Mansion House reforms

Your guide to the government's plans for pensions

September 2023

Contents

Headline — Page number

Introduction

The Mansion House reforms – introduction and headline announcements 2
The Mansion House reforms in numbers 5

Defined benefit

Options for DB schemes – the DWP issues a call for evidence on DB investment in 'productive finance' 7
Superfunds – the government's plans for a 'permanent superfund regulatory regime' 9

Defined contribution

Small pot consolidation – DWP consults on automatic consolidation of deferred DC small pots 12
Decumulation options – DWP consults on options to help members when they access savings 14
Value for Money Framework – Regulators propose new Value for Money Framework 17
Collective defined contribution – DWP responds to consultation on broadening CDC 18

Trusteeship

Trusteeship – DWP issues call for evidence on trustee skills, capability and culture 21

LGPS funds and pooled funds

LGPS investments – next steps – government issues consultation on the next steps for LGPS investments 24

Contacts 23

Glossary of key terms

DB	Defined benefit
DC	Defined contribution
DWP	Department for Work and Pensions
CDC	Collective defined contribution
CPI	Consumer prices index
FCA	The Financial Conduct Authority
ICO	The Information Commissioner's Office
IRM	Integrated risk management
LDI	Liability-driven investment
LGPS	Local Government Pension Scheme
PPF	The Pension Protection Fund
RPI	Retail prices index
TKU	Trustee knowledge and understanding
TPR	The Pensions Regulator
WPC	House of Commons' Work and Pensions Committee

Mansion House reforms and pensions

On 10 July 2023, the Chancellor delivered his Mansion House speech, setting out his plans to enable the financial services sector to increase returns for pensions, improve outcomes for investors and unlock capital for UK growth businesses.

The speech was followed by the publication of a raft of consultations, calls for evidence and consultation responses.

One of the key drivers behind all of the policy announcements was a desire to harness UK pension schemes' assets to help deliver greater economic growth in the UK. This would be done by encouraging and removing barriers to investment in infrastructure, private equity, start-ups and longer-term, illiquid assets (collectively referred to as 'productive finance').

Three golden rules

The Mansion House reforms are guided by the Chancellor's three golden rules:

Seeking to secure the "best possible outcomes for pension savers, with any changes to investment structures putting their needs first and foremost"

Prioritising a "strong and diversified gilt market"

Government decisions "must always strengthen the UK's competitive position as a leading financial centre"

Headline announcements

The Mansion House reforms covered eight key policy areas summarised below:

Defined benefit

- Options for DB schemes – the government has issued a call for evidence on the ability of and incentives for DB schemes to invest in 'productive finance' assets (which includes a focus on establishing a public sector DB consolidation vehicle and considers whether the PPF should be used for this purpose). Although this policy is at a very early stage, it promises to unlock some of the £1.7 trillion of private sector DB pension scheme investments. The government is keen for some of this to be invested in productive finance, including private equity.

- Superfunds – the government has outlined plans for introducing a 'permanent superfund regulatory regime'. This will cover the proposed governance structure, financial adequacy, authorisation, and supervision of superfunds.

Defined contribution

- Automatic consolidation of deferred small pots – the DWP has responded to its January 2023 consultation and issued a new consultation on tackling deferred small pots via a multiple default consolidator solution. Consolidation in the DC market will produce fewer, larger schemes.

- Decumulation options – the DWP is consulting on making it mandatory for schemes to provide a decumulation option for members. This could be provided directly by the scheme or indirectly (e.g. in partnership with a decumulation provider). Decumulation is where a pension scheme member has stopped working (fully or partly) and wants to access their pension benefits.

- Value for Money Framework – the DPW, the FCA and TPR propose to introduce a new Value for Money (VFM) framework. The primary focus for the VFM framework will be DC workplace default arrangements.

- Collective Defined Contribution – the DWP has issued a consultation response on extending the availability of CDC schemes. The government plans to extend the availability of CDC to schemes with unconnected employers. This opens the door to master trusts providing CDC options. If taken up by the industry and employers. CDC schemes could become important features of the pensions landscape.

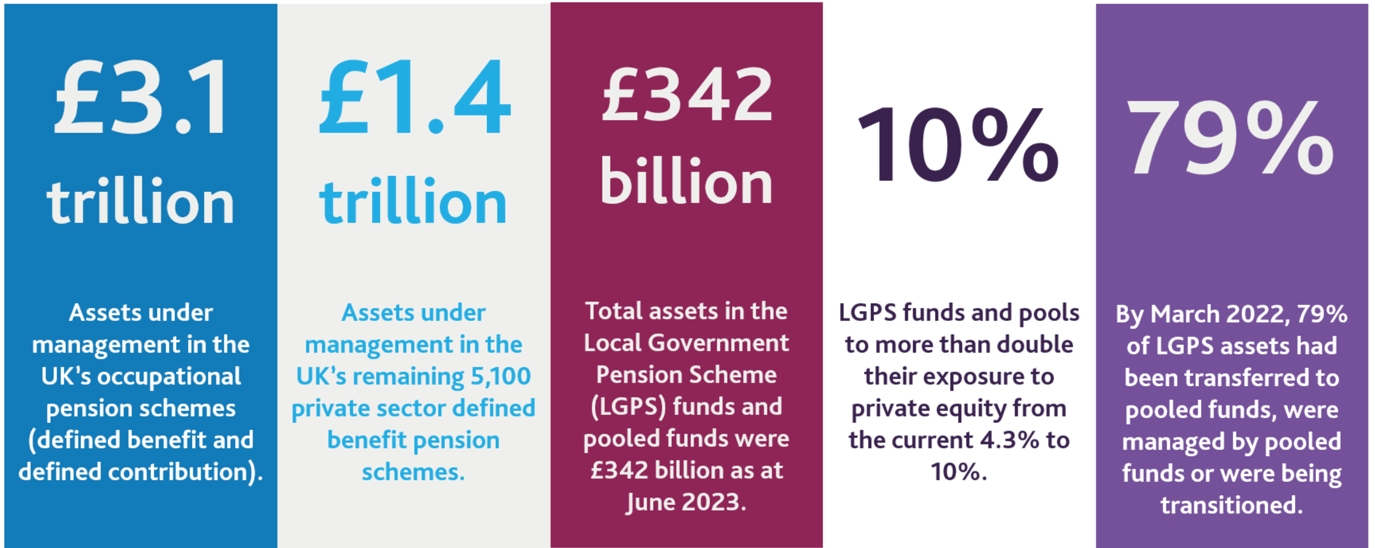
Trusteeship

- Trustee skills, capability and culture – the DWP and HM Treasury have issued a joint call for evidence on trustee skills, capability and culture. The government wants to ensure that trustees have the right skills to make investment decisions. In addition, it wants to explore whether trustees have the right level of professional support when making those investment decisions.

Local Government Pension Scheme funds and pooled funds

- LGPS investments – next steps – the government wants to accelerate and expand the pooling of LGPS fund assets. This is seen as being essential to delivering cost savings and efficiencies and creating pools that are large and sophisticated enough to invest in growth-seeking assets. Private equity investments are highlighted, with the government stating its ambition that private equity asset investments should increase from 4.3 to 10% of total LGPS funds.

Mansion House in numbers



Pooling status of LGPS funds

- LGPS funds not yet pooled, managed or subject to transition plan: £78 billion
- Already transferred to LGPS pooled fund: £145 billion
- LGPS funds covered by plan to transition to LGPS pooled fund: £34 billion
- LGPS funds managed by an LGPS pooled fund: £114 billion

Mansion House and private sector defined benefit schemes

Defined benefit

Options for DB schemes

DWP issues a call for evidence on DB schemes and productive finance and consolidation

- The DWP's call for evidence aims to support the development of 'innovative policy options' which will:
  - offer more choices for sponsors and trustees of DB schemes;
  - increase protection for DB members; and
  - support 'wider economic initiatives'.
- The 'wider economic initiatives' include how to unleash the £1.7 trillion invested by private sector DB pension schemes in the UK.
- The government's call for evidence focuses on three main policy areas:
  1. DB scheme investment in productive assets;
  2. building and releasing surpluses in DB scheme; and
  3. DB consolidators (including superfunds and the potential for a public sector DB consolidator).

The DWP has issued a call for evidence on whether more could be done with the assets of DB schemes ('Options for Defined Benefit schemes: a call for evidence (14 July 2023)' (the Options for DB Consultation). The DWP highlight that the UK's private sector DB schemes hold c. £1.7 trillion of assets.

The core issue that the DWP is seeking to address is how to reverse the trend of DB schemes investing:

- more in sovereign bonds (including gilts) rather than equities; and
- in global equities rather than UK equities.

In particular, the government is keen for DB schemes to invest in 'productive finance' – a 'catch-all' term that includes investing in:

- start-ups;
- infrastructure;
- private equity; and
- longer-term investments (including investment in illiquid assets).

The Options for DB Consultation focuses on understanding three key policy areas for DB schemes:

- **DB scheme investment in productive assets** – are UK schemes underinvested in productive assets compared to international comparators? What might incentivise trustees to invest more in productive assets?
- **Building and releasing surpluses** – the Options for DB Consultation outlines the issue of trapped surpluses and how this acts as a disincentive for both scheme sponsors and trustees to build up a surplus of assets in their schemes. The Options for DB Consultation asks what would have to change to encourage DB scheme investment in productive assets and, with it, the potential build-up of larger surpluses.
- **DB consolidators** – the Options for DB Consultation notes that there are currently

limited alternatives to insurance buyouts for sponsors and trustees seeking to transfer risk. The DWP is keen to explore options that might be more suitable for schemes that cannot transact with insurers. These include:

- DB superfunds;
- introducing a public sector DB consolidation vehicle; and
- whether the PPF would be a suitable vehicle for a public sector DB consolidator.

What happens next?

- At the moment, a high percentage of the c. £1.7 trillion of private sector DB scheme assets are invested in sovereign debt and non-UK equities.
- The government is keen for a much greater percentage to be invested in UK equities. In particular, it would like to see private sector DB schemes invest in 'productive finance'.
- In order to achieve this goal, the government will need to tackle some fundamental barriers to greater DB investment in more return-seeking investments. These include:
  - updating legislation on how scheme surpluses are dealt with;
  - updating current legislative and regulatory framework on investment strategies; and
  - encouraging DB scheme consolidation – either through superfunds or a public-sector consolidator model (with the PPF in line to take the role as the public-sector consolidation vehicle).
- This policy is at the earliest stage of development. It does not seem likely that much progress will be made on this before the next general election.
- One exception to this might be on giving the PPF a bigger role by designating it as a public-sector consolidation vehicle. Even here, however, there are challenges (including competition concerns from the private sector).
- It seems likely that this policy will take years rather than months to implement (and, if this is the case, this will depend on the policy goals of any future government).

- Click here for the DWP's consultation 'Options for Defined Benefit schemes: a call for evidence (14 July 2023)'.

Superfunds

Government responds to consultation on superfunds

- The government has reiterated its support for superfunds. It sees superfunds as being aligned to the broader themes outlined in the Mansion House speech to release capital that can stimulate economic growth in the UK through investing in productive assets.
- In its consultation response, the government set out details on proposed governance, financial adequacy, authorisation and supervision regime for superfunds.
- The government promises a permanent regulatory framework for superfunds. This is expected to be released later this year / early next year. In the meantime, TPR has updated its guidance for superfund providers and for trustees and employers that are considering superfunds.

The DWP has responded it its consultation on consolidation of DB schemes via a superfund regime ('Government response: Consolidation of defined benefit pension schemes (17 July 2023)' (the Superfund Response)).

The Superfund Response sets out further details on:

- the proposed governance;
- financial adequacy;
- authorisation; and
- supervision of superfunds.

In addition, the Superfund Response covers the schemes in scope to transfer to superfunds. In broad terms, when members transfer to a superfund:

- the employer covenant is typically replaced by a ring-fenced capital buffer within the superfund structure provided through external investment;
- there is a mechanism to enable returns to be paid to investors and persons other than members or service providers; and
- the ceding employer's link is severed or substantially altered.

Superfunds are deemed to align with the government's initiatives to stimulate economic growth. They are likely to benefit from scale, the entry price paid by the employer and the capital buffer provided by investors, so may offer suitable schemes an improvement on their current situation.

Schemes will have to pass a 'gateway test' for admission to a superfund, being schemes that cannot yet afford or access full buyout but are suitably funded to avoid the introduction of too much risk into the regime. Trustees will have to obtain independent professional advice to ensure the decision to enter a superfund is appropriate.

Superfunds are anticipated to be authorised and supervised through a statutory regime operated by TPR. The statutory regime will replace TPR's current interim regime as soon as parliamentary time allows the legislation to be put in place.

TPR has also updated both:

- its superfund guidance for trustees and employers; and
- its guidance for DB superfund providers.

TPR's revised guidance for trustees and employers sets out the process for transferring to a superfund. For example, ceding employers are expected to apply for clearance to transfer and trustees must carry out due diligence on the rationale for such a transfer and now also show how they meet the gateway test.

TPR's revised guidance for the providers of DB superfunds also includes an updated position on profit extraction, an increased discount rate and other

clarifications on various aspects of the assessment process as well as references to the new gateway test for entry of a DB scheme.

The DWP expects to see other consolidation solutions developing in addition to superfunds, e.g. alternative capital models and DB master trusts. It is anticipated the forthcoming legislation will also provide the framework and details for these.

What happens next?

- Superfunds were the subject of detailed government proposals in December 2018. Since then, an interim regulatory regime has been put in place. One superfund (Clara-Pensions) has already met TPR's requirements for authorisation and is able to contract with ceding schemes.
- At the time of publication, no schemes have transferred to a superfund. In addition, in September 2023, another superfund (The Pensions SuperFund) announced that they were mothballing their activity.
- The government remains positive about the role of superfunds in future DB consolidation. Superfunds have also attracted interest from policy think tanks (e.g. the Tony Blair Institute for Global Change's paper 'Investing in the Future: Boosting Savings and Prosperity for the UK (29 May 2023)').
- At this stage, it isn't clear whether the future for DB consolidation will be through private sector risk transfer (insurance buy-out and/or private capital-backed superfunds) or public sector-based consolidation (e.g. using the PPF as a consolidation vehicle) or a combination of the two. The pensions industry should be stay abreast of developments in this space.

- Click here for a PDF of DWP's response 'Consolidation of DB Pension Schemes (July 2023)';
- Click here for a link to TPR's updated guidance 'Superfund guidance for prospective ceding trustees and employers (August 2023)'; and
- Click here for a link to TPR's updated guidance 'DB Superfunds guidance (August 2023)'.
- Click here for a link to the Tony Blair Institute for Global Change's paper 'Investing in the Future: Boosting Savings and Prosperity for the UK (29 May 2023)'.

Mansion House proposals for defined contribution schemes

Defined contribution

Small pot consolidation

DWP consults on automatic consolidation of deferred DC small pots

- The government has rejected a 'pot follows member' solution for dealing with deferred DC small pots.
- The DWP's proposal is for the automatic consolidation of deferred DC small pots through a small number of authorised consolidators.
- Deferred small pots are defined as being capped at £1,000 with no contributions having been made in the previous 12 months.
- Members will be given the option to opt out of automatic consolidation before their pot is moved to the scheme's designated small pot consolidation scheme.
- Members that opt out of automatic consolidation will have to choose their own consolidation scheme.

The DWP's publication on small pots ('Ending the proliferation of deferred small pension pots (11 July 2023)') comprises:

- a response to its call for evidence on small pots ('Addressing the challenge of deferred small pots (30 January 2023)'); and
- a consultation on proposals to resolve the small pots issue (the Small Pots Consultation).

Multiple default consolidator

The DWP has rejected the 'pot follows member' approach in favour of a multiple default consolidator solution.

Under the proposals, members with deferred DC small pots will:

- be informed about automatic consolidation;
- be given the option to opt out of automatic consolidation; and, if the member does not opt out
- have their small pot transferred to the scheme's designated consolidator.

DC small pots will be eligible for automatic consolidation if:

- they are valued at **£1,000** or less;
- it is **12 months or more** after the last contribution has been made.

A member that does opt out will have to actively choose their own consolidator.

Small pots will initially be capped at £1,000. This will be reviewed regularly by the Secretary of State.

Clearing House proposals

The DWP favours a process whereby a third party 'Clearing House' acts as a central point of contact between the:

- sending scheme;
- consolidator; and
- member.

Under this proposal, the Clearing House would match pots from the ceding scheme to the member's chosen consolidator and, if no choice is made, determine a default consolidator for that member.

The DWP asks if using a 'central register' would be preferable to the Clearing House option. Providers would have access to the central register in order to match their deferred pots to a consolidator.

How to choose the default consolidator

The DWP is seeking views for how the default consolidator is selected.

- **Option A** would be that small pots were allocated between authorised consolidators at a level proportionate with their market share;
- **Option B** would be the consolidator with the largest deferred pot belonging to the member (on the assumption that the member has a pot with a consolidator scheme); or
- some other alternative.

Authorisation for consolidators

Default consolidators would operate under an authorisation regime. Ultimately, only a small number of authorised default consolidators are envisaged.

To ensure regulatory alignment, the DWP intends to work with the FCA for contract-based providers seeking authorisation to act as a default consolidator for contract-based schemes.

Same scheme consolidation and member exchange

Mandatory 'same scheme' consolidation of small pots is not proposed at this time. The DWP encourages this, however, and warns that it has not ruled out legislating to make it a requirement in the future. The DWP also expects that any scheme wishing to apply for authorisation as a default consolidator will already undertake same-scheme consolidation.

The DWP also considers 'member exchange' could be a 'self-help' solution for the industry to start consolidating deferred small pots and provide a learning curve to inform large-scale automated consolidation.

Further market consolidation

The DWP envisages that the master trust market will be "considerably more consolidated". Master trusts will be required to apply to be default consolidators. The DWP also says it intends to review the existing master trust authorisation regime.

At the moment, there are eight master trusts with assets under management in excess of £5 billion. A further ten master trusts have assets under management in excess of £1 billion.

Many of the larger master trusts have already invested in or are targeting investments in private equity. In May 2022, Nest announced a partnership with Schroders Capital to make private equity investments available to savers.

Nest estimates it will have at least £1.5 billion invested in private equity by early 2025. Nest's longer-term target is to have around 5% of its portfolio invested in private equity and between 10 – 15% private equity and infrastructure investments.

Master trust	AUM*	Compact signatory**?
National Employment Savings Trust (Nest)	£31.5 billion	Yes
Legal & General WorkSave Mastertrust	£20.6 billion	Yes
The People’s Pension	£20.3 billion	No
LifeSight (WillisTowersWatson)	£14.5 billion	No
Aviva Master Trust	£7.9 billion	Yes
Mercer Master Trust	£7.1 billion	Yes
Standard Life DC Master Trust	£5.4 billion	Yes
Fidelity Master Trust	£5.3 billion	No

* assets under management as at 31 March 2023

** signatory to the Mansion House Compact (click here for more information on this).

What happens next?

- Trustees, sponsors and providers may wish to consider any advantages to their schemes of adopting same scheme consolidation (i.e. enabling small pots to be merged within their scheme).
- Trustees, sponsors and providers may also want to consider whether 'member exchange' might be viable in their schemes in anticipation of mandatory consolidation.
- Although Master Trusts appear to the main target of the DWP's proposed consolidator solution, there could be other well-run, larger DC schemes that might wish to acquire consolidator status.
- The promotion of efficiencies and consolidation in the DC market will also lead to fewer, larger DC schemes. This is particularly evident in the master trust market, where eight master trusts already have more than £5 billion in assets under management and a further ten have more than £1 billion.
- Larger schemes are seen by the government as being better able to invest in 'productive finance', including in private equity. This is evidenced by the signatories to the Mansion House Compact being nine of the largest DC providers.
- The Mansion House Compact includes the intention to achieve a minimum 5% allocation to unlisted equities through DC pension funds by 2030. This would amount to £50 billion of capital in total.

- Click here for a link to the DWP's response to the Call for evidence and the new consultation 'Ending the proliferation of deferred small pots (11 July 2023)'.

Decumulation options

DWP consults on options to help members when they access savings

- The DWP's proposes to introduce a framework to support individuals when they come to take their savings.
- This will require every occupational pension scheme to provide a decumulation solution designed to meet the needs of the generality of their members.
- The decumulation solution could be provided directly by the scheme or indirectly through a partnering arrangement with a decumulation scheme.
- When members come to take their benefits, they would have the choice of their scheme's default decumulation option or actively choosing alternatives (e.g. transferring to a decumulation provider of their own choice).

The DWP has responded to the June 2022 Call for Evidence ('Helping savers understand their pension choices'). The response relates only to one element of that consultation, namely 'products and services'.

The DWP has also issued a new consultation on a policy framework to support individuals to use their pension savings in decumulation ('Helping savers understand their pension choices: supporting individuals at the point of access (11 July 2023)').

Mandatory decumulation options

The DWP's proposal is that every occupational pension scheme with money purchase benefits will be required to provide a decumulation solution for their members. This could be provided:

- directly by the scheme itself; or
- indirectly (e.g. through a partnering arrangement with a decumulation provider).

The policy will require trustees to consider the needs of their members in devising their decumulation solution.

It is notable that the DWP encourages inclusion of access to CDC decumulation. The DWP wants to create a CDC decumulation market, with schemes considering how CDCs could feature in their offering to members.

DWP proposals on decumulation

Under the policy, when a member comes to take their benefits, they would have the option of:

- using their scheme's default decumulation option; or
- actively choosing an alternative (e.g. transferring to a decumulation provider of their own choice).

Four questions for member decumulation requests

The DWP suggests that schemes would use these four questions in dealing with member's decumulation requests:

- do you only want a regular income?;
- do you only want flexible access to your pension benefits?;
- do you want a combination of both?; or
- do you want something else?

Examples of schemes 'partnering' at the decumulation stage are provided. The DWP wants to better understand the practical considerations around partnering, e.g. whether it should be regulated and whether there is a role for a centralised scheme to deliver decumulation products.

What happens next?

- It will take time for the government to consider responses to its consultation and then issue legislation and guidance. As a result, the pensions industry will not have to deal with mandatory provision of a decumulation option for some time.
- The DWP is, however, clear that it wants occupational schemes to deliver decumulation default solutions for their members. The DWP intends to start this process with authorised master trusts.
- At this stage, trustees, sponsors and providers might want to consider what parameters, e.g. in terms of size or membership, should set the threshold for mandatory offerings of the type envisaged at the point of retirement.

- Click here for a link to the DWP's consultation 'Helping savers understand their pension choices: supporting individuals at the point of access (11 July 2023)'.

Value for Money Framework

Regulators propose new Value for Money Framework

- The DWP, FCA and TPR have confirmed that a new VFM Framework will be implemented.
- This was set out in a joint DWP, FCA and TPR response to the consultation 'Value for Money: A framework on metrics, standards and disclosures (30 January 2023)'.
- The VFM Framework will require legislation and further consultation on the detailed requirements. No timescale is specified but the government has indicated that it will be rolled out in phases, starting with default arrangements.
- The primary focus for the VFM framework will be DC workplace default arrangements.
- Investment performance, costs and charges and quality of service will be key areas for trustees and their advisers to consider when determining the scheme's level of VFM.
- Ultimately, it is proposed that the current 'value for member' assessments, possibly including the Chair's Statement, will be replaced by the VFM Framework.

The DPW, FCA, and TPR have confirmed that a new VFM Framework will be implemented. It will be rolled out in phases, with the initial focus being on DC workplace default arrangements.

The key areas that the VFM framework will focus on include:

- investment performance;
- costs; and
- quality of services.

Improved reporting of data and comparisons of VFM are also key areas. Results from VFM assessments will be categorised as red, orange, or green. Schemes that fail to provide value for money will be faced with winding-up.

Investment performance

When reporting investment performance, the regulators propose:

- backwards looking, gross (not net of costs and charges) metrics;
- reporting periods of one, three and five years (10 and 15 if available); and
- 'years to retirement' from the default retirement age.

Costs and charges

The regulators propose disclosure of costs and charges as an annual percentage charge for the most recent year.

Quality of services

As a starting point, a member communications metric (percentage of members updating / confirming expression of wishes and outcomes of member satisfaction surveys and complaints) is proposed.

Comparisons of VFM

Assessing the VFM of a scheme will require comparisons against other schemes' arrangements and the regulators expect industry-lead league tables to emerge.

There will be tightly defined criteria and benchmarks for comparisons which includes a metric that captures economies of scale, including the scheme's ability to invest in diversified investment strategies that deliver long-term value for savers as part of the VFM assessment.

Classification of a scheme's VFM

'Red, amber, green' is the chosen classification for assessing and reporting whether an arrangement offers value for money.

Action will be required for schemes with red and amber VFM assessments and employers will have to be told about non performing schemes.

The action will depend on the classification, but the regulators state they would not expect savers to in an underperforming scheme arrangement for more than two years, unless extenuating circumstances can be demonstrated. Consolidation and wind up may follow to protect member outcomes.

What happens next?

- It is proposed that the VFM Framework will be implemented in phases. This will start with default arrangements.
- New primary legislation will be needed in order to implement some elements of the policy.
- There will also be consultation on draft regulations and revised FCA rules. These will need to be brought into force before the VFM Framework becomes mandatory.
- As a result, the implementation process for the VFM Framework is likely to take years rather than months.
- Whilst no immediate action is required, trustees and providers may want to engage with their advisers to ensure that they have the systems in place to report on the VFM Framework and to identify any gaps that will need to be filled.

- Click here for the DWP and regulators' response 'Government-regulator response to 'Value for Money: a framework on metrics standards and disclosures' (11 July 2023)'.

Collective Defined Contribution

DWP responds to consultation on broadening CDC

- The government has provided enthusiastic backing for broadening the use of CDC. This will be done by making CDC available to unconnected multi-employer schemes and master trusts.
- The DWP envisages CDC being available as a 'whole-life' option and also as a 'decumulation-only' option.
- The DWP expects that regulation will be similar to that in place for master trusts but with appropriate adaptation.
- A consultation on draft regulations is expected in autumn 2023. This makes it likely that the new regime will go into force in Q1 2024.

The DWP published a response to its consultation on broadening the reach of CDC ('Extending Opportunities for Collective Defined Contribution Pension Schemes (11 July 2023)').

The consultation response confirms the government's plans to extend CDC to trust-based multi-employer occupational schemes, including master trusts. At this time, CDC will only be available as a trust-based arrangement, but the DWP is working with the FCA to explore the possibility of contract-based CDC arrangements.

The DWP plans to consult on draft regulations in autumn 2023. Regulation is likely to be similar to that in place for master trusts, but with appropriate adaptations.

The DWP proposes CDC schemes would be subject to the DC Value for Money Framework. The DWP would also like to see decumulation only CDC arrangements developed, as well as whole-life CDC arrangements.

> "I believe CDC has huge potential to benefit pension savers. At a fixed cost to employers they can have the assurance of an affordable regular income in retirement by sharing risk, smoothing the impacts of market movements and other factors which otherwise would drive volatility and deliver wildly unpredictable outcomes."
>
> - Laura Trott MP, Parliamentary Under-Secretary of State for Pensions

What happens next?

- Under the current legislative and regulatory framework for CDC schemes only single employers or groups of connected employers can set up CDC schemes. At the time of writing, the Royal Mail Collective Pension Plan is the UK's only authorised CDC scheme.
- The government is clearly keen for CDC to play a bigger role in UK pensions. Master-trust CDC schemes will enable a much broader range of employers to offer CDC.
- Trustees of occupational pension schemes are not directly affected by CDC policy development. CDC schemes could, however, become a mainstream part of the pensions landscape and an issue for trustee knowledge and understanding.

- Click here for a link to the DWP's response 'Extending Opportunities for Collective Defined Contribution Pension Schemes (11 July 2023)'.

Trusteeship

Trusteeship

Trusteeship

DWP issues call for evidence on trustee skills, capability and culture.

- The DWP's call for evidence focuses on three areas: (1) trustee skills and capability; (2) the role of professional advice; and (3) barriers to trustee effectiveness.
- There is a particular focus on whether trustees have the skills and the professional support to make decisions on more complicated investment strategies (i.e. "the full breadth of investment opportunities").
- In addition, the call for evidence focuses on the skills necessary for trustees of different scheme types (i.e. DC, DB, hybrid and CDC schemes).

The DWP published a call for evidence on trusteeship ('Pension trustee skills, capability and culture: a call for evidence (14 July 2023)') (the Trusteeship Consultation).

The Trusteeship Consultation is focused on three areas:

1 Trustee skills and capability

TPR provides guidance on trustee knowledge and understanding (TKU). Research suggests that certain trustees are not meeting or even aware of their TKU requirements:

- according to TPR's 2021 DC survey, over one-third of DC trustees had either not read TPR's codes of practice or were not aware of their existence;
- TPR research carried out in 2019 found that one in five felt the trustee board either didn't have or didn't have access to the knowledge needed to run the scheme.

Consultation questions in this section include:

- Do trustees currently meet TKU requirements? Are certain types of trustees better than others at meeting their TKU requirements?
- What are the barriers that prevent trustees from improving their capability? Are there specific skill gaps on investment and scheme consolidation?
- Should all pension scheme trustees be registered with TPR? Should all pension scheme trustees be required to meet a certain level of accreditation? How should this apply to professional trustees?

2 The role of professional advice

This section focuses on how professional advice is understood and applied by trustees. Of particular concern is how trustees use professional advice to identify and calculate risk when preparing and putting into place their scheme's investment strategies. Consultation questions in this section include:

- What are your views on the support trustees receive on their investment duties? What changes could be made to improve the level of support that trustees receive when making decisions on pension scheme investments?
- To what extent do trustees use investment consultants to support (if applicable) decisions on investing in unlisted equities? Could changes to regulations help support trustees in investing in unlisted equities?

- How does legal advice impact on investment decisions? Does 'risk averse' legal advice inhibit certain investment decisions?

3 Barriers to trustee effectiveness

The Trusteeship Consultation also considers what other barriers exist that prevent trustees from getting the best long-term outcomes for savers. Consultation questions in this section include:

- trustee fiduciary duties and how they are applied to practical decision-making (particularly in respect of investment decisions);
- whether interpretations of trustee fiduciary duties holding trustees back from investing in return-seeking investments, producing risk-aversion on investment decisions; and
- asking whether lay trustees have sufficient time off and employer support to carry out their duties and take part in training.

What happens next?

- The DWP wants to ensure that pension scheme trustees have the right support, skills, knowledge, and experience to undertake their roles and secure the best outcomes for pension savers.
- The next stage will be a response to consultation. At this point, we will have a better idea as to whether the government intends to tackle issues on trusteeship via new legislation or through regulation.

- Click here for the DWP's consultation 'Pension trustee skills, capability and culture: a call for evidence (14 July 2023)'.

Mansion House and LGPS funds and pooled funds

Local Government Pension Scheme

LGPS - Next steps on investments

DLUHC issues consultation on next steps for LGPS investments

- The Department for Levelling Up, Housing & Communities (DLUHC) issued a consultation on next steps for LGPS investments as part of the Mansion House proposals. This sets out proposals in three key areas:
  1. acceleration and expansion of LGPS pooling (including a deadline for asset transition and plans to consolidate the existing eight LGPS pooled funds);
  2. LGPS funds and pooled funds to invest up to 5% of assets to support levelling up in the UK;
  3. investment opportunities in private equity - LGPS funds and pools will be expected to increase investment in high growth companies through unlisted equity. This includes a plan to more than double LGPS exposure to private equity from the current 4.3% to 10%.
- These proposals are accompanied with technical amendments on use of investment consultants and the definition of investments within the LGPS regulations.

Asset pooling in the LGPS

Since 2015, the LGPS investment landscape has been radically reshaped. The government wanted LGPS funds to consolidate in order to drive efficiencies and savings. In response, LGPS administering authorities created eight asset pools. Across the LGPS:

- £145 billion of assets (39% of the LGPS's total assets) have been transferred to the asset pools;
- £293 billion of assets (79% of the LGPS's total assets) have either been transferred to a pool, are managed by a pool or covered by a plan to transition the assets to a pool.

The LGPS consultation highlights the substantial progress made over the past few years. However, the government believes that the pools remain 'significantly below the scale which they could achieve with all assets transferred from their partner funds'. This is seen as being key for the pools to be able to deliver further savings and drive efficiencies.

LGPS pooled fund name	AUM*	N° of LGPS fund members
ACCESS Pool	£34 billion	11
Border to Coast Pensions Partnership	£60 billion	13
Brunel Pension Partnership	£35 billion	10
LGPS Central	£55 billion	9
Local Pensions Partnership	£24.5 billion	3
London LGPS CIV	£45 billion	33
Northern LGPS	£46 billion	3
Wales Pension Partnership	£22.5 billion	8

* assets under management as at dates between 31 March and 30 June 2023.

Accelerating and expanding LGPS pooling

In order to accelerate and expand LGPS pooling, the government proposes to:

- encourage joint ventures between and consolidation within the pools so that there are a smaller number of pools with £50 billion or above in directly invested assets; and
- implement a mandatory transition deadline for liquid assets to be transferred from LGPS funds to pools by 31 March 2025.

Supporting the levelling up of the UK

The government wishes to encourage the LGPS to continue to meet its core fiduciary duty of funding pensions for members while also supporting levelling up by investing in infrastructure, housing, regeneration, and small and medium enterprise (SME) finance across the whole UK.

To achieve this, the Levelling Up White Paper sets out the ambition for LGPS funds to invest up to 5% of their assets in projects which support local areas. The LGPS consultation goes into more detail on what this will mean in practice for LGPS funds. Along with explanations, the LGPS consultation sets out examples of investments which the government believes fall within the proposed definition:

- Durham County Council Pension Fund's launch of a new private equity investment fund to support SMEs across the North East;
- Greater Manchester Pension Fund's Invest 4 Growth portfolio of investments which seek to provide a commercial return alongside beneficial economic, social, or environmental impacts.

Investment opportunities in private equity

The LGPS consultation notes that the LGPS already has an investment allocation into private equity of 4.3%. It goes on to suggest that this is the 'highest performing asset class across the LGPS'.

The LGPS consultation sets out the government's aim for LGPS funds and pools to more than double their current allocation into private equity. The ambition is for an asset allocation of 10%.

The government believes that larger LGPS pools will be able to 'make use of the scale, capacity and expertise of the pool and take advantage of the full range of opportunities in size and type'.

As part of the LGPS consultation, the government has invited views on the barriers that exist to LGPS investment in 'growth equity and venture capital'.

What happens next?

- Total LGPS assets as at June 2023 were £342 billion. If the government's goal of increasing LGPS exposure to private equity from 4.3% to 10% is realised, this represents close to £20 billion of additional LGPS private equity investments.
- The increase in private equity investments is likely to be driven by the LGPS pools. The LGPS pools will grow over the next few years as LGPS funds transfer assets to meet the 31 March 2025 deadline. They may also grow through mergers in order to achieve the +£50 billion size that the government has identified as delivering greater cost savings and efficiencies.
- In addition to the specific ambition for 10% of LGPS investments to be in private equity, there is scope for additional investments to come via the levelling up agenda. The examples provided in the LGPS Consultation include private equity investment funds operating on a local and smaller scale.

- Click here for the DLUHC's consultation 'Local Government Pension Scheme (England and Wales): Next steps on investments (11 July 2023)'.

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