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Pensions Update

2020, Issue 9

"In advance of Budgets, rumours circulate regularly of fundamental changes to pensions tax relief. Although we think the Chancellor will be looking carefully at pensions, we also think that fundamental changes would be very challenging to impose within months, and might first require meaningful consultation."

Will Aitken, **Deloitte Pensions Director**

How scheme asset and liability levels have changed over August

Return Seeking Strategy 80% equities : 20% bonds	↑ 4.4% Asset movement
Lower Risk Strategy 20% equities : 80% bonds	↓ -1.2% Asset movement
Hedging Strategy 60% equities : 40% LDI (Leveraged LDI portfolio removes 80% of the interest rate and inflation risk)	↑ 0.2% Asset movement
Technical Provisions Duration 20 years Inflation-linked benefits 50%	↓ -4.3% Liability movement

Equities had another strong month, resulting in increased asset values over August for schemes with significant equity holdings.

Conversely, fixed interest holdings generally performed poorly with increasing yields meaning reduced market values.

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

Overall, as in other recent months, we would expect to see an improvement to 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 rumours

Rumours continue that the Chancellor, Rishi Sunak, will include pension changes in the Autumn Statement, including whether:

- the State Pension triple lock will continue.
- tax relief on pensions will be restricted, particularly affecting higher rate tax payers.

New DB funding code consultation

The first stage consultation has closed for The Pensions Regulator's proposed new Code of Practice on Funding. There have been a number of challenges to the proposed code from within the pensions industry, not least flagging concerns over the timing of the changes given the challenges many employers are facing during the COVID-19 pandemic.

Deloitte responded to the consultation to provide our views. The second stage of the consultation is expected later in 2020.

Proposed changes to the RPI consultation

The consultation on proposed changes to the construction of the RPI closed for comments on 21 August.

The consultation was primarily around technical aspects of the change, rather than the impact on users of the RPI. Deloitte responded to the consultation.

FCA pension transfer consultation

This consultation initially reads as if it would primarily be of interest to IFAs. However, some interpretations suggest that providing information to members (such as unsolicited CETV quotations within retirement packs or annual statements) could be captured by the proposals.

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Developments in pensions (continued)

Nest unveils net-zero investment strategy

Highlighting the increasing importance of ESG investing, the pensions press reported that the mastertrust Nest has introduced a climate change policy. The aim of this policy is achieving carbon neutrality across its investment portfolio.

PLSA provides framework to help savers navigate "confusing" freedoms

The Pension & Lifetime Savings Association has proposed a new regulatory regime that will require schemes to support savers when making decisions about how to access their pensions.

Schemes face increase in admin requests

COVID-19 might be expected to result in an increased number of redundancy exercises, early retirements and pensions sharing on divorce. Pension scheme managers and trustees should consider whether they are able to respond to this potentially increased work level.

Regulator blog on diversity in pensions

Charles Counsell, CEO of The Pensions Regulator, has written a blog on the importance of diversity and inclusion in pension schemes, both from the perspective of trustees boards and members.

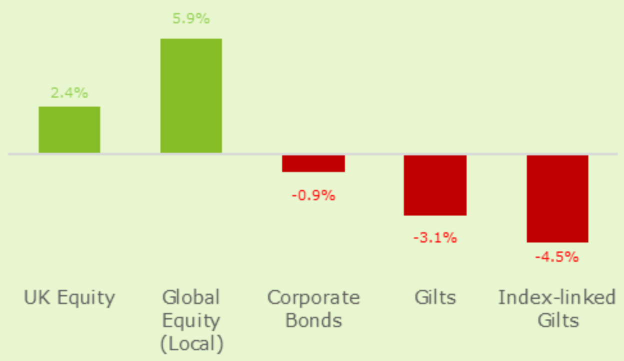
Trustees and sponsors may wish to consider the level of diversity within their existing trustee boards, particularly when making new appointments.

Ransomware attack on pensions administrator

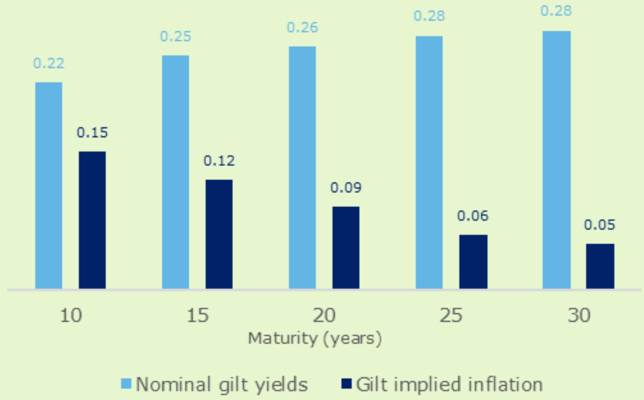
Although details haven't been released, the pensions press reported that a pensions administrator had suffered from a ransomware attack. As a reminder, The Pensions Regulator provides guidance for trustees and scheme managers of the steps needed to protect their members and assets against cyber risk.

Key investment market indicators

August 2020 Asset Returns



August 2020 Change in Yields



The bigger economic picture

Global equities reached a record high during August, buoyed by monetary stimulus. Investors have focussed on future growth potential and seemingly discounted the continued disruption of the pandemic, including the impact of the localised outbreaks across the US and Europe, as well as the increase in cases in Latin America and India.

Leading US high technology stocks have been significant drivers behind the sizeable market rally. Apple's value breached $2 trillion in August, having risen by more than 50% since its March low. The top 1% of firms in the S&P 500 index now make up more than 20% of its value which has led commentators to describe the recovery as 'K-shaped', where the outcomes of the winners and losers diverge markedly.

With the real economy recovering to some extent after the falls seen earlier this year, any positive economic data was well received, despite coming from a very low base. While the UK confirmed a record 20.4% fall in GDP over the second quarter of 2020, markets rose in part because studies suggest that GDP may rise by 14% over the third quarter.

In the US, while a renewed fiscal stimulus package is still gridlocked in Congress, President Trump issued executive orders to provide additional unemployment benefits and other economic relief. However, central banks globally are continuing to inject significant monetary stimulus, providing much needed reassurance to investors. The Bank of England confirmed its intention to maintain total asset purchases of at £745bn, whilst the US Federal Reserve announced its decision to move from a fixed 2% CPI cap*,* to a more flexible *average* CPI target, raising hopes that existing stimulus measure could be expanded or maintained for longer.

The improvement in optimism and risk appetite caused bond yields to rise in the UK and US over the month, a trend which accelerated at the end of the period in anticipation of future inflation post the Federal Reserve's announcement.

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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