Spence & Partners Limited – Industry Changes

Your Quarterly Pensions Update – Q2 2020

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What's inside

GOVERNANCE INVESTMENT ADMINISTRATION ACTUARIAL

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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 John_Wilson@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.

Annual Funding Statement 2020

The 2020 Annual Funding Statement ("AFS") from The Pensions Regulator ("TPR") is particularly relevant to schemes with valuation dates between 22 September 2019 and 21 September 2020, as well as schemes undergoing significant changes that require a review of their funding and risk strategies. It sets out specific guidance on how to approach the valuation under current conditions, what TPR expect from trustees and employers, and what they can expect from TPR. TPR appreciate these are very challenging times in light of the global pandemic. However, they expect all valuations falling in the above period to fully incorporate the principles in the current DB Code of Practice and associated guidance.

Key Points

- ✓ Research shows that funding positions at 31 March 2020 were highly variable as a result of COVID-19.
- ✓ For schemes that have experienced a sharp fall in funding levels, if these risks were considered in an Integrated Risk Management ("IRM") framework, they should have contingency plans in place. Where this is not the case, trustees and employers will need to consider how far they may have strayed from their longer-term objective and develop strategies to put them back on course.
- ✓ Scheme-specific considerations include the following:
  - ✓ **Post valuation experience:** Schemes with valuation dates around 31 December 2019 or earlier may already be well advanced with their provisional valuation results but have more time to complete their valuation. When preparing recovery plans, schemes should always consider taking account of post valuation experience, whether it be positive or negative.
  - ✓ **Changing the valuation date:** Trustees should consider very carefully why they believe such an option is in the best interests of their members and the impact of any such change on member security. If they decide on such a change, trustees should do so having obtained and considered legal and actuarial advice, while also taking account of changes in the investment markets and employer's covenant. Trustees who take this decision can expect TPR to question their reasons for the change – using an alternative date to show a more favourable funding position does not change the underlying position of the scheme.
  - ✓ **Calculating technical provisions ("TP"):** TPR recognize that March and April 2020 valuations will be challenging and state that it is reasonable to delay taking decisions about TP assumptions until more clarity emerges (although preliminary work on data and analysis should proceed). It remains important for trustees to consider a range of possible future outcomes when considering their TP assumptions. Trustees should also discuss with their advisers the key assumptions and if they will change (or have done so) in the current environment.
  - ✓ **Recovery plans and affordability:** The current circumstances accentuate the importance of trustees working collaboratively with their employer. Trustees should then deal with any changes in pension deficits alongside the assessment they have made of the employer's financial position. Plans should be made to recover deficits with a focus on the affordability of the employer while maintaining fair treatment and balancing of the sustainable growth of the employer. In addition to deficit repair contributions ("DRCs"), where possible, TPR expect trustees to incorporate appropriate incremental increases in contributions, which track corporate health recovery, especially when the scheme has taken on additional funding risk while supporting the employer's recovery.
  - ✓ **Shareholder distributions:** Where employers recommence shareholder distributions, TPR expect liquidity and affordability to therefore have been largely restored and recovery plans to reflect that position. Where significant reductions in DRCs are agreed to support the employer, trustees should:
    1. ensure that this additional liquidity is not used by the employer to support associated companies (unless this will benefit the ability of the employer to support the scheme);
    2. agree contingent contributions to commence on the reintroduction of shareholder distributions and/or agree formal dividend blocks for the period of agreed reductions;
    3. understand how deferred contributions are to be repaid in line with any protections agreed.

ACTION

Ensure appropriate IRM framework has been put in place and the scheme has a long-term objective in place (Note that the Pensions Schemes Bill will create a legal requirement for a specific long-term strategy).

COVID-19 has resulted in considerable uncertainty over some employers' covenant strength and this uncertainty could be heightened by Brexit. Trustees should consider obtaining independent specialist advice to assess the employer covenant where necessary, while keeping a full audit trail of those considerations. Trustees should only undertake their own covenant assessment if they have sufficient expertise in their ranks.

In relation to setting technical provisions assumptions, trustees should speak to their advisers, as there may be a greater need for scenario modelling / stress testing to highlight the significance of any recommended assumptions.

There may be a need to implement contingency planning for adverse events in schemes where, pre-COVID-19, there was little to no planning. This could be in the form of reducing investment risk, maximising DRCs (without putting the employer at risk), obtaining independent covenant advice, and seeking non-cash support to strengthen the covenant. Trustees should consult with their advisers as to any actions that could suit their scheme.

Helpful Links:

TPR Annual Funding Statement 2020:

https://www.thepensionsregulator.gov.uk/en/document-library/statements/annual-funding-statement-2020

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Corporate Insolvency and Governance Act 2020

Good or bad news for pension schemes?

The Corporate Insolvency and Governance Act was only introduced into Parliament at the end of May but received Royal Assent within a month of its introduction. Whilst not all of its provisions are new – some having been consulted on as far back as 2018 – the 'fast-tracking' of its passage and implementation (it is now in force) is a direct consequence of the current pandemic. In short, the legislation is an attempt to ensure that otherwise financially viable companies survive during this crisis.

The Act contains a mix of permanent and temporary changes to the UK insolvency and restructuring regime.

Its permanent measures include the introduction of a moratorium for companies in financial distress. This allows companies an opportunity to explore rescue and restructuring options free from creditor action. The Act also introduces provisions to allow struggling companies, or their creditors or members, to propose a new restructuring plan. Further, the legislation changes, with some safeguards, the rules on when a supplier can withhold payment to struggling firms to avoid imperilling a rescue.

Temporary measures to support businesses through the pandemic include the suspension of parts of insolvency law to support directors to continue trading through the emergency without the threat of personal liability and to protect companies from aggressive creditor action. The Act also allows for temporary flexibility regarding other administrative burdens such as the holding of annual general meetings ("AGMs") and filing requirements.

During the Act's passage through Parliament, the Government was lobbied by a number of pensions trade associations and other stakeholders who highlighted several concerns around the potential impact on defined benefit pension schemes and the Pension Protection Fund ("PPF").

A number of changes were made in response to this lobbying, in particular additional rights to information for the PPF and The Pensions Regulator, and the ability for both these bodies to make representations at court hearings.

Nevertheless, whilst the impact will depend on the operation of the Act in practice, concerns remain over both the short and long-term impact of some of the Act's provisions on DB schemes where sponsoring employers are experiencing difficulties.

ACTION

Ensure expert advice is sought where these new measures may undermine the position of DB pension schemes.

Helpful Links:

Link to the Act and associated materials:

https://services.parliament.uk/Bills/2019-21/corporateinsolvencyandgovernance.html

Hampshire Judicial Review - PPF compensation cap discriminatory

On 22 June, the Administrative Court issued a ruling in respect of a challenge brought against the Pension Protection Fund ("PPF") by pensioners from four schemes. This followed an earlier European Court of Justice ruling in the so-called 'Hampshire' case. Broadly, the court ruled:

- ✓ the PPF compensation cap is unlawful on grounds of age discrimination;
- ✓ the PPF's approach of making a one-off calculation is permissible, but needs to make sure that, over the course of their lifetime, each individual, and separately each survivor, receives at least 50% on a cumulative basis of the actual value of the benefits that their scheme would have provided;
- ✓ members of schemes in assessment should receive benefits at the level required by the ECJ's Hampshire judgment.

The PPF Board is still studying the detail of the judgment and working with the Department for Work and Pensions. It is not yet known how the UK government will respond. In the meantime, the PPF will continue to pay members their current level of benefits. They have also updated their FAQs about the ECJ Hampshire judgment to reflect the ruling.

We are still considering the implications of the ruling too, but it is clear that there will be implications for schemes transferred to the PPF and those in PPF assessment periods. There will also be an impact for 'PPF +' cases, i.e. those schemes that wind-up outside the PPF, after being in an assessment.

ACTION

Watch this space. We will report on developments in future publications.

Helpful Links:

Link to the judgment:

https://www.judiciary.uk/wp-content/uploads/2020/06/hughes-v-ppf-judgment-220620.pdf

Measures extended to help pension schemes tackle COVID-19 challenges

Guidance designed to help pension scheme trustees and employers cope with the financial impact of COVID-19, originally issued in March 2020, has been updated by The Pensions Regulator ("TPR") and is effective from July.

Among the updates is further guidance for trustees of defined benefit ("DB") schemes facing employer requests to agree to suspend or reduce deficit repair contributions ("DRCs"). Trustees may still agree to these requests where necessary to support employers navigating the challenges resulting from COVID-19.

However, the guidance now asks trustees to resume reporting, from 1 July 2020, certain key information to TPR to ensure risks are being managed and savers protected. This includes:

- ✓ Suspended DRCs - trustees will need to submit a revised recovery plan or report of missed contributions;
- ✓ Late valuations and recovery plan not agreed;
- ✓ Delays in cash equivalent transfer quotations and payments;
- ✓ Accounts: Trustees will be asked to report any failure to prepare audited accounts but TPR will not be looking to take enforcement action on late accounts signed off by 30 September 2020;
- ✓ Chair's statements: The legislation around chair's statements does not allow discretion in relation to enforcement but TPR does not expect to be reviewing statements before the autumn;
- ✓ Statement of Investment Principles ("SIPs"): TPR does not expect to take regulatory action if a review of a SIP (or statement in relation to any default arrangement) is not delayed beyond 30 September 2020.

A related TPR blog has also been published.

Further information, covering pension scheme administration, DC schemes, and automatic enrolment is available on TPR's website at:

Helpful Links:

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

https://blog.thepensionsregulator.gov.uk/2020/06/16/why-intelligence-is-key-to-combating-covid/

More failed attempts to substitute another pensions increase index for 'RPI'

In the recent case of Carr v Thales Pension Trustees Ltd, the High Court affirmed a Pensions Ombudsman determination on the interpretation of a pension scheme rule relating to pension increases.

The Ombudsman had upheld a member's complaint, determining that the Retail Prices Index ("RPI") had been hard-coded in the rules as the measure of price inflation for increasing pensions in payment. There was nothing in the scheme rules to modify or qualify the term "retail prices index" or the 5% scheme cap on indexation. So, the Ombudsman found that these should be given their ordinary and natural meaning.

On appeal, the High Court held that a "natural and ordinary" reading of the scheme rule gave primacy to the limb that provided for increases to be in line with the RPI.

Even more recently, in Arup & Partners International Ltd v Trustees of the Arup UK Pension Scheme, the principal employer of the Arup pension scheme sought declarations from the High Court on the measure of price inflation for pension increases.

The pension scheme rules provided that the trustees could adjust pension increase calculations if the composition of RPI changed or if it was "replaced by another similar index". The employer argued that RPI had been 'functionally' replaced since the Consumer Prices Index ("CPI") and Consumer Prices Index, including Housing ("CPIH"), had come to be regarded as the main measure of inflation for use by pension schemes.

The High Court held, however that, on the true construction of the relevant rule, RPI was "replaced" only if it was discontinued and another similar index was introduced or declared by the responsible body to be in its place. The scheme rule in question did not contemplate any form of 'functional' replacement.

These cases demonstrate that the correct measure of price inflation for pension increases continues to be a scheme rules 'lottery'. There have been nine reported court cases since CPI replaced RPI for State and public sector pensions, and only two have resulted in a change to the way that pensions are increased.

On a different, but still price inflation related note, the High Court has been more receptive when asked to correct a mistake in scheme rules. In Univar UK Ltd v Smith and others, the High Court granted rectification of rules regarding inflation-linked pension increases for the defined-benefit section of the Univar Company Pension Scheme. References to an increase calculated using RPI, incorrectly added on a rules rewrite, will be replaced by increases based on CPI. Had rectification not been granted, it was estimated that that the oversight would increase scheme funding costs by around £23 million!

The ongoing government consultation on reform of the RPI Methodology (where it is recommended that the publication of RPI should cease) could be a 'game-changer', but any reform may be up to ten years away. In the meantime, it seems inevitable that further cases relating to the interpretation of pension scheme increase rules will end up before the courts even though past cases suggest that attempts to reduce the rate at which pensions are increased are, in most cases, unlikely to succeed.

HMRC Countdown Bulletins 52,53

With the continued drive to progressing Guaranteed Minimum Pension ("GMP") equalisation projects, trustees first need to ensure they understand the position of their scheme with regards to GMP reconciliation. The latest HMRC Countdown Bulletins provided further detail on how scheme administrators should go about completing these reconciliations.

Final Data Cuts

HMRC met with the Administration Industry in February this year to provide an update on the service they were providing to assist in the reconciliation of contracted out liabilities. The key message was that HMRC would be issuing a final data cut(s) for each scheme showing the liabilities held according to their records. This would allow scheme administrators to undertake a final reconciliation against their own records. At that meeting HMRC committed to providing a timeline for the issue of these final data cuts towards the end of March.

Due to the Covid19 outbreak, HMRC had to reprioritise its resources, and as a result the publication of the final timeline did not happen until end of April. This stated that they would start the process of issuing data cuts around then, with the aim of issuing all by the end of July.

Actions required by Scheme Administrators

HMRC made it clear that final data cuts would only be issued for schemes who had either engaged with the Scheme Reconciliation Service or had been reconciled as part of the Scheme Cessation process. There is a responsibility on scheme administrators to check that they receive data cuts for all schemes they are expecting these for, and to contact HMRC at the end of July if they are still awaiting any.

There is now a responsibility on administrators to compare the data received from HMRC with what is held on their systems, and to engage trustees in discussions around how any remaining discrepancies are resolved. HMRC will not investigate these any further, and we expect that in the first instance the Guidance issued by the Pensions Administration Standards Association ("PASA") will be used in determining how to resolve these cases. This is particularly relevant where there are remaining queries over the scheme membership data.

Issues with Guaranteed Minimum Pensions

HMRC have advised that there are known differences between the GMPs provided on final data cuts and the GMP output when administrators use the online GMP checker service. They have advised that this is because the GMPs are being generated at different dates. The GMP output by the online checker provides a real time GMP at the "point of request", whereas the final data cuts provide a GMP at a "point in time", with that point being based upon things like member status and which service was used.

HMRC have advised that the GMP checker is providing accurate figures. Where administrators cannot agree the amount against their own records then a query can be raised with HMRC at a life event through the Live Schemes Shared Workspace eRoom.

Helpful Links:

https://www.gov.uk/government/publications/countdown-bulletin-52-april-2020

https://www.gov.uk/government/publications/countdown-bulletin-53-may-2020

Pension Schemes Bill update

The Pension Schemes Bill 2019-21 has, following the Covid-19 'lockdown', started to progress through Parliament again, having been 'stuck' at the committee stage in the House of Lords since 4 March (the Bill started in the House of Lords and so has still to go to the Commons). The next milestone is the report stage in the House of Lords on 30 June.

In the meantime, the government has tabled further amendments:

- ✓ New provisions inserted into the Pensions Act 1995 to ensure occupational pension schemes act and report on their exposure to the effects of climate change in line with the recommendations of the industry-led Taskforce on Climate-related Financial Disclosures.
- ✓ In a supplementary memorandum from the Department for Work and Pensions, it is observed that the changes are intended to clarify the ways in which the new powers may be used. Specific reference is made to the 2015 Paris Agreement on climate change (and other climate change goals) as matters that trustees may be required to consider within their governance of climate change risks. They may also be required to adopt prescribed assumptions about future events, which may include assumptions about climate change goals.
- ✓ The Money and Pensions Service ("MaPS") is required to provide information about members' entitlements under occupational and personal pension schemes by means of a pensions dashboard service.
- ✓ Additional limitations to the circumstances where a member of an occupational or personal pension scheme may exercise cash equivalent transfer rights. The changes will require that, in prescribed cases, the member must provide evidence to the trustees that he or she has obtained information or guidance from the MaPS before they act on a transfer (i.e. a pre-requisite to have a statutory right to a transfer will be a prior 'visit' to MaPS). As an aside, we understand that a further, more far-reaching, change will be proposed to transfer rights. This change, if accepted, will change all statutory transfer rights into trustee discretions where the ceding scheme has reasonable cause to believe that a pension scam may be involved.

Postscript: Just before publication, the Pension Schemes Bill 2019-21 received its third reading in the House of Lords. In a statement published by the Department for Work and Pensions, it was confirmed that the Bill will proceed to the House of Commons later this year.

Investment Market Q2 2020 Update

All major asset classes posted positive returns over the quarter, lead by risk seeking assets with equity markets posting a strong recovery from their Q1 losses. Government stimulus and easing of lockdown restrictions were positive for investor sentiment. This is despite a rise in Covid-19 cases in some parts of the world and the International Monetary Fund predicting that global GDP will shrink by 4.9% in 2020.

UK equities increased over the period by c.10% but lagged behind other countries. UK GDP contracted by 20% in April, the largest monthly contraction on record; however, evidence from more recent indicators suggest that GDP has started to recover as lockdown restrictions are lifted.

US equities performed well, with the S&P 500 having its best quarter since 1998 – up 21%, with the technology sector leading the gains. Improving jobs and retail sales data supported asset prices. However, investor optimism was tempered by a rise in Covid-19 cases that has prompted some states to rethink or reverse the easing of lockdown measures.

Emerging market ("EM") equities increased over the period by 19%, with their strongest quarterly return in over a decade, driven by a decline in the US dollar and an improving risk appetite. However, in some regions there has been an acceleration in the number of new daily cases of Covid-19 with abilities to withstand it varying greatly across EM countries as many have weak public health systems.

Corporate bonds performed strongly, outpacing government bonds, causing credit spreads to decline. The high yield market rebounded strongly despite a wave of downgrades. Credit markets benefited from improving investor confidence, as central banks continued to support economies through stimulus measures such as the US Federal Reserve's $750bn bond purchase scheme and the European Central Bank's €750bn Pandemic Emergency Purchase Programme.

Long-term UK gilts ended the quarter 0.2% lower (i.e. prices increased) as investors continue to favour their "safe haven" status. Long-term inflation expectations increased due to an improving economic outlook and risk sentiment.

During the quarter, the oil price temporarily turned negative for the first time in history due to storage issues. Despite this, oil rallied by 57% as producing nations agreed temporary production cuts and investors became more optimistic of a global recovery. Gold also saw gains and reached an eight-year high, which reflected a continued appeal for the haven asset.

ACTION

Despite the strong rebound over the quarter in almost every asset class, trustees should continue to monitor their investments and speak with their advisors to ensure their investment strategy remains suitable.

Statement of Investment Principles and Implementation Statements

On 6 June 2019, the Government published regulation for pension schemes, which is intended to implement the aspects of Shareholder Rights Directive II, relating to workplace pension scheme stewardship and governance. The purpose of this regulation is:

- ✓ to improve transparency of how trustees engage with asset managers; and
- ✓ allow members to understand how funds are being managed and invested, whilst trying to encourage schemes to take a long-term approach to investment.

The regulation will not affect public sector schemes or those with less than 100 members.

What the regulations cover

Trustees will need to set out their policy in relation to the scheme's arrangement with any asset manager or explain why they have omitted any of the following:

- ✓ how the trustees incentivise the fund manager to align its investment strategy and decisions with the trustees' policies;
- ✓ how the trustees incentivise the fund manager based on medium to long-term financial and non-financial performance of a company as well as engage with them;
- ✓ how the method and time horizon of the evaluation of the fund manager's performance and their remuneration are in line with the trustees' policies;
- ✓ how the trustees monitor portfolio turnover costs incurred, and how they define and monitor targeted portfolio turnover; and
- ✓ the duration of the arrangement.

Trustees will need to provide further information on stewardship, such as how they monitor the investee company on capital structure and how they manage conflicts of interest in relation to their engagement with companies.

These changes need to be in place by 1 October 2020.

Disclosure requirements

Defined benefit schemes will need to publish their SIP on a public website by 1 October 2020. The new policies will also need to be disclosed in the trustee's annual accounts that are signed off on or after 1 October 2020.

Trustees must also produce an 'implementation statement' which:

- ✓ sets out how, and the extent to which, the policy required in relation to exercising voting rights has been followed during the year; and
- ✓ describes the voting behaviour by or on behalf of the trustees, during the year and state any use of the services of a proxy voter.

This statement will need to be produced, included in the trustees' annual accounts, and published on a public website by 1 October 2021.

The rationale behind these additional regulations is to provide members with greater transparency, encourage trustees to engage further with asset managers and to take a longer-term view on their investment strategies.

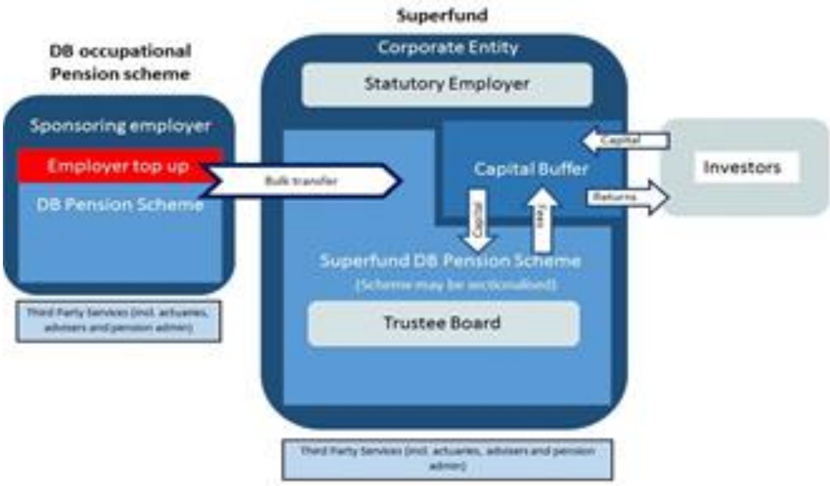
'DB superfunds' - We have lift off?

Well, not exactly lift off – we are still waiting on the first superfund transaction to happen – but, following an earlier consultation, The Pensions Regulator ("TPR") has published a consultation response and guidance. The guidance comes into force immediately and sets out TPR's expectations for, and assessment and regulation of, defined benefit ("DB") consolidator superfunds and other new models.

TPR believes DB superfunds have the potential to offer benefits for pension savers and sponsoring employers. However, before a permanent regime is in place, which may be five years away, TPR has chosen to introduce, according to the regulator, *"a stringent set of standards and robust regulatory framework to manage the risks and to ensure that retirement incomes are protected".*

Trustees are cautioned that they should not be considering a superfund or new business model until TPR has completed its assessment. TPR will be providing more information for trustees and employers in the coming months.

This guidance, covering personnel, governance, and funding risks, is aimed at those setting up and running a DB superfund model (as illustrated below), including directors, senior managers and trustees. It sets out the standards TPR will expect to be met in the period before longer-term legislation is in place (i.e. "the interim period").



Superfunds (including trustees) will need to explain how they meet TPR's expectations before transacting. This will involve submitting information and the guidance includes the information TPR expects superfunds to provide for initial assessment.

A key aspect of TPR's supervision of superfunds is the scrutiny of transfers, both in and out of the pension scheme. As part of this process, TPR expects ceding employers to apply for 'clearance' in relation to a transfer from their scheme to a superfund. As part of a clearance application, TPR will expect to see evidence of a ceding trustee's due diligence. Also, TPR does not expect a superfund to accept the transfer from a ceding scheme that could buy-out, or is on course to do so, within the foreseeable future (for example, in the next five years).

Trustees of DB schemes will, of course, need to be convinced about security of their members' benefits following transfers to superfunds. Insurance companies are still likely to be considered the "gold standard" when it comes to risk transfer and, when options are being considered, due diligence will need to compare the member position in the various scenarios – *own scheme vs superfund vs insurance company.*

Our Response to the Consultation on PCRIGs Guide for Trustees to Align Schemes with TCFD Recommendations

The consultation on PCRIGs Guide for Trustees to Align Schemes with TCFD Recommendations has recently closed. This guide is aimed at trustees of pension schemes and sets out steps to take in order to integrate climate-related risk assessment into decision making and reporting.

We welcome this guide as a great step forward on this ESG journey that pension scheme trustees are all on. We responded to this consultation and our main observations and recommendations are summarised below:

- ✓ **Handbook of requirements:** The guide sets out the various requirements on trustees. This includes legislative requirements as well as non-legislative requirements like fiduciary duties. On top of that, there is a great educational section that gives a high-level background on the issue of climate change. It covers things like the Paris Agreement and different types of climate risks. Having this all in one place could help trustee boards get up to speed on this issue.

Nuances of pension scheme management:

- ✓ **Reliance on advisers:** This is key to understanding how schemes are managed in practice and the guide does pick up on it in areas. Perhaps a useful addition to the guide would be how to challenge advisors. Trustees are in a position where they are completely responsible for decision making but have a significant lack of information or knowledge to challenge advice. This creates a displacement of power and exposes trustees to things like Greenwashing.
- ✓ **Pooled funds:** The guide allows for the fact that a lot of schemes buy off-the-shelf pooled funds rather than creating their own mandates. This is extremely relevant in the context of climate change and ESG, since trustees may have less control over underlying holdings or targets.
- ✓ **Scenario Modelling:** It is difficult to see a way for trustees to do effective scenario analysis in practice. Firstly, there seems to be a 'finger in the air' approach to creating the models. Secondly, most schemes are unlikely to have information on their investments at a granular level. While the guide may be useful to larger schemes with large internal resources, some practicalities of how smaller schemes are managed in practice seem to have been lost when drafting this guidance.
- ✓ **Value for money:** Trustees would need to commit a significant amount of time, and likely fees, to follow this guide. Smaller schemes will likely rely on their consultants and advisors for support on integrating climate risk. There must be value added for any additional fees. We need to make sure TCFD disclosures do not become just another tick-box exercise, but something that will truly add value.
- ✓ **More like a guide for advisers:** Parts of the guidance read very much like a guide for advisers rather than trustees. Indeed, the acknowledgements show that the group were light on trustees. Further, the trustees that were involved tended to manage large schemes and have experience in this area. While we can surely learn a lot from such trustees, it does not reflect the make up of the trustee population. Most schemes are small-medium size and are in the early stages of their ESG journey. Hopefully, these voices will be picked up in the consultation.

Overall, allowing for climate risks and disclosing these will be a lot of work for trustees. The guide is a great start. Trustees will need to be able to rely on their advisers to provide quality advice and to explain the methods and data used to come up with this.

Coming Up Next…

Over the last three months we have experienced an unprecedented degree of uncertainty in our lives. The question, "What's coming next?" has been a frequent utterance, with very few (if any) sure answers being provided. Gaining a grasp of what we will be doing next week, never mind next month, has often been difficult and unsettling.

Set against our uncertain, pandemic themed, world, the pensions industry now seems stable and straightforward by comparison – a testament indeed to the strange times in which we now live! So, let us ask what is coming up next in our industry, in the knowledge that there are still certain events that we can plan for over the coming weeks and months. That should make for a pleasant change from the ambiguity that has become our norm.

In answer then to the question, "What's coming up next?", here are some of the events that we believe you should be looking out for in the coming months:

- ✓ On 13 July the Court of Appeal handed down its decision in the **Safeway v Newton** pensions equalisation case (link here), confirming that the introduction of Section 62 of the Pensions Act 1995 had the effect of closing the Barber window for all occupational pension schemes on 1 January 1996. While the case may not be strictly "coming up next" (unless an appeal is lodged), there may be some work for schemes who equalised the NPAs of their members after 1 January 1996, so trustees should get in touch with their advisers. An update on this long-running case will be included in our Q3 report.
- ✓ The first adjustment to the government's **Coronavirus Job Retention Scheme** will be made on 1 August, when employers must pay National Insurance contributions (NICs) and pension contributions for their furloughed staff. On 1 September, the government will reduce the current level of paying the full 80% of wages to 70%, with employers paying the remaining 10% (as well as NICs and pension contributions). One month later, the government will only pay 60% of wages and the monthly wage cap will be reduced to £1,875 (from the current £2,500) until the scheme closes altogether on 31 October. Employers should be preparing with their administrators for these changes.
- ✓ 21 August is the deadline for responses to the joint consultation by the government and the UK Statistics Authority on whether the proposed adjustments to the methodology backing **RPI** should be made before 2030. The consultation also seeks industry views on how to ensure a smooth transition when the new methodology is adopted. While there may not be much time left to submit a response, it will be interesting to see the range of responses provided when they are released in the coming months.
- ✓ The **Pension Schemes Bill** is finally heading to the House of Commons having finished its passage through the House of Lords, where it was introduced. In a news release, the Government confirmed that the Bill will proceed to the House of Commons "later this year" and that the Government anticipates the second reading "to be scheduled in due course". The Bill contains important changes to the defined benefit (DB) funding regime, introduces new powers for the Pensions Regulator, establishes a framework for the operation and supervision of collective money purchase schemes, and contains legislation to establish pensions dashboards.

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

- ✓ **17 July 2020** – The Finance Bill due to proceed to its second reading in the House of Lords.
- ✓ **21 July 2020** – Before the Summer recess of Parliament (on this date), the Government and the UK Statistics Authority are expected to issue a response to the consultation on whether RPI and CPI should be aligned before 2030.
- ✓ **August 2020** – Judgment is expected in the latest Lloyd's Bank GMP equalisation hearing, looking specifically at the issue of past transfers-out.
- ✓ **21 August 2020** – Consultation on the proposed changes to RPI closes.
- ✓ **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.
- ✓ **31 December 2020** – At 11:00pm the Implementation Period under the UK-EU Withdrawal agreement will end, unless an extension is sought (which seems unlikely).

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