First Actuarial Briefing for Trade Unions
Q4 2019

Introduction

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

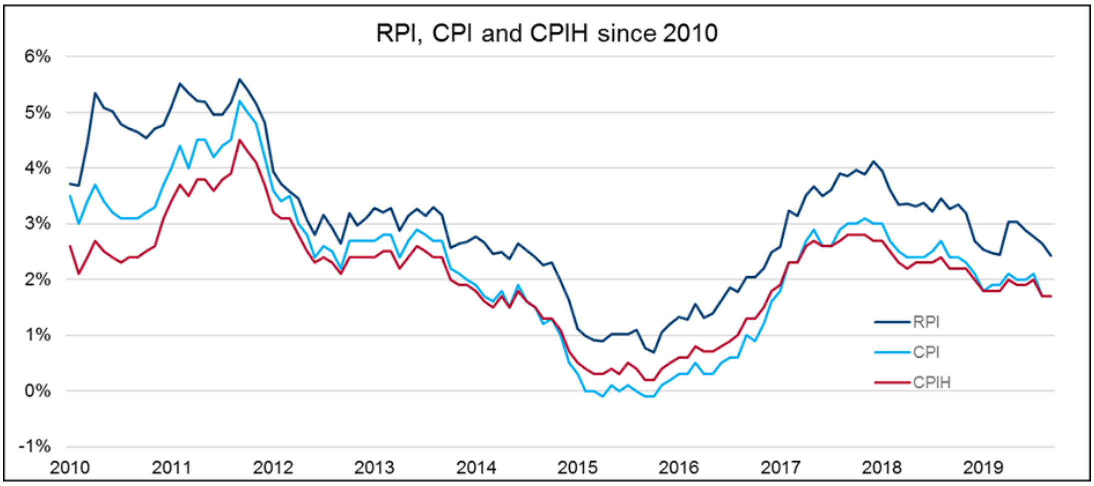
- RIP RPI?
- NHS takes exceptional action in response to tax "crisis"
- Pensions in the UK – an international comparison
- Private schools exit the Teachers' Pension Scheme
- Do you understand your pension and finances?
- Pensions Fun Fact!

RIP RPI?

The UK currently has three main inflation measures:
- Retail Prices Index (RPI)
- Consumer Prices Index (CPI)
- Consumer Prices Index including owner occupiers' housing costs (CPIH)

Government has announced that it intends to align (or effectively replace) RPI with CPIH by 2030 and will consult on whether to bring this change in from 2025. This follows the Office for National Statistics calling RPI "a very poor measure of general inflation" and saying there are "far superior alternatives" available, such as CPIH.

The graph below shows the difference between the measures. Over the long-term:
- RPI has been and is expected to be roughly 1% higher than CPI and CPIH
- CPI and CPIH have been and are expected to be similar with only short-term differences due to housing costs



Realigning RPI with CPIH could have a significant impact on pension schemes:
- If a pension scheme invests in index-linked gilts, then the value of these investments may be affected (as they are currently indexed to RPI)
- If pension revaluation and increases are linked to RPI then members can expect lower revaluation and increases when RPI is realigned with CPIH

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NHS takes exceptional action in response to tax “crisis”

In our last briefings we discussed how pension tax charges affected some NHS employees. These tax charges can lead to staff shortages as affected employees reduce their hours or even take early retirement in order to try and avoid pension tax bills. In anticipation of a busy winter, the NHS has taken exceptional action to ensure full commitment from its workforce.

NHS England and NHS Improvement have offered to compensate clinicians for Annual Allowance pensions tax charges incurred in the 2019/20 tax year. Clinicians who breach the Annual Allowance (incurring a tax charge) are able to pay this tax charge through the ‘Scheme Pays’ facility. This means the scheme pays the tax charge on behalf of members, and in exchange the member’s scheme benefits are reduced. For the 2019/20 tax year, the NHS will make a contractually binding commitment to pay an amount that matches the Scheme Pays reduction when the member retires, effectively compensating the member for the pensions tax charge.

The Scottish Government has also taken action. Eligible staff who can prove that they have a reasonable expectation of an Annual Allowance pensions tax bill will be able to opt-out of the pension scheme and receive the employer pension contribution of 18.365% of their basic pay as additional salary. Again, this applies only to the current tax year. In England each employer has the discretion as to whether to pay unused employer contributions. NHS Scotland have pointed out that taking this option will impact life and ill health protections.

Pensions in the UK – an international comparison

According to the 2019 Melbourne Mercer Global Pension Index, the UK’s pension system ranks 14th out of 37 countries, with an overall C+ rating. This index considers pension provision from all sources, including the State. The highest-ranking nations are the Netherlands, Denmark and Australia.

The index looks at adequacy, sustainability and integrity. The UK scores strongly in integrity (A grade), indicating a good level of trust in the system’s ability to deliver. However, lower adequacy (C+ grade) and sustainability (C grade) scores let the UK down relative to other countries.

On a positive note, the UK’s score has improved slightly from 2018 to 2019 on all measures of adequacy, sustainability and integrity. This is partly due to the increase in automatic enrolment minimum contributions (now 5% for employees and 3% for employers).

So what can be done to improve the UK’s pension system? The report recommends:

- Restoring the requirement to take part of retirement savings as an income stream (in other words buying an annuity)
- Increasing the level of contributions to occupational pension schemes
- Raising the minimum pension (mostly formed of the State Pension) for low-income pensioners
- Further increasing the coverage of employees and self-employed in pension schemes

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Private schools exit the Teachers' Pension Scheme

The amount paid by schools for their teachers to participate in the Teachers' Pension Scheme (TPS) has increased from 16.48% to 23.68%. This means costs for schools in the TPS have gone up by more than 40%.

The Teachers' Pension Scheme (TPS) is a public service defined benefit pension scheme for teachers. Teachers in the TPS pay between 7.4% and 11.7% of their salary, depending on how much they earn. Schools funded by the Government are required to participate in the TPS, but independent schools are not. As a result of the cost increase, 62 independent schools have already told the Department for Education that they plan to leave the TPS. Several of these schools will offer a defined contribution pension instead.

Aside from withdrawing completely, there is not much flexibility for independent schools when it comes to the TPS. They cannot ask teachers to pay higher member contributions or change benefits being earned to reduce cost. All staff need to be either in or out of the TPS – they cannot offer it to some and not others.

Government responded to the large number of schools planning to leave the TPS by running a consultation which proposed to allow independent schools to close the TPS to new members, but allow existing staff to continue to build up benefits. The consultation ran from 9 September 2019 to 3 November 2019, with the outcome not yet published.

If a school is allowed to close the TPS for new members it will help reduce costs in the long run, but will mean providing a two-tier benefit structure with some teachers allowed to build up benefits in the TPS and others (in most cases) in a defined contribution scheme.

Do you understand your pension and finances?

This year we attended the Trade Union Congress in Brighton where we took the opportunity to the survey the delegates attending on a range of financial issues. Some headlines from the survey are that:

- **40%** do not save regularly
- **19%** do not feel in control of their spending
- **43%** do not think they were saving enough for retirement or were not sure whether they were saving enough for retirement
- **27%** said that their employer does not explain their pension and other benefits to them
- **59%** do not understand or only understand some of the pension booklets and benefit statements they receive
- **28%** do not think they would be able to spot a scam or are not sure they would be able to spot a scam

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.

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Pensions Fun Fact!

In our last briefing, we asked… 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

Answer to Q3 2019: Electric Toothbrush

Question Q4 2019: According to the 2019 Melbourne Mercer Global Pension Index, which country’s pension system do think had the lowest overall rank? The index measures the adequacy, sustainability and integrity of various pension systems around the world.

USA	Japan	South Africa	Italy	Brazil

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.