Housing Briefing, December 2020
Pension News in 2020 - The Good, the Bad and the Ugly

2020 has been a year like no other…but for all the wrong reasons.

In this briefing, we take a look back at some of the key developments over the last 12 months for pension scheme trustees and sponsors.

The Good…

CDC is on the way

It has been slow but steady progress in 2020 for the Pension Schemes Bill in Parliament. It is currently awaiting the "ping-pong" stage (where there is a rapid exchange of amendments between the House of Commons and the House of Lords).

The part of the Bill we are most excited about is the legislative framework for the implementation of collective defined contribution (CDC) pension schemes.

First Actuarial has been at the forefront of developing CDC schemes in the UK, via our work with the Communication Workers Union (CWU) and the Royal Mail. We think CDC schemes will change the landscape of workplace pensions in the UK for the better.

Our research shows that CDC scheme can be "win win" for employers and employees. CDC schemes provide cost certainty to the employer but are also expected to provide better (and more certain) benefits to employees (compared to DC schemes).

As organisations committed to creating social value, we expect housing associations to amongst the first movers to consider introducing a CDC and some of our clients are already investigating if CDC can provide a "middle ground" between DB and DC.

More flexibility in the LGPS

From 23 September 2020, Local Government Pension Scheme (LGPS) Funds were able to offer LGPS employers greater flexibility in how they manage the financial consequences of an exit from the scheme.

We supported these new flexibilities in our consultation response to the MHCLG and their introduction immediately started conversations with clients and their LGPS funds.

2021 will see the first Deferred Debt Arrangements introduced and it will be interesting to see how market practice develops in this area.

We covered the new LGPS flexibilities in our August and October briefings.

Less people impacted by the Tapered Annual Allowance

In the run up to the March Budget, pension tax relief was the subject of much debate, with some commentators predicting wholesale changes. These fears proved unfounded; instead the Chancellor took action to focus on the immediate tax problem of the Annual Allowance charges frequently incurred by senior NHS staff.

From 6 April 2020, anyone with an income of under £200,000 was no longer affected by the controversial Tapered Annual Allowance. These changes should help combat issues within the NHS which saw some doctors cap their working hours to avoid large pension tax bills.

Despite this easement, 2020 was a busy year for our pension tax experts and we were proud to have developed and launched an NHS Pension Scheme annual allowance tool to help members understand their tax position.

The Bad…

Covid-19

We managed to fill the first page with good news, but Covid-19 has dominated 2020, and the pensions industry has been no different.

DB schemes enter the Pension Protection Fund

For members of Defined Benefit (DB) schemes, the importance of the Pension Protection Fund (PPF) has again been highlighted as many retailers were unable to survive the impact of Covid-19.

High profile names such Arcadia Group and Debenhams entered administration and their DB schemes went into PPF assessment. While this is a worrying time for members, it is important to remember most members should receive almost all of their benefit entitlements from the PPF.

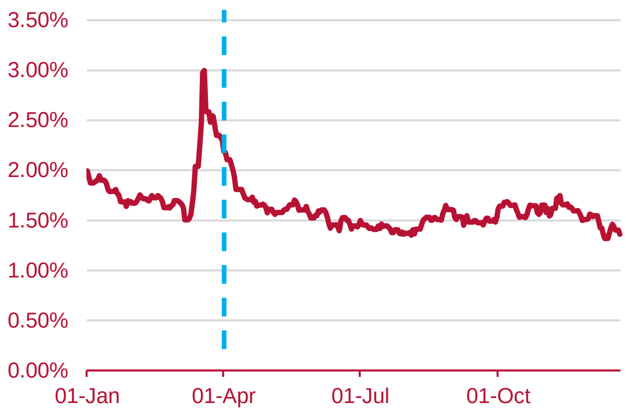
While, to our knowledge, no DB scheme sponsored by a housing association has ever entered the PPF, recent events have highlighted the need for trustees to monitor the strength of the covenant supporting their scheme (and, where necessary, take action to gain greater access to that covenant).

Markets are a rollercoaster

The economic turmoil associated with Covid-19 had wide-ranging and severe impacts upon financial markets. Despite this it looks like most asset classes will have produced a positive return in 2020 (notable exceptions being UK equities and property).

At the height of the impact of Covid-19 on financial markets, many housing associations were surprised to see that the pension deficits in their accounts were lower as at 31 March 2020 than 12 months earlier. The key driver for this improvement was a reduction in the value of the liabilities (driven by an increase in the corporate bond discount rate, as shown below).

Corporate bond yields since 1 January 2020



The sting in the tail is that corporate bond yields have fallen significantly since 31 March 2020 which means many organisations will currently be expecting a higher pension scheme accounting deficit in 2021.

[In June 2020, we launched our first ever social housing FRS102 survey]. We had a great response, and we will be repeating the survey in 2021.

SHPS actuarial valuation at 30 September 2020

Our webinar on “SHPS day”, 30 September 2020 predicted the actuarial valuation results will be challenging and employers should now begin to plan how they will assess the impact and their options. This is likely to be the number one pensions issue for most employers in the sector for 2021.

The Ugly…

Fixing inequalities

We have known for some time that the courts have ruled that:

- changes to public sector pension schemes in 2014 and 2015 were age discriminatory (the McCloud Judgment); and
- contracted-out rights in DB schemes are sex discriminatory (GMP equalisation)

Correcting these issues continues to cause headaches in government and the pensions industry. Let’s hope 2021 brings more clarity and progress.

Happy New Year

2020 was another successful year for our Housing Team with more than 20 new appointments. We would look forward to seeing you again in 2021.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