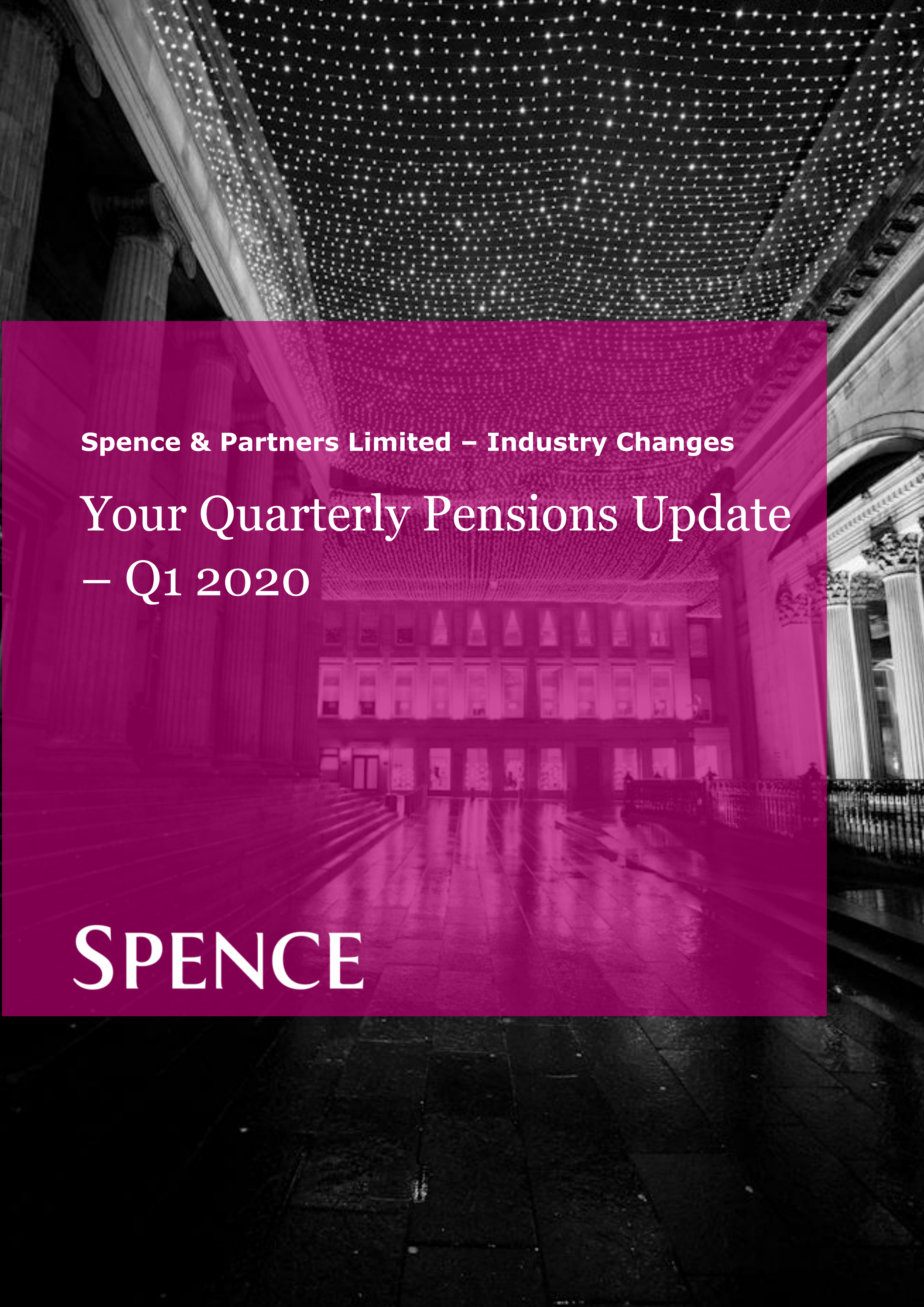

Spence & Partners Limited – Industry Changes

Your Quarterly Pensions Update – Q1 2020

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What's inside

GOVERNANCE INVESTMENT ADMINISTRATION ACTUARIAL

Welcome to your Quarterly Pensions Update

The purpose of this report is to update sponsors and trustees with recent pensions industry changes in the quarter.

For your convenience, Spence has summarised the key developments and highlighted the necessary actions sponsors and trustees may need to take.

The report combines brief written comment with links to any further relevant information and any deadlines you should be aware of. We trust you will find the update useful and informative. If you require further information about how any of the topics covered might impact on your scheme specifically, please get in touch with hugh_nolan@spenceandpartners.co.uk or your usual Spence contact.

NOTE

This document is aimed at providing you with generic information about recent developments in the pensions industry.

You should not take any action as a result of information included in this document without seeking specific advice in relation to the impact these matters might have on your scheme or company. Spence & Partners Limited accepts no liability for actions taken or not taken as a result of this document.

The Pension Regulator's ("TPR") 2020 COVID19 Guidance for Trustees

TPR have released a statement ("the Statement") regarding guidance in a time of difficult decisions and circumstances caused by COVID19, ensuring trustees do the right thing for their members.

The Statement highlights that TPR are not necessarily encouraging a certain course of action but does cover some good working practices as well as outlining their current response to legislative breaches and trustee actions. The statement covers key areas, such as advice for schemes completing valuations now, employers requests for easements, investments, transfer values and DC schemes.

The key issues to note are:

- ✓ For schemes that are due to complete their valuations now, the assumptions for the valuation will have been set under very different market conditions than those at present. TPR do not necessarily expect trustees to revisit assumptions, but they suggest that trustees may wish to consider post valuation experience when setting a recovery plan. They also suggest that it may be appropriate to delay submitting valuations by a period of up to three months and will not take regulatory action if this causes a statutory deadline to be breached.

ACTION

If trustees are both ready to complete the valuation now and believe this is in the best interests of the members, they should do so. However, TPR also highlight that it might be appropriate for trustees to postpone the valuation for a period up to three months.

- ✓ Trustees may struggle to quickly access information on covenant and affordability when an employer makes requests for easement on payments. If a 'unsubstantiated' request is made for a reduction or suspensions of DRCs, this should be for as short a period as possible, and certainly no longer than three months.

ACTION

Trustees should speak to employers to ensure they understand the importance of letting them know any information that could materially affect the scheme. Trustees should be mindful of how other creditors are supporting the employer and ensure that other forms of value leaving the employer covenant should also be suspended; e.g. payments to shareholders and related entities. All decisions made around this should be documented.

- ✓ TPR also suggest that trustees should review with their advisers any changes which may be needed to their scheme.

ACTION

In particular, speak to investment advisers to understand the impact on the current strategy and on any pre-planned transactions. This may include transactions like automatic rebalancing of the portfolio. Trustees should also speak to their advisers to ensure that the scheme's governance structure remains appropriate and should seek to understand areas where concentrations of risk can occur.

The Pension Regulator's ("TPR") 2020 COVID19 Guidance for Trustees cont'd…

- ✓ Regarding transfer values ("CETV"), TPR warn of a possible increase in pension scams, which would require further trustee vigilance. In these current financial conditions, we may see an increase in transfer value requests. TPR have confirmed no regulatory action will be taken against trustees in this period if CETV quotations aren't made available to members, or CETVs aren't paid within a 3 month window.

ACTION

Trustees should consider whether it is appropriate to suspend CETV quotations and payments for a period of up to 3 months. If trustees decide to suspend quotations and payments for longer than 3 months, then they must notify TPR. Trustees may also wish to review the terms that they offer for CETVs and other benefit options.

- ✓ For DC Schemes, TPR suggest that trustees should review with their advisers any actions required for their scheme/members. This includes member communications, investment strategy and governance structures.

It is clear that TPR are becoming increasingly worried about the current situation we find ourselves in. Trustees must keep a close eye on the issues facing their schemes and remain up to date with all guidance delivered by TPR throughout this difficult period.

Since issuing their substantive statement, TPR have also issued information and guidance on working with administrators during this difficult time. This covers what trustees and their administrators can do to reduce risks during the pandemic.

The guidance observes that it is important to work with administrators and focus on critical processes including:

- ✓ paying member benefits
- ✓ retirement processing
- ✓ bereavement services.

Trustees are also expected to be flexible when helping administrators deliver core functions (e.g. by agreeing changes in procedures, and holding higher than usual amounts in bank accounts).

The TPR COVID-19 hub has help and guidance for trustees, scheme managers, employers and administrators, covering:

- ✓ DB scheme funding and investment guidance for trustees
- ✓ DB scheme funding guidance for employers
- ✓ DC investment guidance for trustees
- ✓ Guidance for DB trustees whose employers are in corporate distress
- ✓ General guidance for trustees, employers and administrators

Helpful Links:

Pensions Regulator Guidance:

https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider

Progress of the Pensions Schemes Bill 2019/2020

The Pension Schemes Bill (see our previous Quarterly Report for background information), which started in the House of Lords, had its Committee Stage in that chamber on 2 March.

One addition to the Bill that is worth noting is a new measure that will amend the Pensions Act 1995 regarding trustees' governance duties in relation to climate change risk. The provision states that regulations may impose requirements on the trustees with a view to "securing that there is effective governance of the scheme with respect to the effects of climate change". So, as is often the case, the detailed requirements will be in secondary legislation, which may not be published until the Bill becomes an Act.

According to the Department for Work and Pensions, the changes reflect recommendations made by the industry-led Taskforce on Climate-related Financial Disclosures. The Taskforce was established to develop a set of recommendations for consistent climate-related financial risk disclosures in mainstream reporting.

Also on the Pension Schemes Bill, proposals made by peers to amend new criminal sanctions in Section 107 were not taken forward. Under this provision, criminal offences and financial penalties may be imposed on employers deemed to be avoiding their debts in relation to defined benefit pension schemes or undertaking conduct that risks accrued scheme benefits. The maximum penalty for these offences would be up to seven years' imprisonment, a fine, or both.

It has been hoped that changes could be made to Section 107 to provide more clarity around behaviours that would or would not be within scope. However, that has not, so far, happened. Further changes to the section may be proposed when the Bill reaches the House of Commons. In the meantime, it has been confirmed that the Pensions Regulator will consult on guidance as to its approach to prosecuting the new offences.

Having passed through Committee stage, the Bill will now move to Report stage in the House of Lords, where scrutiny will continue. On 9 April, a move to virtual meetings, in response to Covid-19, was announced.

Mortality Improvement Projections

The Continuous Mortality Investigation ("CMI") - the group of actuaries who are tasked with carrying out analysis into mortality rates and trends in the UK - recently published its 2019 mortality improvement projections. These projections update the previous 2018 publication to take account of emerging mortality data in 2019.

The mortality experience in the 2019 projections was relatively lighter than that observed over 2018. However, CMI have urged caution against viewing this as the start of a return to the high mortality improvement rates witnessed in the first decade of this century. Rather, it stressed that annual mortality improvements are subject to considerable volatility. Users of the CMI mortality improvement projections should continue to consider use of the "Smoothing Parameter", to reflect views on the extent to which recent mortality is evidence of longer term trends in mortality improvement rates.

All else being equal, this means that adoption of the 2019 projections will marginally increase life expectancies of scheme members. In particular, we found that life expectancies have increased by around 0.1 of a year for males and females compared with the 2018 projections. As a result, adoption of the 2019 projections for mortality improvements should lead to a minor increase in a scheme's liabilities, when considered in isolation.

The publication makes reference to the potential for the COVID-19 pandemic to lead to an increased number of deaths in 2020. It is likely too early to make any sensible predictions about the likely effect of this pandemic on pension scheme mortality experience. The age profile of each scheme's membership may give an indication of the extent to which the pandemic affects the scheme's mortality experience. Clearly, however, there may be many other factors that affect the extent to which schemes are impacted.

Trustees and companies should continue to engage in discussion with their actuary to explore the use of this latest mortality projection model and its impact on their scheme's funding position.

Helpful Links:

Briefing Note produced by CMI

https://www.actuaries.org.uk/documents/cmi-working-paper-129

New Automatic Enrolment and other thresholds for 2020/21

The Department for Work and Pensions ("DWP") has published its review of the earnings trigger and qualifying earnings band for automatic enrolment into a workplace pension. The automatic enrolment earnings trigger determines who is eligible to be automatically enrolled into a workplace pension by their employer in terms of how much they earn. The qualifying earnings band affects minimum automatic enrolment contributions.

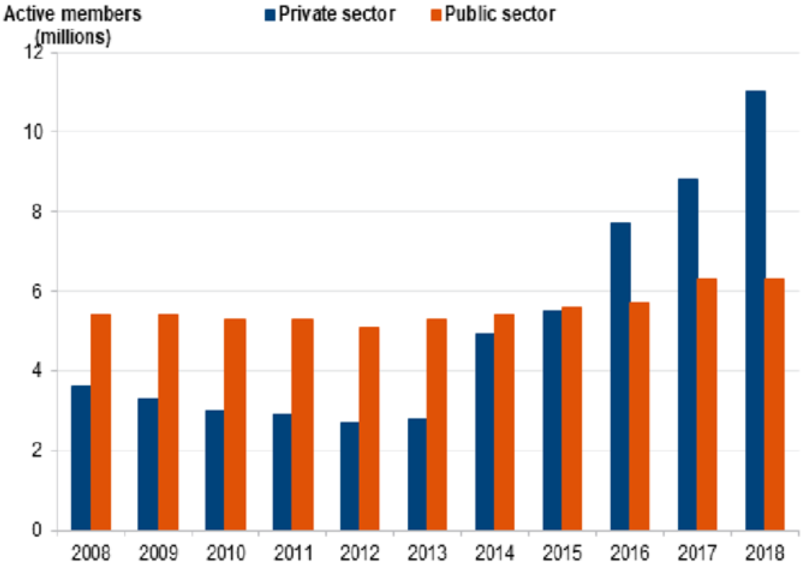
Current and proposed automatic enrolment thresholds

	Trigger	Lower limit qualifying earnings band	Upper limit qualifying earnings band
Current (2019/20)	£10,000	£6,136	£50,000
Proposed (2020/21)	£10,000	£6,240	£50,000

The changes to the qualifying earnings band maintain alignment with the lower and upper earnings limited for National Insurance contributions.

On a related note, the government has published the findings of its automatic enrolment review. The research found that the number of people opting-out has remained low despite increases in mandatory contribution levels. The proportion of workplace pension savers who made an active decision to stop saving (including opt-out and cessation) showed a slight increase from the 2018/19 financial year to the first quarter of the 2019/20 financial year (0.72% to 0.76%), following the second increase of the automatic enrolment minimum contribution rates. Despite this small increase, the overall rate remains low.

The graph below illustrates the impact automatic enrolment has had on pension scheme membership, with membership of private sector workplace pension schemes overtaking public sector since 2016.



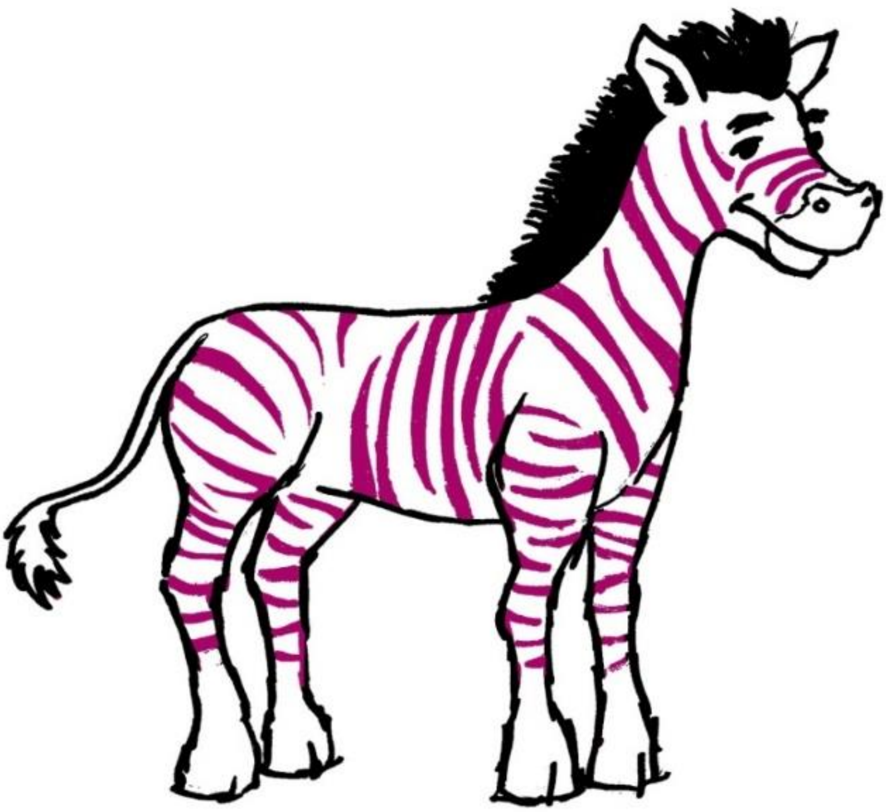
New Automatic Enrolment and other thresholds for 2020/21 cont'd...

The Consumer Prices Index ("CPI") 12-month inflation rate was 1.7% in September 2019, unchanged from August 2019.

Indexation of benefits in line with CPI resumes for all inflation-linked benefits and tax credits this year, resulting in a 1.7% increase.

The Basic and New State Pensions continue to be uprated in line with the 'triple lock' that was introduced in 2012/13 – that is, by the highest of the increase in earnings, price inflation (as measured by CPI) or 2.5%. For the purposes of the 2020/21 uprating, earnings growth (+3.9%) was the highest of these three benchmarks, meaning that:

- ✓ the New State Pension (for those reaching State Pension age on or after 6 April 2016) will be £175.20 per week in 2020/21 (up from £168.60 in 2019/20)
- ✓ the Basic State Pension (the core amount in the old State Pension system) will be £134.25 per week in 2020/21 (up from £129.20 in 2019/20).



Coronavirus and investments and volatility

The unknowns of coronavirus - its end and outcomes - and the impact it will have on the global economy has created significant volatility for all assets.

Whilst it is significant that global equities are down 15-30% over the quarter, the huge daily volatility is also incredible; on one date, US equities were up 5-6% and the following day they fell 12%.

Gilt yields also experienced significant movements over the quarter. During March long-dated gilt yields fell to about 0.4% at one point before increasing to 1.2% the following week, followed by a decline of 0.5% three days later. The drivers behind the volatility were the need for cash and investors selling the most liquid asset they could access; i.e. government bonds, and the expectation of a lot of government borrowing to finance coronavirus stimulus measures. This volatility created havoc for LDI managers, with some cancelling re-leveraging events.

Whether the markets are going down or up, we are seeing extreme daily moves. Investors should put transactions on hold where possible, as the risk of getting the timings wrong is significant, especially with weekly dealt funds and any trades requiring notice periods.

Investors should not be panicking as most schemes are investing for the long-term. Global banks and governments are making major efforts to offset the short-term impacts of the virus. Many economic commentators believe such actions will protect the global economy in the medium to long term, whilst there may be some short-term pain.

ACTION

Trustees should work with their investment advisors to ensure they understand how best to navigate the volatility.

Budget 2020

Not surprisingly, with the focus on Covid-19, the 11 March Budget was a quiet one in terms of workplace pensions. The key announcements that will be of interest to trustees and sponsors were:

- ✓ Pension tax rules to be changed (for everyone) in an attempt to help ensure that they do not deter doctors from taking on additional shifts.
- ✓ A consultation on reform of the Retail Prices Index ("RPI") measure of inflation, but any change is unlikely to be before 2025.

Pensions and savings tax

Pensions tax

- ✓ Tapered annual allowance for pensions – the pensions annual allowance is the maximum amount of tax-relieved pension savings that can be accrued in a year. For those on the highest incomes, the annual allowance tapers down from £40,000.
- ✓ HM Treasury has reviewed the tapered annual allowance and its impact on the NHS, as well as on public service delivery more widely. To support the delivery of public services, particularly in the NHS, the two tapered annual allowance thresholds will each be raised by £90,000. This means that from 2020-21 the "threshold income" will be £200,000, so individuals with income below this level will not be affected by the tapered annual allowance, and the annual allowance will only begin to taper down for individuals who also have an "adjusted income" (income including the value of pension contributions / benefits) above £240,000. For those on the very highest incomes, the minimum level to which the annual allowance can taper down will reduce from £10,000 to £4,000 from April 2020. This reduction will only affect individuals with total income (including pension accrual) over £300,000.
- ✓ For further information, see our blog on the Finance Bill 2020 which was published on 19 March.
- ✓ Lifetime allowance for pensions – the lifetime allowance, the maximum amount someone can accrue in a registered pension scheme in a tax-efficient manner over their lifetime, will increase in line with CPI for 2020-21, rising to £1,073,100.
- ✓ Call for evidence on pensions tax administration – those earning around or below the level of the personal allowance and saving into a pension may benefit from a top-up on their pension savings equivalent to the basic rate of tax, even if they pay no tax. Whether they receive this top-up depends on how their pension scheme administers tax relief. The government has committed to reviewing options for addressing these differences and will shortly publish a call for evidence on pensions tax relief administration.

Savings tax

- ✓ The band of savings income that is subject to the 0% starting tax rate will remain at its current level of £5,000 for 2020-21.
- ✓ The adult ISA annual subscription limit for 2020-21 will remain unchanged at £20,000.
- ✓ The annual subscription limit for Junior ISAs and Child Trust Funds will be increased from £4,368 to £9,000.

Budget 2020 cont'd...

RPI consultation

The Government and the UK Statistics Authority ("UKSA") have launched a consultation, ending at midnight on 22 April, on UKSA's proposal to address the shortcomings of the RPI as a measure of inflation.

The background to this is the recommendation that the publication of the RPI should cease and, in the interim, the shortcomings of the RPI should be addressed by bringing into it the methods and data sources of CPI, including owner occupiers' housing costs ("CPIH").

The consultation covers the issue of timing, including whether the UKSA's proposal might be implemented at a date other than 2030, and if so, when between 2025 and 2030. There are also issues on technical matters concerning the implementation of its proposal.

The government and UKSA will respond to the consultation before the parliamentary summer recess.

Comment

The increase in the tapering threshold is, overall, welcome, on the basis that it will encourage many key decision-makers (some of whom will be impacted by this increase) to continue to engage in conversations around occupational pensions savings - not just for them, but also for those who they employ.

The government wants to hear views on the potential wider impacts of the UKSA's proposals on RPI, and we will be considering the implications for pensions, which will be dependent on any transitioning, as part of our response to the consultation.

These announcements aside, the Budget has little direct impact on pension schemes but keep an eye out for the call for evidence on pensions tax. It will be interesting to see if this covers only the low earner issue or whether there is any discussion of wider reform of the current pension tax relief system and marginal rate relief (where around 40% of the amount spent on pensions tax relief per year goes to the top 10% of earners).

Investment Market Q1 2020 Update

The rapid global spread of the Covid-19 pandemic dramatically affected global markets causing large declines in risk bearing assets as many countries went into lockdown to contain the virus. Global equities declined 15%-25%, whilst "safe haven" government bonds gave positive returns. To support businesses and households through the pandemic, governments around the world announced measures to reduce the effects of any economic declines; however, a global recession is now expected.

The UK was badly affected by Covid-19 with equities declining 25%. Pound Sterling hit multi-decade lows against the US dollar as investors sought safety in the latter. The Bank of England cut interest rates by 0.65% to 0.10%, making borrowing costs lower for businesses and households. In addition to this, the government announced a range of support measures, such as paying 80% of employees' salaries for who are unable to work due to coronavirus (via company furlough schemes).

To combat the negative effects of Covid-19 the US Federal Reserve cut interest rates twice, which are now 0-0.25%. They also announced an unlimited quantitative easing programme which calmed markets and provided much needed liquidity. The US government also passed a $2tn stimulus package to support businesses and Americans who have lost, or will lose, their jobs.

In Europe, Italy and Spain were badly affected by the virus with the largest number of deaths over the period. Economic growth in Europe was already weak before the pandemic and a large economic downturn is expected as many countries are in lockdown. The European Central Bank announced a €750bn Pandemic Emergency Purchase Programme which will purchase government and corporate bonds until the end of the Covid-19 crisis. Markets reacted positively to this announcement.

Emerging market equities and bonds were the worst hit markets, driven by an increasing US dollar making borrowing costs for these nations more expensive. Chinese equities outperformed the broader market as the number of Covid-19 cases has started to decline and people are returning to work, increasing economic activity.

Oil prices have declined by 60% as Covid-19 has reduced global demand (with US oil prices recently turning negative for the first time in history). There was also a price war between Saudi Arabia and Russia as they failed to agree on production cuts. The oil and gas sector was the worst performing industry group over the quarter.

Corporate bonds declined significantly, with high yield and emerging market debt the most affected as investors de-risked into safer assets. The declines were most severe in sectors affected directly by Covid-19 such as travel, retail and energy.

ACTION

Despite the large market declines seen over the quarter trustees should avoid making decisions based on short-term market events and invest in line with their long-term strategy.

HMRC Guidance on GMP Equalisation ("GMPE")

HMRC Pension Scheme Services has finally published its long awaited guidance on GMPE.

Given that the working group set up to produce this guidance first met in April 2019, the gestation period for the guidance appears lengthy. There are, however, good reasons for this. In particular, they include a pragmatic attempt to make solutions fit within the prescriptive pension tax regime without the need for new legislation (which would have resulted in further delay).

In any event, the guidance is finally here and it contains some helpful information on the interaction between GMPE and pensions tax. In it, HMRC considers GMPE to be a correction of members' existing pension entitlements and the guidance is based on this premise. This is an important point, because, if a different approach had been used, e.g. GMPE had been considered a new pensions entitlement, HMRC's conclusions would not be the same across all areas.

There is arguably good and bad news in the guidance.

The good (or at least 'neutral') news is that GMPE should not constitute new accrual of benefit that needs to be tested by administrators for annual allowance purposes, or which would prejudice applicable lifetime allowance protections (in particular, Fixed Protections (FP) 2012, 2014 and 2016). Also, the guidance is clear that arrears of pension may be paid to scheme members as a lump sum as part of the GMPE exercise and will not be unauthorised payments.

'Pre A-Day members' (those who took all their benefits before 6 April 2006) will not be brought into the post A-Day regime simply as a result of GMPE. Further, deferred members, whose benefits are just being increased in line with inflation or scheme rules, will not suddenly have annual allowance issues as a result of their preserved pensions increasing through GMPE.

Another positive is that there is no need to revisit annual allowance pension input amount calculations done in the past for changes to implement GMPE.

The not so good news is that the guidance is quite narrow. It relates only to benefit adjustments where the reason for the adjustment is solely for GMPE and does not cover other benefit adjustments, if any, which occur at the same time. Moreover, the guidance relates only to those equalisation methods that do not entail conversion. If GMP inequalities are addressed through conversion of GMP into other benefits then the HMRC guidance highlights that lifetime allowance protections may be lost and there may be annual allowance issues.

Also, this HMRC guidance does not cover treatment of lump sum and death benefit payments, but future guidance will.

There is less positive news on retirement calculations too, past and future. GMPE adjustments will impact on the amount of any previous and future benefit crystallisation events for lifetime allowance purposes. So, GMPE may result in an LTA charge being due where it would not have otherwise arisen for both current and prospective pensioners (meaning that some retrospective testing and reporting may be needed). Members who became entitled to their pension after 5 April 2006 will have been given an annual BCE statement showing the percentage of the lifetime allowance used up. The BCE statement will need to be updated going forward with correct information, but previous statements do not need to be revised and reissued.

HMRC Guidance GMP Equalisation (GMPE) continued…

Finally, for members with Primary Protection and Individual Protection, who could have protected higher amounts because of GMPE uplifts, these individuals, if they want to register higher 'protected amounts', will need to re-apply to HMRC.

It is now time to act!

Whilst recognising the limitations of the guidance, it is undoubtedly a useful further piece in the complex GMPE jigsaw. Bearing in mind that it has been achieved without any change in legislation, it is also quite pragmatic – members will not generally lose out simply because of an issue in respect of which they had no reasonable awareness.

Since the first Lloyds Bank judgment in October 2018, it has been clear that GMP inequalities must be addressed by schemes that have members with GMPs accrued between 17 May 1990 and 5 April 1997. "We are awaiting guidance from HMRC" is no longer an excuse for putting off GMPE.

Trustees now need to act and start paying their members their correct entitlements. As time passes, more and more people who have been paid the wrong benefits will pass away without ever having their benefits corrected. The corrections on a scheme-wide basis may only amount to 1%, but the variations on an individual member level could be worth thousands of pounds.

Trustees should take reassurance from the HMRC guidance and start to press administrators, actuaries and legal advisers to address the remaining uncertainties, to develop the processes for correcting benefits, and then to get on with a job which has been in the "too difficult" pile for far too long.

Helpful Links:

https://www.gov.uk/government/publications/guaranteed-minimum-pension-gmp-equalisation-newsletter-february-2020/guaranteed-minimum-pension-gmp-equalisation-newsletter-february-2020

DB Transfers: Pensions Administration Standards Association ("PASA") Code of Good Practice

PASA consults on finding the right balance between member protection and member's statutory rights

As acknowledged in the introduction to the PASA consultation on a new Code of Practice for defined benefit (DB) transfers, the time taken to process transfers varies hugely and some can take months to execute. In the period between transfer application and transfer payment, there can even cases of the member dying and, in consequence, it no longer being possible for the transfer to be processed, sometimes resulting in complaints from the member's spouse or dependants.

That said, due to detailed regulations and the very real risk of pension scams, transfers and especially DB transfers, can be complex.

So, in its draft Code, PASA has endeavoured to strike a balance "between member protection and a member's statutory right". PASA expects all parties involved in the transfer process to aim to meet the timescales set out in their proposed Code **(see below)** and to monitor their success in doing so. Whilst the Code will be voluntary, it is anticipated that the Pensions Ombudsman will reference it, as a source of what good industry practice looks like, when reviewing complaint cases.

The Code distinguishes between 'standard' and more complex 'non-standard' transfers (e.g. an overseas transfer would be non-standard).

In relation to standard cases, where calculations are carried out by the administration team, the timescale between a guaranteed quote being requested and that quote being issued should be **7 - 10 working days** (or **12 -15 working days** where referral to the actuary for review or sign-off is required). Where calculations are carried out by the actuary, it is assumed that all cases are non-standard and the proposed timescale from quote requested to quote issued is a total maximum expected time of **9 - 12 working days**.

To improve efficiency, the draft Code contains various templates. In particular, the use of a standard transfer template is encouraged. This template contains all required scheme and member information and includes examples of every type of calculation, allowing advisers to ensure the advice given is robust.

Assuming the member then wants to proceed with their transfer, for the 'settlement process' (the period from transfer application being received by a scheme to transfer payment being made), a turnaround time of **9 -11 working days** is proposed.

DB Transfer: Pension Administration Standards Assocoiation (PASA) Code of Good Practice continued…

The consultation on the draft Code has only just been launched. Responses can be submitted up to 30 April 2020. The final Code is expected to be released from 1 September 2020, with schemes/administrators will be given 12 months to comply with the Code. DC to DC transfers are not explicitly covered, but it is recognised that many administrators have harmonised their internal DB and DC transfer processes and that members often have DB and DC benefits within the same scheme. PASA encourages applying best practice principles across different types of work or business areas.

ACTION

Trustees should speak to their administrators, whether in house or third party, and ask how their timescales and processes compare to the proposed Code. Schemes and administrators will need to decide whether to 'sign-up' to the Code when it is finalised.

Health Equity in England: The Marmot Review 10 Years On

A new report by Professor Sir Michael Marmot for the Institute of Health Equity not only highlights the stalling of increases in UK life expectancy generally since 2010, but also identifies a fall in life expectancy for women in the poorest areas. The report suggests that austerity has had an impact, which seems a natural conclusion even if it isn't quite proven definitively yet. There is a well-established link between poverty and early death and people in deprived areas continue to die sooner than their more affluent peers – and this gap could widen if the current trend continues.

However, there is a contrary view that the current slowdown is just a trough in the long-term trend that offsets the peak improvements experienced during the first decade of this millennium. The Office for National Statistics ("ONS") previously released statistics on global longevity (August 2018) that demonstrated a significant slowdown in longevity improvements in Germany, Spain, Sweden and Portugal and a complete stalling in the USA – , so the UK is definitely not alone.

At the same time, Japan has experienced sluggish increases in longevity for some time and only recently saw improvements begin to accelerate again, which is perhaps understandable given that they have been leading the way with the highest longevity in the world. While the UK may lag behind France, the Netherlands, Spain and Italy on life expectancy, it remains ahead of the USA, Poland and Russia, so it isn't all bad news.

There may be some truth in both views, with the negative impact of austerity exacerbating the effect of natural fluctuations over time. As far as pension schemes are concerned, it is important to assess the latest data available and consider its relevance for the scheme in question.

ACTION

Trustees and companies should continue to engage in discussion with their actuary to explore the appropriateness of their mortality assumptions and the impact they have on their scheme's reported liabilities.

Helpful Links:

Link to the Marmot Review
Link to ONS Bulletin

Developments in Trusteeship and Governance

Since the launch of TPR's 21st century trusteeship and governance campaign in 2016, raising standards of governance has been one of TPR's top priorities. The latest development, published in February 2020, is TPR's much anticipated response to its consultation on the 'Future of Trusteeship and Governance.' The consultation received the greatest number of responses to any consultation, which just goes to show the level of interest in this area.

The consultation was divided into 3 key themes:

1. Trusteeship, knowledge, skills and ongoing learning

- ✓ TPR will review and update the code relating to Trustee Knowledge and Understanding ("TKU") and consult on the updated content in 2021. It will also review the TKU scoping guidance (which broadly sets out what trustees need to know and understand) and will look to differentiate by trustee role type (e.g. lay, professional, chair) and type of scheme.
- ✓ After trustees have had a reasonable amount of time to review their compliance with the new guidance, TPR will run a "regulatory initiative" on TKU and will contact a large number of schemes about TKU and engage with any which are unable to demonstrate compliance.
- ✓ There is going to be a new single 'super' code. TPR is planning to consolidate all 15 codes of practice into a single web based code and was planning to launch a consultation on the new code some time during 2020.
- ✓ TPR does not intend to introduce mandatory qualifications and has suggested 15 hours of Continuing Professional Development as a guide for lay trustees per year (which compares with 25 hours for professional trustees).

2. Scheme governance structures for effective decision-making

- ✓ For the time being, TPR is not going to pursue the introduction of a requirement for schemes to report on the steps they are taking to increase diversity on their boards. Instead, TPR is planning to establish an industry working group to help improve the diversity of trustee boards. TPR will be the first chair of the group which will prepare, amongst other things, "good and best practice guidance on board composition and how boards can make the most of the pool of potential trustees they have available to them" and "practical tools and case studies to promote the recruitment of diverse trustees".
- ✓ TPR isn't going to require every scheme to have a professional trustee but this will be kept under review.
- ✓ There will be no immediate change in the area of sole trusteeship. However, TPR is going to commission research into the "scale and reach" of sole trusteeship and "continue to keenly scrutinise schemes that use a sole trustee" and will consider changing its regulatory approach if it finds evidence of "fundamental problems that need to be addressed". TPR is supporting the Association of Professional Pension Trustees in the development of an industry code for sole trusteeship.

3. Driving Consolidation for Defined Contribution Schemes

- ✓ TPR will continue to monitor DC consolidation activity and will be working with both industry and the DWP to find solutions to overcome barriers to consolidation.

Developments in Trusteeship and Governance continued…

Key messages for trustees and employers

Whilst there are no immediate actions for trustees and employers arising from this consultation, the direction of travel is clear. If, over time, TPR doesn't see evidence of improvement in some of the areas highlighted, they may well decide to implement some of the more radical proposals put forward in the consultation document.

Trustees and employers should continue to monitor developments in this area, although it's fair to say that progress is likely to be slower than anticipated by TPR given the amount of preparatory work needed in order to implement the proposals outlined above and the immediate need for TPR to focus its resources on responding to the Covid-19 crisis. Indeed, we have already seen TPR postpone its consultation on bringing together its codes of practice to form one single code and we know that it has decided to defer selecting the candidates and setting up the industry working group on Diversity & Inclusion for the time being, given the need (at least in the short term) to address the most immediate risks to pension schemes.

Whilst many trustees will be busy dealing with the most pressing issues facing their schemes, for some the pace of life and work may have slowed down considerably and now may be a good time to make up some additional CPD hours and to reflect more widely on the governance of their scheme. For example, trustees could review the current systems and processes for meeting TKU to ensure that they remain fit for purpose and consider what steps could be implemented to improve diversity & inclusion on the trustee board.

Helpful Links:

Further Information

https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/future-trusteeship-governance-co

Very recent developments

Pensions Regulator update

Covid-19 guidance

TPR continues to add to its Covid-19 guidance for pension schemes. The latest addition consider administration issues, with references to industry guidance published by the Pensions Administration Standards Authority and advice from the Lord Chancellor on the use of e-signatures.

Guidance for employer around automatic enrolment requirements has also been published.

TPR has published guidance on reporting duties and enforcement activity too. A more flexible approach to agreed reporting requirements for employers, trustees and pension advisers is being adopted, with the easements remaining in place until 30 June 2020.

On a Covid-19 related note, a Treasury Direction has been made under provisions of the Coronavirus Act 2020. This sets out the legal framework for the coronavirus job retention scheme, which is to be read alongside further guidance issued by HMRC. The Schedule to the Direction confirms that HMRC is responsible for the payment and management of amounts to be paid under the coronavirus job retention scheme (which also covers minimum auto-enrolment pension contributions).

The Occupational and Personal Pension Schemes (General Levy) (Revocation) Regulations 2020 (SI 2020/355)

Following the COVID-19 outbreak, the Government has withdrawn the increase to the general levy on occupational and personal pension schemes that was due to take effect from 1 April 2020. The focus will now be on reviewing the structure of the levy and government will be engaging with industry over the course of the next few months.

TPR extends funding consultation deadline

TPR has postponed the deadline for responses to its consultation on its revised code of practice for DB funding. This consultation was due to close on 2 June 2020, but the deadline has been extended to 3 September 2020. signatures.

Pension Protection Fund update

Business Plan 2020/21

The PPF has published its Business Plan 2020/21. The Plan outlines how the PPF will continue to protect its members in a volatile market whilst setting new standards. On the implications of COVID-19, the PPF Chief Executive, Oliver Morley says: "The extent of the impact is, of course, unknown at this stage. We have chosen to leave our objectives as they stand but we accept that there may be challenges to achieving our objectives within the next 12 months."

Very recent developments continued…

Financial Conduct Authority update

Business Plan 2020/21

The FCA has published its Business Plan 2020/21, setting out key priorities for the coming year and with specific focus on the challenges presented by COVID-19. The FCA's priorities include tackling scams and ensuring the most vulnerable can get the financial services and the help they need.

The FCA has also published its annual consultation on the proposed 2020/21 regulatory fees and levies to fund several bodies including the FCA and the Money and Pensions Service.

The FCA's webpage now provides guidance for pension providers and DB transfer advisers, as Covid-19 develops.

The FCA has also announced a delay to the implementation of the drawdown investment pathways, which were introduced as part of the Retirement Outcomes Review and a delay to the investment transfer rule changes proposed by the policy document entitled Making transfers simpler. The introduction of the Pensions Transfer Specialist Qualification rules are delayed too, by a year to October 2021.

Other news

Progress of pensions dashboards

The Pensions Dashboards Programme, established by the Money and Pensions Service ("MaPS"), has published a report on the progress made so far and the work that still needs to be done before the service launches to the public. MaPS also announced the publication of two further documents on the scope of dashboards and the data elements required from pension providers.

Helpful Links:

https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider/scheme-administration-covid-19-guidance-for-trustees-and-public-service

https://www.gov.uk/government/consultations/the-occupational-and-personal-pension-schemes-general-levy-review-2019

https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider/covid-19-an-update-on-reporting-duties-and-enforcement-activity

https://www.gov.uk/government/publications/treasury-direction-made-under-sections-71-and-76-of-the-coronavirus-act-2020

https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/2020-press-releases/new-covid-19-pension-guidance-published-for-employers

https://www.thepensionsregulator.gov.uk/en/document-library/consultations/open-consultations

https://www.ppf.co.uk/news/our-business-plan-202021

https://www.fca.org.uk/news/press-releases/fca-sets-out-priorities-2020-21

https://www.fca.org.uk/firms/pensions-and-retirement-income-our-guidance-firms

https://www.fca.org.uk/publications/policy-statements/ps18-20-improving-quality-pension-transfer-advice https://www.fca.org.uk/publications/policy-statements/ps19-21-retirement-outcomes-review-feedback-cp19-5

https://www.fca.org.uk/publications/policy-statements/ps19-29-making-transfers-simpler-feedback-cp19-12-and-final-rules

https://www.maps.org.uk/2020/04/08/pensions-dashboards-programme-sets-out-broad-plans-for-future-development/

Coming Up Next…

For longer than we care to remember, this section of the quarterly report has bemoaned the lack of progress on pensions policies as a result of Brexit. How distant those times now feel. Yet, despite the even more uncertain times we find ourselves in, it is important to remember that at the end of this pandemic – and there will be an end – we will still have pension scheme members, taxes, regulations and investments. So, let us continue to look forward, continue to plan, and continue to influence those things that we can control.

For now, here are some of the events that we believe you should be looking out for in the coming weeks and months:

- ✓ TPR is expected to launch its **Annual Funding Statement** in April, which will include information to assist with actuarial valuations being completed (and having an effective date) during the current Covid-19 pandemic. Ahead of this release, TPR have established a Covid-19 "hub" that deals with a multitude of issues for trustees, employers and advisers to consider at this time, including DB scheme funding (Link here).
- ✓ 22 April was the deadline for responses for the consultation on the proposed **alignment of RPI and CPI**. As a result of Covid-19, however, this has been extended to 21 August. We will be submitting a response to the consultation, setting out our views on the potential impact on pension scheme assets and liabilities. In the meantime, look out for our forthcoming blog which will set out our views on the considerations for trustees, employers and members.
- ✓ The 3rd hearing in the Lloyds Bank case on **GMP equalisation** was expected to start at the end of April, focusing on the treatment of transfers out. It is not yet known whether this latest episode of the case will be delayed due to Coronavirus, as we understand discussions have taken place on holding a virtual hearing.
- ✓ 6th April was the start of the **new tax year**, meaning all the new rates and thresholds regarding pensions will come into force. Trustees and their administrators should already be familiar with the latest rates, but a summary from the government can be found here.

Trustees and sponsoring employers alike should also be aware of the following key dates in 2020:

- ✓ **30 April 2020** – Deficit Reduction Certificates to be submitted (by 5:00pm).
- ✓ **30 June 2020** – TPR to review the easements put in place in response to the Covid-19 crisis
- ✓ **2 September 2020** – Deadline for responses to TPR's consultation on a revised DB Funding Code (originally the closing date was 2 June).
- ✓ **1 October 2020** – Trustees must publish new 'Implementation Statement' for their statement of investment principles.

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