First Actuarial briefing for trade unions
Q2 2020

In the latest issue of our briefing for trade unions, we discuss the continuing impact of COVID-19 on individuals and pension schemes as the economy is still on hold, looking in particular at the Regulator's Annual Funding Statement.

We share a link to First Actuarial's free webinar aimed at helping you manage your personal finances in a pandemic.

And, taking a break from COVID-19 issues, we also look at the consultation on the future of the RPI.

COVID-19: Mortality impact

The COVID-19 pandemic has caused an increase in the number of deaths worldwide. Some countries have fared better than others in managing the outbreak. How do the UK's mortality statistics look?

Over the last three months, the Office for National Statistics (ONS) has been issuing a weekly update on their mortality analysis for England and Wales (Scotland and Northern Ireland each produce their own mortality data separately). There has been a dramatic increase in the number of deaths over this period compared to the average range over the last five years; more than one in four of the weekly deaths occurring since the end of March listed COVID-19 on the death certificate. The week of 17 April had the highest concentration to date of COVID-19 deaths, with almost 40% of deaths in that week listing COVID in the cause of death.

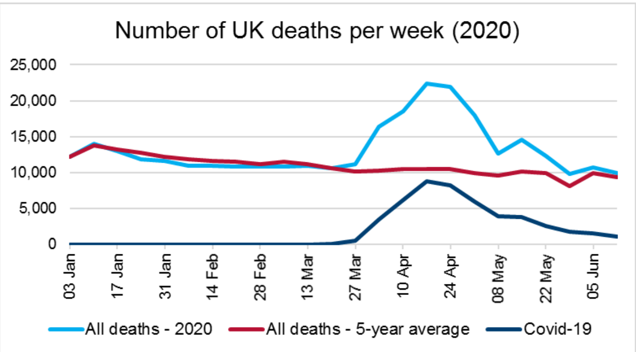

Figure 1: UK deaths from 1 January to 12 June 2020

The increase in the number of excess deaths – deaths over and above the rolling five-year average figures – is far greater than the number of deaths explicitly recorded as COVID-19 deaths. The area between the light blue line and the red line in Figure 1 represents these excess deaths. The difference between this area and the area underneath the dark blue line represents the excess deaths where COVID-19 is not mentioned on the death certificate. Record low A&E admissions, as well as the cancellation of all but essential treatments and surgeries, have undoubtedly contributed to these excess deaths.

In our last bulletin, we noted that Government hoped to keep total UK deaths from COVID-19 under 20,000. The number of excess deaths since the end of March, including those deaths caused by COVID-19, is currently estimated to be around 59,000 across England and Wales. This figure increases by around 6,000 when including Scotland and Northern Ireland. It is safe to say that the UK epidemic of COVID-19 has cost far more lives than Government's initial hopes.

Fortunately, the number of deaths occurring weekly appears to be trending back towards normal levels.

First Actuarial's COVID-19 webinar

First Actuarial understand the importance of ensuring that people are coping, mentally and physically, during these unsettling times. We have produced a webinar to help individuals take a step back and look at ways to manage their personal finances and mental wellbeing. This information is of particular importance during the financial uncertainty that the pandemic brings. We're happy to work with employers who want to provide access to this to all their staff.

The webinar covers topics including:

- Updating the household budget
- Managing pensions and savings
- Coping with financial difficulty
- Managing physical and mental health
- Avoiding money scams

The webinar lasts around 35 minutes and is available to watch for free. Use the link below to register for the webinar and access the recording.

https://www.firstactuarial.co.uk/fw/covid-19-and-your-employees-a-webinar-for-personal-and-financial-wellbeing/

The Pensions Regulator's Annual Funding Statement

The Pensions Regulator (TPR) published their Annual Funding Statement on 30 April. The Statement focuses on schemes with valuation dates between 22 September 2019 and 21 September 2020, and on schemes undergoing "significant changes that require a review of their funding and risk strategies". It provides guidance on allowing for the impact of COVID-19 on valuations, depending on where schemes are in the valuation process. You can read the full statement here: https://www.thepensionsregulator.gov.uk/en/document-library/statements/annual-funding-statement-2020

Schemes with valuation dates on or before 31 December 2019 which are close to completing their valuations are not expected to revise their valuation assumptions but should consider taking account of post-valuation experience when agreeing recovery plans.

Schemes with March or April 2020 valuation dates could face difficulties, as trustees may not have adequate information on long-term investment returns and the covenant strength and affordability of the employer. Schemes less reliant on equities are expected to be in a stronger position. Trustees are urged to consider a range of possible outcomes when deciding on assumptions used to calculate Technical Provisions. TPR suggests that it is reasonable to delay setting assumptions until more is known about the impact of COVID-19 on the scheme. However, schemes that are considering changing the valuation date should expect queries from TPR as to their reasons for doing so, as this may not be in the best interest of members.

Employers' requests for DRC easements

In their supplementary guidance, *DB scheme funding and investment: COVID-19 guidance for trustees*, TPR estimates that, so far, around 1 in 10 schemes have agreed to either suspend or reduce Deficit Reduction Contributions (DRCs) because of the financial effect of COVID-19 on the employer's finances. They suggested that Trustees should be open to suspending or reducing DRCs for up to three months. However, the less confidence the trustees have in receiving relevant, timely information about the employer's position, the shorter the period of suspension should be. Trustees may wish to take legal and actuarial advice on whether to grant the employer a short respite period and, if so, the most appropriate method of suspension/reduction. Particular care should be taken when the agreed DRCs are substantial, for example where a large, one-off payment is due. TPR reminds us that they cannot waive trustees' or employers' legal and reporting obligations but have said they will "take a practical approach to late reporting breaches caused by COVID-19 issues, provided they are reported to us within three months of the breach."

Guidance on CETVs

TPR warns trustees to be aware of the increased risk of members being targeted by scammers and unscrupulous financial advisers during this time. They have produced a letter which members should be sent when receiving a transfer quotation, alerting them to the fact that transferring may not be their best option at this time.

In order to review Cash Equivalent Transfer Value (CETV) terms in defined benefit schemes and/or assess the possible impact of an increase in CETV quotation requests on scheme administration in light of the pandemic, trustees may have taken the decision to suspend CETV quotations and payments for up to three months after first obtaining advice.

However, from 1 July 2020, TPR expects the usual reporting requirements to be adhered to, unless separately applied for and agreed with the Regulator.

RPI consultation

The Treasury and the UK Statistics Authority are currently consulting on whether to change the methodology behind the Retail Prices Index (RPI) measure of inflation. Whilst this is being presented as a technical change to RPI, it is in reality a proposal to replace RPI with the lower CPIH measure.

The headline inflation measure, the Consumer Prices Index (CPI), measures the average change in prices over time that consumers pay for a basket of goods and services. CPIH is identical to CPI except that it includes a measure of owner occupiers' housing costs – costs related to ownership and maintenance of homes including, significantly, mortgage payments and council tax. CPI and CPIH have tended to be around 1% pa lower than RPI.

In our response to Treasury's consultation, First Actuarial has said that it is premature to decide to substitute RPI with CPIH. Our recommendations before taking a decision on the future of RPI include:

- Adopting appropriate reform of housing costs in CPIH
- Reforming the collection of price data to include electronic collection of data
- Concluding the Household Cost Indices project (which aim to measure the change in households' outgo over time)

RPI is used in many areas of pension schemes' operations. A replacement of RPI with CPIH could be concerning for schemes and their members. Many pension schemes hold index linked gilts which provide an income currently based on RPI. A reduction in income of 1% pa could result in index-linked gilt asset values falling by around 20%, which may affect the funding level of schemes. For members, any pension increases in deferment or retirement which are linked to RPI will also be lower if the switch to CPIH is made. Over a lifetime, this effective cut to benefits could be very substantial.

If the change is made, we estimate that Government will save around £100bn in payments it makes to index linked gilt holders. That will be reflected in a mix of reduced benefits to scheme members and additional costs to sponsoring employers.

We would urge all trade unions and other interested bodies to contribute to this consultation which closes on 21 August 2020.

Pensions fun fact!

In our last briefing, we asked…

According to a recent report by The Pensions Regulator, what proportion of UK employees are currently saving into a workplace pension plan?

67%   72%   77%   82%   87%

Answer to Q1 2020: 87%

Question Q2 2020: According to the Moneyfacts Personal Pension Trends Treasury Report, how much did the average Defined Contribution pension fund fall by over the first quarter of 2020?

10%   15%   20%   25%   30%

How First Actuarial can help

First Actuarial is a nationwide firm of pensions actuaries and consultants, helping trade unions with all their pensions issues.

We can help support trade unions negotiate with employers; lobby government; resolve problems within specific schemes; and explain any changes or choices members have to make. We also provide administration, actuarial and investment services to a large number of trade unions' own schemes.

If you or any of your colleagues would like to receive future briefings but are not on our circulation list, please email charlotte.white@firstactuarial.co.uk and you will be added to the list.

We welcome feedback on any of the issues covered and suggestions for issues that should be covered in the future.

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

Hilary Salt
hilary.salt@firstactuarial.co.uk
0161 348 7441

Charlotte White
charlotte.white@firstactuarial.co.uk
0161 348 7439