First Actuarial briefing for trade unions Q2 2022

In this briefing, we discuss the impact of rising living costs on pensioners and the short-term government support in place.

We provide an overview of PASA's new good practice guidance on Defined Benefit transfers and of Government's recent efforts to encourage better retirement outcomes in Defined Contribution schemes.

The State Pension and the rising cost of living

The cost of living is rising. In May 2022, Consumer Price Index (CPI) inflation reached an all-time high (at time of writing) of 9.1%. Government's target for CPI inflation is 2%. High inflation disproportionately affects those on lower incomes, including those reliant on the State Pension.

A principal cause of recent high inflation is rising energy prices. According to the Pensions Policy Institute (PPI), pensioners typically have different spending patterns from other age groups, spending a higher proportion of their income on housing and bills. Rising utility costs are therefore likely to put a greater strain on pensioners than others.

And while costs are rising, income is not keeping pace. The suspension of the 'triple lock' for 2022/23 means that the State Pension rose by only 3.1% in April, measured by September 2021's CPI inflation. Compared to April 2022's CPI inflation of 9%, the increase received by pensioners is substantially lower than current price increases. The widening gap between pensioner incomes and living costs is likely to have a material impact on living standards for those with few other sources of income.

The PPI has investigated how pensioners are affected by the recent rise in the cost of living. They have suggested that one longer-term solution may be to determine State Pension increases using the Pensioner Household Cost Index, a new inflation measure under construction by the Office for National Statistics (ONS) which will determine how living costs for pensioners specifically are rising.

Government support for pensioners to stop the squeeze, but some may miss out

Government has admitted that millions of households across the UK are struggling to make ends meet – not least pensioners, many of whom are disproportionally affected by rising prices. It has announced extra support for pensioners to help cover surging costs.

A one-off tax-free payment of £300 will be made to all pensioner households currently in receipt of the winter fuel payment (more than eight million in total) and will be payable in addition to any other benefits to which households are currently entitled. Households eligible for means-tested benefits, such as pension credit and universal credit, will also be entitled to £650 as a one-off 'cost of living payment', which will be paid in two instalments – the first from July with the second to follow in autumn.

The announcement of further support for those eligible for pension credit has reignited the call from the Local Government Association for those who could claim to do so. It is believed that around a third of pensioners eligible for pension credit do not claim it. Not only do they miss out on the additional £650 cost of living support, they could also miss out on other benefits such as council tax reductions.

Pensioners are urged to check if they are eligible for pension credit using the Department for Work and Pensions' (DWP) online calculator. Once in receipt of pension credit, pensioners can contact their local council to find out about any additional support to which they may be eligible.

State Pension incorrectly paid for decades

Following our article 'DWP shambles leaves thousands short-changed' in our **Q1 2022 trade union briefing**, it has now been revealed that millions of State Pension recipients have received incorrect pensions this century. The original estimate suggested that 134,000 people may have been affected.

The DWP said the errors comprise a mix of over- and underpayments, 98% of which are up to 2p per week, and all of which are below 10p per week.

The issues concern an earnings-related supplement to the basic State Pension called the graduated retirement benefit, which may affect people who were employed between 1961 and 1975.

Despite awareness of the issue for more than two decades, it has not been corrected because it was deemed too complex. Government will now employ hundreds of civil servants to correct the errors, which are expected to finally be resolved by the end of 2023.

Parliamentary inquiry considers post 'pension freedoms' landscape

A parliamentary inquiry examining the pensions landscape following the introduction of 'pension freedoms' in 2015 has turned its attention to how pension savers can be offered suitable guidance in planning for their future to ensure a sustainable retirement income.

Following an initial call for evidence in December 2021, the Work and Pensions Committee issued a second call, which closed on 8 June 2022. This latest call for evidence was targeted at employers and trade unions, focusing on auto-enrolment rules and how government can support employers to guide their employees in their pension decisions.

Current regulations require employers to automatically enrol employees aged 22 or above earning £10,000 or more per year, at a total minimum contribution rate of 8%.

The Committee is examining whether the earnings threshold and minimum age should be reduced, and whether the minimum contribution rates should be increased. The Committee aims to understand whether such changes would ultimately increase the pension savings accrued by individuals by the time they retire, and what can be done to ensure that savers make the most of their pension savings at retirement.

PASA guidance on DB transfers

In May 2022, the Pension Administration Standards Association's (PASA) DB Transfers Working Group published a good practice guidance (GPG) document for Defined Benefit (DB) transfers.

The GPG states that its main objectives are to:

- Improve the overall member experience through faster, safer transfers
- Improve communications and transparency in the processing of transfers
- Improve efficiency for administrators.

The principles set out in the GPG also emphasise the importance of the member experience. The GPG states that member communications should be "timely, fair, clear, unbiased and straightforward". Administrators should take care to inform members and other third parties of any delay in the transfer process, including why the delay has occurred.

Some of the specific considerations which were suggested to improve member experience were:

- Issue an early retirement quote alongside the transfer quote where appropriate to allow members to explore all their options at the same time
- Proactively review criteria to determine which transfer calculations need to be referred to the actuary
- Consider implementing online ID verification processes or accept suitably certified copies of paper-based ID, where appropriate, instead of requiring sight of original copies.

Value for money in DC schemes

This spring, Government responded to a range of consultations relating to Defined Contribution (DC) pension scheme investments, as well as launching two further consultations.

Government responded to the charge cap reform consultation. The charge cap is a limit placed on the management fees which can be charged to members in DC auto-enrolment schemes and is currently set at 0.75% of a member's funds.

One issue identified following the implementation of the charge cap in 2015 was that performance-based investment fees, which are only paid to investment managers if they produce strong returns, were included within the cap. This meant that such investments were often not viable for DC funds, despite sometimes being useful in diversifying investment portfolios. Government therefore proposed bringing performance-based investment fees outside the cap.

The response to the consultation was "mixed", with the main concern being that members are still protected from paying excessive fees for poorly performing investments. Government concluded that they would make no change to the inclusion of performance-based fees at present.

Over summer 2021, DWP issued a separate call for evidence about greater consolidation of the DC pension market, citing better member outcomes effectively through economies of scale. Government has now responded to this consultation, saying that they will “not be introducing any new regulatory requirements with the sole purpose of consolidating the market in 2022. However, we will work closely with TPR [The Pensions Regulator] to monitor the impact of the value for members’ assessment, which will start to be produced this year.”

Government also said: “Our focus will continue to be on creating, with TPR and the FCA [Financial Conduct Authority], a value for money framework for occupational and workplace pension schemes… that brings about consistent, informative, member-focused value metrics that will enable comparison and encourage competition on overall value.”

The DWP held two further consultations in spring. One concerns employer-related investments while the other includes a proposal to introduce a requirement that DC schemes with over £100m in assets must disclose their asset allocation publicly in the Chair’s Statement each year. A key aim of the latter is to encourage value for money for members through diversification and illiquid investments, as well as promoting transparency. Both consultations have now closed and responses are expected later this year.

Pensions fun fact!

In our last briefing, we asked…

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

£55bn £84bn £101bn £196bn £384bn

Answer to Q1 2022: £101bn

Question for Q2 2022:

Which of the following countries had the highest proportion of working age adults to pensioners of all OECD member countries in 2020?

UK USA Mexico Turkey Greece

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 banner.

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:

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