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CLEAR VIEWS

Occupational DC schemes – are you ready?

Changes on the horizon requiring consolidation

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OVERVIEW

From October 2021, it is proposed that new and game-changing obligations for those involved in occupational defined contribution (**DC**) schemes will come into force. These will require certain schemes to compare their value for members against the value offered by large commercial DC schemes and, ultimately, result in increased consolidation of schemes in this area.

Trustees and employers of occupational DC schemes should prepare to move in this area sooner rather than later, to avoid a capacity crunch in the market once the Regulations are in force.

What are the proposed changes?

From 5 October 2021, the scope of the current 'value for members' assessment in the Chair's Statement is to be extended for occupational DC pension schemes with assets of less than £100 million which have been operating for at least three years. Trustees of these schemes would need to assess the value for members of their scheme's costs, charges and net returns relative to those of at least three other schemes. These three other schemes would have to have £100 million or more in total assets. In practice, this is likely to mean comparing a small DC scheme to three master trusts.

This assessment will need to be carried out annually.

What impact will these changes have?

The government intends the impact of the changes to be increased consolidation in the DC market with smaller DC schemes being transferred into larger schemes.

The government is concerned that many smaller DC schemes struggle to achieve economies of scale and access to the services and investment strategies offered to larger schemes.

> *"…where smaller schemes do not demonstrate value for members under the new assessment, trustees should take immediate steps to wind up the scheme and consolidate members into a larger scheme…"*
>
> DWP consultation: Improving outcomes for members of defined contribution pension schemes

The proposed impact of the changes is clear; trustees will have to state in their annual return whether they consider, based on the new assessment, that their scheme provides good value for members. If the trustees do not consider that it does, in the annual scheme return trustees will have to indicate whether they plan to wind up the scheme. If they do not, they will have to include their reasons for not doing so and the improvements they plant to make to the scheme. Only in exceptional circumstances should schemes seek to improve rather than wind up.

The government sees the acceleration of consolidation in the DC market as a priority. If these proposed changes do not drive consolidation at a sufficient pace, the government will legislate to mandate such consolidation.

How will consolidation occur?

We expect that consolidation will largely occur through smaller DC schemes transferring to master trust schemes. However, there are real concerns about capacity in the market to manage the transfers if they are to happen all at once.

What should you do to prepare?

There are benefits of getting ahead of the curve on this one. If trustees and employers consider transferring before a capacity crunch in the market, they are likely to save time and money. A transfer to a master trust can also be beneficial to employers, trustees and members. By transferring, cost savings can be made for both the employer and members. It will also prevent trustees of smaller schemes having to meet the obligations of the new requirements and being under pressure to consolidate in a timely manner if value for members cannot be shown.

The Stephenson Harwood pensions law group is market leading in this area – we have written guides for other lawyers on how to do transfers to master trusts! We are familiar with the documentation of all the large master trust providers and have a streamlined process, so can offer fixed costs for much of the work for both trustees and employers. We also have processes in place allowing us to act for both the employer and trustee on a single transfer, allowing all parties to save time and money in the process.

Contact us to find out more

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