First Actuarial briefing for trade unions Q4 2023

In this issue we review the pension content of the Chancellor's Autumn Statement, we examine a proposed new role for the PPF, and we review upcoming auto-enrolment reform.

We also discuss the impact of the cost of living crisis on pension savings and retirement.

Chancellor sets out new measures in Autumn Statement

On 22 November 2023, the Chancellor of the Exchequer, Jeremy Hunt, delivered his Autumn Statement which contained several pension announcements.

Of particular note was a proposed 'lifetime provider' or 'pot for life' model, where employees could compel their employer to pay into a pension of their choice, rather than the workplace pension that their employer offers.

While this suggestion could eliminate the scenario where people accumulate lots of pension pots over their lifetime, it introduces significant issues. For example, making pension payments to multiple providers each month could put a significant strain on payroll departments.

Even more importantly, this re-introduces the direct selling of pensions to individuals – a practice that ended badly with the last mis-selling review. There is a clear risk of employees being mis-advised to take out uncompetitive arrangements which may not be in their best interests. It also introduces another element of choice for members, who are already faced with difficult decisions about pensions.

The Chancellor also confirmed that the triple lock will be maintained for April 2024, with pensioners receiving an 8.5% increase to their State Pension in line with the average wage increase across the UK, following a 10.1% increase in April 2023.

The triple lock was introduced in 2010, when Government pledged to increase the State Pension by 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%.

In April 2024, the new State Pension will therefore rise from £203.85 to £221.20 per week. Similarly, the (old) basic State Pension, which applies to those who reached State Pension age before April 2016, will rise from £156.20 to £169.50 per week.

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

Other items in the Autumn Statement include:

- Confirmation of the abolition of the Lifetime Allowance (LTA), described in more detail in our Q1 2023 briefing

- A proposal to introduce a 'multiple small pot consolidator model', which would essentially see a small number of schemes authorised to combine pension pots valued at less than £1,000

- A reduction in the main rate of National Insurance from 12% to 10%, from January

- An increase from April 2024 in the national minimum wage and national living wage, with the increased wage applying to those aged 21 and 22, having previously only applied to those aged 23 and over.

A new role for the Pension Protection Fund?

Following the Chancellor's Autumn Statement, Government has proposed a new role for the Pension Protection Fund (PPF).

Currently, the PPF's primary role is to protect members of Defined Benefit (DB) pension schemes should the sponsoring employer become insolvent. It does this by taking responsibility for paying compensation to members, albeit often at levels slightly below what they would have expected in the scheme.

In the Autumn Statement, the Chancellor confirmed that the Government will consider extending this role by 2026, with the PPF potentially acting as a DB consolidator, having been cited as an "obvious candidate" for the role. This means that schemes where the sponsoring employer is not insolvent could have full benefits paid by the PPF. It is particularly aimed at smaller DB schemes that are unattractive to commercial consolidators, giving them the ability to grow their assets and take on more risk while being supported by the PPF.

The PPF has welcomed these proposals, stating they believe they would be "well placed" to deliver on them, due to their skills and years of experience, while remaining committed to their existing function.

Cost of living crisis hits pension savings

A report by the Centre for Ageing Better has highlighted that across the UK, millions of pensioners are struggling to get by, with one in five pension-age adults living in relative poverty. More than a million pensioners say they have no savings, with UK adults aged 60–64 having the highest rate of relative poverty in the country. Pensioners are among the hardest hit by the cost of living crisis, with the poorest 20% receiving an annual income below the minimum amount needed to live on.

This issue affects not only pensioners, but also those saving for retirement now. Due to the cost of living crisis, many simply cannot afford to pay as much into their pensions. This will lead to an increase in the proportion of under-provisioned pensioners in future. When the next generation come to retire, many could find themselves without sufficient funds to do so.

Of particular note, around a third of the poorest workers have no pension provision beyond the State Pension, and some do not meet the threshold for auto-enrolment, for example due to low paid part-time work.

Based on its findings, the Centre for Ageing Better has urged the Government to establish a Commissioner for Older People and Ageing, to protect and plan for our ageing population and ensure dignity in retirement for all.

Auto-enrolment reform on the horizon?

Since 2012, employers have been required to automatically enrol eligible employees into a workplace pension. To be eligible, employees must be aged between 22 and State Pension age and earn more than £10,000 pa. Contributions are made on earnings between £6,240 and £50,270.

This initiative is widely seen as having been successful. Total membership of Defined Contribution (DC) schemes increased from 2.1m in 2011 to 21m in 2019. The Department for Work and Pensions (DWP) has reported that the proportion of employees eligible for auto-enrolment who do not choose to opt out of pension scheme participation has remained steady at 88% from 2019 to 2022.

Despite the success of auto-enrolment, there remain opportunities for improvement – in particular, the age bracket with the lowest participation in pension schemes (those aged between 20 to 29), and people with Pakistani, Indian and Bangladeshi backgrounds, as well as the self-employed (38% of whom do not have a pension).

However, a bill passed by Parliament in September 2023 allows the Government to reduce the minimum age for auto-enrolment from 22 to 18, and also to abolish the lower £6,240 earnings threshold before contributions are made. The Government has confirmed that they will consult on implementing these changes at the earliest opportunity.

The unsuitable advisers leading members astray

In the latest development in the British Steel Pension Scheme (BSPS) controversy, two former advisers of West Wales Financial Services Limited (WWFS) have been banned from providing advice on pension transfers. Many BSPS members were improperly advised to transfer to unsuitable arrangements, from which they lost out.

Between March and December 2017, Susan Jones advised 27 out of 28 customers that it would be in their best interests to transfer almost £10m out of their secure DB schemes. Her colleague Nigel Lewis was responsible for ensuring that the advice given by WWFS was reasonable. Both have been banned from holding any senior management functions in a regulated firm and fined a combined £68,000.

Pensions fun fact!

In our last briefing, we asked…

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

Answer to Q3 2023: £124bn

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. This basket is reviewed each year to make sure that it is up to date. Which item was added to the basket this year?

Cycle helmet	Electric toothbrush	Postage costs	Video doorbells

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 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, selecting *Pensions for Trade Unions* under the topics of particular interest header.

We welcome feedback on any of the issues covered and suggestions for topics that should be covered in the future.

If you’d like more information on any of the areas covered in this briefing, please contact:

Hilary Salt
hilary.salt@firstactuarial.co.uk
0161 348 7441

From all of us at First Actuarial, we wish you a Happy New Year.