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Pensions Update

2020, Issue 10

"The triple lock on State pension increases was a key Conservative manifesto pledge in 2019, and it's no surprise the government is keen to ensure it sticks to this pledge despite the anomalies it could potentially create."

Simon Robinson, **Deloitte Pensions Director**

How scheme asset and liability levels have changed over September

Return Seeking Strategy
80% equities : 20% bonds
↓ -2.2%
Asset movement

Lower Risk Strategy
20% equities : 80% bonds
↑ 0.5%
Asset movement

Hedging Strategy
60% equities : 40% LDI
(Leveraged LDI portfolio removes 80% of the interest rate and inflation risk)
↓ -0.3%
Asset movement

Technical Provisions
Duration 20 years
Inflation-linked benefits 50%
↑ 1.9%
Liability movement

In a reversal from recent months, equities had a poor month resulting in reduced asset values over September for schemes with significant equity holdings.

Conversely, fixed interest assets generally performed well with reducing yields meaning increased market values.

On the liability side, the reduced yields meant liabilities increased, offset partly by reducing market expectations of long-term inflation.

Overall, we would expect to see a worsening of funding levels for most schemes.

The figures above illustrate the likely movement in assets for three typical investment strategies, and liabilities for a typical scheme.

Developments in pensions

Autumn statement postponed

The Chancellor, Rishi Sunak, has postponed the anticipated Autumn Statement until 2021. Expect rumours of changes to pensions taxation to restart in advance of that Statement.

Bill to ensure triple-lock continues

Although the Budget has been postponed, the government intends to amend legislation to ensure the triple-lock increase to State pensions continues to be paid.

As a reminder, the triple-lock provides annual increases to the State pension of the greater of inflation, national average earnings and 2.5%. Due to the current economic environment, there have been concerns that the triple-lock could result in very large State pension increases in 2021.

Pension Schemes Bill in the House of Commons

The Bill has made its way back to the House of Commons. It had its second reading on 7 October and passed with no amendments.

The Bill is expected to become law by the end of 2020.

Mortality update

The Continuous Mortality Investigation (CMI) have found that death rates from 8 August to 4 September were actually running slightly below the same period in 2019.

However, since then, COVID-19 cases have begun to rise again so it is not yet clear what the outcome will be for the year as a whole.

The CMI has launched a consultation on how COVID-19 death rates should be reflected in the new mortality tables, to be released in early 2021.

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Developments in pensions (continued)

Largest schemes to publish climate risk disclosures

The government has put forward proposals which would require schemes to publish climate risk disclosures. Initially this would just apply to schemes with more than £5bn in assets, but then extended to schemes with more than £1bn. It is provisionally expected to be extended to all schemes from 2024.

More widely, the Big 4 accounting firms (including Deloitte) have unveiled Environmental, Social and Governance (ESG) reporting standards. Specifically in relation to pensions, the Pensions Regulator published a blog post with thoughts on what trustees should be doing in relation to climate change.

Minimum retirement age to be increased to 57

From 2028, the minimum age at which retirement funds can be accessed will increase from the current 55 to 57. This would affect anyone born after 6 April 1973.

Smaller DC schemes to prove value for money or consolidate

New rules proposed by the Department for Work & Pensions would mean that defined contribution schemes with assets below £100m will have to prove they provide value for money to members, or be advised to wind-up or consolidate.

Funding code of practice stage 2 delayed

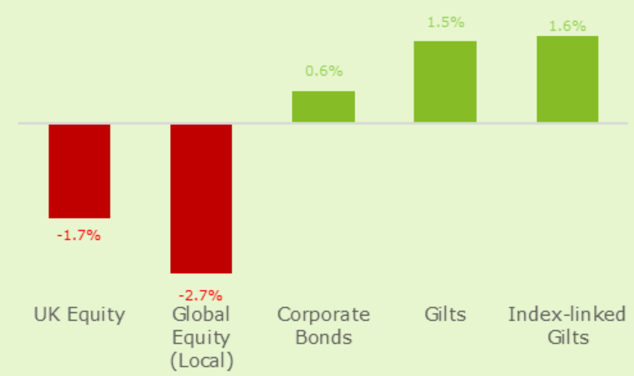
Stage 2 of the Pensions Regulator's consultation on a new code of practice for funding defined benefit schemes was expected in Q4 2020. It has now been announced stage 2 will not be released until Spring 2021.

TPR investigates DRC holiday abuse

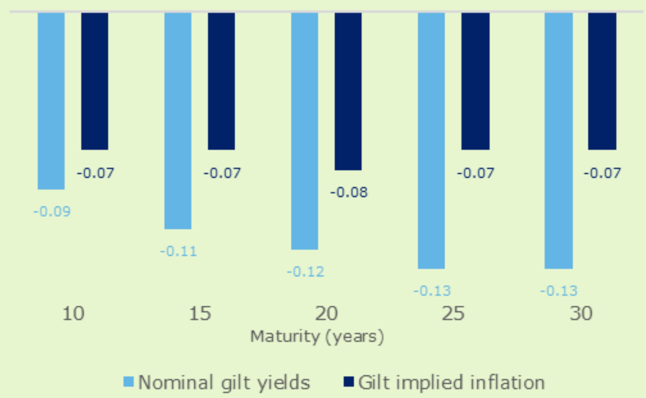
Around 10% of DB employers took advantage of the relaxation in deficit reduction contribution requirements due to the COVID-19 pandemic. The Pensions Regulator is now investigating a number of these amid concerns that some of the requests were not appropriate.

Key investment market indicators

September 2020 Asset Returns



September 2020 Change in Yields



The bigger economic picture

During September, equities fell as investors moved to less risky assets such as government bonds in the face of uncertainty coming from the potential resurgence of COVID-19 and geopolitical risks.

While there had been positive news at the end of the summer, with the easing of lockdown restrictions helping to boost economic activity, there are no signs of the V-shaped recovery that the market anticipated. In the UK, GDP contracted by 19.8% over the second quarter of 2020 and, compared to Q2 last year, the UK economy has shrunk by 21.5%. Recently released GDP figures for August show that growth was significantly below expectations with UK GDP still 10% lower than its pre-COVID level. Public sector borrowing reached £35.9bn, £30.5bn higher than a year before.

With the end of the year deadline for a trade deal coming into focus, Brexit returned to the headlines. The Internal Markets Bill was published, which has proved controversial and appears to have lessened the prospects of a trade deal being agreed ahead of 31 December 2020.

The other key political event on the horizon is, of course, the US Presidential election. Polls during September suggested that Biden was favourite to win, although he failed to carry a clear margin. This uncertainty added to market volatility.

The US Federal Reserve, ECB and Bank of England have all reiterated their commitment to offer long term support to markets. The Fed's move to an average inflation target has provided them with scope to keep interest rates lower for longer. In the UK, while there are no current plans to implement negative interest rates, the minutes of the Bank of England's September meeting showed that members had been briefed on how these could be implemented.

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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