

First Actuarial Briefing for Trade Unions Q4 2018



Introduction

Welcome to the latest edition of our briefing for trade unions. In this issue, we'll look at the following topics:

- The 2018 Budget
- GMP Equalisation
- FAB Index
- Pension Fun Fact!

The 2018 Budget

On 29 October 2018, the Chancellor of the Exchequer, Philip Hammond, presented his Budget to Parliament. We have outlined the main points relating to pensions below.



Public Service Pension Schemes

The 2018 Budget confirmed that the discount rate used in calculating the costs of public service pension schemes would reduce further from 2.8% to 2.4%, increasing employers' costs by around £4.7 billion a year.

While Government have promised to fund departments for this increase, there are some notable caveats:

- These costs are on top of a further £2 billion increase that was introduced in the 2016 budget, which is not being funded; and
- Funding has been promised for 2019/20 only (with the exception of the NHS, where funding has been promised until 2023/24).

Employers and trade unions have expressed concern over the impact these increases in costs will have on front-line services. Government have recently announced an additional £153m grant to help cover these additional costs for Police forces in England and Wales.

Pension Dashboard

The DWP has announced that it will launch a consultation on the pension dashboard, and has promised £5m of funding in 2019/20. Initially launched in September 2016, the purpose of the Pension Dashboard project is to create an online portal that will enable people to see all their different pension benefits (including their State Pension) in one place.

Lifetime Allowance

The total amount of pension savings that individuals can make tax free is known as the Lifetime Allowance (LTA). The Budget confirmed that the LTA will increase from £1.03 million in 2018/19 to £1.055 million in 2019/20.

Pensions Cold Calling

To reduce pension scams, Government has published its response to its consultation alongside the Budget and will shortly be implementing legislation to make pensions cold calling illegal. Calls will still be permitted from Trustees or managers of Pension Schemes where the recipient of the call consents to such calls.

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GMP Equalisation

On 26 October 2018, the High Court ruled in Lloyds Banking Group Pensions Trustees Ltd v Lloyds Bank plc that pensions **including those that have GMP** need to be equalised...but what exactly does this mean?

Background



The Barber judgement of 17 May 1990 ruled that retirement ages should be equal for both genders. Since then, schemes have had to equalise retirement ages for men and women.

Between 6 April 1978 and 5 April 1997, employers could contract their schemes out of the State Earnings Related Pension Scheme (an earnings-related addition to the basic state pension). Contracting-out, as this was known, was on the condition that the scheme offered a pension that was at least as good as a statutory minimum, known as the Guaranteed Minimum Pension (GMP).

The way GMP is calculated (which is set out in legislation) is different for men and women because:

- The GMP is payable from different ages (60 for women, 65 for men); and
- Women earn their GMP at a faster rate than men.

The way that GMPs increase before and after retirement is, in most schemes, different to the way the rest of the pension increases. So, whilst a man and a woman might earn the same overall pension, the different mix between GMP and non GMP means they receive different total incomes in retirement.

It had previously been unclear whether trustees should follow the Barber judgement (and equalise GMPs) or the contracting out legislation (and have different GMPs). The Lloyds judgement is highly significant for schemes whose trustees now have a duty to equalise pensions earned between 17 May 1990 to 5 April 1997 that include a GMP.

Next steps

The judgement confirmed that a range of equalisation methods were acceptable. Broadly, these methods involve:

- Comparing a member's pension each year, and paying an uplift if necessary; or
- Comparing the pension each year but allowing for any past overpayments.

The choice of method is ultimately up to the sponsoring employer.

Scheme trustees will need to start making some immediate decisions, such as:

- What allowances should be made in any upcoming valuations and accounting disclosures; and
- What should be done about members currently taking transfers out of the scheme.

They will also need to think longer term about how they equalise all benefits.

It's important to manage the expectations of members. In our experience, equalising GMPs makes a difference of a handful of pounds a month to members. Frustratingly, the costs to schemes of paying adviser fees is likely to outweigh the additional benefit to members.

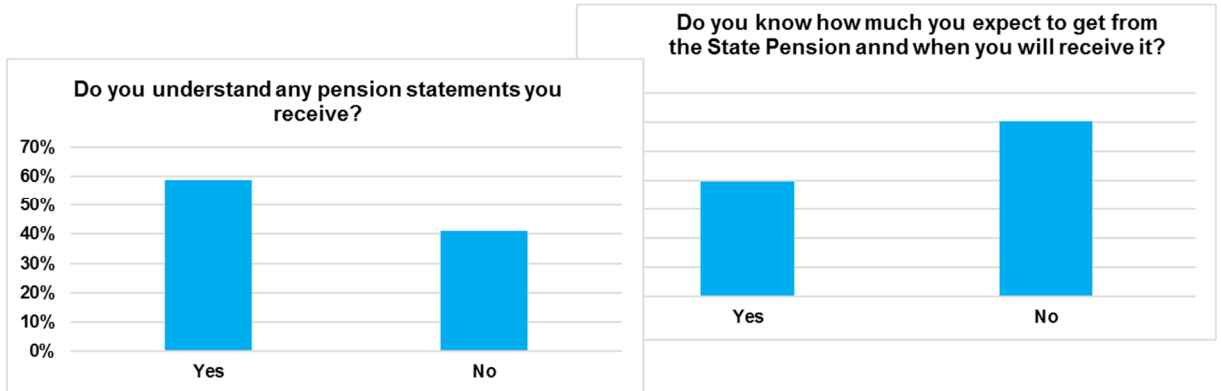
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Do you understand your pension benefits?

This year the Trade Union Congress celebrated 150 years since its first ever congress in Manchester. We took this opportunity to survey the delegates attending on a range of financial issues. Some headlines from our survey are that:

- **40%** did not understand the pension statements they received; and
- **60%** did not know how much state pension they would receive.



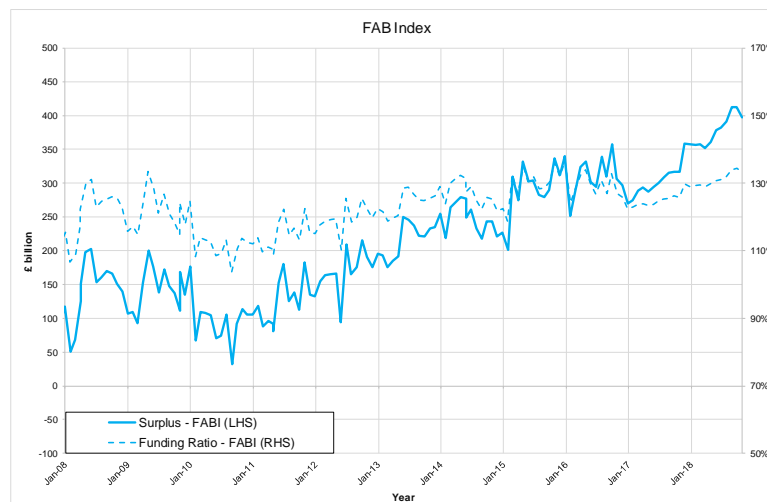
First Actuarial offer bespoke independent financial education to employers and unions who want to help their staff understand their pension benefits.

If you think we may be able to help your organisation, please see the contact details provided at the end of this briefing.

FAB Index

The First Actuarial Best Estimate (FAB) index shows the aggregate financial position of the UK's 6,000 DB pension schemes using the best estimate expected return on the assets held by those schemes.

Over the month to 31 October 2018, First Actuarial's Best estimate (FAB) Index fell slightly, with the surplus in the UK's 6,000 defined benefit (DB) pension schemes decreasing from £412bn to £397bn and the funding ratio decreasing from 134% to 133%.



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Pensions Fun Fact!

In our last briefing, we asked... What is the biggest recorded UK pension pot worth?

Answer to Q3 2018: £21 million

Question Q4 2018: Which of the following countries offers the most generous pensions and which the least generous (measured as a percentage of working wage at retirement)?

Turkey Italy Netherlands Portugal UK Croatia India

[Answer in next quarter's bulletin]

Further information

If you'd like more 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 email:

alexandra.cherouvim@firstactuarial.co.uk and they will be added to the list.

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