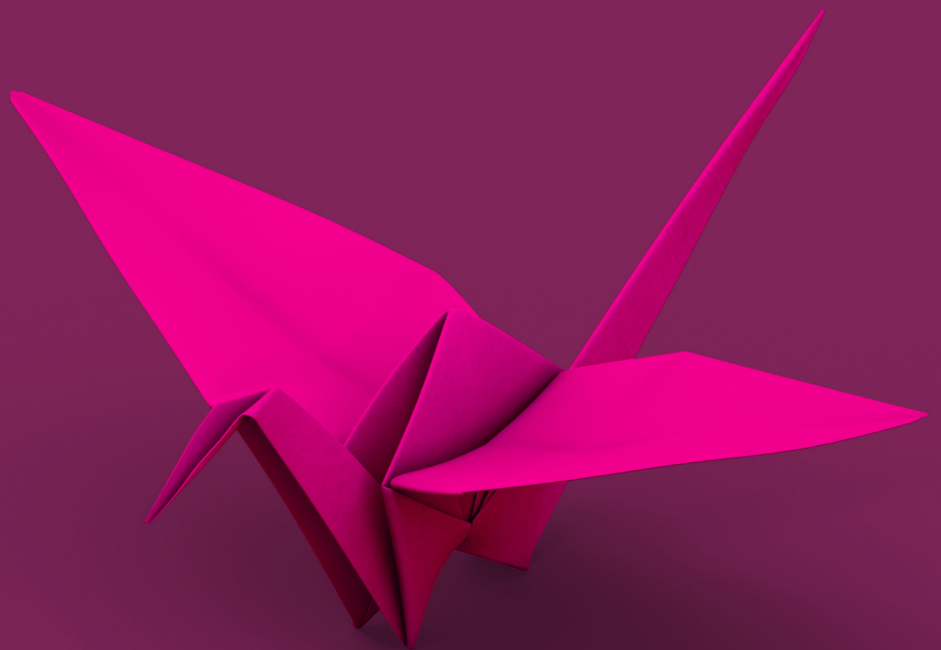


Your Quarterly Pensions Update

Dalriada Trustees – Industry Changes

Quarter One 2024



Dalriada.
A better way

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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 you should be aware of.

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 Final DB Funding Regulations Published

The final version of the Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024 was laid before Parliament on 29 January 2024. The regulations came into force from 6 April 2024 and apply to scheme valuations with effective dates on and after 22 September 2024. These regulations aim to provide legislative detail regarding what longer-term planning should look like for defined benefit (DB) pension schemes and how the risks of a mature scheme should be anticipated and managed. These regulations are important given the majority of DB pension schemes in the UK are closed to accrual and increasing in maturity. Earlier drafts of the regulations indicated major changes were ahead for the management of DB pension schemes. The final regulations and the response to the public consultation have been keenly anticipated and now that they have arrived it is essential to get to grips with these changes.

THE REGULATIONS

The regulations should be consulted for a full picture but the key updates are as follows:

- **Scheme maturity.** Scheme maturity will be measured using the duration of liabilities determined according to a standard 'weighted mean time' approach. This calculation will have to be carried out by reference to economic conditions at 31 March 2023. The DWP hope that fixing the economic conditions will reduce volatility in the measure of the duration of Scheme liabilities. The relevant duration for determining what is 'significantly mature' will be set by TPR in its forthcoming DB Funding Code. It seems likely that the 'significant maturity' duration will now be set at less than 12 years. However, this will not be known until the Code of Practice is finalised. Trustees must set a 'relevant date' no later than when significant maturity is expected to be reached, with the strategy being based on the principle that the scheme must be fully funded on its low dependency basis by this date.
- **Low dependency.** The final regulations retain the requirement that for a scheme to be in a low dependency state there should be no expectation of further employer deficit contributions being needed. In setting a low dependency funding basis, schemes must presume that the assets needed to cover their liabilities are invested such that the value of assets relative to liabilities is 'highly resilient to short-term adverse changes in market conditions'. The requirement for schemes to be broadly cashflow matched has been dropped.
- **Employer covenant.** This is defined in legislation for the first time. The final regulations provide for a wider set of factors to be taken into account when assessing the sponsor covenant than provided for in the previous draft, and remove any cross references to the Regulator's Code. Contingent assets can be taken into account.
- **The journey plan.** The principles are broadly unchanged from those included in the previous draft regulations. Revisions have been made to clarify that despite the need for a Funding and Investment Strategy, trustees retain their responsibility for investment decisions both at maturity, and as the scheme moves along its journey plan.
- **Recovery plan.** The regulations contain a new requirement for any recovery plan to be met 'as soon as the employer can reasonably afford'.
- **Investment strategy.** As per the draft regulations, the statement of funding and investment strategy must include a specification of the intended high level allocation between different asset classes at the relevant date.
- **Contents of the statement of strategy and its review.** There are a number of new requirements for information on maturity, liquidity and investment strategy. This will need to be revised at each future actuarial valuation, but will also need to be reviewed and if necessary revised if there is a material change in the scheme funding position, or a material change to the employer covenant.
- **Open schemes.** It is clarified that, when determining the point at which the scheme is expected to reach significant maturity, schemes that are open to new entrants and/or future benefit accrual may take account of expected future benefit accrual, although in making this assessment they have to consider amongst other things the period over which they are 'reasonably certain' that the sponsor can continue to support the scheme. The Government does not think that it is reasonable to assume that a scheme will remain open indefinitely and will have an evergreen covenant.

NEXT STEPS

Following the release of the final version of the Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024 we anticipate the release of the final version of the DB Funding Code and Fast Track (expected later in 2024). Together these will give a full picture of the new DB pension scheme landscape that we face. However, it is clear that these regulations pin point attention on the long term funding objective of DB pension schemes.

The new regulations will have a large impact on all DB pension schemes, therefore, understanding the impact of these changes should be a key priority for all DB pension scheme stakeholders. The regulations are to come into force from 6 April 2024 and will apply to scheme valuations with effective dates on and after 22 September 2024. This means that the first triennial actuarial valuations of DB pension schemes affected, will need to be submitted between December 2025 and the last in late 2027.

Similar regulations are expected to be made in Northern Ireland in due course.



THE GENERAL CODE – Effective Systems of Governance & Own Risk Assessments

[The General Code](#) was (finally!) laid before parliament on the 10 January 2024 and is expected to come into force shortly. The Code sets out in detail what The Pensions Regulator (TPR) expects of a scheme that is required to maintain an 'effective system of governance' (ESoG). This brings together many key aspects of running a scheme, not least in terms of risk management.

The detail of what constitutes an effective system of governance will be dependent on the size and complexity of the scheme so a proportional approach should be taken by trustees.

What are the changes from the draft to the final code?

TPR has published its final response to the consultation on a new code of practice. This highlights changes from the draft code, some of which have been highlighted below:

Equality Diversity Inclusion

While TPR's diversity and inclusion work is ongoing, TPR have added some words to encourage governing bodies to consider diversity and how they can better represent the demographics of their members.

Arrangements for member-nominated trustee appointments

TPR have added some detail about steps that the scheme may take where there are sustained problems in recruiting suitable or sufficient member nominated trustees.

Meetings and decision-making

TPR stand by the expectation that quarterly meetings are a baseline for most schemes, but have removed the requirement for quarterly meetings.

TPR have also considered responses to the consultation and whilst they believe transparency into the workings of their pension scheme will increase member confidence, minutes do not need to be published.

Knowledge and understanding

TPR have strengthened wording around professional trustee accreditation, encouraging professional trustees to work towards it.

Advisers and service providers

TPR agree that the two-year period for reviewing service appointments was too short. So, they have extended the review period by one year, to three years.

Identifying, evaluating and recording risks, Internal controls and Assurance reports on internal controls

TPR have made it clear that risk management activities can be carried out by a wide range of individuals, functions, and service providers, and they are not prescriptive about who should perform such duties.

Own risk assessment

For schemes with over 100 members, there is also a requirement for an 'own risk assessment' (ORA). The ORA is basically a periodic review of the ESoG and will help the governing body focus on key areas in need of improvement in the governance and operation of their scheme.

TPR have not provided a template for ESoG and ORA but they have provided a two page document of 'expectations'!

TPR have also relaxed expectations for the frequency of undertaking the ORA and the guidelines for this are as follows:

- within 12 months after the end of the first scheme year that begins after the Code comes into force, or, if later:
 - within 15 months beginning with the date on which the trustees are next required to obtain an

actuarial valuation, or

- by the date on which the trustees are next required to prepare a chair's annual governance statement (ie a DC chair's statement)

Subsequent ORAs should be carried out at least every three years.

What action do Trustees need to take now?

According to initial feedback from some of our Spence clients, a poll revealed that most trustees felt they were 'largely complying with the Code but with some tweaks and improvements needed'. It's suspected that the activities could be more of a tidy up than a starting from the ground up activity. Trustees should now consider the following next steps:

- **Establish a risk management team** – Governing bodies (i.e trustees) are expected to design a risk management function to suit their scheme. This could take the form of a sub-committee which even for small schemes can be an efficient approach (note: the sub-committee will require a written Terms of Reference).
- **Understand their 'journey plan' to compliance** – for example, is the scheme considering Buy-in/ Buy-out or looking to run on for the foreseeable future? This will help identify the activities of the scheme to which proportionality is applied.
- The Risk Management Sub-committee will then be able to draft **scheme specific trustees' policies** for approval.
- Draft a **scheme specific governance framework** – which essentially reviews every part of the operation and management of the scheme. This will evidence the ESOG and simplify the production of the ORA.
- The framework will record the **application of proportionality** against each aspect of the scheme's governance, together with the rationale.
- Complete a **scheme specific review of the governance documents** incorporating the applied proportionality.
- Draft an **order of priority** for the risks and required improvements to be made.
- Trustees are to incorporate this order of priority within the scheme's **Business Plan**.
- Identify **appropriate stress testing methods**, to evidence the effectiveness of the system of governance and draft each element of the stress test plan.
- The framework will also incorporate a **review timetable** for each element of the ESoG and stress tests, together with a process that ensures that any necessary changes are made to the ESoG and review policies, with each element of the ESoG reviewed at least every three years.
- The Trustee Board should agree the timetable and **record the approval**.

All in all plenty for trustees to consider going forward however, much of this may simply be a case of documenting the good work already being undertaken by most trustees and their advisers on behalf of their members.

3 Spring Budget 2024

The Chancellor delivered his Spring Budget on 6th March 2024.

Key points

- Investment Disclosures – see Detail, below.
- The government will create a “British” ISA, adding it will come in the form of an extra £5,000 tax-free allowance for the public to invest exclusively in UK.
- National Insurance cut by another 2p in the Budget, meaning it falls from 10% to 8%.

Implications for pensions

State pension

The government is also committed to supporting pensioner incomes by maintaining the triple lock. In 2024-25, the full yearly amount of the basic State Pension will be £3,700 higher, in cash terms, than in 2010.⁵⁴ That’s £990 more than if it had been uprated by prices, and £1,000 more than if it had been uprated by earnings (since 2010).

Unlocking investment in growth through the financial system, savings, pension funds, and our international investment offer. [5.2 Spring Budget 2024](#)

Local Government Pension Scheme new reporting requirements

Annual reporting guidance will require LGPS funds to provide a summary of asset allocation, including UK equity investment, as well as provide greater clarity on progress of pooling, through a standardised data return, taking effect from April 2024.

Financial Conduct Authority (FCA) Value for Money (VFM) proposals

The FCA’s spring VFM consultation will include proposals to require the publication of contract-based Defined Contribution (DC) default funds’ historic net investment returns and a breakdown of their UK investments. Proposals will require schemes to compare their performance, costs and other metrics against those of at least two schemes managing over £10 billion in assets. This is an initial level expected to increase significantly over time. In coordination with the FCA, the government will legislate at the earliest opportunity to apply the VFM framework across the market and provide the Pensions Regulator with new powers, using secondary legislation if necessary to ensure key disclosures are in place by 2027.

Announcing the names of Long-term Investment for Science and Technology (LIFTS) winners

The government is announcing the names of the LIFTS winners as Schroders and Intermediate Capital Group (ICG) supported by pensions capital from Phoenix Group. This is subject to ongoing commercial discussions and the internal governance processes of all involved parties.

Announcing a plan to monitor Mansion House Compact

The government is working with the ABI to finalise a framework for monitoring progress on the Mansion House Compact ahead of its first anniversary.

Pensions Lifetime Provider

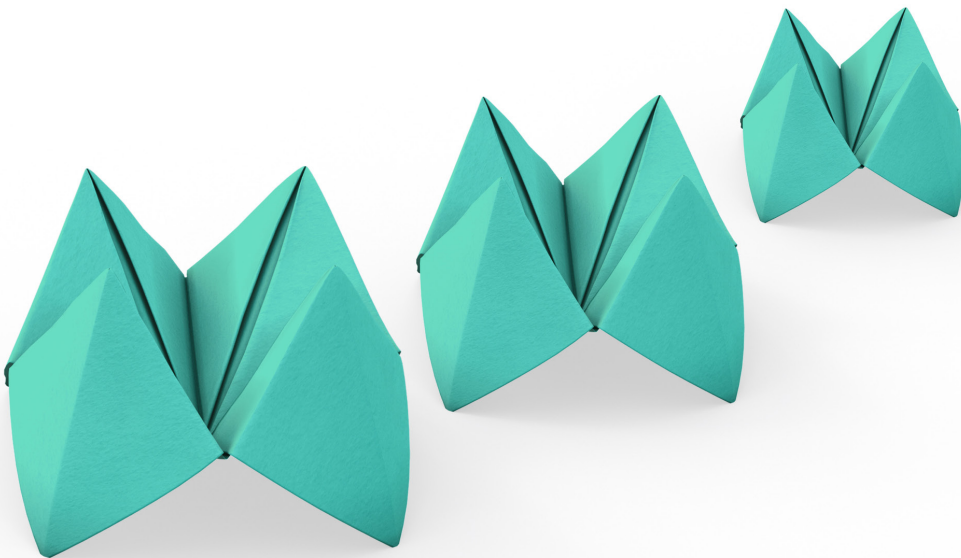
The government has confirmed that it remains committed to exploring a lifetime provider model for Defined Contribution (DC) pension schemes in the long-term. The government will undertake continued analysis and engagement to ensure that this would improve outcomes for pension savers, and build on the foundations of reforms already underway, including the Value for Money Framework.

UK ISA

The government will create an additional Individual Savings Account (ISA) with a £5,000 allowance. This would be in addition to the £20,000 that can be subscribed into an ISA. The government will consult on the details.

Helpful Links

[Chancellor delivers lower taxes, more investment and better public services in 'Budget for Long Term Growth' - GOV.UK \(www.gov.uk\)](https://www.gov.uk)



Financial Markets Law Commission ('FMLC') on Fiduciary Duties and Climate Change

In early 2023, the FMLC convened a working group to clarify the law on how fiduciary duties interact with sustainability and climate change factors. Their paper was published in the first quarter of 2024. It is important to note that this paper is a clarification of the existing law, rather than a change in the law, and that whilst sustainability and climate change factors are the focus, it is noted that the consideration may be relevant to other areas including nature, environment, communities and biodiversity.

As our understanding of financial factors has grown, so too has the perceived tension between fiduciary duty and the consideration of environmental, social and governance ('ESG') factors. This is particularly pronounced for small pension schemes with high governance burdens and resource constraints. Risks relating to ESG are framed in different way by different actors, operating at multiples levels and across time horizons. The FMLC paper reasons that the law is sufficiently flexible as it stands to allow for consideration of such factors without revisions.

Fiduciary duties

The paper begins by explaining trustee duties, fiduciary duties and decision making responsibility for pension fund trustees. When considering fiduciary duties, the starting point should be the purpose of the trust - primarily paying benefits to beneficiaries as they fall due. Whilst pension fund trustees have other duties, such as the duty of care when investing, fiduciary duties arise from the assumption of responsibility in respect of the conduct of the affairs of another. A trustees central obligation is one of loyalty - to the scheme and to the interests of beneficiaries.

A key focus of the paper is the exercise of judgement by trustees. Trustees are not required to have perfect foresight but are required to exercise judgement to reach a careful decision, considering all relevant matters and no irrelevant matters. This requirement provides space for a range of appropriate decisions and for different trustees to reach different conclusions on the same issue. Judgement is an important part of the checks and balances for the scheme and is focused on the scheme's purpose by fiduciary duties. In exercising this judgement, fiduciary duty does not require undue caution. Where trustee have assumed financial responsibilities for "the conduct of the affairs of another", too little or too much caution will not be in line with that responsibility. Furthermore, pension schemes sit within wider economic networks and operate across various time horizons. In this context, fiduciary duties support trustees in taking a long-term outlook across the evolving landscape of financial markets.

The breadth of financial factors

The paper makes clear that the relevant entry point for sustainability is as a financial factor. This follows on from Law Commission reports examining fiduciary duties which stated that ESG factors can and should be taken into account where they are financially material. However, the authors build on this by highlighting that a reappraisal of relevant factors may be required as both:

- the financial implications of factors previously considered non financial have become clear as our understanding has grown
- factors previously considered "too remote and insubstantial" where risks are now apparent and material, such as physical, transition and litigation risks.

The landscape of financial markets is dynamic and continuously evolving. Risks and return change, develop and become differently understood and evaluated over time. There is variation in the legal treatment of climate change between countries with both national and international pictures unlikely to stand still. Given this, the paper explains it is relevant to consider how governments, business, consumers and the public respond to climate change. These responses may drive changes which go directly to due consideration of financial risk and return through changes in behaviour and conduct, law and regulation, economies and finance as well as confidence and reputation.

The authors discuss the major scale of climate change and that in practice, may impact through shocks with sudden implications rather than shifts in risk exposure over time. Developments may not align with existing investment strategy, may reverse previous decisions and may occur without exit routes. This can apply to both transition risks, the risks of losses from the transition to a low carbon economy, and physical risks, the risks of losses from extreme weather. Risks may also be systemic, impacting markets as a whole. These risks must be addressed directly as their impacts are economy-wide, meaning they

cannot be avoided, mitigated or diversified away from. Given the large, diversified portfolios of pension schemes - whether individual large schemes or through the passive strategies of smaller funds, they are considered universal owners ('UOs'). This means that they are particularly susceptible to systemic risks and have influence over them. The paper states that risks of this type, and others with material long-term implications, should be identified as such and should not be ignored due to uncertainty of their causes and effect. It is emphasised that trustees are required to think prudently in the exercise of their investment powers and that prudent investors should consider systemic issues that could arise. The authors also highlight that opportunities for investment return may arise out of such risks with the possibility of economic and social displacements that are likely to require investment.

Investing for positive impact is an area that can cause particular confusion given it may address both financial and non-financial concerns. However, the paper emphasises that funds intending to have positive sustainability or climate change impacts may still be properly considered but that the central considerations should be financial risk and return at the level of the investment, the portfolio and of material economies. Although, the authors emphasise that a pension fund is not a charity and is not required to decline investments associated with high emissions, environmental and social factors.

In addressing risk and return from ESG factors, the paper states that both numbers and narrative should inform a trustee's judgement. Many risks, and not just those relating to ESG, are difficult to attribute probabilities to and understand fully given just a number. Furthermore, the longer the time horizon over which a number relates, the more speculative it becomes. Risks expressed in words may be used to override returns expressed as numbers.

Communication and collaboration

Decision making responsibility rests with the trustees. The paper states that trustees should "be able to describe their thinking in terms of the balance of risk and return, their appetite for risk and why". To do this they will need to consider what is needed from investment consultants and investment managers to fulfil their duties. Trustees should not simply "rubber stamp" advice - it is important that they know, and advisers make clear, the basis of advice, its limits and how it may combine with other factors. To ensure crucial context is not missed, investment managers and advisors should not work in silos - each should be fully aligned on strategy, principles and policies with stewardship expectations properly communicated. The paper highlights that once the decision to invest has been made, stewardship may be material to achieving and maintaining returns as well improving the balance of financial risk and return. Through open dialogue and oversight, trustees can reassure themselves that their investment managers' stewardship is effective in mitigating risks and supporting returns.

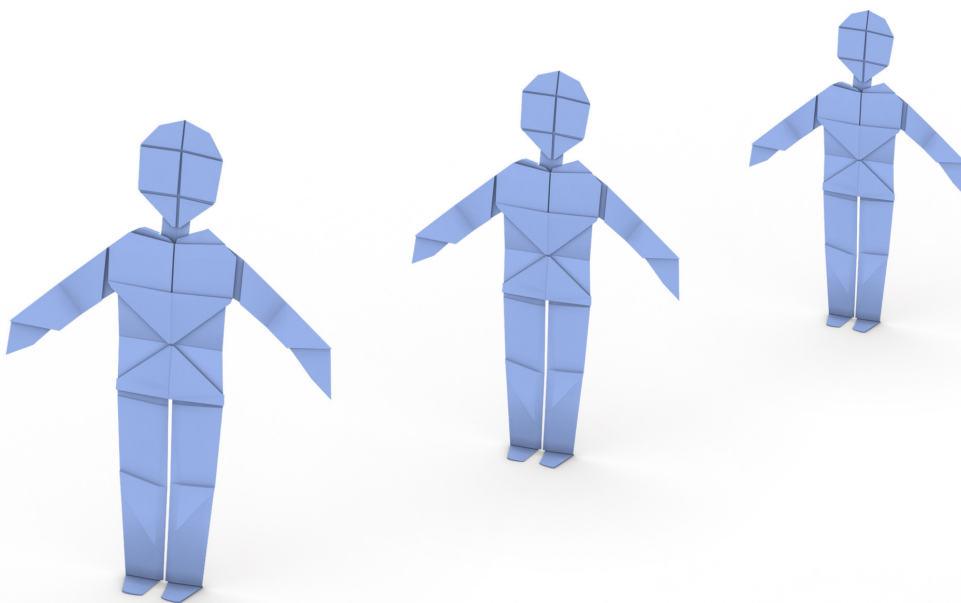
Better information is key to enable trustees to make informed decisions. Available material and reports, as well as enquiries with advisers and investment managers about underlying investments should be sought to allow a rigorous (but realistic) assessment of risk and return. In such a rapidly evolving environment, contemporary thinking should be sought from advisors and investment managers to fill gaps in thinking. In particular, collaboration across pension funds is given as potentially the most cost-effective way to address systemic risk where lawful steps are available. It is proposed that sustainability and climate change could be made less complex over time by deepening our understanding. The authors highlight that approaching relevant factors with advice and assistance should inform how investee companies measure success and identify, address and monitor risk.

Is more needed to improve clarity for trustees?

The FMLC paper makes clear that the law is sufficiently flexible as it stands to cope with the breadth of today's financial factors, but is this enough to give trustees the confidence they need to approach these topics? Charlotte O'Leary, the CEO of Pensions for Purpose has called for three steps in particular:

- The Pensions Regulator should provide clear guidance for trustees.
- The Financial Conduct Authority should conduct an independent review of investment consultants and investment managers.
- s172 of the Companies Act should be amended so that company director responsibilities include the need to balance profit with the welfare of people and the planet.

She argues that concerted efforts will be needed across the board to truly align our financial system towards sustainability and that strong and widely socialised guidance will be needed to align the approaches of pension funds, their advisers and investment managers in managing the risks and opportunities of climate change.



Final PPF Levy Rules for 2024/25

The PPF announced the final levy rules for the 2024/25 period on the 14th December 2023. The changes from the previous year's rules were minimal. The updates are set out below.

Total Levy Estimate Halved

The 2024/25 Levy estimate is confirmed as £100 million which is half of the 2023/24 levy of £200 million. The 2022/23 Levy was £390 million so, over the past two years, the total Levy estimate has fallen by 74%. The 2024/25 Levy of £100 million is the lowest ever charged by the PPF since its creation in 2005.

Legislative Change Required Before Further Levy Reduction

DWP are currently looking at updating the rules governing annual changes to the Levy. Currently, the levy can only be increased by 25% each year and the PPF are concerned if they reduce the total levy below £100 million, a 25% increase in a year may not be sufficient to respond to potential unforeseen events.

Oliver Morely, PPF CEO, explained the current legislation which was originally "intended to protect levy payers from sharp increases in the levy" has resulted in constraints on how far the levy can fall without limiting the PPF's ability to "respond to a funding challenge should one arise."

In their policy statement, the PPF explained "there are limits to the predictive capabilities of the LTRM (Long Term Risk Model), and unlikely events outside its range can and do occur." They used the gilts crisis in September 2022 as well as inflation rising to over 10% this year, as examples of unforeseen events. The PPF use the Long Term Risk Model to give "a detailed picture" of how their finances "might evolve under various scenarios."

Decrease to the Scheme-based Levy Multiplier (SLM)

The PPF Levy consists of two parts, the Scheme-based Levy and the Risk-based Levy. The Scheme-based Levy is paid by all eligible schemes and is calculated to be a small part of the scheme's liabilities. The Scheme-based Levy Multiplier is a factor in this calculation and this decreased from 0.000019 in 2023/24 to 0.000015 in 2024/25.

Increase to the Levy Scaling Factor (LSF)

The second component of the PPF Levy is the Risk-based Levy which is only paid by underfunded schemes. A scheme is described as underfunded if the value of their liabilities exceed the value of their assets on a PPF prescribed basis, known as s179. The risk-based levy is capped at 0.25% of a scheme's liabilities. The Levy Scaling Factor is a factor in the calculation of the Risk-based Levy and this increased from 0.37 in 2023/24 to 0.40 in 2024/25.

No Further Changes to Levy Parameters

There were no further changes to the levy parameters outside of the SLM and LSF. The risk-based levy cap is set to remain as 0.25% of scheme liabilities. A10 will continue to be used as the output basis and there will be no changes to the asset and liability stresses.

Helpful Links

PPF 2024/25 Policy Statement: [Policy Statement 24 25 Final \(ppf.co.uk\)](https://www.ppf.co.uk/policy-statement-24-25-final)

PPF 2024/25 Levy Rules Consultation Document: [Condoc - September 2425 \(ppf.co.uk\)](https://www.ppf.co.uk/condoc-september-2425)

6 TM1 changes effective 6 April 2024

Actuarial Standard Technical Memorandum 1: Statutory Money Purchase Illustrations ("AS TM1") sets out the methodology and assumptions to be used for calculating annual Statutory Money Purchase Illustration ("SMPI") statements. With effect from 1 October 2023, the Financial Reporting Council published a new version of this document which applies to statutory illustrations issued on or after this date. A revised version of the guidance was published in February 2024 to take effect from 6 April 2024.

The revised guidance includes higher rates at which members funds will be assumed to increase until retirement age (known as the "accumulation growth rate assumption") in response to higher long term interest rates resulting in higher long term expected returns. The other assumptions have remained unchanged.

The Financial Reporting Council reviews AS TM1 regularly. It is possible that the methods and assumptions used will be amended as a result. It is likely that some of the assumptions will be changed from time to time, and providers are strongly advised to make their systems for producing SMPI statements flexible to manage any potential future changes in assumptions.

What is the impact of these changes?

The above changes will have no impact on the actual value of members funds or the performance of these funds; it is only a change to how retirement projections are carried out.

When members receive their next SMPI statement for the 2024/25 financial year, they may see an increase in the projected value of their fund at their retirement date and the resulting level of income they may expect to receive due to the increase in the accumulation rates when compared to previous years statements.

Things to consider

Trustees may want to consider reviewing the SMPI statements for the 2024/25 financial year prior to issue and comparing these to previous statements issued to members. If there is a considerable difference between the 2024/25 statement and prior years, the trustees may want to consider writing out to members to highlight the changes in assumptions. The statements only provide estimates of projected benefits on retirement for members and in reality, the benefits actually received on retirement are likely to be different.

No age discrimination on conversion of FS benefits to MP benefits

Potentially the most significant case of the year so far, *Newell Trustees Ltd v Newell Rubbermaid UK Services Ltd*, considered a number key pensions law principles. The primary decision may have been overly surprising but some of the steps to get there have potential interest.

In the early 1990's a decision was reached to open a Money Purchase section within the Scheme and convert the Defined Benefit liabilities for member under 40 to Defined Contribution liabilities, without consent, and transfer these to the new section. Furthermore members between 40 and 44 were given the option to do the same, while members over 44 remained Defined Benefit members.

The main points considered were:

- Was the conversion of benefits valid
- Did the age based application of the conversion constitute age discrimination

On the first point Mr Justice Green found that relevant deeds validly made the changes to allow the conversion of benefits and open the Money Purchase section. However, he determined that the amendment power did not allow for the salary link to be broken and therefore an underpin remained. A check will be required against the value of a member's final salary benefit at the point of them breaking the salary link and the accrued value of their money purchase fund.

The age discrimination case was essentially straight forward on the basis that as the relevant age discrimination legislation did not exist at the time of the events they could not be unlawful.

In order to reach his judgement Mr Justice Green had to consider evidence from 30 years ago which was noted several times, in particular he acknowledged that it was quite conceivable that not all evidence would be available. He was very clear, however that this should not lead one to an assumption that deeds were invalid or should be set aside. He also appeared somewhat judgemental of this leading to unnecessary applications for court judgement on every issue at the expense of the corporate, expressing a view that there should have been "more concentration on the more realistic issues".

Whilst the judge did sympathise with the representative beneficiary, he noted that no objections had been raised at the time of the transfer or the over the past 30 years, he opined that pursuance of possible objections to the validity of the conversion exercise as "somewhat opportunistic" as the Scheme prepared for buy-out.

The suggestion of pragmatism and a focus on practicalities in this judgement do seem to be a step away from what decades of equalisation judgements have led us to expect, whether this has wider implications could be interesting to see.

Labour to take forward Mansion House pension reforms

The Labour Party has indicated that it is likely to continue with the current policy trajectory for pension plans to invest to a greater extent in the UK economy if it wins the election.

In a recent paper, Labour stated that it would launch a review to 'identify and tackle the barriers to pension schemes investing more into UK productive assets'.

The Labour Party line is consistent with the governments Mansion House reforms and the raft of policies published in 2023 aimed at encouraging the pensions sector to invest in growth assets.

Commentators have welcomed Labour's pledge as representing political continuity for the pension sector in the medium to long term.

Helpful Links

[Financing Growth: Labour's plan for financial services – The Labour Party](#)



The DWP published a flurry of auto-enrolment related information and research over the last quarter, including the following items.

DWP review of Automatic Enrolment thresholds for 24/25 tax year

This analysis is to support the freezing of the Automatic Enrolment (AE) earnings trigger and lower and upper limits for Qualifying Earnings for the 24/25 tax year. Earnings still need to exceed £10,000 a year to be eligible for AE, and once eligible, pension contributions are payable on earnings between the lower limit of £6,240 pa and the upper limit of £50,270 pa.

The main reasons given for freezing these levels is to bring more individuals into the AE environment. With earnings generally increasing (the National Living Wage (NLW) is approximately 30 per cent higher than the adult minimum wage in 2015. This year's NLW increase was also the third largest (real terms) annual increase in its history, a 10 per cent increase in cash terms on the 2023 NLW), more people should now hit the earnings trigger, and a higher proportion of an individual's earnings should then be pensionable with a freezing of the lower limit. The freezing of the upper limit then helps control costs for employers.

Whilst not stated, these limits are currently aligned with some of the national insurance and tax thresholds. A broader reason for the freezing might therefore be fiscal drag: by freezing these limits, more earnings hit the higher tax thresholds, increasing the tax take.

DWP report on pension engagement

This report summarises recent DWP research on pensions engagement. Unsurprisingly, it found that younger participants think of retirement as something in the distant future, and don't always engage with pension saving, particularly if there are other more immediate financial priorities. More interestingly, some helpful snippets to improve engagement included:

- providing pension education through the government and via schools; and
- a new calendar and tax year are the best times to issue information about pensions, with a preference for it to be received on a yearly basis.

DWP report on pension saving for lower earners

This report summarises qualitative research done by the DWP with 119 lower earners on pension saving. It found that pension saving was considered important for financial security, but may be trumped by shorter term financial needs and pressures. In contrast with the DWP review of AE thresholds, lowering the earnings trigger would be likely to encourage greater participation in pension saving. Offering flexibility to flex contribution levels up or down could also help with participation and reduce the rate of opting out completely.

This supports the understanding that individuals consider finances holistically, rather than long term savings in isolation, and potentially supports the 'Side Car' investment for shorter term needs concurrently with longer term savings as a way to engage individuals with their longer term savings.

Helpful Links

[Review of the Automatic Enrolment Earnings Trigger and Qualifying Earnings Band for 2024/25: Supporting Analysis - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/research-analysis/automatic-enrolment-earnings-trigger-and-qualifying-earnings-band-for-2024-25-supporting-analysis)

[Engaging with Pensions at timely moments - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/research-analysis/engaging-with-pensions-at-timely-moments)

[Low earners and workplace pension saving – a qualitative study - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/research-analysis/low-earners-and-workplace-pension-saving-a-qualitative-study)

10 Investment Update

Towards the end of 2023 lower inflation numbers and weaker economic data caused central banks to take a more dovish stance on the likelihood of rate cuts taking place in 2024. This led to most asset classes to rally over the first quarter of 2024..

The rally was mostly concentrated in equities with Global Equities generating a 9.1% return, whilst Global Bonds and Real Estate generated negative returns during the period of -2.1%* and -1.5%* respectively.

Growth Assets

Within Equities, Japan was the best performing region at 11.6%, despite the Bank of Japan announcing a normalisation of its monetary policy with an end to negative interest rates and yield curve control, which historically has weighed on Japanese equity valuations. However, favourable market and regulatory conditions along with strong investor sentiment were the key tailwinds for the region at the start of 2024. UK equities lagged most of their international peers with the FTSE All-Share rising just 3.6% since the beginning of the year.

Elsewhere US and European Equities generated strong returns of 11.3% and 6.8% respectively, whilst Emerging Markets (EM) lagged the broader equity universe despite generating a positive return of 2.4%*. EM Equities continue to struggle due to concerns around China's growth prospects, which has had a negative impact on emerging economies more broadly.

Commodities reversed their decline from last quarter posting a positive return of 2.2%* for the period, which was mainly driven by Energy, as the production cuts agreed by OPEC+ during late 2023 were a strong tailwind for the sector.

BONDS

The Global Aggregate Bond Index fell -2.1%* during the period due to higher-than-expected inflation figures in January and February.

Most sovereign bond markets generated negative returns over the period with the exception of Emerging Markets (1.4%)* and Italy (0.8%)*. High yield credit produced a positive return of 2.0%, as better than expected economic data was positive for credit valuations.

Higher inflation numbers and better economic data weighed on the more interest-rate sensitive investment grade bonds which generated a negative return of -0.8%*.

Within the UK, long-term UK gilt yields increased by 0.3% to 4.3%. All else being equal, the move in gilt yields will have acted to decrease the value placed on pension schemes' liabilities.

Real yields increased by 0.2% to 1.1%. All else being equal, the move will have acted to decrease the value placed on inflation sensitive pension scheme liabilities.

Long-term inflation moved from 3.2% to 3.3% over the period.

All returns shown are shown in GBP terms unless stated otherwise, sourced: FTSE, Markit iBoxx
*Local currency, except for EM and global indices, which are in US dollar, sourced: JPM and MSCI
Past performance is not a reliable indicator of current and future results.

Data as of 31 March 2024.

11 DC Update

New TM1

SUMMARY

The Financial Reporting Council (FRC) has published updated Actuarial Standard Technical Memorandum 1 (AS TM1). The updated version includes higher accumulation rate assumptions in response to higher long term interest rates and gilt yields resulting in higher long term expected returns.

DETAIL

The Financial Reporting Council (FRC) has published a revised version of Actuarial Standard Technical Memorandum 1 (AS TM1).

AS TM1 provides a basis for producing defined contribution (DC) pension illustrations that are consistent between providers to help users better understand their retirement savings.

The revised AS TM1 includes higher accumulation rate assumptions in response to higher long term interest rates and gilt yields resulting in higher long term expected returns.

It is effective from 6 April 2024. The FRC reviews AS TM1 regularly. It is possible that the methods and assumptions used will be amended as a result. It is likely that some of the assumptions in Part C will be changed from time to time, and providers are strongly advised to take account of the possibility of such changes when devising systems to produce statutory illustrations.

AE Thresholds 2024_25

DETAIL

The DWP has published an analysis supporting the review of the earnings trigger and qualifying earnings band for automatic enrolment for the 2024 to 2025 financial year. The Secretary of State has concluded that the existing threshold of £10,000 for the earnings trigger remains the correct level and will be maintained for 2024 to 2025. This represents a real terms decrease in the value of the trigger, and as earnings continue to grow, keeping the earnings trigger at £10,000 will see private pension participation at 15.8 million in total.

Separately the DWP has published reports on pension engagement during a lifetime and on low earners and workplace pension savings. Current and proposed automatic enrolment thresholds (annual)

DETAIL

	Trigger	Lower limit qualifying earnings band	Upper limit qualifying earnings band
Current (2023 to 2024)	£10,000	£6,240	£50,270
Proposed (2024 to 2025)	£10,000	£6,240	£50,270

The DWP has also published a report on attitudes towards pensions engagement, pensions saving, and retirement planning across the course of a pensions saver's life, and a report on the behaviours of low earners in respect of automatic enrolment and workplace pensions.

Key takeaways from the report on engaging with pensions at timely moments are as follows:

- there was varying understanding and engagement with pensions across all age groups, with younger participants thinking of retirement as something in the distant future
- pension providers could further increase engagement by providing targeted information and support when individuals experienced financial changes and/or significant life events.
- individuals did not engage with pensions when they perceived it as something in the distant future, if there was a lack of knowledge on the pension system or lack of information in general, and if they were focusing on other financial priorities

- improvements could be made on improving engagement and understanding by providing pension education through the government and via schools
- a new calendar and tax year were the best times to issue information about pensions, with a preference for it to be received on a yearly basis
- there were mixed preferences as to receiving communications via letters, emails or speaking to someone over the telephone.

Key takeaways from the qualitative study on low earners and workplace pension saving are as follows:

- saving into a workplace pension was generally considered important for future security, however age, single or dual household incomes and levels of financial vulnerability had a strong influence on pension attitudes
- social factors such as an employer's approach, had a strong influence on pension saving behaviour
- factors influencing opting out included the perceived need for short-term budgeting due to cost of living concerns or other life events
- generally, there was a negative or neutral view towards a higher earnings trigger as opposed to a lower one
- lowering the trigger and offering flexibility to opt down or up contribution levels were likely to encourage greater participation.

Helpful Links

[Actuarial Standard Technical Memorandum: AS TM1 \(frc.org.uk\)](https://www.frc.org.uk/actuarial-standard-technical-memorandum-as-tm1)

[Review of the Automatic Enrolment Earnings Trigger and Qualifying Earnings Band for 2024/25: Supporting Analysis - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/supporting-analysis/review-of-the-automatic-enrolment-earnings-trigger-and-qualifying-earnings-band-for-2024-25)

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[Low earners and workplace pension saving – a qualitative study - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/supporting-analysis/low-earners-and-workplace-pension-saving-a-qualitative-study)

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