first actuarial

First Actuarial briefing for trade unions Q3 2023

In this issue we review the proposed pension reforms set out in the Chancellor's Mansion House speech, we examine upcoming changes to the PPF levy, and we review a further case of historical mismanagement of the State Pension.

We also report back on the CDC fringe meeting which took place at the TUC Congress in September.

Mansion House speech – The impact of the proposed reforms

The Chancellor's Mansion House speech in July set out a broad range of elaborate and ambitious pensions reforms. These are designed to simultaneously bolster economic growth in the UK and improve retirement outcomes for pension savers.

The key proposals were:

- Nine of the largest Defined Contribution (DC) pension providers have signed the *Mansion House Compact*. This commits them to allocating at least 5% of their default funds to unlisted equities, which are less liquid assets, with the idea that these are 'high-growth' investments

- In a similar vein, the Government wants Local Government Pension Scheme (LGPS) funds to double their investments in private equity from 5% to 10%. LGPS funds must also consolidate their assets into local government pension pools by March 2025

- 'Value for money' reforms in DC schemes – highlighting that investment decisions should consider long-lasting returns and not just costs

- A call for evidence to support the development of proposals to improve trustees' skills, helping them overcome barriers to effective investment decisions and deliver best outcomes for their members.

The Government hopes that these proposals will increase pension fund investment in high-growth businesses by £75bn by 2030. They believe that an average earner could see a 12% increase in the size of their pension pot over their career as a result of the reforms. Some have expressed scepticism at these fairly heroic claims, and it's important to note that individual savers could see a wide range of different outcomes.

The day after the speech, the Government triggered four new consultations and published responses to five previous consultations, one of which closed in 2019. Of particular interest was a response to a consultation on Collective Defined Contribution (CDC) pension schemes, which the Government believes will play an "integral role" in the UK in the future.

The new consultations closed on 5 September. The Chancellor has committed to making final decisions on all the proposals before the Autumn Statement on 22 November – clearly a step up from the four-year timeline of some previous consultations.

CDC at the TUC

First Actuarial was proud to attend the TUC Congress in Liverpool in September. In addition to running a busy stall throughout Congress, our own Hilary Salt and Derek Benstead joined John Gray of UNISON and Andy O'Regan of TPT at a fringe meeting to discuss how CDC schemes work, where they might be appropriate, and how trade unions can get them onto their bargaining agenda.

CDC schemes aim to reduce volatility by planning for the long term and spreading investment risk across all members.

CDC incorporates aspects of both Defined Benefit (DB) and DC schemes and offers distinct advantages over both.

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Members' contributions are pooled into a single 'pot' used to pay member benefits in retirement. This pooling of investments offers the potential for lower costs. It could also mean higher returns, as the inflow of new contributions gives these schemes liquidity, i.e. they don't have to hold as many investments in low-risk assets, which are expected to offer lower returns. Members can plan for retirement with an income for life rather than having to manage their individual pot. And for employers, the advantage is that they don't take on the risk of scheme deficits.

CDC goes a long way towards ensuring dignity in retirement and could be a good solution to the problem of the two-tier workforces we see in many organisations, where some employees have a better pension entitlement than others.

First Actuarial is at the forefront of developments in CDC pensions. Find out more here: https://firstactuarial.co.uk/cdc/cdc-consultancy/

How 'pension aware' are you?

Only 20% of people aged 25–64 can correctly state how much a full State Pension is worth, according to the Institute for Fiscal Studies. As part of Pension Awareness Week 2023, First Actuarial focused on helping people understand their State Pension – how much they will get, when they will get it, and what they can do to make sure they get as much of it as possible.

We've created a short video to explain how the State Pension works and how people may be able to boost theirs if they aren't on track for a full State Pension.

Take a look at our pension awareness web page to watch our video, and try to answer all our pension questions correctly.

Find out more about pension awareness here: https://firstactuarial.co.uk/fw/pension-awareness/

DWP again beset by State Pension woes

When parents take time off work to care for their children, they can end up with gaps in their National Insurance record. When the State Pension was reformed in 1978, the issue was addressed with the introduction of Home Responsibilities Protection (HRP). Parents could then exclude time spent caring for children from the qualifying years needed to accumulate a full State Pension.

It has recently been discovered that due to errors in allowing for HRP, married women and widows who took time off to raise children have been underpaid by an estimated total amount of £1.3bn. The Government estimates that around 210,000 people are affected, of which 60,000 have died. (All these estimates are uncertain).

To correct this issue, the Government will send letters to individuals who may have been affected. In the case of individuals who have died, their loved ones will be entitled to make a claim for any benefits. If you think you may have missed out on these protections, you can **make a claim using this form**.

PPF levy changes

The Pension Protection Fund (PPF) has published its proposal on how it intends to operate the levy from April 2024 to April 2025, with the proposed total amount collected set to halve from £200m to £100m.

Overall, the PPF expects that 99% of schemes will pay a lower levy next year. This should come as good news to trustees and sponsors alike.

Pensions fun fact!

In our last briefing, we asked…

Question for Q2 2023:

The earliest a person can start taking money from a pension (excluding ill-health circumstances or where a member has a protected pension age) is age 55, rising to 57 from 6 April 2028. But what was the minimum age before it was set at age 55?

45	50	53	No limit

Answer to Q2 2023: 50

Question for Q3 2023:

According to the Office for Budget Responsibility, how much does the Government expect to pay out in State Pension in 2023/24?

£74bn	£102bn	£124bn	£170bn

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. Select *Pensions for Trade Unions* under the *Topics of Particular Interest* header.

We welcome feedback on any of the issues discussed 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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