First Actuarial briefing for trade unions
Q1 2022

In our first briefing of 2022, we look at how The Pensions Regulator (TPR) proposes that CDC pension schemes will be regulated. We also report on the Department of Work and Pensions' (DWP) State Pension shortcomings, and discuss how your annual scheme return submission has changed this year.

We also provide an update on changes the Pension Protection Fund (PPF) is making this year on how scheme PPF levies will be calculated for 2022/23.

TPR consultation on CDC code of practice

First Actuarial has a team dedicated to building up expertise around Collective Defined Contribution (CDC) schemes, and is a market leader in this area. **Take a look at our CDC website** for more information.

CDC schemes provide pensions in a similar way to Defined Benefit (DB) schemes, in that they aim to provide an income for life to members. However, CDC schemes are fundamentally Defined Contribution (DC) in nature – the benefit promise is not guaranteed and can be altered to reflect the experience of the scheme.

The early pacesetter in adopting a CDC form of pension provision for its employees is Royal Mail. First Actuarial first proposed the use of a CDC scheme for Royal Mail in its role as adviser to the Communication Workers Union (CWU).

From August 2022, when the regulations are expected to come into force (subject to parliamentary approval), CDC schemes can go ahead. This will pave the way for the provision of a 'wage in retirement' for future generations of workers.

The Pension Schemes Act 2021 (PSA 21) provides a legal structure for setting up and running CDC schemes. TPR has formulated a CDC code of practice to guide trustees and other stakeholders through the authorisation and supervision requirements set out in the PSA 21.

The consultation which focused on the draft content of this code closed on 22 March 2022, with a response from TPR expected before August. First Actuarial has responded to TPR's consultation, urging the use of proportionate regulation.

PPF updates for the 2022/23 levy year

PPF has published the final rules that will apply for the 2022/23 levy year. The PPF highlighted that despite the economic uncertainty, its strong financial position has enabled them to maintain existing levy rules and allow the levy estimated income to fall by over £100 million. This will result in over 80% of schemes paying a risk-based levy lower than the previous year. The overall estimated levy collection is also expected to fall to £390m for the 2022/23 levy year.

The PPF also confirmed that the Covid-19 support measures introduced in the 2021/22 levy year – including the Small Scheme Adjustment, the lower risk-based levy cap and COVID-19 payment easement – will remain in place.

However, it highlighted the significant increase in PPF levy score movements over the previous year due to the exceptional circumstances of the pandemic. In order to reduce economic pressure for employers, for schemes that don't see a fall in their levy, the PPF is introducing a new maximum increase in the risk-based levy of 25% for the 2022/23 levy year only.

The PPF says it is considering carefully the direction of the levy in the long term as part of its funding strategy review. **Read our comprehensive briefing on the PPF levy 2022/23**.

Pension scams

First Actuarial's Carolyn Stanton wrote a guest article in *RMTnews* in February 2022, giving RMT members the lowdown on pension scams.

Carolyn gave helpful pointers on how to identify pension scams, what you can do to prevent them, and what to do if you think you're being scammed. You can **read Carolyn's article here** on page 16.

Review of State Pension age

Government has started its review of the State Pension age (SPA). The Pensions Act 2014 requires Government to review the SPA every six years. Currently, both men and women receive a state pension at age 66, but two increases in the age are already set out in legislation. Those born from April 1960 will see their SPA rise to age 67 and the SPA for those born from April 1977 will increase to age 68.

Government says reviews of SPA are necessary to ensure the costs of increasing longevity are shared fairly between the generations and to also provide greater clarity around how SPA will change in the future. This review, will specifically consider whether to bring forward the increases in SPA already set out in legislation.

To gather evidence for the review, Government has commissioned two independent reports. The first will be carried out by the Government Actuary's Department and will analyse life expectancy projections. Former Secretary of State, Baroness Neville-Rolfe, has been asked to prepare the second review, which will consider which metrics to employ when setting the SPA, as well as examine recent trends in life expectancy.

Previously, Government applied a principle that the State Pension should be paid for one-third of adult life, which has driven recent changes to the SPA.

Any change in SPA could potentially affect millions of people's retirement ages and, if SPA is increased, would ultimately mean they will be required to contribute for longer before receiving any State Pension. Government is hosting a public consultation on the review of SPA – responses to the consultation can be made here by 25 April 2022.

DWP shambles leaves thousands short-changed

More than 134,000 current pensioners have not been receiving their full State Pension entitlement – with some miscalculations left uncorrected for more than three decades. A revealing report from the UK Parliament Public Accounts Committee (PAC) has exposed the DWP's failings, which has mainly affected widows, divorcees and women reliant on their husbands' pension.

The underpayments (building up from 1985) now total over £1bn. Some of the underpayments may never be repaid as those entitled have since died, unaware they were getting less than they were entitled to. Currently there is no formal plan in place to contact the next of kin in these circumstances.

Correction exercises are far from unfamiliar to the DWP, with this investigation marking its ninth since 2018. The exercises themselves are also a costly affair: this case is estimated to set the taxpayer back £24.3m in staffing costs alone as well as putting a strain on other DWP services as staff are drawn away from day-to-day duties to tackle these past shortcomings.

The PAC has attributed the failures to DWP's "outdated systems" and "heavy manual processing". They say that small errors over the years have in some instances led to "significant sums of money" going unpaid.

Dame Meg Hillier MP, Chair of the PAC, described the situation as a "shameful shambles", stating she is yet to receive any assurance that "the errors that led to these underpayments in the first place will not be repeated in the correction exercises". The PAC now expects the DWP to make the changes it requires to attempt to ensure that its ninth correction exercise in less than four years is its last.

TPR criticised for changes to scheme returns

2022 saw TPR introduce additional questions as a part of an update to the scheme return process. Rather than being completed through TPR's Exchange website, similar to the rest of the scheme return, the additional questions have been emailed to schemes with a link to fill out a web-based form – much to the frustration of the industry.

The new questions ask scheme trustees to give their assessment of the strength of the employer covenant and to provide the web locations of schemes' Statement of Investment Principles (SIP), Implementation Statement, and scheme climate change reports (where applicable). But given increased awareness of the dangers of following links in unsolicited emails, many have been suspicious of these emails.

It is hoped that that, given the backlash from the industry over the new online form, TPR will explore how these new questions can be better presented in future. Industry professionals speculate that TPR will eventually migrate the new part of the scheme return over to Exchange so it can be completed alongside the rest of the questionnaire.

Looking ahead to 2023, TPR has already confirmed they will be expecting more asset information from schemes in response to a consultation that was published in October 2021.

Responding to industry criticism, TPR reiterated that "guidance on completing the online form is available on TPR's website" and warned trustees that failure to submit scheme returns on time "may be breach of their legal obligations."

Pensions fun fact!

In our last briefing, we asked…

Which country has the world's largest pension scheme?

France China UK USA Japan

Answer to Q4 2021: Japan

Question for Q1 2022:

How much did the UK Government spend on State Pensions in 2021?

£55bn £84bn £101bn £196bn £384bn

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 **visit our preference centre** to sign up and select *Pensions for trade unions* under the *Topics of particular interest* header.

We welcome feedback on any of the issues covered and suggestions for future briefings.

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

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