First Actuarial Briefing for Trade Unions
Q2 2019

Introduction

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

- Intergenerational solidarity
- PPF strategic plan
- A taxing issue for public services
- Pensions Fun Fact!

Intergenerational solidarity

Intergenerational solidarity is based on an implicit contract between generations. In the pensions arena, state benefits for current pensioners are funded by the taxes of current workers, who expect to receive similar benefits from future taxation when they retire. As the older generation receive a payment from the younger generation, they pass on assets – both physical (infrastructure, businesses) and notional (knowledge, culture).

In recent history there has been a widespread expectation that each successive generation will enjoy gradually increasing living standards. However, with shifts in income and wealth distribution, demographic trends and government policy creating problems for some, there is an increasing trend to blame social problems on generational differences. One result is that the pension benefits of different generations are coming under the microscope.

A House of Lords Select Committee argued that successive governments have failed to make proper provision for the costs of pensions and social care in old age for the large 'baby boomer' generation who are entering long retirements. The report argues that this generation will rely on smaller, younger generations to pay for them. This neo-Malthusian approach of blaming the numbers fails to recognise that larger shifts in population balances have been experienced in the past and were easily accommodated in an economy making rapid improvements in productivity.

First Actuarial Briefing for Trade Unions Q2 2019

According to another report this time from the Resolution Foundation, from 2011-12 onwards the living standards of a typical pensioner after housing costs have been higher than those of a typical non-pensioner. This may be in part because there has been an increase in older people choosing to work beyond their retirements. Again the real focus of concern here should be on the failure to grow the economy productively. But it's also notable that the share of wealth paid to workers rather than shareowners is falling. To blame this on pensioners doesn't seem very helpful. And of course comparing a "typical" worker with a "typical" pensioner hides a massive range of wealth. It is of little comfort to some of our oldest, poorest pensioners that a "typical" pensioner is better off.

As part of the debate on intergenerational fairness, the triple-lock promise on the State Pension has come under scrutiny. The triple-lock ensures that State Pensions increase by the greater of inflation, earnings growth, and 2.5% pa. This means the living standards of pensioners can increase at a faster rate than the current working-age population. A House of Lords Select Committee has proposed to remove the triple-lock in favour of increases in line with average earnings, with protection against unusually high inflation. Whilst the 2.5% pa minimum increases has always felt a little arbitrary, it was at least a way in which the real level of the State Pension could be increased gradually at times of low inflation. Given that the new State Pension for those retiring after 2016 is systematically higher than for those reaching State Pension Age before 2016, there may be an argument to apply the triple lock only to the old pre 2016 basic State Pension to allow some catching up.

In the private sector, Defined Benefit (DB) schemes which have provided high quality pensions for employees' in the past have been closed at a rapid rate. In 2006 there were 3.6m active members of DB schemes, and in 2018 this figure had fallen to 1.3m. This is coupled with the rise of Defined Contribution (DC) schemes, which are usually considerably less efficient than their DB counterparts, and often receive very low contributions.

It's true that older workers are more likely to have defined benefit schemes than younger ones. But many older workers have also been thrown out of good DB schemes and other have fought hard to ensure that schemes remain open for the present generation.

We'll be explaining the issues in our fringe meeting at the TUC Congress in September. Please come along to form the discussion.

TUC Congress 2019: https://www.tuc.org.uk/Congress2019

The 151st annual TUC Congress 2019 at The Brighton Centre, 8 – 11 September

First Actuarial Briefing for Trade Unions
Q2 2019

PPF strategic plan

The Pension Protection Fund (PPF) has recently detailed its latest three-year plan – the Strategic Plan 2019/22. Outlined in the report are its five strategic priorities:

1. Sustainable funding in volatile times
2. Built for innovation
3. Brilliant service for members and schemes
4. The best of financial and public services culture
5. Clear value for money

The PPF's long-term funding target is to be 110% funded by 2030. Their report indicates that they are on course to meet this target, which may mean that the PPF Levy could be reduced in future years.

This is despite the fact that the PPF took on its largest ever scheme this year. The Kodak Pension Plan (No.2), which has around 11,000 members and a deficit of £1.5bn, entered PPF assessment March this year. (During the assessment period the PPF check to ensure that benefits have been calculated correctly, and to see whether the scheme has enough assets to secure PPF benefits elsewhere, a process that can take up to 2 years.)

If the PPF's plans are successful, the Chief Executive Olive Morley has stated that *"…there is every chance that a surplus will be available for potential redistribution to levy payers and members"*.

It's not clear whether these views take into account recent changes from the European Court that current levels of compensation paid by the PPF are inadequate.

First Actuarial Briefing for Trade Unions
Q2 2019

A taxing issue for public services

Most contributions to a pension receive tax relief. This means that for most people, pension contributions are made *before* tax is calculated, meaning that a £100 pension contribution only costs you £80 (or less if you are earning over £50,000 a year). To limit the cost to Government, there are limits on tax relief – the Annual Allowance and the Lifetime Allowance.

These limits have fallen over time and in extreme cases, due to tax "cliff-edges" employees are being faced with marginal tax rates of over 100% - i.e. people are paying to work.

Issues in public services

Many private sector workers have access to flexibilities which allow them to manage these tax charges that their public sector colleagues do not. The impact of these tax charges can be more pronounced in the public sector, also in part due to good quality public service pension schemes.

This has led to a real concern that these tax charges are leading to serious staffing issues, particularly in the NHS. It has been reported that many consultants are reducing their hours, turning down extra work or even taking early retirement to avoid potentially huge pension tax bills. The fear is that this will add more strain on an already stretched workforce.

To address this, Government have launched a consultation on a proposal for a 50:50 option for senior clinicians, meaning that senior clinicians pay half the contribution for half the benefit. This has been met with mix reactions, with the BMA warning that this approach "*would not provide the flexibility urgently needed*".

This topic is covered in more depth in our report to NHS Employers:

https://www.nhsemployers.org/case-studies-and-resources/2019/06/research-into-the-impact-of-pensions-tax-in-the-nhs

A two-page summary of our report can be found here:

https://www.nhsemployers.org/case-studies-and-resources/2019/06/summary-document-of-research-into-the-impact-of-pensions-tax-in-the-nhs

First Actuarial Briefing for Trade Unions
Q2 2019

Pensions Fun Fact!

In our last briefing, we asked… Which of the following two countries have the highest and lowest life expectancies, according to the World Health Organisation?

Highest:	Japan	Poland	Greece	Brazil	Croatia	Russia
Lowest:	Sierra Leone	Ghana	South Africa	Chad	India	Angola

Answer to Q1 2019: Highest life expectancy: Japan (83.7) Lowest life expectancy: Sierra Leone (50.1)

Question Q2 2019: Which country has the world's largest pension scheme?

Switzerland China UK Australia Japan Canada

Further Information

If you'd like more information on any of the issues contained in the bulletin, please contact:

Hilary Salt hilary.salt@firstactuarial.co.uk or on 0161 348 7441
Craig Moran craig.moran@firstactuarial.co.uk or on 0161 348 7468

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 cristina.brebenar@firstactuarial.co.uk and they will be added to the list.