Northern Ireland Assembly

Committee for Communities

OFFICIAL REPORT (Hansard)

Pension Schemes Bill: Pensions Regulator

8 October 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 Jonathan Buckley
Mr Mark Durkan
Ms Sinéad Ennis
Mr Fra McCann

Witnesses:

Mr Nick Gannon	Pensions Regulator
Ms Victoria Holmes	Pensions Regulator

The Chairperson (Ms P Bradley): We will now have a briefing from the Pensions Regulator on the Pension Schemes Bill. There are no papers for this item, and it will be an oral briefing. I welcome Nick Gannon and Victoria Holmes to the meeting. I invite Victoria to begin the briefing.

Ms Victoria Holmes (Pensions Regulator): Good morning. Is Nick on the call?

The Chairperson (Ms P Bradley): I do not see him on the call. I am being told that he is not. It is just you at the moment. We will wait and see if he comes in. Technology is a wonderful thing.

The Committee Clerk: When it works.

The Chairperson (Ms P Bradley): Go ahead and start, Victoria. You can text Nick to find out whether he can join us.

Ms Holmes: I have just sent him a text.

The Chairperson (Ms P Bradley): That is grand. Go ahead, Victoria. There he is; I see him now.

Ms Holmes: We have Nick as well.

Mr Nick Gannon (Pensions Regulator): I apologise for my late arrival.

The Chairperson (Ms P Bradley): No problem.

Mr Gannon: I will lead off, then. Good afternoon and thank you for inviting us to appear today to provide information about the authorisation of master trusts. Victoria and I are policy leads at the Pensions Regulator (TPR). We were both heavily involved in the development of the original legislation with the Department for Work and Pensions (DWP) in London. Our involvement continued through the publication of TPR's code of practice for master trusts and the operational implementation of the authorisation and supervision regime.

TPR is the regulator of workplace pensions throughout the UK. We have statutory objectives, which include measures to improve the way in which workplace pension schemes are run and the protection of savings of those who are saving into them. We are very aware of our duties and responsibilities in the legislation passed by the UK Government and devolved Administrations such as the Northern Ireland Assembly.

A master trust is a trust-based occupational pension scheme, which provides money purchase benefits and is used by two or more unconnected employers. Master trusts have existed for many years; for example, there is a long history of schemes serving workers in specific industries. Master trusts truly came to prominence with the start of automatic enrolment in 2012, when they became the type of scheme most commonly chosen by employers to fulfil their duties.

Master trusts often differ from other pension schemes because they are commercial or commercially minded organisations. That means that those who run the scheme are more distant from the participating employers and their employees than would be the case in a conventional employer scheme. That distance can lead to a focus on good governance, from members' experience. However, in the early days of automatic enrolment, some master trusts gave us cause for concern. Those included trusts that were run by people with little or no experience, and, literally, from a spare room. The growth of potentially low-quality master trusts concerned us. Our regulatory group was insufficient to deal with some of the risks that we had identified in the market.

The Pension Schemes Act 2017, which the Pension Schemes Bill replicates, was designed to close those gaps. It also required, for the first time, direct authorisation of trust-based pension schemes.

The process of authorisation involves a scheme demonstrating that it can meet the tough standards set out in legislation. Those include having the right people, robust processes and adequate finances to better protect savers in their scheme.

While authorisation is a single event, authorised master trusts must continue to satisfy us that they meet the necessary standards throughout their operation. We maintain a supervisory relationship with all authorised master trusts. New schemes planning to enter the market must gain authorisation before starting to operate. To do that, they must provide evidence outlining how a scheme will meet the standards in the five key areas.

New schemes are more intensely supervised because they do not have an operational track record. That gives them the opportunity to demonstrate that they continue to meet the authorisation criteria.

At the introduction of the regime, master trusts that could not or were not able to satisfy us that they met the authorisation standards were required to wind up and leave the market. Once authorised, TPR has powers to drive improvements in schemes where we see signs of concern. If a scheme is ultimately unable to satisfy us that it meets the required standards, we may take action to de-authorise it.

Ms Holmes: Our primary concern throughout authorisation and supervision is to ensure that members' pension pots are protected. De-authorisation is one of several so-called triggering events that a scheme may suffer. Those range from de-authorisation by us to changes that affect the financial security or sustainability of a scheme.

After a triggering event, master trusts are automatically prohibited from taking on any new employers. They are also prohibited from introducing new charges or increasing charges on members beyond those already in place. The ban on additional charges extends to schemes taking on members from exiting schemes. We monitor the market closely to make sure that schemes are following the rules.

Master trusts leaving the market must submit an implementation strategy to TPR. That sets out how they will wind up and the expected timescales for doing so. We approve the strategy if it is adequate and in line with requirements in legislation. As part of that strategy, we expect trustees to demonstrate that members will not incur the cost of transfer or wind-up.

Schemes must submit periodic progress reports to us so that we can monitor their progress and act where necessary.

The trustees of an exiting scheme have a duty to identify a suitable alternative arrangement and undertake due diligence to ensure that that scheme is appropriate, with good governance and value for members, and that it meets automatic enrolment requirements.

When we have concerns, we work with the trustees of the transferring scheme in order to resolve them. When needed, we have a range of powers that we may use. When a master trust is winding up, for example, we can use a pause order to put a temporary stop on a range of activities, from payments being made out of the master trust to preventing further moneys from flowing in. Those powers would be used only when there was an immediate risk to members or scheme assets.

The authorisation process was carried out to safeguard savers in the increasingly important schemes and to drive up standards in the market. It has improved standards and governance for 60 million individuals saving into those schemes.

In response to the authorisation process, the master trust market has consolidated by 60%, with just 38 master trusts remaining open. The £38·5 billion that has been saved into master trust schemes is now better protected.

We expect the master trust market to continue to grow in terms of the number of members and in assets. In countries where similar regimes have been implemented, there has been further consolidation in the market after authorisation. We expect that that will be the case in the UK, but we do not have set targets for the ideal size of the market.

Many employers are now moving their money purchase schemes to master trusts, so we expect that trend to continue. We closely monitor schemes that are in the process of consolidation to ensure that they continue to meet the required standards and that members remain protected.

There is currently one master trust in Northern Ireland. It was authorised alongside schemes in the rest of the UK because it had members throughout the UK and so fell under the existing legislation.

The legislation that you are considering closes off the loophole for a master trust to operate exclusively in Northern Ireland without authorisation. The legislation means that savers in Northern Ireland will be protected in the same way and to the same degree as those throughout the UK.

The Chairperson (Ms P Bradley): Thank you very much, Victoria and Nick, for your presentation. It is good to hear and know that this will enable people's hard-earned savings to be better protected than they have ever been. From what you say, it is in no small part down to the Pensions Regulator in the job that you do in monitoring and ensuring that people follow the rules. I imagine that there is an added workload and expense for the Pensions Regulator. Do you want to comment on that?

Ms Holmes: As a regulator, we have broadly moved towards a more supervisory model. It is recognised that active regulation is a good way forward. In building this regime, we looked at the resources that would be needed to supervise master trusts. While we look at all of them, we have different levels of supervision. The ones that we would be more concerned about — those that are new to the market — will get much more regular contact than the ones with which we are happy and where not a lot of new activity or exits are happening. We focus our activity, but that is built into our operations.

The Chairperson (Ms P Bradley): Thank you for that answer. I have just one more question. Nick mentioned going back to previous major concerns around master trusts. He mentioned people setting up in their front rooms. Are there still concerns, or are you relatively happy on how the legislation will protect savings?

Mr Gannon: We have been particularly pleased by the way in which schemes that fall under the legislation have shifted to comply with it. We thought that there would be far more pushback and, potentially, more issues with the problematic schemes that we had identified. However, as it stands, and as far as I am aware, we have had no problems, and everyone has behaved sensibly and reasonably in doing what they are supposed to do, certainly to get out of the market and then to note those schemes that are in it. We have no concerns of which I am aware.

Ms Holmes: No. It is also probably fair to say that, before this legislation, there was an explosion of people wanting to use an opportunity to get into the auto-enrolment market. The legislation means that you have to be serious and have resources behind you to do that. It is also fair to say that, if anyone tried to enter the market and operate without authorisation, we have very decisive abilities, under the Bill and in the existing Act, to stop them operating.

Ms Armstrong: Thank you, Nick and Victoria. Your presentation is very much appreciated.

Nick, you said something that ties into my question. You talked about pensions that fall outside the legislation rather than under it. Obviously, Northern Ireland shares a land border with the South of Ireland. We may have companies that operate in Northern Ireland but whose headquarters are not based in the UK. When a pension is provided by a company that is not even located in the UK, can you provide any protections for people saving with that pensions company, or is that monitored elsewhere?

Mr Gannon: Broadly speaking, that is monitored elsewhere. The Pensions Regulator has a role in regulating cross-border schemes — schemes that operate, in this case, in Northern Ireland and Southern Ireland. I am afraid that anything beyond that is outside my sphere of familiarity. However, yes, we have the powers to intervene.

Ms Armstrong: We have powers to intervene. I would be concerned that if, say, a headquarters was in France — it could be anywhere, to be honest; it could be in America — how do we protect those people? Does a company have to provide anything to employees to notify them that their scheme is outside your regulation in the UK?

Mr Gannon: No, there is not. It is important to note, however, that schemes that operate in the UK have to be established in the UK for tax purposes. Once they are set up for tax purposes and established, they have to register with us as a pension scheme, and at that point the UK entity of that employer comes under our remit. While there may be, for the sake of argument, a headquarters in Paris, the UK subsidiary would be under our regulation. There have been instances in which we have pursued parent companies across borders.

Ms Armstrong: That gives me a lot of confidence. Thank you very much.

The Chairperson (Ms P Bradley): OK. Thank you. No other members have indicated that they want to ask a question. Jonny, you are on audio only. Is there anything that you want to ask?

Mr Buckley: No, Chair, I am fine. Thank you.

The Chairperson (Ms P Bradley): OK. No other member wants to ask a question.

Nick and Victoria, a big thank-you to you. You have alleviated some of the Committee's fears about the Bill, so I really appreciate the time that you have given and your briefing us.

Ms Holmes: No problem. It was a pleasure.

Mr Gannon: Thanks very much.

The Chairperson (Ms P Bradley): Thank you. Bye-bye.

Ms Holmes: Thanks very much. Bye.