the original transfer value should be honoured.

The Ombudsman dismissed the complaint on the grounds that a full and complete application was not received in time, and any honouring of an amount quoted outside of the guarantee period is a trustee discretion, not a member right.

PO-23848, Mrs S

This determination concerned the recovery of an overpayment of pension, which arose due to a 'co-habitation' clause in the scheme rules; i.e., a pension payable on the member's death should have ceased when the recipient started to live with someone else.

When the scheme sought recovery, Mrs S claimed the defence of 'change of position'. She also contended that the scheme should not have set off arrears of Guaranteed Minimum Pension (GMP), due after the overpayment was discovered, against the alleged overpayment.

The Ombudsman partially upheld this complaint.

On the change of position defence, he determined that a general change of position in the form of increased outgoings can be sufficient to stop recovery. So, in this case, none of the overpayment was recoverable.

He also held that the scheme should not have set off the arrears of GMP against the alleged overpayment, because this was in breach of section 91(6) of the Pensions Act 1995 (inalienability of occupational pension) and section 159 of the Pension Schemes Act 1993 (inalienability of Guaranteed Minimum Pension).

The determination is useful for other cases where trustees and their administrators are dealing with a member for whom there are both over and under-payments of pension, and they are considering whether to set-off one against the other. This type of situation can arise in connection with GMP rectification (where a member can be either over or under-paid) and GMP equalisation (where a member can only ever be owed money).

Helpful Links

Armed Forces Pension Scheme (PO-11134) | The Pensions Ombudsman (pensions-ombudsman.org.uk)

CAS-37620-T3T0.pdf (pensions-ombudsman.org.uk)

Teachers' Pension Scheme (PO-23848) | The Pensions Ombudsman (pensions-ombudsman.org.uk)

10 HMRC’s third GMP Equalisation (GMPE) newsletter – what now for trustees?

HMRC has now issued its latest GMPE newsletter, which supplements previous HMRC guidance and covers, from a pension-tax perspective, corrective action relating to past transfers-out. It also includes an update and guidance for those schemes choosing to address GMP inequalities using the GMP conversion method (‘D2’).

This is a very welcome update as it will allow some schemes to complete their GMPE projects, as for dual-record methods of GMPE at least, there is now pensions-tax guidance for members who still have benefits secured or payable under affected schemes and past-transfer/full settlement cases.

We’ve summarised below the key points from the guidance.

GMPE and past transfers

Where a transfer value (TV) has previously been underpaid due to GMPE, the trustees/scheme administrators may decide that a member has a right to a top-up transfer payment. Importantly, to be authorised, any top-up TV must satisfy the conditions for a recognised transfer at the time the top-up transfer is made (as opposed to when the original transfer was made). An individual’s right to a top-up TV in these circumstances is an ‘accrued right’ for these purposes.

The receiving scheme may be the same scheme to which the original transfer payment was made or a different scheme.

Lump sum payment

For the purposes of GMPE, a lump sum payment made directly to the member may be possible. It will be classed as an authorised payment where it meets the payment conditions at the time the payment is made. This includes the payment of lump sums and small lump sums under The Registered Pension Schemes (Authorised Payments) Regulations 2009 and winding-up lump sums. Where the member has died, some lump sums can be paid to another individual .

In particular, following what is known as a ‘relevant accretion’, a registered pension scheme can make a payment of up to £10,000 directly to an individual . To be an authorised payment, one of the conditions is that the payment must be made no later than six months after the date the accretion occurs. The HMRC newsletter confirms that the six-month period starts when the scheme administrator has established the member has an actual entitlement to a top-up payment, and the amount of that payment.

Taxation

A top-up TV, and any lump sum paid to extinguish that right, derive from the additional rights to benefits that the individual had under the transferring scheme, and which were not taken into account when the original transfer was calculated. This right is an uncrystallised right.

Any lump sum payment made directly to a member to extinguish a member’s right to a top-up TV will be a payment in respect of uncrystallised rights.

Where the payment is to the member (or following the member’s death, to the member’s estate) and is in respect of an uncrystallised right, tax is due on 75% of the lump sum.

Where the lump sum is paid to another individual following the member’s death (and is an authorised lump sum that is not required to be paid to a member (or to their estate)), it will be wholly taxable. Tax is due in the tax year in which the lump sum is paid, and PAYE should be operated on the lump sum.

Annual Allowance

No further annual allowance implications arise where a top-up TV is made, or a lump sum is paid to extinguish the right to a top-up TV; i.e. past pension input calculations do not need to be revisited.

HMRC Protections

The original transfer will not stop being a block transfer purely because, after that transfer is made,

10 HMRC's third GMP Equalisation (GMPE) newsletter – what now for trustees? (cont)

further benefit entitlement is later identified as a result of GMPE and settled as a recognised transfer or authorised lump sum payment.

It is important to note that paying an additional transfer in respect of a member could result in a loss of fixed or enhanced protection if the transfer is not a permitted transfer.

GMP Conversion

HMRC's latest newsletter also provides an update for schemes using the GMP conversion method to achieve GMPE. HMRC emphasises that its work in this complex area continues.

For scheme sponsors and trustees, it is important to note that this newsletter from HMRC does not provide 'all the answers'. That said, there is now more clarity that, whilst the same cannot be said for deferred members, GMP conversion should have no tax impact on the annual allowance and fixed protection of pensioners. Further legislation is not ruled out.

So, what should trustees be doing now?

• Get your data sorted (and not just for GMPE; come 2023, pension schemes will be required to provide information to the Pensions Dashboard so that pension savers can see all their benefits in one place).

• Agree your approach. At this stage there should be no need for lengthy / costly reports on the different methods; unless you have a compelling reason to convert GMPs into scheme benefits then adopt the method of minimum interference - Method C2 - which all third party administrators should be able to accommodate. Alternatively, for easier administration, use Method B or C1, provided the increase in liabilities is not materially different relative to C2.

• Equalise benefits going forward, for future transfers and retirements (just because you use one method as an interim solution for future settlements, you are not bound to use that method for the wider GMPE project).

• Equalise benefits for those that currently have benefits secured and payable under the scheme; especially those who are already retired and may be due years of arrears payments.

• Revisit past settlements – transfers-out, deaths, trivial commutations.

• When you have something to tell them, i.e. you have quantified the GMPE uplifts, communicate with members.

Coming Up Next

We always end our quarterly report by looking ahead to the months to come, signposting some future events that we have some time to digest and prepare for, that are imminent but not immediate. Yet for this writer, the pace of the passage of time so far in 2022 has been nothing short of ferocious! Honestly, it feels like a fortnight since I was putting our Christmas tree in the attic and writing the Coming Up Next article for the report closing out 2021. How are we on the cusp of May already!?

Yet, here we are, looking ahead to the (roughly) two thirds of the year that are left. While the speedy passage of time might cause disbelief and consternation – particularly for those of us not in our 20s anymore! – it is important that we accept how quickly time is passing and that we cannot put future events on the long finger. Preparation is key, because there is no doubt that other things not on our list right now will raise their heads to steal away some of our precious time too.

So, not to waste any more time, here are some of the topics that will be impacting your pension schemes in the coming months:

Chair Statements

• From 30 April 2022, defined contribution (DC) schemes with year ends after 1 October 2021 will need to comply with new requirements on reporting net investment returns when drafting their Chair Statement. As discussed in previous quarterly updates, trustees of all relevant DC schemes, regardless of asset size, must now state the return on investments from their default and self-selected funds, net of all transaction costs and charges.

• Then, from 31 July, the drafting of Chair Statements for schemes with assets below £100 million will need to include a Value for Money assessment. While schemes with assets above £100 million from October are likely to need to disclose and explain their illiquid investment policy and report on the asset classes currently held in their scheme's portfolio.

Scheme Funding and TPR Code of Practice

• The first part of the Government consultation on draft regulations setting out the detail of the new statutory funding regime for DB pension schemes, requiring trustees to have a long-term objective/strategy in place for funding and investment, is due to be announced in late spring 2022, with the follow-up consultation on the Regulator's new Funding Code expected in late summer.

• We expect the latter consultation to coincide with TPR publishing its consultation on a draft code of practice, combining the 15 current codes of practice into a single, "super-code". When the new regime takes effect, trustees of schemes with 100 or more members will need to carry out their first 'own risk assessment' of their scheme within 12 months.

Climate Risk Governance

• From 1 October 2022, schemes with £1 billion or more in assets will be required to align governance processes and disclosures with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. It is also expected (currently under consultation) that schemes will need to report on the extent to which their investments are aligned with the Paris Agreement goal of limiting global temperature increases to an average of 1.5°C above pre-industrial levels.

Building on those selected topics, here are some key dates to keep in your diary as we continue to tear through 2022:

• **30 April 2022** – Closure of the third window for applications to become a signatory to the 2020 UK Stewardship Code.

• **30 April 2022** – Net investment return disclosures must be included in DC Chair Statements after this date (see above).

• **1 June 2022** – Trustees and GPP providers will have to give members with flexible (DC/cash balance) benefits a "stronger nudge" to book a free Pension Wise appointment when accessing their savings.

Coming Up Next

- **31 July 2022** – New Value for Money information will need to be included in chair statements for schemes with less than £100 million of assets (see above).

- **1 October 2022** – Extension of climate risk governance and reporting requirements for occupational pension schemes with £1 billion or more assets.

- **1 October 2022** – Simplified, "two-page" benefit statements requirements come into force for auto-enrolment DC schemes.

- **October 2022** – Reporting on illiquid investments expected to come into force for DC schemes with over £100 million of assets, as well as regulations removing certain employer-related restrictions that currently apply to large, authorised Master Trusts.

- **End of 2022** – Government consultation on multi-employer collective defined contribution (CDC) pensions expected to be launched.

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