First Actuarial briefing for trade unions Q1 2024

In this briefing, we discuss measures introduced in the Spring Budget, and revisit Collective Defined Contribution (CDC) pensions with a new explainer video.

We also highlight several important ongoing consultations, focusing on the issues of surpluses in Defined Benefit (DB) schemes, the potential for a public consolidator, and the impact of proposed new funding and investment requirements from The Pensions Regulator (TPR).

Chancellor sets out new measures in Spring Budget

The Chancellor, Jeremy Hunt, delivered his Spring Budget on 6 March 2024. While it was light on pensions content, of note was a further reduction in the main rate of National Insurance from 10% to 8% from April 2024, following an earlier reduction from 12% to 10% in January.

The Chancellor confirmed that the Government remains committed to maintaining the triple lock, with the State Pension increasing by 8.5% in April. However, income tax thresholds have been frozen, which means that many pensioners will end up paying more tax. This is known as 'fiscal drag'. While retirees will be glad that the triple lock is safe for now, the irony that it is partly funded by their own taxes won't be lost on many.

The Chancellor also confirmed the Government's intention to ensure that Defined Contribution (DC) schemes are providing sufficient value for members, announcing plans to introduce additional investment disclosure requirements. The Government will also consult on providing broader powers to TPR where DC schemes are offering persistently poor value for money for pension savers. These include the power to close a scheme to new entrants and, where necessary, wind up a scheme.

CDC – the trade union perspective

In September, First Actuarial's Hilary Salt and Derek Benstead joined John Gray of UNISON and Andy O'Regan of The Pensions Trust (TPT) at a Trades Union Congress fringe meeting to discuss how CDC schemes work, where they might be appropriate, and how trade unions can add them to their bargaining agenda.

First Actuarial has produced a short video to help trade unions and their members understand the benefits of CDC schemes, and the different ways that they can operate in practice.

Watch our CDC explainer video. And feel free to circulate it widely and add it to your website or to any training or briefings you provide.

IBM re-opens DB scheme after almost two decades

Many DB pension schemes now find themselves in surplus, leaving the Government and employers wondering whether scheme surpluses could be used more effectively.

In the US, technology giant IBM recently re-opened its 'cash balance' DB scheme, having moved to a DC arrangement in 2008. IBM's DB scheme is particularly well-funded, with a surplus of over $3 billion reported in 2023. By reopening the scheme, IBM can run down the surplus, removing the need to make employer contributions for some time and freeing up cashflow. However, repayment of the surplus to IBM could incur a significant tax charge, and there may be legal implications of using a DB surplus to fund DC contributions.

The IBM DB scheme is a 'cash balance' arrangement, where contributions build up in an individual pot rather than providing a pension, but typically with an investment guarantee.

Some employees will value the certainty provided by the investment guarantee, but in general, we believe employees really need a guaranteed income for life.

Other employers may follow IBM's lead in reopening their DB schemes. This is certainly possible in the UK, and we would encourage trade unions to include re-opening DB schemes for all employees in their negotiating agendas.

A less attractive option for employees is to use DB surpluses to fund DC benefits. This is possible in the UK, but with some caveats. If employers propose this, we strongly recommend that the surplus be used to fund additional contributions for employees, rather than merely subsidise the employer's contribution.

Have your say – open consultations on the future of UK pensions

DWP: Options for DB schemes

On the issue of DB scheme surpluses, the Government is consulting on 'options for DB schemes', which cover two key areas.

Firstly, the Government is considering the practicalities of making it easier for well-funded schemes to make payments from surpluses to sponsoring employers. The Government is proposing a 'statutory override' to scheme rules that prevent payment of a surplus to sponsoring employers, where doing so does not threaten the security of member benefits.

Secondly, the Government expands on the possible role of the Pension Protection Fund (PPF) as a scheme consolidator. This was originally proposed in the 2023 Autumn Statement and covered in our Q4 2023 briefing.

With a target 'live' date of 2026, the consolidator is aimed at small schemes that might struggle to find an insurer willing to insure their benefits. It would enable DB schemes, where the sponsor is not insolvent, to transfer into the fund. Benefit structures would be simplified, and any deficit would still need to be met by the sponsor (but could be paid over a period). If the transferring scheme has a surplus, the proposed new surplus powers could be used to provide more generous benefits which would be secured within the consolidator.

The consultation – which First Actuarial will respond to – closes on 19 April 202. Read and respond to the 'options for DB schemes' consultation.

TPR: Funding and investment strategy

TPR is consulting on the introduction of a statement of strategy (SoS), a comprehensive document that DB schemes will be required to prepare and submit to the Regulator as part of the triennial valuation process.

While the requirements came into force in April, they will only apply to valuations with effective dates on or after 22 September 2024.

We believe that TPR's proposed requirements for the SoS are disproportionate, particularly for smaller schemes, and could result in significant fees for actuarial, investment and covenant advice being incurred by trustees in its preparation.

The flexibility of TPR's draft funding code is worryingly absent from its draft funding and investment statement.

In the editor's opinion, TPR lives in a 'model world'. It thinks that managing a pension scheme is about managing the assets to match changes in the actuarial value of liabilities. This is a distraction from the core task of investing assets to support the payment of benefits.

Applied to all schemes, TPR's approach will sustain the systemic risk created by the large-scale use of liability driven investment.

The approach for open DB schemes is also unclear, with TPR proposing to collect several data items that are inappropriate for schemes intending to accrue benefits long into the future.

The consultation closes on 16 April 2024. Read and respond to the SoS consultation.

TPR's general code of practice

TPR's general code of practice came into force on 28 March 2024.

The general code consolidates 10 of the existing codes of practice. It also introduces new governance responsibilities for trustees of both DB and DC schemes. Trustees should start working with their advisers to understand the implications for their scheme if they're not already doing so. Existing governance policies should be reviewed in light of the new requirements, and monitoring arrangements put in place.

Implementing the general code at the same time as most schemes are working through GMP equalisation, creating a funding and investment strategy for the first time and, in due course, linking to pension dashboards makes for an extreme workload on the industry.

Find out more about the general code in our briefing.

New mortality tables for pension schemes

Actuaries regularly need to make assumptions about how long a person (or group of people) will live. To do this, they use mortality tables.

The Continuous Mortality Investigation (CMI) issues regular updates to its mortality tables for self-administered schemes. The latest mortality tables, known as S4, have now been released. They're based on more recent data than the previous S3 tables, although 2020 and 2021 data is excluded because of the higher mortality experienced during the pandemic.

For the first time, the CMI includes postcode data in the new S4 tables. Along with pension size, a member's postcode is one of the most informative data items for setting life expectancy assumptions. Those who live in more affluent postcodes tend to live longer, and vice versa.

This additional data will help trustees to better align their mortality assumptions with their membership.

Pensions fun fact!

In our last briefing, we asked…

Question for Q4 2023:

The Consumer Prices Index (CPI) inflation measure is important in the annual uprating of pensions. The CPI is based on a 'shopping basket' of items that are representative of UK consumer spending patterns. The basket is reviewed each year to keep it up to date. Which item was added to the basket this year?

Cycle helmet	Electric toothbrush	Postage costs	Video doorbells

Answer to Q4 2023: video doorbells

Question for Q1 2024:

What proportion of UK adults has said that they're not aware of their State Pension age?

5%	15%	25%	40%

And finally…

This is the last trade union briefing edited by our longstanding partner Hilary Salt who is retiring from First Actuarial at the end of April.

Hilary says: *"Working with trade unions and their members has been the most fun, challenging and rewarding part of my professional life. People often say we should take the politics out of pensions, but pensions is one of the most political arenas of life – it's about wealth distribution, intergenerational transfers, taxation and the responsibilities of individuals, employers and society. Perhaps that's why I love it so much!*

**The strong link between trade unions and pensions is that collective solutions work – we can do so much more together than we can as individuals. I hope the rebirth of mutual pension solutions through CDC will reaffirm our belief that we achieve more together.*

"I am leaving our trade union briefing in the capable hands of my colleague Derek Benstead. Thanks everyone for reading and as always, let us know if there are areas you'd like us to cover in future issues."

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.

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

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