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Annex B:

Regulatory and market developments affecting the DC pensions market

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Developments in the Pensions Market (1/5)

A focus on prudential and market developments

Developments / timeline	How does it impact the DC pensions market?
High interest rates	Interest rate increases have created the **conditions for more attractive annuity rates** with rates reaching close to 2008 and prior levels. Levels of annuity sales in the first half of 2023 are c50% above the same period of 2022. Life-time annuities provide a guaranteed income to consumers, with insurers managing investment and longevity risk. This means consumers de-risk by buying annuities which might help them better manage the overall risks through retirement.
High inflation rates	Inflation on the other hand is making consumers **re-evaluate the risks of drawdown products** – although drawdown continues to be the preferred choice of consumers at retirement despite the significant increase in annuity sales. Under an inflationary environment, unless investment returns are higher than inflation pension pots erode in real terms over time, leading to potential material customer harm over time.
Solvency UK reform – implementation 2024/2025	The PRA is in the last steps to finalise the new Solvency UK regime. The **reduction of the Risk Margin** (RM) for life insurers by approx. 65% was implemented early in 2024. Other reform aspects include allowing firms to **invest in a wider range of assets** that could still be eligible for the Matching Adjustment (MA) benefit. These reforms come with a range of safeguards including an attestation requirement and a lot more focus on risk management of the MA portfolio. The RM reduction could make some products less capital intensive than previously, leading to more attractive rates for consumers.

Developments in the Pensions Market (2/5)

A focus on customers outcomes and experience

Developments	How does it impact the DC pensions market and consumers in particular?
Pensions Dashboard – implemented **(staged implementation to 31/10/26)**	Pension Dashboard came into effect in mid 2023 with a staged timetable for implementation that will run until 31 October 2026. Pension dashboards are designed to **provide consumers with basic information about their pensions** (state, workplace and personal) in a single place. The dashboards are meant to better help consumers plan for retirement, get advice or guidance, and ultimately make informed decisions.
Advice/ Guidance boundary review – (DP Dec 2023)	HMT and FCA are exploring **changes to the Advice / Guidance boundary with the aim to ensure consumers get the help they want**, at the time they need it and at a cost that is affordable, to help them make informed financial decisions. The discussion paper proposes further clarifying the definition of advice, implementing a new targeted support model of enhanced guidance and a new simplified advice framework.
Advice / Guidance boundary – clarification (Aug 2023)	The FCA published a **clarification of the boundary for firms** that want to support consumers more without providing advice. The intention was to **help firms get closer to the current boundary** so that consumers can benefit from support now pending the broader reform mentioned above.

Developments in the Pensions Market (3/5)

A focus on customers outcomes and experience

Developments / timeline	How does it impact the DC pensions market and consumers in particular?
Retirement income advice findings – findings April 2024	The FCA's thematic review looked at **how financial adviser firms were delivering retirement income advice** and assessed the quality of customer outcomes. The review examined how the retirement income advice market was functioning and focused on how firms were responding to changing consumer needs. **The findings were very concerning for the advice industry with many firms failing to deliver good outcomes for customers** and the FCA concluding that many firms would not be compliant with the Duty if the review were conducted today (the review was conducted prior to the Duty coming into effect). The review is linked to the advice-guidance boundary review exploring how to improve outcomes at retirement.
DC Value for Money framework (FCA/DW&P/TPR)	The FCA announced a **consultation on detailed rules for a Value for Money Framework** for DC Workplace pensions. Consultation was expected to be published in Spring 2024 but has been delayed because of the General Elections announcement. The TPR has recognised the VFM framework as one of their priorities in 2024-25.

Developments in the Pensions Market (4/5)

A focus on the Mansions House and Autumn Statement announcements

Developments / timeline	How does it impact the DC pensions market and consumers in particular?
Mansion House – DC decumulation reforms – Trustee obligations (Nov. 2023) – Consultation Response	The Department for Work & Pensions (DW&P) has consulted on a **decumulation framework** in July 2023 to help savers understand their pension choices and provide support at the point of access. Choices include Collective Defined Contribution arrangements (CDC) in retirement. The proposals include **requiring all pension scheme providers to offer directly or indirectly decumulation solutions for their members**, with a duty placed on trustees to offer decumulation services that are suitable for their members and consistent with pension freedoms. This approach will be voluntary for now. The DW&P reply also requires members of trust-based schemes to be **placed automatically into a backstop decumulation solution** if no actions is taken. TPR will publish interim guidance on DC decumulation in 2024.
Mansion House - CDC schemes – CP published July 2023	DW&P consulted on **extending opportunities for CDC pension schemes**. The new framework should accommodate schemes providing benefits to unconnected multi-employer schemes and Master Trusts. CDCs are designed to offer more risk sharing and smoothing the impact of market volatility across scheme members and generational cohorts. However, CDCs are not designed to offer members any guarantees (making them less expensive than an annuity) but manage risk solely by sharing it across scheme members and time. DWP also explores the future role for CDC schemes in a CfE (see p6).
Mansion House – Compact – announced July 2023	**Nine of the UK's largest DC pension providers pledged to allocate 5% of assets in their default funds to unlisted equity by 2030.** The compact is non-legally binding and is intended to provide DC scheme members with higher returns. This initiative needs to be carefully considered against the insurers' obligations with regards to the Consumer Duty and weighted against the costs, fees and risks of investing in unlisted equities to ensure such allocation can deliver good customer outcomes at retirement. The Government believes that channeling investment into unlisted equities will help finance infrastructure assets and the green transition.

Developments in the Pensions Market (5/5)

A focus on the Mansions House and Autumn Statement announcements

Developments / timeline	How does it impact the DC pensions market and consumers in particular?
Mansion House Reforms on auto-enrolment - 2025	These set of reforms include **reducing the auto-enrolment age to 18** and **bringing in contributions from the first pound earned** – leading to an estimated significant increase in the average pension pot at retirement for those entering the work market in the next two years. Although it should contribute to better pension outcomes in the long term, it will not affect outcomes for those currently over 22 years old.
Autumn Statement – Call for Evidence DC Lifetime Provider (Nov. 2023)	The DW&P published a **Call for Evidence for a single Lifetime Provider Scheme to avoid fragmentation between different workplace pensions for employees**. Employees would be empowered to require their employer to contribute to the scheme of their choice instead of the company scheme. DW&P also highlights potential operational obstacles such as the need for a central point to inform schemes of where to transfer a member's deferred pot to; and the various side impact it could have on employers and employees. The paper also explores a potential expanded role for collective defined contributions in the future. The CfE closed on 24 January 2024.