Northern Ireland Assembly

Committee for Communities

OFFICIAL REPORT (Hansard)

Pension Schemes Bill: Department for Communities

17 June 2020

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Ms Paula Bradley (Chairperson)
Ms Kellie Armstrong (Deputy Chairperson)
Mr Andy Allen
Mr Mark Durkan
Ms Sinéad Ennis
Mr Fra McCann
Mr Robin Newton

Witnesses:

Mr Gerry McCann	Department for Communities
Ms Anne McCleary	Department for Communities
Ms Doreen Roy	Department for Communities

The Chairperson (Ms P Bradley): We should have with us Anne McCleary, Gerry McCann and Doreen Roy. Members, you should find the departmental briefing on the Pension Schemes Bill at page 67 of your packs. Anne, over to you again.

Ms Anne McCleary (Department for Communities): I am pleased to have the chance to talk to you about the proposed Assembly Pension Schemes Bill. The Bill corresponds to the Westminster Pension Schemes Act 2017. The Bill follows on from the 2017 Act and seeks to introduce a new regulatory framework for master trusts in Northern Ireland. It will introduce, first, an authorisation and supervision regime for master trusts — a master trust is a form of multi-employer occupational pension scheme — and, secondly, a ban or cap on early exit charges and member-borne commission that arise under existing arrangements as well as new arrangements. We have provided the Committee with a fairly comprehensive written briefing on the Bill, together with a copy of the Bill and the explanatory and financial memorandum. If you are content, I will run through the main provisions.

The Chairperson (Ms P Bradley): Yes, go ahead.

Ms McCleary: Part 1 is about master trusts. The pensions landscape has changed significantly over recent years, and, as a result, the way in which people can save and access their pension savings has been transformed. Automatic enrolment has resulted in a significant increase in the number of people being enrolled in a workplace pension. Master trusts have become a popular vehicle for employers, particularly small and —.

The Chairperson (Ms P Bradley): Hold on two ticks. You have frozen on us, Anne. We are having a technical difficulty. Gerry or Doreen, can you brief us? Anne has frozen, and we cannot hear her.

Mr Gerry McCann (Department for Communities): If it is OK, Doreen will carry on. She sounds like Anne anyway; you will not know the difference *[Laughter.]*

The Chairperson (Ms P Bradley): OK. Go ahead, Doreen. You are very welcome.

Ms Doreen Roy (Department for Communities): I will pick up where Anne left off.

Master trusts have become a popular vehicle for employers, particularly small and micro employers, that are seeking to enrol employees in an occupational pension scheme. A master trust is a form of multi-employer occupational pension scheme for unconnected employers where, instead of the employer setting up its own pension scheme, the scheme is provided by an external organisation that runs a pension scheme for numerous employers. Such schemes offer benefits to employers and members. They can spur competition in the market and allow for economies for scale, which provide value for money. They are also an efficient solution for smaller employers, for whom setting up an individual pension scheme would be difficult and prohibitively expensive.

In Northern Ireland, master trusts are regulated in accordance with occupational pension legislation. However, that legislation was developed with single-employer pension schemes in mind and, consequently, does not take into consideration the different structures and dynamics of master trusts, which give rise to different risks. The Bill is a response not to a fundamental problem with master trusts but to the exponential growth in their membership. In 2010, across the UK there were 0·2 million members of master trusts. By November 2019, across the UK there were 16 million members in 37 master trust schemes holding more than £36 billion in assets.

The introduction of a new authorisation regime is designed to address a legislative gap and to try to prevent problems arising in the future. The aim is to ensure that essential protections are put in place in a way that is proportionate to the risks experienced by master trusts. Under the new regime, master trusts would be prohibited from operating unless authorised by the Pensions Regulator. The Bill sets out the specific requirements that must be met in order for a scheme to be authorised; for example, the persons involved with the scheme are fit and proper; the scheme is financially sustainable; the scheme funder has met specific requirements; the systems and processes used in the scheme's governance and administration are sufficient to ensure that the scheme runs effectively; and the scheme has an adequate continuity strategy.

In addition, the regulator will be given new powers to supervise master trusts, enabling it to intervene where schemes are at risk of falling below the required standards. The regulator must be notified in writing if significant events occur in an authorised master trust scheme. The intention is that the list of significant events will capture those that could affect the ability of a master trust to continue meeting the authorisation criteria. For example, the scheme may have a change of trustee. As the fitness and propriety of a trustee is linked to the authorisation criteria, the regulator must be informed of such a change so that the new trustee may be assessed against the relevant standards.

The regulator will always seek to support and assist those who are involved in the running of the pension scheme. However, there needs to be clear consequences for schemes that fail to comply with their duties. Information gathering is an important part of the regulator's toolkit, and the Pensions (Northern Ireland) Order 2005 already makes it a criminal offence for individuals to fail to provide information requested by the regulator. The Bill extends those powers to include those who are involved in the running of master trusts. Ultimately, the regulator also has the power to withdraw a scheme's authorisation, essentially forcing it to leave the market. Those powers are designed to ensure that those who are managing master trust schemes continue to work to protect the interests of members.

If you are content for me to continue, I will turn to the remaining provisions.

The Chairperson (Ms P Bradley): Yes, Doreen. Go ahead. Thank you.

Ms Roy: Part 2 deals with administration charges. Since the introduction of the new pension freedoms in April 2015, which enable many people aged 55 and over to access their pension savings more flexibly, individuals have faced a range of potential barriers, including incurring early exit charges when seeking to access their savings. Schedule 18 to the Pensions Act (Northern Ireland) 2015 allows the Department to make regulations that restrict charges or impose requirements on certain pension schemes. The Bill amends the 2015 Act to allow the Department to make regulations to provide that any term in a contract that is inconsistent with something in the regulations made under schedule 18 is

overridden. For example, if a contract is in place between the trustees and managers of a scheme and a person who provides services to the scheme permits an early exit charge that is higher than the level of the early exit charge cap when it is introduced, this would allow that term to be overridden. That supports the policy intention of capping early exit charges in occupational pension schemes and banning member-borne commission arising under existing contracts that were entered into before 6 April 2016.

The pensions market is continually evolving and modernising. There is clearly a need to ensure that there is adequate regulation of master trusts, given how they have developed since the introduction of automatic enrolment. An equality impact assessment (EQIA) on the proposals was consulted on between December 2016 and February 2017, and no adverse impacts were identified. By most standards, automatic enrolment can be considered a success. The Bill aims to ensure that members are enrolled only in high quality schemes that look after their interests. Well-managed schemes will help to secure pension incomes in retirement. The Bill, therefore, is firmly centred on further safeguarding workers' pensions.

Thank you. We will now do our best to answer any questions that you may have.

The Chairperson (Ms P Bradley): Thank you for stepping in there, Doreen. I assume that the dramatic increase in membership of master trusts is due to automatic enrolment. Did you say that no implications for existing schemes were identified for when the legislation is implemented? Finally, how long will it take the existing schemes to be authorised by the Pensions Regulator when the legislation is implemented?

Mr G McCann: There were three points there, and I will work backwards. As regards how long it will take to authorise, there is only one master trust scheme in Northern Ireland that is still functioning. That scheme has members in Northern Ireland but also in England, Scotland and Wales. Therefore, for it to be able to carry on, that scheme brought itself onto the list of authorised schemes under the law in England, Scotland and Wales. That scheme is already fully compliant with everything that we are going to do under this Bill.

I will go now to your second point, if I can remember it. The point that Doreen was making was that the EQIA did not find any adverse impact on any of section 75 categories. That is what she meant when she said that no adverse impacts had been identified.

I cannot recall your first query.

The Chairperson (Ms P Bradley): It was about the dramatic increase in membership. I assume that that is just due to having automatic enrolment now.

Mr G McCann: Yes, our understanding is that it is due to that. We have a large number of firms and, indeed, small employers that have to put their workers into a scheme. For them to set up their own scheme would be prohibitively costly, so they put their members into these master trust schemes, which cater for a whole range of firms and small employers.

The Chairperson (Ms P Bradley): That should make things easier.

Mr G McCann: Yes. All this has been going on. All that we want to do is make sure that any master trust scheme that anybody has joined has to follow the law so that it is a good scheme in which people will be safeguarded. As I said, there is only one scheme operating in Northern Ireland at the moment, but there is nothing to stop other schemes coming into the market. We need to bring in this law to make sure that any future schemes also have to comply fully with these rules.

The Chairperson (Ms P Bradley): Thank you for explaining that, Gerry. Do members have any questions? Fra McCann has his hand up. Fra, we cannot hear you. Hold on one wee minute till we see if we can get your microphone on.

Mr F McCann: I think that it is on now. This is just a short question. You said that there are a number of new schemes coming on board. I remember that, when this was coming through, there was a big rush to get people to enrol. There were some concerns at that time, and many of those have been ironed out. Can people opt out of the scheme that they are in and go into a new scheme if they feel that that will be more beneficial to them in the long run?

Mr G McCann: That is quite a complicated question. The way that automatic enrolment tends to work is that it is up to your firm or employer to choose a scheme; the employer sets it up. An employer's only duty under law is to put you into a scheme, and they can normally opt for a certain scheme. However, anybody can opt out. There is nothing to say that you have to stay in that scheme.

Mr F McCann: The reason that I asked the question is that, at that time, companies were coming in to organise and run these schemes and, if my memory serves me right, people enrolled in a number of pension schemes were concerned about the direction that they were being taken in.

Mr G McCann: Yes. That is why we are bringing in this law for master trusts. We had a number of schemes that were up and running, and we wanted to make sure that they all met very high standards. That is what we are doing here. At that time, there was also a scheme brought in for the whole of the UK called Nest, which anybody could join. It was run as a non-profit scheme.

Ms Roy: Yes, that was the National Employment Savings Trust scheme.

Mr G McCann: Employers could opt into that if they wished. They did not necessarily have to join one of these master trusts. It is just that master trusts have become very popular. There is a very large number of people in master trust schemes now. We think that it is important to make sure that any scheme that is running in this area has the highest standards, and that is all that we are trying to do with this Bill.

Mr F McCann: Thank you very much.

Ms Armstrong: I absolutely get the point of this: to make sure that master trusts will be run very well to protect people's money. However, say the Government took a different consideration towards pensions in the future; say, for instance, legislation was made on environmental protection. Could this legislation be used for the Government to introduce that type of criteria that a master trust has to comply with?

Mr G McCann: For this Bill, I would have to think a wee bit about that. You are asking whether an amendment would be within scope, and, obviously, that would be a matter for the Speaker. I would have to think about that.

Ms Armstrong: Oh, no. I am not thinking about an amendment. If a future Government did not want anybody to invest in petrochemicals, for example, could they require master trust schemes to abide by that criterion?

Mr G McCann: As you know, a further Pension Schemes Bill is going through Parliament. The Committee looked at the LCM for it. Environmental issues are among those that have been raised as it has been going through, especially from the point of view of climate change. There may be something happening there that is of interest.

Ms Roy: The task force that was set up has made recommendations to Government. As Gerry said, there is the potential for something to be carried in the Bill.

Mr G McCann: We said that we would come back to you to speak about further changes to the Bill. One of the issues that we will be speaking to you about is climate change.

Ms Roy: And good governance of schemes.

Ms Armstrong: Thank you.

The Chairperson (Ms P Bradley): No other member has indicated that they want to comment or ask questions. We are finished then. I do not know whether Anne is with us or she has gone, but thank you to Anne, Gerry and Doreen for joining us.