

Pensions Update

2021, Issue 1

“Publication of data standards for the dashboard is a key step and I'm glad to see it's arrived. The industry, however, will need guidance on 'how' to achieve these standards, and that's where the PASA Dashboard Working Group are focusing.”

Kristy Cotton, Deloitte Pensions Associate Director and Chair of the PASA Data Working Group

Funding levels over December 2020

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

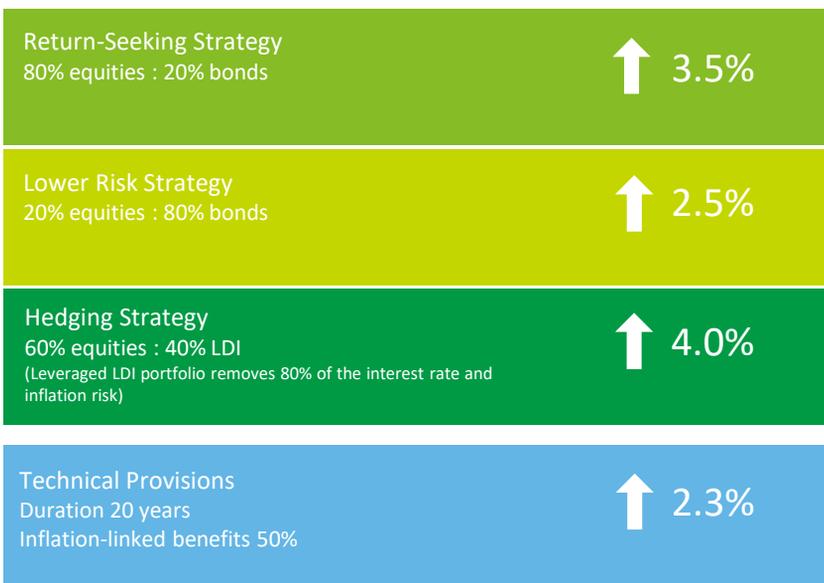
Asset strategies

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 December



Factors driving changes in funding levels

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



Positive returns from all asset classes over December are likely to result in increased asset values for most schemes.

Equities performed particularly well, meaning funds with a significant equity allocation are likely to have performed better than those with a higher fixed-interest holding.



On the liability side, reduced gilt yields mean liabilities increased, with reducing long-term inflation expectations slightly off-setting this.

Pension Schemes Bill

The Pension Schemes Bill was not finalised by the year end. Current expectations are for it to be finalised early in 2021.

Once the Bill is finalised, there will be a period before the related regulations come into force. The government has confirmed that the powers created by the Pension Schemes Bill will not be backdated.

CMI mortality projections model to place no weight on 2020 data

The Continuous Mortality Investigation has confirmed that it will modify the method used in the CMI_2020 mortality projections to ignore 2020 data. This reflects the concerns around how reliable 2020 will be in predicting future years' mortality due to the impact of COVID-19.

CMI_2020 is expected to be released in March 2021.



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“My message to pension providers remains, get dashboard data ready.”

Guy Opperman
Parliamentary Under-Secretary (Department for Work and Pensions)

Pensions dashboard data standards published

The Pensions Dashboard Programme has published key data standards which will underpin the initial technology used for the dashboards.

These data standards are what we were expecting to see, with an initial focus on validating data that enables pension members to access their records, i.e. personal details, correct names, identifiers.

The pensions industry, however, will need guidance on 'how' to achieve these standards, and that's where the Pensions Administration Standards Association's Dashboard Working Group are focusing.

Guy Opperman, the pensions minister, was quoted in the press as saying, “My message to pension providers remains, get dashboard data ready.”

Can immature schemes maintain a riskier investment profile?

The Pensions Regulator has published a [blog](#) which explains, in response to challenges on the proposed new funding code, that it is reasonable to give immature schemes “room to invest in more volatile, but higher return-seeking, assets.”

PPI issues briefing note on longevity inequality

This [briefing note](#) from the Pensions Policy Institute provides an interesting read, covering some of the factors which drive life expectancy. It's helpful in understanding why different pension schemes might have quite different mortality assumptions.

The note covers:

- Background explanation of State Pension age rises,
- Life expectancy and healthy life expectancy, and
- How these vary across the population.

It also briefly considers the possible longer-term impact of COVID-19.

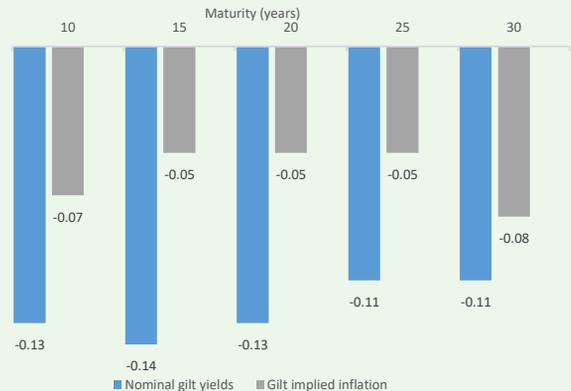


Investment market indicators

December 2020 Asset Returns



December 2020 Change in Yields



The bigger economic picture

The second half of December provided much needed clarity on a range of issues that will impact economic conditions in 2021 and beyond. The added certainty supported a rise in equity markets in the UK and globally.



In the US, a \$900bn US stimulus package was eventually agreed, offering a range of measures for small businesses and individuals. US weekly jobless claims remain elevated, whilst consumer spending fell 0.4% in November and personal incomes fell 1.1%.



programme. The ECB's support helped Spain issue debt at a negative yield for the first time in its history. With consumer price inflation remaining negative, further support may be forthcoming.

A trade deal between the UK and EU was finally agreed on Christmas Eve. Whilst uncertainty remains for the services sector, the deal has prevented the no-deal outcome that had appeared increasingly likely in the weeks leading up to the agreement.



appeared to be spreading. Restrictions were strengthened as a result, likely leading to significant economic disruption, at least in the first few months of 2021.

The roll-out of vaccination programmes will undoubtedly help matters, with the UK having vaccinated more citizens by the end of 2020 than the rest of Europe combined. Even with the backdrop of new strains of the virus, investment markets continue to bet that vaccinations will play a vital role in tackling the pandemic and supporting a global economic recovery.



The European Central Bank expanded and extended their emergency bond buying



By New Year a new, more contagious strain of COVID-19

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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