First Actuarial briefing for trade unions
Q3 2020

In the latest issue of our briefing for trade unions, we discuss the latest in pensions from Government, from the confirmed minimum pension age increase and the underpayment of some state pensions, to the latest pensions legislation proposals.

We also introduce the new Enhanced Governance Fund that First Actuarial played a key role in developing and let you know about the PPF's extended COVID-19 payment terms.

Public service pensions consultation

Government has published a consultation on its proposed 'remedies' to remove discrimination from changes to public service pension schemes.

In April 2015, reforms were made to schemes with the intention of ensuring future financial affordability and providing fair, good quality benefits for lower and higher earning members alike. However, following a lengthy legal battle ending in the Court of Appeal, it was found that the new changes directly discriminated between members on the grounds of age, as under the protection arrangements those within a certain period to their retirement age would not be automatically moved to the new schemes.

Government has said it will offer all scheme members affected by the judgement a choice about which scheme they would like to have membership of over the 'remedy period' (currently 1 April 2015 to 31 March 2022): the old final salary schemes or the new career average scheme.

Two approaches are proposed in the consultation; an "immediate choice", or a "deferred choice underpin" (DCU). The immediate choice will pose the option to members at the end of the remedy period, whilst the DCU will delay the option until the member has a benefit event, such as retirement or a transfer.

The consultation closes at midnight on 11 October.

Pension Schemes Bill 2020

The Pension Schemes Bill 2020 has returned to the House of Commons from the House of Lords following a series of amendments. The Bill is set to give legal underpinning to new "pensions dashboards," hand The Pensions Regulator (TPR) new powers of enforcement, and deliver rules surrounding Collective Defined Contribution (CDC) schemes' operations.

With the ambition of bringing pension information for individuals into the digital age, "pension dashboards" will effectively be online benefit statements for scheme members. They are planned to summarise benefit statements for all pension schemes an individual has been a member of, and update in real-time.

The Regulator's powers will be strengthened with new criminal offences introduced for employers who fail to meet contributions notices served by the Regulator or who are avoiding their debts to the pension scheme. An unlimited fine or a prison sentence could be meted out for conduct that risks accrued scheme benefits. This is perhaps not entirely helpful as it could include putting other commitments – such as granting a pay rise – ahead of the pension scheme.

The House of Lords passed an amendment to the Bill – yet to be approved by the Commons – which recognises that the needs of open Defined Benefit (DB) schemes differ to those of closed DB schemes, for example in their investment needs. The amendment states that TPR's requirements should vary according to the maturity of the scheme. We'd encourage all trade unions to do what they can to support this amendment.

Increase to minimum pension age

Government has confirmed that the minimum pension age – the earliest age at which an individual can begin taking their pension – will increase from 55 to 57.

The policy first announced by Government in 2014 is that the minimum pension age should be set at 10 years before State Pension Age (SPA) but was never legislated for. The delay means that the minimum age was never increased to 56 as State Pension ages increased to 66 but a 2 year jump will apply in 2028 when SPA rises to 67.

TPR's Scheme funding analysis

The Pension Regulator (TPR) has published its annual analysis of pension schemes that had a valuation date between 22 September 2017 and 21 September 2018. TPR received submissions for over 1,700 such schemes, which are known as "Tranche 13" schemes.

For the cohort of pension schemes in tranche 13, TPR found that around 70% were able to reduce their deficit between valuations, with a median deficit reduction of 33% across all schemes. The reduction in deficit has also led to schemes improving the outlook on their funding recovery plans.

TPR reports that 76% of Tranche 13 schemes have reduced their recovery plan period compared to their previous recovery plan length because of the deficit reduction. This indicated a positive shift for pension schemes, but events since will have changed the picture significantly.

The Enhanced Governance Fund

First Actuarial has helped establish a new pooled fund with Trade Unions and voting-conscious schemes in mind: the Enhanced Governance Fund (EGF).

What problem is this fund trying to fix?

As part of the new requirements to disclose "Significant" votes cast at shareholder meetings, we've analysed the votes cast on behalf of UK pension schemes. We've seen a clear distinction in the voting of large trade union and public sector pension schemes and those cast by smaller private sector pension schemes who invest in pooled funds.

The differences are particularly strong when it comes to areas such as executive pay, workers' rights and employee representation on company boards, areas that Trade Unions feel strongly about.

Trade Unions with smaller funds who invest in pooled funds currently have their votes cast in ways that they wouldn't necessarily agree with. If these votes could be cast differently, it could influence corporate behaviour for the better.

Why is there a difference in voting behaviour?

When you invest in pooled funds, the fund manager casts your votes. In contrast larger schemes, investing directly in shares of companies, take control of voting themselves and employ experts who understand their values to advise them how to vote.

How does this fund fix the problem?

Investors in the EGF will have their votes cast by PIRC, the organisation who advises the Local Authority Pension Fund Forum (LAPFF) and the Trade Union Share Owners (TUSO).

What about the investment aspects of the fund?

The EGF is passively managed by SSGA, is designed to track the MSCI world index and is open to all institutional investors. From an investment point of view, it is designed to do the same job as a passively managed global equity fund.

Asset Management Exchange (AMX), who "wrap" the fund, have worked hard to get the costs down to a competitive level. Many pooled funds investors, even those who invest passively, could reduce their ongoing costs by switching to the EGF. They would of course need to obtain investment advice from their investment consultant if they were considering using the EGF. If First Actuarial provide investment advice to you, we can provide that advice and provide details of the specific fund.

How can I find out more?

Please get in touch if you would like to learn more about the Enhanced Governance Fund.

Underpaid State Pensions

Consultancy firm LCP have found that some state pensioners are not receiving the full pension they are entitled to and have identified six groups of women who may be entitled to a back payment.

The potentially underpaid pensioners are married or previously married women who should have received an increase to their entitlement when they reached SPA. This uplift should have been automatically applied by the Department for Work and Pensions (DWP) – the administrator of state benefits – but many women did not receive the uplift and were not informed by the DWP of their entitlement.

The DWP has said it will be issuing back-payments to affected individuals.

LCP have developed a calculator on their website to help women determine if they are affected (www.lcp.uk.com/underpaid).

Payment leeway for PPF levy payers

The Payment Protection Fund (PPF) is offering struggling levy payers the option to delay their bill.

The PPF will permit an extension for schemes who are able to demonstrate that the COVID-19 pandemic "has negatively impacted on [their] scheme or business". To be considered, a scheme or sponsoring employer must complete an online notification form within 28 days of receiving their levy invoice. The application must explain how the scheme or business has been affected by COVID-19 and the PPF may subsequently ask for supporting evidence regarding submissions.

The PPF intends to offer eligible levy payers an extension of up to 90 days after receiving their levy invoice without charging interest. Employers' credit scores will not be impacted by an agreed late payment.

Pensions fun fact!

In our last briefing, we asked…

According to the Moneyfacts Personal Pension Trends Treasury Report, how much did the average Defined Contribution pension fund fall by over the first quarter of 2020?

10% 15% 20% 25% 30%

Answer to Q2 2020: 15%

Question Q3 2020: According to the Pensions Regulator, what is the most common valuation date in 2020?

31 March 6 April 31 July

30 September 31 December

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 negotiate with employers; lobby government; resolve problems within specific schemes; and explain any changes or choices members have to make. We also provide administration, actuarial and investment services to a large number of trade unions' own schemes.

If you or 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 you 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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