THE PENSION SCHEMES ACT 2021

OVERVIEW AND KEY ISSUES FOR TRUSTEES - 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 trustees?

- Certain employers will be watching the Royal Mail scheme to see if CDC is a viable option for future pension provision. Trustees should be aware of this possibility.
- CDC is only likely to become more mainstream if future regulations allow non-associated multi-employer mastertrusts to provide CDC schemes.

DASHBOARDS

Key points

- The PSA 21 sets out the legal framework for pensions dashboards
- Specific duties will follow in regulations, but trustees will have to comply within two to four years (depending on scheme size).

What does this mean for trustees?

- Trustees will not need to take immediate action on pension dashboards.
- They can, however, take initial steps to engage with the policy and understand what pension dashboards will mean for their schemes.

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 trustees?

- Schemes will need to understand the legal obligations relating to the new requirement to develop a funding and investment strategy and produce (and, depending on future regulations, publish) a statement in relation to it.
- Trustees will want to put in place plans to engage with employers about long-term funding and investment plans in order to comply with the new legal duties.

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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 trustees?

- Schemes need to ensure they have effective governance in place in respect of risks and opportunities resulting from climate change.
- Scheme will have to report on TCFD basis to evidence the governance in place.

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 trustees?

- Trustees need to be aware of TPR's new powers and the tighter regulatory regime that this will lead to. This may also lead to earlier and more proactive funding discussions with sponsors.
- Many of TPR's new powers are aimed at anti-avoidance and corporate activity that puts accrued benefits at risk. Trustees should, however, be mindful that TPR looks at the whole pensions landscape, including trustee actions and decision making.
- TPR's focus on notifiable events on certain corporate transactions is likely to see employers engage earlier and more frequently with trustees of the schemes that they sponsor.

SCHEME TRANSFERS

Key points

- New requirements will apply on statutory requests for transfers.

What does this mean for trustees?

- Trustees will need to ensure administrators adapt processes appropriately to meet new requirements on statutory CETVs.
- Trustees should ask administrators to explain how they'll deal with requests.

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