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Pensions Update

2020, Issue 11

"With the dashboard delayed until at least 2023, this gives pension schemes some much needed time to take steps to ensure they are in a position to provide good quality data in the right format."

Kristy Cotton, **Deloitte Senior Manager and Chair of the PASA Data Working Group**

How scheme asset and liability levels have changed over October

Return Seeking Strategy
80% equities : 20% bonds
-2.1%
Asset movement

Lower Risk Strategy
20% equities : 80% bonds
-1.0%
Asset movement

Hedging Strategy
60% equities : 40% LDI
(Leveraged LDI portfolio removes 80% of the interest rate and inflation risk)
-1.5%
Asset movement

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

Equities performed poorly in October resulting in reduced asset values for schemes with significant equity holdings.

Fixed interest returns were more neutral with some showing a small positive return and some a small negative return.

On the liability side, the increased yields meant liabilities decreased, but this was offset by increasing market expectations of long-term inflation. In aggregate, liability movements would likely have been close to nil.

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

A second Pension Schemes Bill?

The pensions minister, Guy Opperman, has indicated that a second Pension Schemes Bill is likely during the "life of this parliament". This second bill would provide a statutory footing for a superfund regulatory framework, which was a notable omission from the current Bill.

Pensions dashboard delayed until 2023

The pensions dashboard is due to be introduced by the current Pension Schemes Bill. However, the Pensions Dashboards Programme, tasked with delivering the dashboard, has stated that the dashboard is unlikely to be available before 2023 at the earliest.

A key challenge for the dashboard is how to obtain good quality data from pension schemes. A further challenge is how to illustrate defined benefit pension schemes in the dashboard, given the wide variation in benefits provided.

Superfund guidance issued for trustees and employers

Following the guidance for superfunds issued in the summer, The Pensions Regulator has now issued guidance for trustees and employers considering a transfer to a superfund.

TPR to warn trustees over signs of employer distress

We understand The Pensions Regulator is to write to the trustees of all 5,500 UK defined benefit plans advising them to watch out for profit warnings, credit downgrades or debt refinancing. Trustees should take steps to prepare for business failures, such as monitoring the strength of the business and seeking professional advice.

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Developments in pensions (continued)

Retirement "advice" for savers

The Pensions and Lifetime Savings Association (PLSA) called on the government to implement regulations for schemes to better assist savers at the point of retirement. This reflects concern that many individuals are making poorly informed decisions with their retirement funds.

Pension Wise (from the Money & Pensions Service) provides free and impartial guidance.

Pensions for house deposits

The pensions minister, Guy Opperman, suggested that "young savers" should be able to use retirement savings for deposits on a property purchase. It's not clear that this suggestion will be pursued.

PASA publishes cybercrime guidance

The Pensions Administration Standards Association launched their new Cybercrime Guidance for Pension Administrators. This follows similar guidance from the Pensions Research Accountants Group (PRAG) in early October.

TPR to change focus to DC

The Pensions Regulator set out its long-term priorities for the next 15 years, which includes changing focus to defined contribution to reflect the changing nature of UK private-sector pension provision.

These defined contribution priorities include a focus on security, value for money, scrutiny of decision making, embracing innovation, and bold and innovative regulation.

Lifetime Allowance to increase by 0.5%

In line with the increase in the CPI to October, the Lifetime Allowance will be increased in April 2021 from £1,073,100 to £1,078,900.

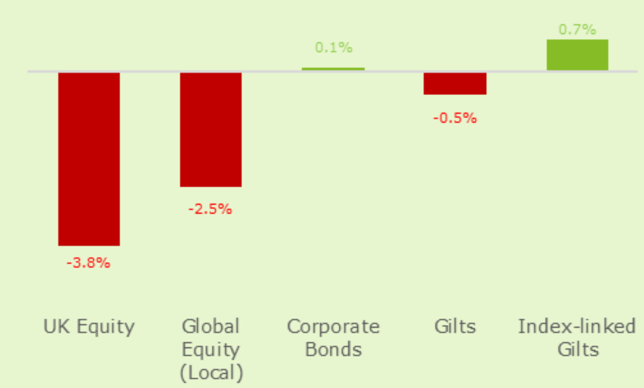
RPI change confirmation expected

On 25th November, the UK Statistics Authority and HM Treasury are expected to confirm proposed changes to the Retail Prices Index.

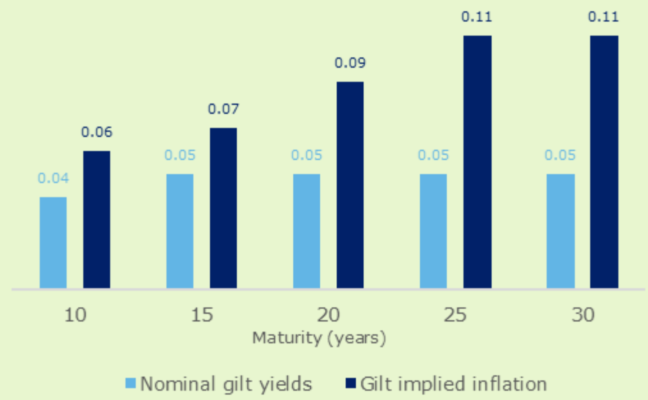
Broadly, this is likely to involve changing the RPI to bring it into line with CPIH from no later than 2030.

Key investment market indicators

October 2020 Asset Returns



October 2020 Change in Yields



The bigger economic picture

Although equities fell across most regions in October, markets in Europe and the UK were most affected due to the large rise in COVID-19 cases across the continent. In the US, continued uncertainty over the presidential election result dragged on performance, as did the lack of fiscal stimulus with a deal looking unlikely ahead of the US presidential election.

This means that, over 2020 to date, Europe and the UK also underperformed global markets with double-digit negative returns. Conversely, global markets have largely recovered their losses earlier in the year.

After the steep fall in GDP over Q2, economies were forecast to grow significantly over Q3 2020: for example in the UK, Q3 growth is expected to be around 15%. That said, advanced economies are not expected to be back at pre-crisis levels until 2022. China is meanwhile expected to see higher growth by the end of 2020, after being affected by COVID-19 earlier than western economies and seemingly to a lesser extent.

While the US election and resurgence in coronavirus cases has dominated the news of late, the year-end Brexit deadline is fast approaching. The European Council meeting of 15-16 October was expected to be a key date in the Brexit negotiations, but this passed without agreement between the two parties.

Yields rose slightly over the month, but at 0.82% for 20 year gilts, they are still far below the levels seen at the start of the year.

Credit spreads decreased slightly during October. Investors are only receiving a small amount of additional compensation for credit risk than they were at the start of the year.

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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