Pensions Update

2020, Issue 8

"While not completely back to business as usual, COVID-19 isn't dominating pensions news quite so much now. In particular, the Pension Schemes Bill has completed its passage through the House of Lords and will now be introduced into the House of Commons."

Simon Robinson, **Deloitte Pensions Director**

How scheme asset and liability levels have changed over July

Return Seeking Strategy 80% equities : 20% bonds	↑ 3.1% Asset movement	Global equities performed strongly over July, although UK equity returns were negative. Other asset classes provided a positive return so pension schemes should generally see increased asset values over July.
Lower Risk Strategy 20% equities : 80% bonds	↑ 1.3% Asset movement	
Hedging Strategy 60% equities : 40% LDI (Leveraged LDI portfolio removes 80% of the interest rate and inflation risk)	↑ 3.1% Asset movement	The combination of falling gilt yields and increasing market estimates of long-term inflation mean that pension scheme liabilities are likely to have increased slightly.
Technical Provisions Duration 20 years Inflation-linked benefits 50%	↑ 1.0% Liability movement	Overall, similar to June, we would expect to see an improvement to funding levels for many schemes.

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

Developments in pensions

Deaths now trending below 2019 levels

The Continuous Mortality Investigation's weekly mortality monitor update is now showing that mortality rates have dropped below the equivalent week last year, reducing their year-to-date estimate of "excess deaths" for 2020 compared with 2019.

TPR issues scheme funding analysis 2020

The Pensions Regulator has issued its scheme funding analysis 2020, providing information on funding valuations with effective dates in the period 22 September 2017 to 21 September 2018 (known as tranche 13).

The analysis can be useful for considering how "your" pension scheme funding compares with other schemes. It considers factors such as:

- Percentage of schemes in surplus and deficit.
- Recovery period length.
- Discount rates used.
- Life expectancy assumptions.

Pension Schemes Bill makes progress

The Pension Schemes Bill completed its passage through the House of Lords on 15 July 2020, and will now be introduced into the House of Commons. A second reading will be scheduled in due course.

Royal Assent for Corporate Insolvency and Governance Bill

This Bill received Royal Asset during July. It is designed to allow struggling companies breathing space during the COVID-19 crisis, but concerns have been raised about the potential damage to the position of defined benefit schemes as creditors to their employers, and the Pension Protection Fund as their guarantor.

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Developments in pensions (continued)

Chancellor's economic statement does NOT include anything on pensions

Despite various rumours, Rishi Sunak's 8 July economic statement did NOT contain anything on pension changes.

However, the Centre for Policy Studies did publish a post-COVID 19 recovery plan which called for a flat-rate pension tax relief Will Mr Sunak consider this in the Autumn?

Pension funds and climate change

Although Rishi Sunak might not have mentioned pensions, the pensions minister, Guy Opperman, published an article proposing that pension funds be at the forefront of "seizing sustainable opportunities".

It's not yet clear what this means, but the Conservative Party manifesto for the December 2019 General Election stated, "We will unlock long-term capital in pension funds to invest in and commercialise our scientific discoveries, creating a vibrant science-based economy post-Brexit."

GMP equalisation communications

The Pensions Administration Standards Association (PASA) has released its latest guidance on GMP equalisation communications.

The guidance focuses on the early stages of GMP equalisation, and includes:

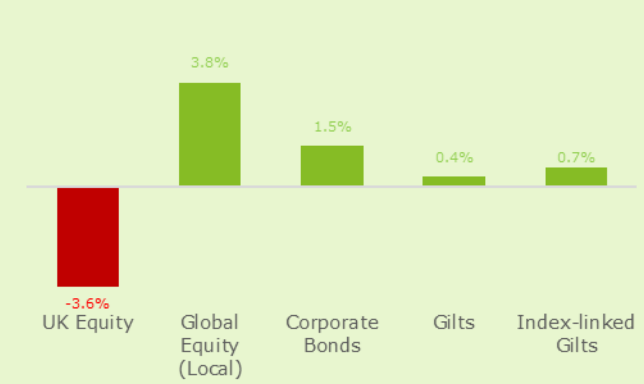
- A standard set of 16 member FAQs.
- A standard set of definitions for the most common terms/jargon (5 terms).
- A checklist of all communications which can be used to implement and review each communication to ensure it is appropriate.

Formal superfunds authorisation could take 5 years

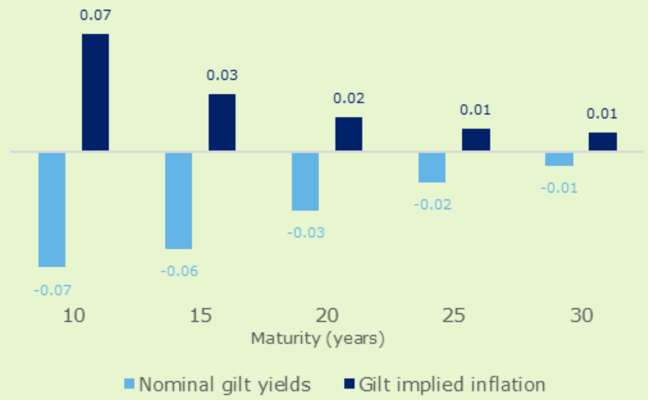
Despite the interim authorisation regime being issued, David Fairs of The Pensions Regulator has stated that a full, statutory, authorisation regime could take 5 years to be put in place.

Key investment market indicators

July 2020 Asset Returns



July 2020 Change in Yields



The bigger economic picture

Global equity markets started the month positively, buoyed by promising results in initial human trials for several COVID-19 vaccine alternatives and the introduction of further stimulus measures. Investors were particularly encouraged by the announcement of a co-ordinated plan to reinvigorate the EU economy after Eurozone leaders agreed a €750bn pandemic recovery fund.

While global markets faltered at the end of July, returns were still positive over the month. There now appears to be a disconnect between the real economy and equity markets, especially in the US, which seem to be discounting substantial underlying issues:

- Whilst there has been an improvement in various economic metrics, including an expansion in activity levels in Europe, China and elsewhere, GDP data for the US and Germany over the second quarter (falls of 9.5% and 10.1% respectively) has provided a timely reminder of the extent of economic disruption caused by COVID-19.
- Looking forward, the continued resurgence of COVID-19 cases in the US and localised outbreaks in Europe and elsewhere demonstrate that it may be some time before the global economy recovers. Recent trends in the US have been particularly concerning, undermining the market's hopes of a swift v-shaped recovery.
- US-China tensions are also proving concerning to investors. Relations between the two nations continued to sour in July following the introduction of planned security measures in Hong Kong. Sanctions on high ranking officials from both countries have been followed by the forced closing of the Chinese consulate in Houston and US mission in Chengdu.

Uncertainty over the future economic outlook, as a consequence of the apparent resurgence of COVID-19, has resulted in continued demand for safe haven assets. The price of gold continues to rise, reaching record highs during July. Of particular relevance to UK pension schemes has been the continued decline in both nominal and real gilt yields which remain at record low levels.

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.

Simon Robinson
Email: srrobinson@deloitte.co.uk
Tel: 020 7007 5862

Sankar Mahalingham
Email: samahalingham@deloitte.co.uk
Tel: 020 7007 8877

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