

First Actuarial briefing for trade unions Q1 2020

In the latest issue of our briefing for trade unions, we discuss the impact of Covid-19 on pension schemes as global markets tumble. We also outline the issues that Budget 2020 raises for trade unionists.

Prior to the outbreak of Covid-19, life expectancies were continuing to increase for all men and all but 10% of women. We take you through the latest life expectancy modelling.

And finally, what is financial wellbeing, and why does it matter to trade unions?

In brief: Budget 2020

Recently-appointed Chancellor, Rishi Sunak, delivered his first Budget in March – the first since October 2018. Among the announcements were measures to help pensioners and people saving for retirement, which will come into effect from 6 April 2020. These include:

- Increasing the **State Pension** by 3.9%, leaving people in receipt of the New State Pension £343 better off and those receiving the basic State Pension £262 better off per year.
- Increasing the **National Insurance (NI)** lower earnings limit – the income level at which you start to pay NI contributions – from £8,632 to £9,500 per year.
- The total amount of pension savings that an individual can make tax-free over their lifetime is known as the **Lifetime Allowance (LTA)**. The Budget confirmed that the LTA will increase from £1.055 million in 2019/20 to £1.0731 million in 2020/21, in line with CPI inflation.

- The **Annual Allowance (AA)** is a limit on the amount of tax-free pension savings an individual can make in any tax year. The standard AA remains at £40,000 per tax year. Individuals who earn over a certain amount sometimes have a lower AA, known as a tapered AA. The tapered AA income thresholds, known as the threshold income, and the adjusted income, have both increased by £90,000 to £200,000 and £240,000 respectively, while the minimum AA has decreased from £10,000 to £4,000 per tax year.

The AA has resulted in some senior doctors incurring large tax charges when they take on extra work. This has led to operations being cancelled and waiting times increasing as staff have taken early retirement, refused additional shifts, or reduced their hours.

The raising of the taper threshold will help to ease some of the pressure on certain NHS workers whose pay has resulted in large pension tax bills in recent years. According to Government, the changes will take 98% of consultants and 96% of GPs out of scope of the taper, meaning their Annual Allowance will remain at £40,000 per year.

The Chancellor resisted calls for more fundamental changes to the pension tax relief system.

It was also revealed that more and more people are drawing their pension benefits flexibly, following the pension freedoms introduced back in 2015. The freedoms are proving a hit with pension scheme members and have raised more than £2 billion more in tax than forecast for the Treasury.

All or nothing in the NHS Pension Scheme

As reported in the [Q3 2019 briefing](#), there was a consultation on 'flexibility' in the NHS Pension Scheme. The proposal, similar to the LGPS 50:50 option, allowed members to build up a decile (multiple of 10%) of benefits for the same decile of the cost, up to 100%. The aim was to encourage retention of senior clinicians by enabling them to stay in the Scheme without incurring large pensions tax bills.

The Budget revealed that Government will not be implementing any flexible membership in the NHS Pension Scheme, instead relying on the increase to tapering thresholds to appease those affected.

The markets' response to Covid-19

In recent weeks, financial markets have plummeted as the global economy shuts down due to Covid-19. Markets have bounced back slightly more recently, but no one can know where they will be next week, next month or next year. Trustees of a scheme unfortunate enough to have a valuation due at the end of the month can delay the sign-off of their valuation – they have until June 2021 – to maximise their understanding of the situation. Meanwhile, even a weakly-funded scheme should have sufficient assets to pay benefits for many years.

Some employers may struggle to pay their pension contributions during this period. It is unrealistic for trustees and Scheme Actuaries to sign off lower contributions in turbulent times such as these. The Pensions Regulator has suggested that trustees could allow an employer to suspend deficit reduction contributions for three months as a way of helping ensure the employer's long-term survival.

Life expectancies

Life expectancies continue to increase for all men and all but 10% of women, the latest CMI model has revealed, albeit at a slower rate than previous years. Since 2010, increases in life expectancy have slowed down, a trend which is most pronounced in deprived areas of the UK. However, this does not mean that life expectancies are falling; they continue to rise – only the rate of increase is falling.

The recently released CMI 2019 model indicates that life expectancies for everyone less than 97 years old have improved when comparing CMI 2019 to CMI 2018, increasing by 0.2% for males and 0.4% for females, though projected life expectancies remain lower than in all CMI models from 2017 and earlier.

It's important to note though that mortality *improvements* in disadvantaged areas have been around 1% lower per year than in less deprived areas. In the most deprived 10% of areas, female life expectancy has actually declined between 2010 and 2018, further increasing life expectancy inequality between women of differing means.

The variations in experience mean that people are hearing mixed messages on mortality. With a public more attuned to pessimistic messages, bad news seems to have more leverage, so the headlines have tended to be dominated by the lower level of improvement or the reversing of improvements in disadvantaged areas.

This was the message hammered home by Fair Society Healthy Lives, the Marmot review commissioned by Government to consider health inequalities in the UK. Among the recommendations that Professor Marmot has outlined in his report 'Health Equity in England: the Marmot Review 10 years on', published in February 2020, are increasing the National Living Wage, investing in and developing economic, social and cultural resources in the most deprived communities, and increasing levels of spending on early years services.

It is too early to comment on the effects that the current outbreak of Covid-19 will have on mortality, both in the UK and globally. Each year, around 600,000 people die in the UK. Left unchecked, analysis suggests that deaths in the UK from coronavirus could have reached 500,000. With intensified social distancing measures, Government hopes to keep this figure below 20,000.

Financial wellbeing in the UK

In January, the Money and Pension Service (MaPS) outlined in a report its new UK-wide strategy to transform the country's financial wellbeing. The strategy's vision is to improve the lives of millions by enabling the population to make the most of their income, benefitting communities, businesses and wider society over the next decade.

There are lots of definitions of financial wellbeing, but we believe it is simply a measure of how well someone feels able to manage their financial life. You don't need to be comfortably off to feel financially well.

Current statistics for the UK indicate that there is a real need for an improvement to levels of financial wellbeing across the population. For many people, poor financial wellbeing puts significant strain on mental health, physical health and family life. The MaPS strategy reports that 22 million people say they do not feel able to plan for their retirement.

Within the strategy outlined by MaPS, there are five 'agendas for change':

- **Financial foundations:** meaningful financial education for young people
- **Nation of savers:** encouraging cash savings in case of emergency
- **Credit counts:** informing choices about borrowing and accessing credit
- **Better debt advice:** improving debt advice services
- **Future focus:** empowering informed decision-making and engaging people in planning for the future.

Many individuals approach life with an attitude based on short-termism: the (often subconscious) tendency to use disposable income now rather saving for the future or even saving for a few months' time. This is a big hurdle for the pensions industry to overcome. Within the Future focus heading, the report identifies this as an issue that MaPS intends to address.

The report praises auto-enrolment but says more needs to be done. It sets out a strategy of greater engagement with advice services, encouraging trust in processes, and establishing a Pensions Dashboard to help people when they need to take action about their future.

Pensions fun fact!

In our last briefing, we asked...

According to the 2019 Melbourne Mercer Global Pension Index, which country's pension system do think had the lowest overall rank? The index measures the adequacy, sustainability and integrity of various pension systems around the world.

USA	Japan	South Africa	Italy	Brazil
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Answer to Q3 2019: Japan (it received a rating of D, along with several other countries)

Question Q1 2020: According to a recent report by The Pensions Regulator, what proportion of UK employees are currently saving into a workplace pension plan?

67% 72% 77% 82% 87%

How First Actuarial can help

First Actuarial is a nationwide firm of pensions actuaries and consultants, helping trade unions with all their pensions issues.

We can help support trade unions lobby government; resolve problems within specific schemes; explain any changes or choices members have to make; negotiate with trustees and the Pensions Regulator and look after their own schemes.

If any of your colleagues would like to receive future briefings but are not on our circulation list, please email charlotte.white@firstactuarial.co.uk and they will be added to the list.

We welcome feedback on any of the issues covered and suggestions for issues that should be covered in the future.

If you'd like more information on any of the issues contained in the briefing, please contact:

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