First Actuarial briefing for trade unions Q2 2021

In this second briefing of 2021, we look at proposed new powers to help Trustees to stop pension scams. We also look at Government proposals to make benefit statements more user-friendly, and at renewed calls for the Chancellor to review his stance on pensions tax relief.

We give an overview of the main themes in the Regulator's Annual Funding Statement and look at the case made by the trustees of three of the UK's biggest pension schemes in their fight against reforms to the RPI.

DWP fights against pension scams

The Department for Work and Pensions (DWP) consulted between 14 May 2021 and 9 June 2021 on proposed regulations to tighten security checks carried out if a member asks to transfer their benefits out of a scheme.

The answers a member gives to certain standardised questions about their transfer request may prompt a red or amber "flag", which may indicate possible fraud. In such cases, trustees may block the transfer until the member shows that they have taken specific guidance on pension transfer scams.

The standardised questions include asking if the member was approached unsolicited about transferring their pension and if they are aware of how their money will be invested in the new scheme.

If a member wants to transfer their pension benefits to an occupational scheme, under the proposed regulations they will have to provide evidence of a genuine employment link before the transfer can go ahead. Similarly, if a member wants to transfer their benefits abroad, they will have to prove an employment or residency link to that country.

The new regulations should be introduced in the autumn of 2021.

Simpler annual benefit statements

In late 2019, Government consulted on how to make annual pension benefit statements clearer for members, more uniform across schemes, and stimulate increased member engagement. It is common for individuals to be a member of multiple different pension schemes over their working life, so engineering some consistency between schemes' pension statements could make it much easier for members to understand their position.

Government responded to this consultation in October 2020, indicating its intention to require simpler, more reader-friendly benefit statements and stressing that simpler engagement with pensions is especially important due to the financial uncertainty caused by the COVID-19 pandemic.

The proposals aim to make it easier for members to understand:

- the value of their pension pot and how much they have saved into their pot over the year;
- how much their pension pot could be worth at retirement; and
- how they could increase the amount of money they have at retirement.

Another aim is for a statement to be no longer than two sides of an A4 sheet of paper.

Government has now published draft regulations to bring these proposals into effect and is consulting on these until 29 June 2021. The regulations will only apply to schemes where all the benefits are "money purchase" in nature, so defined benefit schemes, public service schemes and hybrid schemes will not be obliged to follow these principles. However, the proposals can be used by all schemes as a template to improve members' understanding.

Judicial review into RPI reform

As reported in our article "RPI reform consultation outcome" in Q4 2020's briefing, Government has said it will almost certainly align the RPI with the CPIH from 2030 after jointly consulting on the proposed reform with the UK Statistics Authority (UKSA).

Now, the trustees of pension schemes for BT, Ford and Marks & Spencer – three of the UK's biggest defined benefit (DB) schemes, with combined assets of £83bn and nearly half a million members between them – have joined forces to request a judicial review of this decision.

The trustees allege that the UKSA does not have the authority to orchestrate reform to the RPI and that the full impact on historic users of the RPI was not properly accounted for by Treasury when it made the decision. They also argue that the Chancellor of the Exchequer has breached his contract with RPI-linked gilt holders by agreeing to the reform.

Historically, the CPIH has been around 1 percentage point lower than the RPI. Millions of pensioners whose pensions are linked to the published RPI would see lower pension increases and therefore lower annual pensions and transfer values than previously anticipated should the alignment to the CPIH go ahead.

Also of concern to the trustees is that the move would reduce the value of assets linked to the RPI, which many investors – including pension schemes – hold. Government's response to the consultation stated there would be no compensation for these investors.

"Regressive" pensions tax relief to stay

A committee of MPs – the "Treasury Committee" – published a report (*"Tax after Coronavirus"*) in March urging the Chancellor of the Exchequer to reform the current system of pensions tax relief.

The report noted that pensions tax relief cost Treasury an estimated £20bn in the 2018/19 tax year, making it the second most costly tax relief. The Committee highlighted that restricting the tax relief granted on pension contributions could make a "significant contribution" to the public purse, particularly following the economic turmoil caused by the Covid-19 pandemic.

Currently, tax relief on pension contributions is received at an individual's marginal rate of income tax. This means that those paying a higher rate of marginal tax receive more tax relief on their pension contributions. For some individuals, there may be some clawback of that tax relief through Annual Allowance and Lifetime Allowance charges.

Treasury published in June its response to the recommendations in the Committee's report. It noted that there was "no clear consensus" for reform of pensions tax relief when the matter was consulted upon in 2015. The response cited other recent pensions tax measures taken by Government, such as freezing the Lifetime Allowance until April 2026, but declined to commit to making any change to the current method of pensions tax relief.

TPR's 2021 Annual Funding Statement

The Pensions Regulator (TPR) has published its Annual Funding Statement (AFS) for 2021, covering schemes with a valuation date between 22 September 2020 and 21 September 2021.

The statement says trustees should:

- evaluate the impact of Covid-19 and Brexit on covenant strength;
- continue to monitor covenant strength; and
- remain vigilant and act quickly to protect members if necessary.

As in previous years, there is separate advice available to schemes depending on their covenant strength, maturity and funding position.

Although TPR has said that its revised funding code will not come into force until at least late 2022, the 2021 AFS encourages all schemes with upcoming valuations to set a long-term funding target (LTFT) *"consistent with how the trustees and employers expect to deliver the scheme's benefits, and then be prepared to evidence that their shorter-term investment and funding strategies are aligned with it."* It did confirm that all valuations covered by the 2021 AFS would continue to be regulated according to existing laws and guidance.

DC pension charges overhaul

To protect members of defined contribution (DC) schemes from high or disproportionate pension management charges, the DWP has launched a consultation on their proposal to introduce:

- a "single, permitted universal charging structure" to the default fund in DC schemes used for automatic enrolment; and
- a minimum pension pot size of £100, below which the flat-fee element of the charges levied by DC pension providers cannot be applied.

The consultation closes on 16 July 2021.

You can view and respond to the consultation here.

First Actuarial and UCU's USS modeller

Universities UK (UUK) is consulting with employers in the Universities Superannuation Scheme (USS) on proposed changes to future benefits in the Scheme. The proposed changes are:

- a reduction in accrual rate of defined benefit pension from 1/75ths to 1/85ths of pay for each year of service;
- a cap on the annual pension increase rate at the lower of CPI inflation and 2.5%; and
- reducing the salary threshold up to which Defined Benefit (DB) pensions are earned from £59,884 to £40,000 – the USS offer Defined Contribution (DC) benefits on salary above this threshold.

An online modeller has been published by First Actuarial, in collaboration with the University and College Union (UCU), to demonstrate to members the potential impact of the proposed changes on their individual benefits. The number of user inputs has been kept to a minimum to ensure the modeller is as user-friendly as possible whilst still providing meaningful results.

The modeller includes a link to a survey which is open to anyone eligible to join the USS. The survey asks questions about USS benefits and willingness to take industrial action. The answers will guide the UCU negotiating team and strengthen their negotiating position.

The modeller can be found **here**.

RSA Research on CDC

Regular readers will know that First Actuarial are big supporters of Collective Defined Contribution (CDC) schemes. We recently launched the CDC section of our website which you can find **here**.

The RSA will be launching their research report into the pensions industry's attitudes to CDC on 7 July at an online event with speakers including the Pensions Minister, Shadow Pensions Minister and our own Derek Benstead.

To find out more and book your place, please follow the link below.

Event: **Launch of the RSA CDC Pensions Forum**
Date and Time: Thursday 7 July, 09:30-11:00 BST
Online via Zoom

BOOK HERE

Pensions fun fact!

In our last briefing, we asked…

According to the Pensions Regulator, what proportion of defined benefit pension schemes are open to future accrual as of 31 March 2020?

13% 23% 33% 43% 53%

Answer to Q1 2021: 53%

10% of defined benefit schemes are open to new members. The Regulator seems to want to base all its guidance on the assumption that all schemes are closed but in fact a slim majority do still provide accruing benefits (despite the Regulator's best efforts to close them!)

Question Q2 2021:

To the nearest billion pounds, how much does Government pay out each year in State Pensions?

£40bn £55bn £70bn £85bn £100bn

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 **click here** to sign up and select "Pensions for Trade Unions" under the topics of particular interest banner.

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:

Hilary Salt
hilary.salt@firstactuarial.co.uk
0161 348 7441

Charlotte White
charlotte.white@firstactuarial.co.uk
0161 348 7439