First Actuarial briefing for trade unions
Q4 2022

In this issue we review upcoming changes following the recent Autumn Statement. We also discuss how schemes have been affected by recent market turmoil and the proposed reductions to next year's PPF levy.

Autumn Statement

On 17 November, the Chancellor of the Exchequer presented his Autumn Statement to Parliament. Despite speculation prior to the Statement that the 2023 State Pension increase would not keep pace with inflation of 10.1%, the Chancellor, Jeremy Hunt, confirmed that the triple lock would apply.

Introduced in 2010, the triple lock increases the State Pension by whichever is the highest of:

- Inflation, as measured by the annual change in the consumer price index (CPI) from the previous September
- The average wage increase across the UK
- 2.5%.

Without the triple lock, both *current and future* pensioners could see a poorer standard of living.

The triple lock was suspended for 2022–23 due to the unusually large rise in average earnings, distorted by issues around Covid-19, including the furlough scheme. As a result, in April 2022 state pensions were increased by the September 2021 CPI inflation figure of 3.1% rather than the rise in average earnings of 7.3%.

In April 2023, the State Pension will increase by 10.1%. The new State Pension will rise from £185.15 to £203.85 per week from April 2023. The (old) basic state pension, which applies to those who reached state pension age before April 2016, will rise from £141.85 to £156.20 per week.

The current Annual Allowance (£40,000) and Lifetime Allowance (£1,073,100) will not be changing in the next tax year. With current high inflation, more savers may breach these allowances.

Other key pensions issues in the Statement include the forecast by the Office for Budget Responsibility (OBR) that inflation will fall below 0% for the two years between mid-2024 and 2026, and the publication of the review of the State Pension age in early 2023.

Gilt market turmoil and new LDI guidance

Gilt yields rose over the early part of 2022, as concerns about inflation pushed down the value of bonds issued by UK Government. The mini-Budget presented on 23 September led to a loss of market confidence, causing rapid falls in gilts in late September.

Many schemes hold Liability-Driven Investments (LDI), which help to reduce volatility in their funding position (also known as *hedging*). With LDI, schemes need to manage the *collateral* they hold to back the LDI. The rapid rise in yields meant schemes had to sell assets to replenish this collateral.

It was not possible for every scheme to inject cash quickly enough to meet this collateral. As a result, their fund managers had to sell gilts at record low prices. Schemes that wished to restore their hedge once the dust had settled were faced with the prospect of re-purchasing gilts at a higher price.

The Bank of England started a programme of buying gilts to restore demand and bring yields down. The gilt market calmed somewhat as a result, but has remained volatile in the last few months of 2022. 20-year gilt yields were around 3.6% pa at the end of November 2022, compared to 1.2% at the start of the year.

The impact of the turmoil depends on the specifics of individual schemes. Many schemes will have seen significant improvements in their funding levels. It is also notable that, for open schemes, the cost of accrual has fallen significantly.

The Pensions Regulator's new guidance on LDI

The Pensions Regulator (TPR) issued **LDI guidance** at the end of November for Defined Benefit scheme trustees and advisers, aimed at improving the resilience of leveraged LDI funds to prevent similar situations in future. The guidance also sets out recommended actions to improve scheme governance.

Find out more about LDI on the First Actuarial website. Watch **our explainer video on LDI** and our popular webinar – **State of the nation and LDI.**

Cost of living help and resources

First Actuarial's financial wellbeing team has put together a set of resources on our **Cost of Living microsite** which you can share with colleagues, friends and family, in newsletters and other internal communications.

The resources include:

- A video with tips on how to cope in a world of rising costs, focusing on areas where employees can save money, such as energy
- A list of supportive organisations and useful websites
- A personal action plan to put employees in control of their money.

Our experienced team of specialists is working with employers across the UK to support people through the cost of living crisis. Please **contact First Actuarial** to learn more about how we can work together to support your colleagues with a bespoke programme.

Take a look at **our cost of living microsite**.

Lost pensions up £7.2bn since 2018

In 2018, the Pension Policy Institute (PPI) published a report in on *lost* pensions. These pensions belong to people with whom the provider has lost contact.

A recent follow-up report shows that the value of lost pensions reached £26.6bn in 2022. This significant increase from £19.4bn in 2018 may in part be explained by:

- Job losses during the pandemic – many people have taken on new work and may not have kept track of old pensions
- Auto-enrolment legislation – individuals may be accumulating pension savings without being aware of it.

The pensions industry, together with Government, is putting measures in place to improve pension awareness and provide guidance for those who may have lost track of their pensions. Government operates a pension tracing service, which is set up to help reconnect individuals with their lost pensions.

Pensions dashboards are also being introduced over the next few years to help individuals access all their key pension information in one place.

10 years of auto-enrolment

Auto-enrolment was first introduced in October 2012 and represented an important change to UK pension provision.

Since its introduction, auto-enrolment has had a particularly strong impact in the private sector. According to the Office for National Statistics, 75% of private sector employees were participating in a workplace pension in 2021, compared to only 32% in 2012.

TPR carries out spot checks on employers to ensure compliance with auto-enrolment legislation. These checks were largely paused while Covid-19 restrictions were in force, but are now being reinstated – and on a larger scale.

You can read more about auto-enrolment, including common compliance issues, in our recent **DC briefing**.

Significant PPF levy savings expected in 2023/24

In September, the Pension Protection Fund (PPF) launched its consultation on the 2023/24 levy, and is proposing to cut its levy revenue by almost 50% – from £390m in the 2022/23 levy year to £200m. Almost all schemes (around 96%) are expected to see a lower levy, with the exception of those that are significantly underfunded.

The PPF has a surplus and has seen its funding position improve significantly over the few years, meaning it can afford to collect less levy income. Furthermore, the PPF believes future claims will be even lower as schemes become better funded.

Pensions fun fact!

In our last briefing, we asked…

When was the basic State Pension first introduced?

1922	1948	1930	1960	1972

Answer to Q3 2022: 1948

Question for Q4 2022:

Which country has the largest pool of retirement savings in the world?

China	USA	Japan	Norway	South Korea

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 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** 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 topics you'd like us to cover in future.

For more information on any of the issues covered in this briefing, please contact:

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From all of us at First Actuarial, we wish you a Merry Christmas and a Happy New Year!