First Actuarial briefing for trade unions
Q3 2021

In this third briefing of 2021, we provide an overview of Government's announcement to suspend the triple lock for 2022/23 and to increase National Insurance contributions in April 2022.

We look at new guidance for pension schemes on how to deal with GMP equalisation of transfers. We also provide an update on mortality statistics from the Covid-19 pandemic, and include a summary of charges of maladministration regarding the DWP's announcement of the women's State Pension age changes.

State Pension 'triple lock' suspended

The triple lock governs the annual increase applied to the State Pension, with the increase being set at the highest of:

- Inflation, measured by the Consumer Prices Index (CPI)
- The average wage increase
- 2.5%.

The pandemic has resulted in a significant decrease in the proportion of lower-paid workers, causing an artificial increase in average earnings this quarter of over 8%. Had this increase been applied, the increase in State Pension expenditure was projected to have cost the taxpayer an extra £5.7 billion pa.

Government plans to introduce a bill modifying the lock to temporarily exclude the average increase in earnings, arguing that this metric is a *statistical anomaly* this year. The triple lock will be re-introduced after one year.

The triple lock enjoys widespread public support, with over two-thirds of the public in favour, though there is a significant generational divide with over-50s being far more likely to support the policy than younger people.

While this decision may prove unpopular, many agree that it strikes a reasonable balance. Some are questioning whether the triple lock is truly fit for purpose, while others worry that it sets a precedent that Government can 'pick and choose' when to apply the triple lock.

Salary sacrifice – a silver lining

National Insurance (NI) contributions for both employees and employers are set to rise by 1.25% in April 2022, due to a *health and social care levy*. This will reduce take-home pay for workers and increase staff costs for employers. These increases could be lessened by using salary sacrifice.

Employees already get tax relief on their pension contributions. But NI is paid on all earnings. Salary sacrifice, or salary exchange, is an arrangement which allows employees' pension contributions to be paid by 'sacrificing' pay, leaving a lower amount subject to NI. This generates NI savings for both the employee and employer.

It can be used in both Defined Contribution and Defined Benefit schemes.

Under the arrangement, employees agree to a contractual change, giving up part of their gross salary to make pension contributions. This leaves a reduced salary, which is used to determine the NI contribution to be paid.

The outcome is beneficial to both the employee and employer. For example, in the current tax year, an employee earning £25,000 with a 5% salary exchange (£1,250) will see savings of £150 per annum, and their employer £172.50 per annum – with these gains increasing from April 2022 to £165.60 and £188.10 pa respectively.

This scheme may not suit everyone. Lower earners must ensure they stay above the Lower Earnings Limit, currently set at £6,240 per annum or risk losing entitlement to certain state benefits. Those working beyond State Pension age currently do not pay NI contributions, but this is due to change next April when the new levy will also apply to them. Note that salary sacrifice can’t be used to reduce earnings to less than the National Minimum Wage or National Living Wage.

DWP did not ‘get it right’

Poor communication from the Department for Work and Pensions (DWP) in publicising changes to the State Pension age for women has led to recent accusations of *maladministration* from the Parliamentary and Health Service Ombudsman (PHSO).

From 1995 to 2004, information on these changes was publicly available through leaflets from the Department and on its website. But research in the latter part of that period suggested that their efforts to communicate these changes should be more targeted and offer *individually tailored* information to achieve better results.

Following these findings, in 2006 the DWP made a proposal to contact affected women directly, but it was not until April 2009 that this was put in place, at least 28 months later than originally planned.

This maladministration meant that women had been denied a chance to adjust their retirement plans in response to these changes for over two years.

Moving forward, the PHSO will further investigate and consider what sanctions should be imposed and whether compensation is required. So we will need to wait for that investigation to see whether the DWP is held to account. Note that the courts have already deemed that the steps taken by the DWP were *adequate*.

Further (but far from full) guidance on GMP equalisation

In our [Q4 2020 briefing](), we provided an update on the latest judgement in the Lloyds Bank case on GMP equalisation. It ruled that trustees of Defined Benefit (DB) schemes must revisit past statutory cash equivalent transfer values (CETVs) if they have not made appropriate allowance for GMP equalisation and topped up such past transfers if necessary.

In August 2021, the Pensions Administration Standards Association (PASA) published further advice on the controversial topic of GMP equalisation. The updated guidance comes at a good time, as most schemes are yet to start their GMP equalisation projects, with most only starting to gather data now in preparation for the task ahead.

The latest update provides guidance on dealing with past transfers and sets out multiple approaches that can be used to implement GMP equalisation. It also clarifies the roles that trustees, and sponsoring employers can play to facilitate owed compensation.

The guidance has been produced by a subgroup of actuaries, administrators, lawyers and pensions managers, who have pooled together their knowledge to help assist those less familiar with the subject.

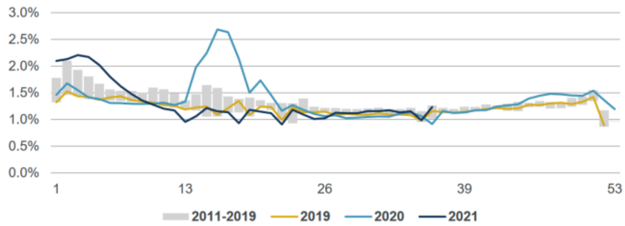
PASA claims the guidance aims to address outstanding issues in a *pragmatic and practical manner* and does so with some success, although many questions remain unanswered. These include what trustees should do in cases where enhanced transfer values have been paid in the past.

Despite this recent guidance, the challenge of GMP equalisation remains complex, and costly in terms of adviser and administrator fees. This was recognised by the judge dealing with Lloyds in 2020, who felt administrative costs could easily exceed the value of correction payments. In some cases, transfers out may have happened over 30 years ago to and from schemes that may no longer exist.

This will be an ongoing project for many schemes over the coming years.

Covid-19 mortality update

As we mentioned in our [Q2 2020 briefing](), the Institute and Faculty of Actuaries (IFoA) has continued to publish a weekly ‘mortality monitor’ update, reporting on mortality rates across England and Wales.



There were clear spikes in mortality rates during the second quarter of 2020, and then again over the first two months of 2021. Since April 2021, mortality rates have been similar to those seen in 2019, and well within the expected range seen over the last decade.

This can be more instructive than examining the numbers of deaths where death certificates record

Covid-19 as a cause, because it accounts for deaths that are indirectly caused by the pandemic (e.g. through disruptions to hospital treatment).

As of 10 September 2021, the IFoA estimates that there have been 102,400 excess deaths in the UK since the start of the pandemic. There is a tendency to focus on total deaths to date, which obviously only ever increases and is a large number. It is perhaps helpful to note that 29,500 of these deaths have occurred in 2021.

Pensions fun fact!

In our last briefing, we asked…

To the nearest billion pounds, how much does Government pay out each year in State Pensions?

£40bn £55bn £70bn £85bn £100bn

Answer to Q2 2021: £85bn

Question Q3 2021:

To the nearest million, how many people in the UK are now saving into a pension scheme?

1m 3m 6m 10m 30m

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 future briefings but are not on our circu can **sign up here**, selecting "Pensions unions" under Topics of particular inte

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

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

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