First Actuarial Briefing for Trade Unions

Q4 2017

Introduction

Welcome to the our now quarterly edition of our briefing for trade unions.

In this Christmas issue, we'll look at the following issues

- PPF levy – the next 3 years
- State Pension Age to set to increase for many
- Automatic enrolment a success…?
- Defined Contribution Pension Schemes
- A century of centenarian celebrations

All comments are welcome and anyone not already on our mailing list who wishes to be should contact us using the details at the end of this briefing.

PPF levy – the next 3 years

Every three years, the Pension Protection Fund (PPF) review their rules for calculating their levy and consult on any proposed changes. The PPF launched a consultation earlier this year on how the levy should be calculated from 2018/19 through to 2020/21 and have now produced their proposals.

The PPF proposals include:

- Reducing the total amount of levies it collects by 10% to £550m.
- Introducing new scorecards developed by Experian which they claim will *"better calculate the risk of insolvency and reduce the risk of arbitrage*".
- Making Deficit Reduction Contributions (DRCs) easier to certify.
- Reducing the cap on risk based levies from 0.75% to 0.5% of liabilities.

The levy paid by an individual scheme will depend on the specific circumstances of the scheme and its sponsoring employer.

If you are a scheme trustee you should make sure that the impact of the changes to the new model on the employer's PPF risk failure score are being monitored. Many of our Not-for-profit clients, including several trade unions have seen their PPF failure score worsen under the new model. It is important that trustees and sponsoring employers understand the implications of this change as early as possible to avoid a nasty and expensive surprise when their 2018/19 levy bill arrives.

For further assistance with your PPF score, please contact your First Actuarial consultant or use the contacts at the end of this briefing.

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State Pension Age set to increase for many

John Cridland has recently completed two review independent reviews of the State Pension Age (SPA). In reviewing the SPA, Mr Cridland looked at the following key issues:

- life expectancy
- the challenges faced by those who rely most on the State Pension
- the long-term financial sustainability of the system

In his report, Mr Cridland made numerous recommendations, including that SPA should rise to 68 between 2037 and 2039. Earlier this year, Government announced its intention to follow the recommendation made by Mr Cridland to bring forward the planned increase to SPA, originally set for 2044. This means anyone born between 6 April 1970 and 5 April 1978 who expected to receive their State Pension at 67 will have to wait longer before they are entitled to draw it.

The primary reason given for the change is the continued increase in life expectancy. Whilst this is obviously good news, it also means an increasing SPA to meet Government aims for people to spend around 1/3rd of their adult lives in retirement. Reviews of SPA are likely to see it increasing again if life expectancy trends continue upwards. In recent years however, we have seen a halt in the rate at which life expectancy is increasing.

The Work and Pensions Department say the new arrangement will save the Treasury around £74bn by the 2045. They also stressed that there is time for those facing the rise to adjust their retirement plans accordingly, as current policy is to protect SPA for those within 10 years.

Responses to this decision have been mixed. Some believe that this decision maintains fairness between generations. Others have argued that the comparison is not fair, with life expectancy being very different depending on factors such as location and income level. Lower earners, for whom the State Pension is often all of their retirement income, will lose out significantly from this decision. And, although life expectancy is on the rise, according to the Office for National Statistics (ONS) 'healthy life expectancy' has been rising at a much slower rate.

The Pensions Act 2014 requires the government to review SPA every 6 years, with the next review to conclude in 2023. Those who are not already within 10 years of SPA might see the retirement goal posts moving again.

To check your current SPA, or to check what your State Pension might be, visit https://www.gov.uk/check-state-pension

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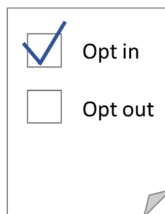
Automatic enrolment a success…?

A significant feature of the State Pension is that it cannot be drawn earlier than SPA. So, if individuals are planning to stop work before SPA, it is critical that they have made some other form of provision for their retirement income. Many will also want an income in retirement in addition to the State Pension.

For most people, that provision will be from the auto-enrolment scheme provided by their employer. Auto-enrolment legislation requires employers to provide a pension saving scheme, automatically enrol all eligible employees, and pay into it.



Auto-enrolment has been phasing in since 2012, and by 2018 it will be compulsory for all employers to provide a workplace pension for their employees.

According to recent figures from The Pensions Regulator, of those automatically enrolled into a scheme, roughly 9 in 10 have chosen to remain a member, highlighting the preliminary success of the initiative. Saving for the future with a workplace pension is now viewed as "the norm" by 83% of eligible workers, and 80% feel optimistic about the benefits they will receive through their plan.

Of course, the rate of minimum contribution required under auto-enrolment is vastly inadequate to meet most people's retirement expectations. Current rates are set (broadly) at 2% of pay (with at least 1% coming from the employer), although this is set to rise to 5% (with 2% or more from the employer) from April 2018 and again to 8% (with 3% or more from the employer) from April 2019. Increasing contributions and finding an appropriate way to turn these saving plans into a wage in retirement are vital if they are to provide adequate pensions.

Many have argued that auto-enrolment has resulted in a "race to the bottom", with employers only offering these minimum rates rather than implementing a well-thought out retirement arrangement.

Although auto-enrolment has been successful in getting millions to start their saving for retirement for the first time, it is far from "job done".

Defined Contribution Pension Schemes

Many trade union members are now in defined contribution schemes.

We encourage all trade union representatives to challenge employers to provide value for money through their DC arrangements and ensure employees understand the benefits of these schemes and how they can make the most of them. Where employers have closed their defined benefit schemes, employers and employees will be saving into DC schemes. There are also lots of employers (including those introducing auto-enrolment schemes) who have only ever offered DC. In this edition of our briefing we consider 5 key questions on benefits in defined contribution (DC) arrangements.

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1. **What kind of DC is it?** DC arrangements come in various shapes and sizes - an employer might have their own occupational pension scheme, they may provide a contract-based arrangement with an insurance company, or they may participate in a master trust arrangement. Even where DB schemes are open, individuals may also be paying Additional Voluntary Contributions (AVCs) to a DC arrangement to build up additional retirement benefits. It is important to understand the arrangements that are in place as each may have subtly different issues.

2. **What should employers and employees contribute to DC?** There is a general rule of thumb that if total contributions of 16% are paid into a DC arrangement over a 40-year period then the individual might expect to get around 50% of their salary as an income. This is double the longer-term contribution requirement under auto-enrolment legislation that is being phased in by April 2019. Negotiating higher employer contributions is always the best way to improve DC arrangements. As contributions are set as a percentage of salary, negotiating higher pay also helps! It's also useful to help members understand the tax relief available on pension contributions. Paying contributions through salary sacrifice will reduce NI contributions- and so may enable employees to move to pay higher employee contributions and so take advantage of any higher employer pension contributions that might be available.

3. **Where should DC savings be invested?** Most individuals don't feel comfortable deciding where to invest their retirement savings. That is why all DC schemes that are being used for auto-enrolment need to have a default investment approach - a strategy that is designed for the average member. What does this default look like and has it been reviewed recently to reflect how individuals may now take their benefits given the new retirement freedoms? It's likely that now individuals will need to think about how they intend to take their retirement benefits as this may have an impact on how they should be invested before retirement.

4. **What level of charges do individuals meet?** There are numerous charges in DC schemes and their structure will depend on the age and type of DC arrangement. Some costs may be met by employers. Modern auto-enrolment DC schemes are more likely to have simpler charging structures and they have to comply with the legislative cap on charges. However, legacy arrangements, particularly older AVC arrangements can have quite complex charging structures which expose individuals to high costs. Do individuals understand the charges that they meet and are they receiving value for money?

5. **What options and support are available to individuals at retirement?** The pensions freedoms have been well publicised with individuals now having a choice of cash, income drawdown and annuity purchase at retirement. Not all schemes provide access to all of these options and the support that is provided to help individuals make a retirement decision differs greatly by employer.

We will then delve into each of these questions in more detail in forthcoming issues.

A century of centenarian celebrations

The year 2017 marks the 100th birthday of 100th birthday messages from the Royal Family.

Queen Elizabeth II's grandfather, King George V, issued the first well-wishing messages to 24 centenarians in the form of a telegram in 1917.

By 2016 this had risen to around 14,500 centenarians receiving cards in the UK. Numbers continue to increase year on year, with 1-in-3 baby girls born now expected to reach 100, and 1-in-4 boys.

You can also apply for a special card from the Queen on your 60th, 65th or 70th wedding anniversary. However, you will need to remember to apply at least 3 weeks before your anniversary, which is far beyond the point at which most of us remember, currently standing at about 3 hours.

Pensions Fun Fact!

We're introducing a new feature in this edition, a "fun fact" to dazzle your friends with next time you're down the pub.

Q: When was the first pension scheme set up?

A: The first organised pension scheme was set up in the 1672 for Royal Navy Officers. It is believed to be the first occupational pension scheme in the world to provide lifetime pensions on old age retirement.

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Ongoing consultations

The following consultations on Pensions and the ageing society are open on www.gov.uk

Start	End	Body	Consultation
24 Oct 2017	16 Jan 2018	HM Treasury	Breathing space: call for evidence
30 Nov 2017	12 Jan 2018	DWP	Draft Occupational Pension Schemes (Master Trusts) Regulations 2018
30 Nov 2017	31 Dec 2017	HMRC	The registered pension schemes (relief at source) (amendment) regulations 2018
8 Nov 2017	29 Dec 2017	DH	NHS pension scheme: proposed changes to regulations 2018
3 Nov 2017	15 Dec 2017	HMRC	Draft legislation: the pension schemes (application of UK provisions to relevant non-UK schemes) (amendment) regulations2018
31 Oct 2017	7 Dec 2017	DWP	Occupational pensions: improving disclosure of costs, charges and investments

Further information

If you require further information on any of the issues contained in the bulletin, please contact:

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We welcome feedback on any of the issues covered and suggestions for issues that should be covered in the future. If any of your colleagues would like to receive future briefings but are not on our circulation list, please let us know and they will be added to the list.

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