THE PENSION SCHEMES ACT 2021

OVERVIEW AND KEY ISSUES FOR SPONSORS - CLICK FOR MORE DETAILED BLOG POSTS

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COLLECTIVE DEFINED CONTRIBUTION

Key points

- The Pension Schemes Act 2021 (the PSA 21) sets out the legal framework for collective defined contribution (CDC) schemes.
- At this stage, CDC looks set to be used by Royal Mail as a solution to a long-running pensions issue.
- There is the potential for CDC to have a wider role.

What does this mean for sponsors?

- CDC is a possible pensions option for organisations that are in similar positions to Royal Mail.
- CDC is, however, only likely to become more mainstream if unassociated multi-employer mastertrust CDC schemes are permitted in follow on regulations.

CLIMATE CHANGE

Key points

- Trustees will be required to make, report (and, subject to regulations, publish) disclosures on climate change risk in line with international standards.
- Regulations may also require trustees to take into account climate change risks and to take mitigating steps.

What does this mean for sponsors?

- The new trustee duties will factor into LTOs, investment and, ultimately, funding negotiations.
- Sponsors may engage with trustees to ensure alignment of approach.

SCHEME FUNDING

Key points

Trustees of DB schemes will need to:

- determine a funding and investment strategy for the scheme (described in the White Paper as the long term objective (LTO));
- have a written statement setting out their strategy; and
- submit a version of the statement signed by the chair of trustees to TPR.

What does this mean for sponsors?

Sponsors should consider:

- reviewing the new legal requirements that will apply to trustees of schemes they sponsor;
- proactively engaging with trustees so they can direct and shape the discussion on long-term funding and investment strategy; and
- the opportunities to engage with the trustees on risk transfer options.

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PENSION DASHBOARDS

Key points

- The PSA 21 sets out the legal framework for pensions dashboards (i.e. online services that will allow people to see all of their pension savings in one place).
- Specific duties will follow in regulations, but trustees will have to comply within two to four years.

What does this mean for sponsors?

- Pension dashboards offer the chance to increase member engagement for pensions and increase the perceived value of pension provision as a benefit.
- Schemes will need machine-readable and standardised data in order to comply. This will help to make derisking activity easier.

REGULATORY POWERS

Key points

Under the PSA 21, TPR will be given a range of new powers:

- new criminal and civil penalties (inc. three new criminal offences);
- enhanced information gathering powers, including the right to require attendance at interviews;
- new notifiable events applicable with certain corporate transactions; and
- two new tests allowing TPR to impose contribution notices (CN).

What does this mean for sponsors?

- The most serious new criminal offences on avoidance of employer debt and conduct risking accrued benefits carry onerous penalties (seven years' imprisonment and/or an unlimited fine).
- Six of the new or revised offences carry civil penalties of up to £1 million.
- The transaction notifiable events regime has the potential to be wide-ranging and apply to a broad range of corporate activity (including a range of 'business as usual' activity such as dividends, intra-group loans and cash pooling).
- More routes available for TPR to consider issuing CNs.

SCHEME TRANSFERS

Key points

- New requirements will apply on statutory requests for transfers.

What does this mean for sponsors?

- This should mean a lower risk of scams and/or bad decisions affecting employees.
- Sponsors should check that trustees have put in place processes to comply with the new requirements.

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