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Pensions Conference 2015

24 – 26 June
Hilton, Glasgow

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An update from The Pensions Regulator

Andrew Warwick-Thompson

Defined contribution pensions: change timeline

- **2012-2017:** all UK employers subject to automatic enrolment duties
- **2013:** DC code and guidance published following a period of discussion and engagement with the industry
- **2014:** government announcements on increased governance standards for defined contribution pensions, charge controls and new flexibilities in retirement income
- **2015:** pensions changes come into force, building on regulatory framework in existing DC code
- **2016:** further transparency and disclosure measures
- **On the horizon:** automatic transfers; defined ambition pensions; IORP2

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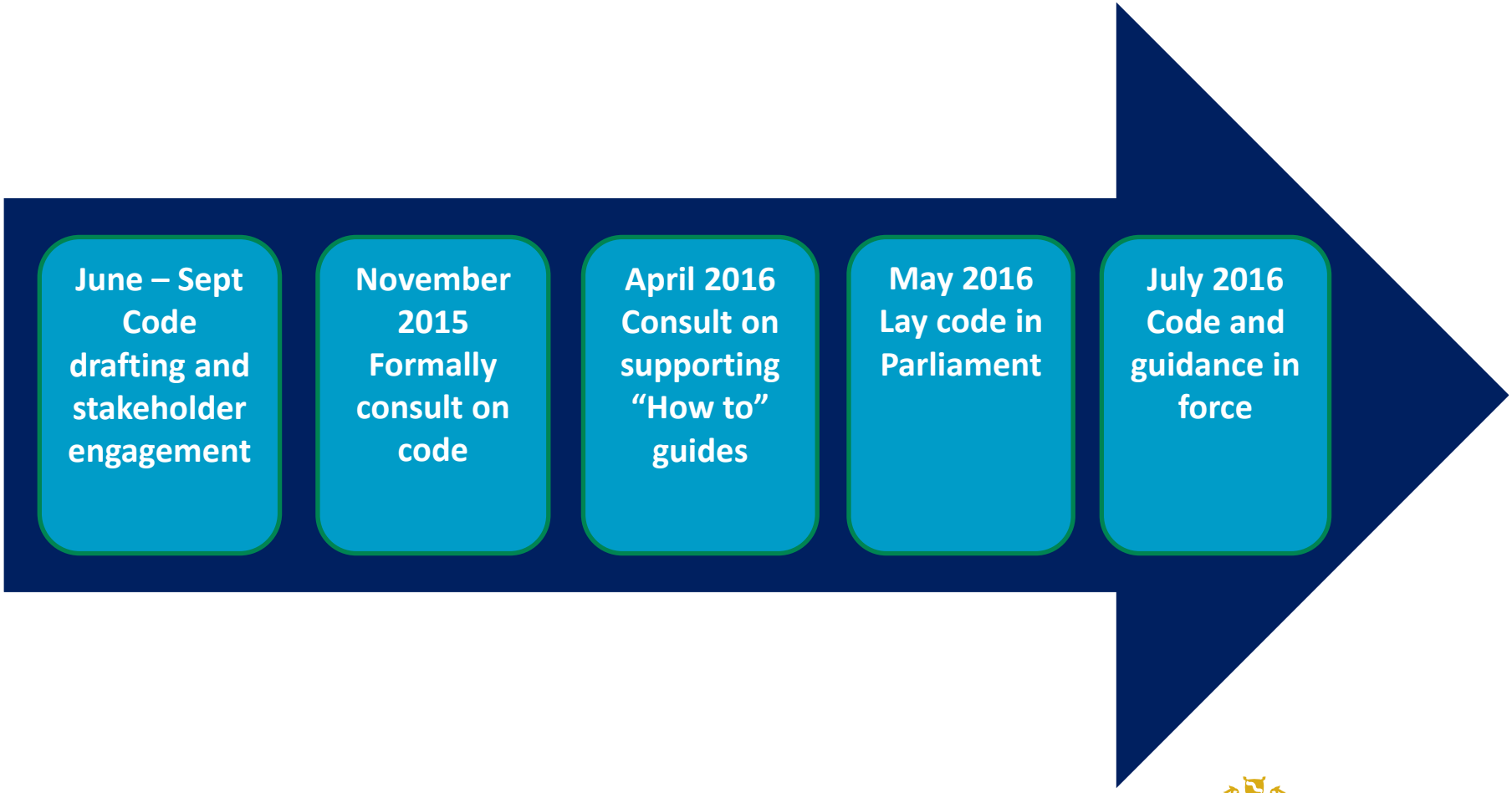
Overview: timeline



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Overview of the flexibilities

- Changes to decumulation:
  - members of schemes which offer ‘flexible benefits’ will have increased flexibility over how they take their pension from age 55.
  - freedom for members to take flexible benefits in new ways.
  - where the scheme does not offer the flexibilities, members with flexible benefits have an opportunity to transfer to take advantage of the flexibilities.
- Introduction of the Pension Wise guidance service for members taking flexible benefits, and the introduction of retirement risk warnings (‘2nd line of defence’)
- Introduction of requirement for members with ‘safeguarded benefits’ to get independent advice from an FCA regulated adviser before transfer to acquire flexible benefits

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‘Road trip’

- Undertaking an in-depth engagement exercise with schemes offering flexibilities
- Aim to understand:
  - **Member risks**: investment and inflation, longevity, tax, poor value products, poor decision making
  - **Scheme risks**: governance administration, communication and guidance, investment strategy
- Also collaborating with government and FCA to understand unfair barriers consumers and members may face in accessing flexibilities and costs of doing so, including exit costs
- Identifying whether legislative or regulatory intervention is required

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Drawdown – headlines and what we know so far

- ***"Speedboats, cruises and holiday homes on pensioners' shopping lists"*** **-** Guardian, 9 April
- ***"Let freedoms ring: phones off the hook as new pension options come into effect"* –** Money Observer, 9 April
- ***"Thousands raid pension pots — but Ferrari dealers are left disappointed"* –** Evening Standard, 29 April
- ***"Savers haven't squandered pension pots since new freedoms arrived"*** – Daily Mail, 21 May
  - Predictions of people spending pensions pots largely unfounded
  - Press have highlighted some frustrations in time taken to get monies released
- **60,000** people have accessed pension freedoms since April
- Savers have taken **£1bn** from their pension pots since April

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Risk warnings

- TPR and FCA working together to ensure member outcomes are not adversely affected by the differences in the regulatory regime.
- FCA expects pension providers to ensure that customers are treated fairly and TPR expects trustees to act in the best interests of their scheme members.

- Upcoming issues
  - Tailored risk warnings
  - Operational risks

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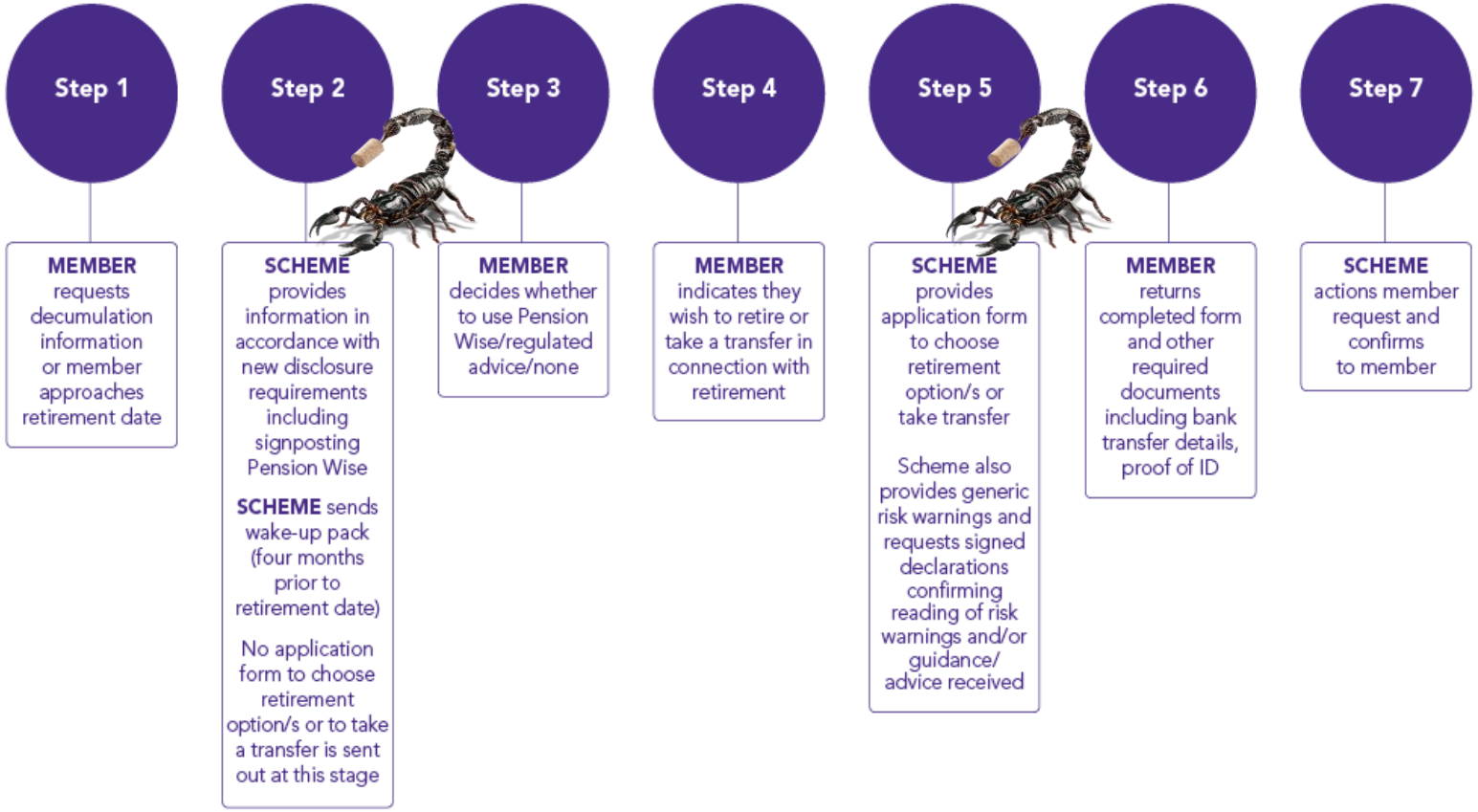
Retirement communications – good practice process



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DB-DC transfers and conversions - guidance

- Aims to:
  - explain the new requirement for trustees to check that members have obtained appropriate independent advice before transferring or converting ‘safeguarded benefits’ to DC benefits
  - help trustees ensure they have appropriate processes in place
  - prompt trustees to consider the impact of transfers as part of an integrated approach to risk management, and
  - require trustees to provide clear information for members so that they can get independent advice on the best option for them

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Regulator's approach to governance and administration requirements

- Trustees' annual statement must set out how the following have been met:
  - Default arrangement strategies and investment performance kept under review
  - Core financial transactions are processed promptly and accurately
  - Assessment of the levels of costs and charges borne by members and whether they are good value for members
  - How the trustees have met their TKU obligations and how the trustee board has, or has access to, all of the knowledge and competencies to properly run the scheme

AND

  - Must include a SIP specifically for the default arrangement (including how default arrangement strategies ensure assets are invested in members' best interests)

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Governance standards – relevant multi-employer schemes

- Minimum number of trustees
- Majority of trustees independent of service providers
- Must have arrangements in place to ensure that members' views are directly represented to trustees or managers

- Upcoming issues
  - Master trusts and large DC schemes offering full range of flexibilities
  - Sustainability of 70+ master trusts in the market

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Charge controls: DC schemes used as qualifying schemes

- Duties on trustee boards:
  - A charge cap of 0.75%
  - Restrictions on charging structures
  - Member borne commission and active member discounts to be banned from April 2016
- In addition
  - In 2016, measures to drive greater transparency and consistency in disclosure of costs and charges to enable further comparability and assist value for money assessments
  - In 2017, review of the level of the charge cap and whether it should include transaction costs

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Non compliance

- Intelligence
  - Surveys and intel (end of 2015)
- TPR's approach to compliance
  - Educate, enable, enforce
  - Action we might take ranges from engagement with schemes through meetings and correspondence, statutory compliance notices and monetary penalties, to criminal prosecution.
- New powers to impose monetary penalties include:
  - Failure to prepare Chair's statement - mandatory
  - Failure to comply with governance standards – discretionary
  - Failure to comply with charge controls - discretionary

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Pension scams: Scorpion campaign

- First launched in 2013 and refreshed in 2014 and 2015
- The primary aim of the campaign is to increase levels of awareness and understanding among pension scheme members so that they:
  - are aware they could be targeted
  - understand how to avoid being scammed
  - actively avoid being a victim.
- We also continue to work with the industry so that:
  - awareness and understanding remains high
  - policies and processes are in place to identify scams activity
  - trustees continue to have in place a range of actions to combat scams

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Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

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