

First Actuarial Briefing for Trade Unions

Q3 2019

Introduction

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

- The UK pensions landscape in numbers
- Update on public service pensions
- Pension scams – a lifetime's savings lost in a moment
- FAB Index – a positive message on DB pensions
- Pensions Fun Fact!

The UK pensions landscape in numbers

The Office for National Statistics recently released their latest survey results from the Occupational Pensions Schemes Survey 2018.

Total membership of occupational pension schemes in the UK is at the highest level ever recorded at 45.6 million members (active, deferred and pensioner members), which is more than a 60% increase from 27.7 million a decade ago. The table below shows how active membership of private sector occupational pension schemes has changed over the last decade.

Active members of private sector occupational pension schemes (millions)	2008	2018	Change
Defined Benefit (DB)	2.6	1.1	-58%
Defined Contribution (DC)	1.0	9.9	+890%
Total	3.6	11.0	+206%

The impact of auto-enrolment has greatly increased active membership. This growth has been in DC rather than DB schemes. Active membership of DB schemes is declining, and only 0.7 million of the 1.1 million active private sector DB members are in schemes that are open to new entrants (compared to 1.1 million of 2.6 million in 2008).

Employers and employees in the private sector also contribute very different amounts to DB and DC pension schemes, as shown in the table below.

Average contribution rates to private sector occupational pension schemes	Employer	Employee	Total
Defined Benefit (DB)	19.2%	6.4%	25.6%
Defined Contribution (DC)	2.4%	2.7%	5.1%

5% was the minimum total contribution rate required under auto-enrolment for DC schemes in 2018, which shows that DC schemes are on average not much more generous than the minimum. This will have changed in April 2019, where the minimum total DC contribution rate has increased to 8%.

The public sector has seen more stable experience. Public service pension schemes are mainly Defined Benefit, and active membership has grown from 5.4 million to 6.3 million over the last decade.

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Update on public service pensions

A taxing issue for public services

In our last briefing we discussed pension tax charges affecting some NHS employees. There was, and still is, a concern that these charges can lead to serious staffing issues as employees, and particularly consultants, may choose to reduce their hours, turn down extra work or even take early retirement to try and avoid potentially huge pension tax bills.

Government has recently updated its proposal on how to tackle this issue. The previous proposal for a 50:50 option has been expanded to allow senior clinicians to choose how much they want to contribute and accrue. This proposal means senior clinicians could choose in increments of 10%, from 10% to 100%, how much they want to contribute, and they will build up benefits in that proportion. Watch this space to see the outcome of the consultation.

Age discrimination case

In 2015, most public service pension schemes were reformed. These reforms included transitional protections, which allowed those closer to retirement (by definition, older members) to stay in the existing non-reformed pension schemes.

In December 2018, the Court of Appeal ruled that these transitional protections constituted unlawful age discrimination in both the Judicial and Firefighters' Pension Schemes. Government sought the right to appeal the judgment, but this has now been denied by the Supreme Court. We are now waiting for the outcome of the remedy hearing which will decide on next steps to compensate members. Government has estimated that remedying this could cost £29.5 billion if extended to other public service pension schemes.

Pension scams – a lifetime's savings lost in a moment

The combined pension savings in Great Britain were worth £4.5 trillion in the period 2012-14, and for most people in the UK their pension savings will be their largest financial asset. Pension scams are on the increase in the UK, and victims of these scams can lose a lifetime's savings in a moment.

The Pensions Regulator (TPR) is now carrying out seven criminal investigations across 52 schemes in relation to around £55m of pensions savings being lost to scams. Last year, pension scam victims were reported to have lost an average of £82,000 each. It is not always easy to spot a scam, and fraudsters are getting more sophisticated in the methods they use. According to Citizen's Advice, there are four types of pension scam to look out for:

- **Investment scams** offer high returns on pension savings (often held overseas) to get people to transfer their savings to an unauthorised account.
- **Liberation scams** offer access to pension savings before the age of 55, again to transfer to an unauthorised account. This often results in a large tax bill in addition to the loss of pension savings.

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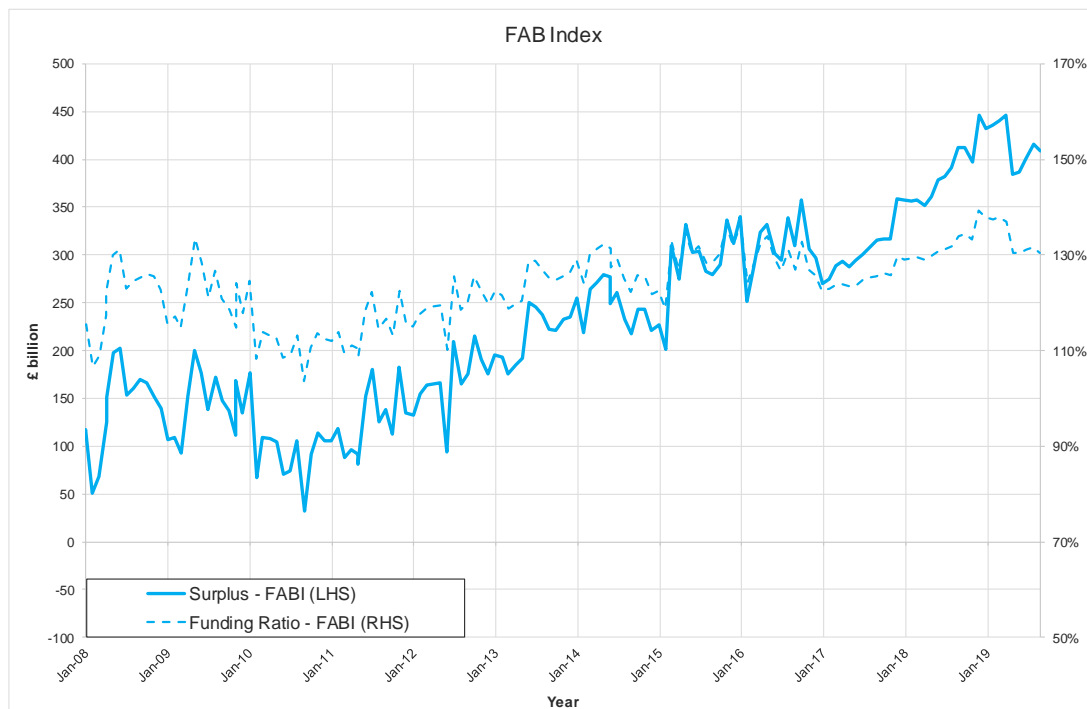
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- **Review scams** offer a 'free' review into pensions savings and investments in order to gather information or authority to transfer pension savings.
- **Advice scams** offer 'free' advice with the same objective as review scams.

FAB Index – a positive message on DB pensions

The FAB (First Actuarial Best-estimate) Index shows the financial position of the UK's 5,450 defined benefit (DB) pension schemes on a long-term basis, allowing for realistic future investment returns.

As at 31 August 2019, these schemes collectively held assets worth £1,756bn and liabilities totalling £1,347bn. This means that using the FAB measure there is a healthy surplus of £409bn and a funding level of 130%.



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Pensions Fun Fact!

In our last briefing, we asked... Which country has the world's largest pension scheme?

Switzerland China UK Australia Japan Canada

Answer to Q2 2019: *Japan (the Government Pension Investment Fund)*

Question Q3 2019: The Consumer Prices Index (CPI) inflation measure is important in the annual uprating of pensions. The CPI is based on a "shopping basket" of items that are representative of consumer spending patterns in the UK. This basket is reviewed each year to make sure that it is up to date. Which item was added to the basket this year?

Envelopes Garlic Bread Electric Toothbrush Light bulb Cycle Helmet Washing Machine

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 sean.docherty@firstactuarial.co.uk and they will be added to the list.

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