Pensions Update

2021, Issue 2

"It's fantastic news that one of our Associate Directors, Mike Ingram, has been recognised by the Actuarial Post as Actuary of the Year 2020. It's a tribute to the great work he has done on the thorny subject of GMP equalisation. Congratulations, Mike!"

Mark McClintock, **Deloitte Pensions Partner**

Funding levels over January 2021
The table below illustrates the likely movement in assets for three typical investment strategies, plus movement in liabilities (Technical Provisions) for an example scheme.

Asset strategies
The return-seeking strategy assumes a portfolio of 80% equities and 20% bonds. The lower risk strategy assumes a portfolio of 20% equities and 80% bonds. The hedging strategy assumes a portfolio of 60% equities and 40% liability-driven investment holdings.

Liability profile
The assumed profile of the technical provisions is a duration of 20 years, with 50% of the benefits linked to inflation.

How scheme asset and liability levels have changed over January

Return-Seeking Strategy 80% equities : 20% bonds	↓ -0.4%
Lower Risk Strategy 20% equities : 80% bonds	↓ -1.6%
Hedging Strategy 60% equities : 40% LDI (Leveraged LDI portfolio removes 80% of the interest rate and inflation risk)	↓ -2.1%
Technical Provisions Duration 20 years Inflation-linked benefits 50%	↓ -2.8%

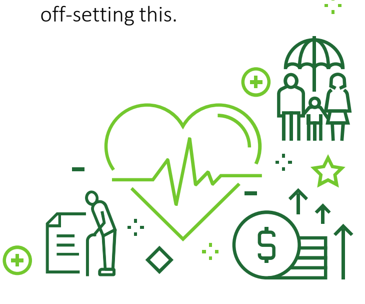
Factors driving changes in funding levels

Overall, over January, we would expect to see an improvement in funding levels for most schemes.

Negative returns from all asset classes over January are likely to result in reduced asset values for most schemes.

Fixed interest investments performed particularly poorly, meaning funds with a significant bond allocation are likely to have performed worse than those with a higher equity holding.

However, liabilities will likely have reduced by more than assets. Increased gilt yields mean liabilities decreased, with a small increase to long-term inflation expectations slightly off-setting this.



Pension Schemes Act 2021

The Pension Schemes Bill finished making its way through Parliament, gaining Royal Assent in early February.

The next stage is for the various items of secondary legislation and codes of practice to be drafted.

Code of Practice on Funding

The Pensions Regulator has confirmed that the proposed new [funding code of practice] is expected to come into force for valuations from April 2022.

This delay is to allow time for stage 2 of the consultation, expected in the second half of 2021.

TPR powers will not be backdated

Similarly, the pensions minister, Guy Opperman, confirmed that The Pensions Regulator's new powers to issue contribution notices will not be backdated. That is, the powers can only be used in respect of events which took place after the Bill was introduced to Parliament.

Previous Deloitte Monthly Pensions Updates

> “I am committed to limiting the erosion of the value of small pots, where flat fee charges risk depleting deferred pots to zero.”
>
> **Guy Opperman**
> Parliamentary Under-Secretary (Department for Work and Pensions)

DWP to ban flat fees for small pots

One-quarter of deferred defined contribution pots are less than £100. At least one of the major providers charges a £1.50 per month fee which, in addition to an Annual Management Charge, would quickly eat away a very small pot.

The Department for Work and Pensions is to ban such fees in an attempt to stop the erosion of small pots.

Government announces expansion of Dormant Assets Scheme

The government has announced an expansion of the Dormant Assets Schemes to include retirement income policies. Where a financial product has not been used for at least 15 years and the provider is unable to find the owner, the assets can be transferred to social and environmental initiatives across the UK.

2020 mortality in context

The COVID-19 Actuaries Response Group supported a news broadcaster in putting together a detailed examination of 2020 mortality in historical context. It considers the Great Famine from 1840s potato blight, the Great Freeze of 1895, WW1 and WW2 (civilian mortality only), 1951 flu, and the Hong Kong flu of 1968-69.

Number of DB transfers falling

Despite record high transfer values, the number of people transferring out of defined benefit schemes fell in the 18 months to March 2020, according to new data from the Financial Conduct Authority.

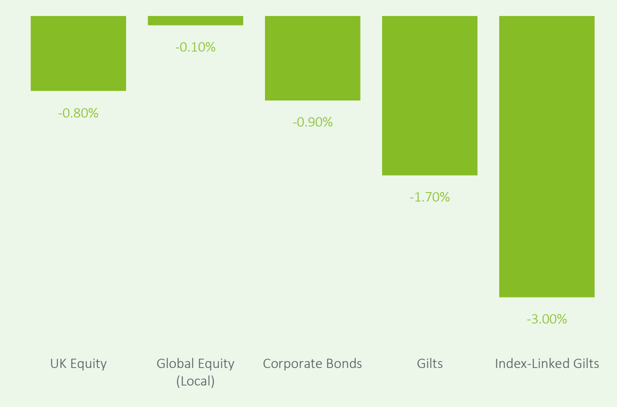
Accounts straddling Transition Period Completion Day

The Financial Reporting Council has produced guidance for UK companies preparing accounts for periods that straddle the Brexit transition date of 31 December 2020.

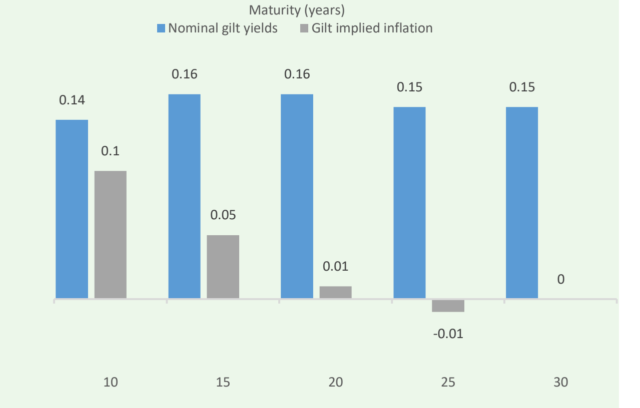
This should not have any immediate effects from a pensions (i.e. IAS 19) perspective.

Investment market indicators

January 2021 Asset Returns



January 2021 Change in Yields



The bigger economic picture

It proved to be a volatile month for equity markets. Optimism over a vaccine-induced recovery was tested by the surge in the ongoing COVID-19 pandemic. The last week of the month proved to be particularly detrimental, with leading equity indices around the world falling 3%-4%.

Lockdown restrictions were strengthened in the UK and elsewhere. Economic activity has slowed as a result and double dip recessions look increasingly likely across the developed world.

The emergence of several new variants of the virus has put the dampeners on the assumed swift economic recovery in the second half of 2021.

This was coupled with the largely disappointing roll-out of existing vaccines.

Government and central bank stimulus efforts continue to support asset prices. President Biden has proposed a $1.9tn package which includes meaningful direct support for US households alongside support for local governments on the front line of the fight against the pandemic.

Nominal gilt yields rose across the curve during January. There are many drivers affecting gilt prices at the moment, including the competing forces of increased issuance and enlarged asset repurchases by the Bank of England. The rise in yields may be partly due to an increase in short to medium dated inflation expectations, attributable to the significant stimulus injected into the UK economy.

Finding out more

If you would like to speak to us about any of the points raised in this update, contact one of our team below or your usual Deloitte contact.

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Recent Deloitte publications

[Deloitte analysis of Code of Practice on Funding]

[Pension scheme funding and the COVID-19 pandemic]