First Actuarial briefing for trade unions Q4 2020

In the latest issue of our briefing for trade unions, we discuss the future of the RPI and the latest update on GMP equalisation requirements.

We also look at the latest developments in the Pension Schemes Bill and the new withdrawal option available to independent schools in the Teachers' Pension Scheme, as well as signposting two of First Actuarial's latest financial education developments.

RPI reform consultation outcome

As discussed in our 2019 RIP RPI? article, Government announced in September 2019 that it intended to align the Retail Prices Index (RPI) with CPIH during the period 2025-2030.

On 25 November, Government and the UK Statistics Authority (UKSA) published their response to the joint consultation on the reform of the RPI. The consultation response reveals RPI will almost certainly be aligned with CPIH from February 2030 and that the reform will definitely not take place before that date. This means that RPI could be around 1% lower each year from 2030 than it would otherwise have been.

The RPI will continue to be published, but will use methods and data sources from CPIH. This means that index-linked gilt holders will receive less than they previously expected from 2030 onwards. Government confirmed, however, that there will be no compensation for these investors.

Some members of Defined Benefit (DB) pension schemes will also be affected as RPI-linked pension increases will be lower from 2030 than previously anticipated. There could also be a fall in the value of some schemes' assets, which may place additional pressure on sponsoring employers. Government has said it will keep "the occupational pensions system under review".

GMP equalisation in transfers

On 20 November, the High Court issued the latest judgement in the Lloyds Bank case on GMP equalisation. It ruled that trustees of DB pension schemes must revisit past statutory cash equivalent transfer values (CETVs) if they did not make appropriate allowance for GMP equalisation and top up such past transfers if necessary. There is no legal obligation for schemes to actively revisit historical CETVs. However, affected members are entitled to claim top-up payments from the scheme, so trustees may wish to investigate historical transfer payments to avert potential legal action. Any potential top-up in respect of individual non-statutory transfers will need to be determined on a case-by-case basis.

Past certified bulk transfers do not need to be revisited, and it will be the duty of the receiving scheme's trustees to guarantee equalisation.

Schemes will first need to assess the likely extent of the impact and the work involved administratively. The repercussions on the sponsoring employer's accounts will also need consideration. An additional GMP equalisation reserve may be required, for example.

The payment of any due top-up will be agreed between the affected member and the trustees but will usually be made from the transferring scheme to the receiving scheme. The top-up amount should equal the difference between the transfer value paid and what would have been paid had the scheme equalised GMPs at the time, plus interest at the bank base rate plus 1% for the period between the original payment date and the top-up payment date.

One obstacle facing schemes will be incomplete data, particularly as transfer cases may date back as far as 1990. Another is that the scheme that received the transfer may no longer accept further transfers in.

Pension Schemes Bill 2020 – An update

Following on from our article Pension Schemes Bill 2020, the Bill has returned once again to the House of Lords from the House of Commons, following its third reading and further amendments.

The amendment previously passed by the House of Lords, which recognised the differing needs of open DB schemes and closed DB schemes according to their levels of liquidity and maturity, was not accepted by the House of Commons.

Pensions Minister Guy Opperman said in response to the proposed open schemes amendment: "We hope that we have provided reassurance that open schemes will be able to adopt funding and investment strategies that are appropriate to their individual circumstances. The regime will remain scheme specific and will continue to apply flexibly to the individual circumstances of each scheme, including those that remain open to new members."

Government intends to use secondary legislation to ensure immature open schemes with a strong employer covenant are able to adopt appropriate return-seeking investment strategies.

Partial closures of the Teachers' Pension Scheme

Government will now allow independent schools in England and Wales to stop offering membership of the Teachers' Pension Scheme (TPS) to new employees from Spring 2021. Previously, they could only withdraw from the scheme on an "all or nothing basis" – so existing employees would also lose their membership. This follows a public consultation by the Department for Education which received a response in November 2020.

While trade unions would clearly prefer schools to continue offering TPS to all employees, the change does mean that the conditions enjoyed by existing staff members can be retained even if the scheme is closed to new employees.

The change in rules follows record numbers of independent schools withdrawing from the TPS. In September 2019, the employer contribution rate for future service in the Scheme increased from 16.4% to 23.6%.

NHS Annual Allowance Ready Reckoner

Commissioned by NHS Employers, First Actuarial has developed an NHS Pension Scheme Annual Allowance and Tax Ready Reckoner which launched in October.

The Annual Allowance, like all pension calculations, is complicated. The ready reckoner gives NHS Pension Scheme members an Annual Allowance 'traffic light' to indicate whether further action may be needed (rather than a conclusive report of any tax liability):

- **Green**: Member is projected to be well under the Annual Allowance
- **Amber**: Member is projected to be reasonably close to the Annual Allowance
- **Red**: Member is projected to breach the Annual Allowance (although the scheme may well continue to provide good value)

For some members, the tool will indicate the need for further investigation and possibly professional advice.

Users also receive estimates of the cost of membership and pension growth for the 2020/21 tax year to provide context about the value of the scheme.

The ready reckoner can be accessed at the following website address: https://nhspensionaatax.org/.

See also our article on First Actuarial's work with NHS Employers.

'The New Normal' – First Actuarial's latest financial wellbeing webinar

First Actuarial's financial wellbeing team has produced a second Covid-19 wellbeing webinar recording, available to all UK employers and their staff, free of charge.

To help employees manage their personal finances and mental health, it offers top tips for managing money and points to personal wellbeing guidance from leading mental health organisations.

Use the link below to watch the recording.

https://www.firstactuarial.co.uk/covid-19-and-financial-wellbeing-looking-back-on-2020-and-what-it-means-for-the-new-normal/

Pensions fun fact!

In our last briefing, we asked…

According to The Pensions Regulator, what is the most common valuation date in 2020?

31 March   6 April   31 July

30 September   31 December

Answer to Q3 2020: 31 March

Question Q4 2020:

According to Pensions Age, what percentage of British adults believe they have been the target of scams since lockdown began in March 2020?

7%   17%   27%   37%   47%

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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