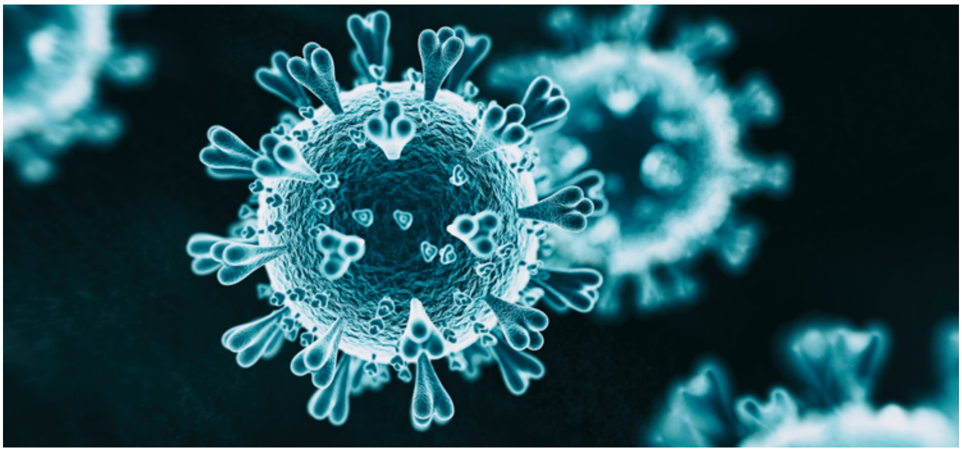
May 2020

In Sight

a quarterly pensions publication

This quarter's round-up

Regular features



Pension schemes and COVID-19

The COVID-19 virus (coronavirus) pandemic poses significant risks and challenges for employers and trustees and will have an inevitable impact on pension schemes. Much has happened over recent weeks and the situation is changing rapidly.

Regulator's COVID-19 guidance

The Pensions Regulator has issued various updates and guidance for trustees, employers, administrators and advisers in relation to COVID-19. The publications set out its expectations and give some flexibility and easements.

The initial statements set out the key risks on which to focus – trustees are reminded that they should have appropriate monitoring and contingency planning in place and to be alive to risks that would have significant consequences for their scheme and members (such as protecting members from scams). Trustees are expected to review their business continuity plan and understand their service providers' business continuity arrangements. Among other things, they should understand how providers will mitigate any under-resourcing that may occur due to unavailable staff or higher work volumes, and should agree which scheme activities would be prioritised in this event such as pensioner payments, retirement processing and bereavement services.

Continued on next page

QAS Institute and Faculty of Actuaries Quality Assurance Scheme

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On 27 March three separate COVID-19 documents were published:

DB employer guidance – the Regulator expects trustees to be provided with regular updates on the employer's outlook including the information needed to assess the impact of COVID-19 on the employer covenant and the affordability of deficit repair contributions (DRCs). The Regulator says that it will be pragmatic over DRCs being suspended, or additional secured debt being taken on, provided that certain conditions are met. These include that the need for such action can be justified, and that the scheme is treated fairly compared with other stakeholders – payments to shareholders (and other forms of value leaving the employer) are expected to cease.

DB trustee guidance − topics covered include completing valuations, employer requests for easements to an existing Schedule of Contributions, employer requests to release security, trustee governance, investments and transfer values. Different elements of the guidance are likely to be relevant to different schemes. The guidance also states that the Regulator will not take action (initially for the period until 30 June 2020) in respect of failures to meet regulatory deadlines for paying contributions, transfer value disclosure requirements and submitting recovery plans.

DC trustee guidance – the key actions for trustees relate to investment issues and concerns about how members might react in the current environment (including the risk of scams). Trustees are encouraged to review and manage specific risks within portfolios or with service providers; review any previously agreed investment and risk management decisions that have yet to be implemented; review investment governance structures and delegations to ensure they can continue to function; and assess whether recent performance suggests changes to the scheme's investment and risk governance arrangements are needed.

The Regulator has published additional updates, including:

- ***Guidance for DB scheme trustees whose sponsoring employers are in corporate distress*** – trustees in this position should read the guidance in full.
- ***Guidance on scheme administration*** – trustees should work with administrators to ensure that critical processes are delivered, such as paying members' benefits, retirement processing, bereavement services, and any processes needed to ensure benefits are accurate (e.g. investing DC contributions). Trustees should be flexible and pragmatic to support the administrators in delivering core functions – this may include agreeing changes in operating procedures, holding higher than usual amounts in bank accounts; and limiting any non-critical demands and queries.
- ***Guidance for employers on auto-enrolment and pension contributions*** – the Regulator has confirmed that auto-enrolment duties continue to apply as normal, including any re-enrolment and re-declaration duties. This is the case whether staff are still working or are being furloughed as part of the Coronavirus Job Retention Scheme (see page 3). This guidance also suggests possible flexibility over the minimum 60-day pension consultation period for employers considering certain 'listed changes' to their DC pension scheme.
- ***Update on reporting and enforcement*** – in a number of areas, the Regulator is taking a pragmatic, risk-based approach to regulation, based on two guiding principles:
  - Reporting breaches – if a breach will be rectified within three months and does not have a negative impact on members, there is no need to report, but trustees should keep records of any decisions made and actions taken.
  - Enforcement – decisions about whether to take regulatory action in respect of breaches of administration and compliance will be taken on a case-by-case basis; the Regulator will be flexible, taking COVID-19 into account.

  These easements will be in place until 30 June, but not all activities are covered by these principles and in some areas the Regulator has provided more detail on its stance.

  This guidance states that failing to produce audited accounts need only be reported before 30 June where the breach is likely to be of material significance.
- ***Late payment reporting*** – providers and trustees should report late DC contribution payments at 150 days late, rather than the usual 90 days set out in the codes of practice.

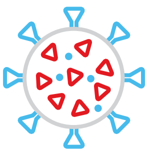
In other related guidance:

- ***Pension scams*** – the Regulator's administration guide urges trustees and administrators to be vigilant and make sure members are not rushed into any financial decisions; they might look to transfer their pension during this uncertain time and could be targeted by scammers. The Regulator and the Financial Conduct Authority, supported by the Money and Pensions Service, have issued a joint statement saying that fears over the impact of the pandemic on markets and personal finances may make savers more vulnerable to pension scams or making a decision that could damage their long-term interests.
- ***Pensions Ombudsman*** – the Pensions Ombudsman has confirmed that it will take the Regulator's scheme administration guidance into account if it receives complaints about delays caused by COVID-19.

The Regulator is continuing to produce guidance as it considers the extent of the crisis, its possible impacts, and the package of measures that governments and other organisations intend to offer. It has temporarily suspended its normal regulatory initiatives, including postponing its consultation on a combined code of practice to replace existing codes.

Actions

Trustees and employers should familiarise themselves with the guidance (available on the Regulator's COVID-19 information page) and consider what crisis resilience planning and activities they need to undertake. This may involve discussions with providers and advisers in addition to the employer/trustees. It should be noted that the requirements of scheme rules and contractual obligations will also remain relevant.



Visit Aon's UK R&I COVID-19 response site here.

Job retention scheme for furloughed employees

The Coronavirus Job Retention Scheme (CJRS) is a temporary scheme, allowing employers to claim back part of the employment costs of furloughed employees (i.e. those who have been kept on payroll but put on a temporary leave of absence due to coronavirus, and who would otherwise have been laid off because the employer is unable to operate or has no work for them to do).

We understand that the scheme will run initially until 30 June 2020 (to be extended by HMRC if necessary). Employers will use an online portal to report to HMRC about the employees that have been furloughed and provide information about their earnings.

HMRC will reimburse 80% of the furloughed employee's usual monthly wage, up to £2,500 a month, plus employer NICs and the minimum employer auto-enrolment pension contribution based on that reduced wage. The furloughed employee will receive the capped wage (less normal deductions e.g. income tax, employee's NICs and pension contributions). Employers can choose to top-up wages to their normal level.

If the employer has any furloughed employees, legal advice will be required regarding the impact on employment contracts and the pension scheme. Some of the issues that need to be considered are:

- The CJRS reimburses only a minimum level of employer pension contributions i.e. 3% of qualifying earnings between £520 per month (the lower limit from 6 April, 2020) and £2,500 per month i.e. a maximum of £59.40 per month.
- If the employer provides top-up salary, employer NICs and pension contributions on this additional amount will not be funded by the CJRS. Even if the employer does not top up top-up salary, higher contributions may be required, either contractually or in accordance with the pension scheme rules.
- Any reduction in employer contributions would probably require the employer to consult on the changes (although the Regulator has made some concessions in this area).
- It is not possible for the employer to reduce contributions below the minimum auto-enrolment rates.
- For trust-based schemes, it will be important to check the scheme rules (e.g. around eligibility and temporary absence).
- Employee contributions should probably continue at their normal levels, although based upon the employee's reduced level of pay.
- The implications for death benefits, ill-health benefits and any other insured benefits.
- Salary sacrifice arrangements will be impacted.

The government's guidance is being regularly updated as details are confirmed.

Pension protection for emergency volunteers

The Coronavirus Act 2020 provides for pension accrual to be maintained for employees who are participating in the government's emergency volunteering leave (EVL) programme. This is a temporary form of statutory leave that allows workers to assist in key sectors such as the National Health Service, taking unpaid leave of up to four consecutive weeks in a 16-week period.

The legislation provides for an overriding rule to be included in pension scheme rules. The provisions are similar to those during periods of maternity leave i.e. workers must be treated as if they were not on leave – both in terms of pension scheme membership and accrual/employer contributions.

Actions

Trustees and employers should take legal advice on how to treat furloughed employees and those taking emergency volunteering leave.

A new framework for regulating scheme funding

The Pensions Regulator has published the first of two planned consultations on its proposals for a revised code of practice on funding defined benefits, due to come into effect in late 2021. Aon's *In Depth: The future of defined benefit scheme funding* considers the consultation in detail; your usual Aon consultant or contact will be able to provide you with a copy. A summary is set out below.

A new set of principles

The consultation proposes eight core principles with which schemes will be expected to comply when submitting their funding plans:

Principle 1: compliance and evidence – trustees and employers should understand their scheme-specific funding and investment risks, and be able to demonstrate that these are minimal or otherwise how they are managed.

Principle 2: long-term objective (LTO) – by the time they are significantly mature, schemes should have a low level of dependency on the employer and be invested with high resilience to risk.

Principle 3: journey plans and technical provisions – trustees should develop a journey plan to achieve their LTO, planning for investment risk to decrease as their scheme matures and reaches low dependency. Technical provisions should have a clear and explicit link to the LTO, and over time should converge to the LTO.

Principle 4: scheme investments – the actual investment strategy and asset allocation over time should be broadly aligned with the scheme's funding strategy. Trustees should ensure their investment strategy has sufficient security, quality and liquidity.

Principle 5: reliance on employer covenant and covenant visibility – schemes with stronger employer covenants can take more risk and assume higher returns. However, trustees should assume a reducing level of reliance on the covenant over time.

Principle 6: reliance on additional support – schemes can account for additional support when carrying out their valuations provided it is sufficient for the risks being run, appropriately valued, and is legally enforceable and realisable at its necessary value when required.

Principle 7: appropriate recovery plan – deficits should be recovered as soon as affordability allows, while minimising any adverse impact on the employer's sustainable growth.

Principle 8: open schemes – members' accrued benefits should have the same level of security in open schemes as in closed schemes.

Two-track compliance framework

The consultation proposes a two-track approach to compliance. Importantly, valuations under the Fast Track and Bespoke approaches, if done correctly, will be equally compliant.

Fast Track compliance

The Fast Track route involves a series of rules or tests, designed to demonstrate compliance with the core principles. Although the tests are expected to be rigid, they will reflect scheme circumstances such as covenant strength and maturity. The tests address five aspects of funding:

- Long-term objective
- Technical provisions
- Recovery plan
- Future service
- Investment

The thresholds for the Fast Track tests are not yet known and are expected to be set out in the second consultation. The Regulator expects to review the Fast Track framework every three years, or sooner if there are material changes to the economic environment.

Bespoke compliance

The Bespoke approach will have more flexibility, to take account of the scheme's circumstances, but will require trustees to explain how and why they have differed from the Fast Track position and how any additional risks are being managed. Valuations under the Bespoke approach may receive more regulatory scrutiny, but it will not be a second-best option. There is significant uncertainty as to how far schemes will be allowed to deviate from the Fast Track standard before they are deemed to be non-compliant under the Bespoke approach.

Implications and next steps

It is unclear what proportion of schemes will opt for the Fast Track approach, although the Regulator has indicated that it expects it to be of most relevance to the 2,000 or so smaller schemes that have fewer than 100 members. In practice, we expect all trustees will want to understand the Fast Track approach, as it provides the benchmark against which they will be tested, whether or not they use it.

The consultation runs until 2 September (having been extended from 2 June). The Regulator then intends to issue a further consultation on the details of the revised code of practice, which is expected to come into force in late 2021.

The future of governance and trusteeship

The Pensions Regulator has published the response to last year's consultation on the future of trusteeship and governance. Its proposals cover three main areas:

TKU skills and ongoing learning and development

The trustee knowledge and understanding (TKU) requirements will be reviewed and updated, incorporating the expectations established in the Regulator's 21st century trusteeship campaign. There will be a consultation on a revised code of practice as well as an update on the trustee toolkit in early 2021. The Regulator will differentiate its expectations in various ways, such as by trustee role type (chair, professional etc) or scheme type (DB, DC etc). This review will build on the Regulator's current project for a single web-based code of practice, which has been postponed as part of a suspension of its regulatory initiatives in light of the COVID-19 situation.

There will be a range of acceptable methods for lay trustees to demonstrate TKU, including completion of the Trustee toolkit, relevant work experience and other industry-based training; the Regulator suggests 15 hours a year of ongoing learning is a reasonable baseline. Professional trustees will be expected to follow the standards issued by the Association of Professional Pension Trustees (APPT), including a minimum of 25 hours per year of learning and development.

The Regulator will remind employers of their legal duty to give employee trustees the right to paid time off (for both trustee duties and relevant training) and will address other issues such as trustee recruitment.

Governance structures for effective decision-making

In the short term, the Regulator will not require schemes to report on the steps they are taking to increase diversity and inclusion on their boards, but it is setting up an industry working group to develop guidance and practical tools. Separately, the PLSA has published a guide, *Diversity and Inclusion Made Simple,* that includes an explanation of what diversity and inclusion means, a summary of the benefits and some practical steps to help trustees.

There will be no requirement to have a professional trustee on every board, for the time being. The Regulator hopes that the APPT standards and accompanying accreditation process will improve confidence in professional trustees. Due to the COVID-19 pandemic, the APPT is currently offering a provisional accreditation process, recognising that it could be difficult for individuals to complete examinations and background checks at present. The Pensions Management Institute has launched its own accreditation framework, known as APTitude, which also follows the APPT standards.

There will be no changes to the regulation of sole trustees for now, but the Regulator has concerns about how some models of sole trusteeship deal with conflicts of interest and saver engagement and will be commissioning research in this area. It also supports the APPT's intention to develop an industry code for sole trusteeship.

DC scheme consolidation and wind up

The Regulator will continue to monitor DC consolidation activity and work with both industry and the DWP to overcome barriers to winding-up faced by DC schemes with guarantees.

Other news from the Pensions Regulator

Regulatory activity and blog

Fair treatment for pension schemes

The Regulator has said that more trustees are negotiating higher employer pension contributions following its increased communications. One of its recent initiatives involved writing to hundreds of schemes, including in respect of fair treatment of the pension scheme (contributions versus dividends). It found that over half of trustees considered that its letter was proving useful in negotiations with the employer; and that one scheme had appointed an independent trustee after receiving one of its questionnaires.

Comment on evolving landscape for DB pensions

In a recent blog, the Regulator's David Fairs commented on the future of DB pension provision. The first of two funding consultations (see page 4) will increase the onus on schemes to assess all options and pursue strategies that are suitable for their circumstances. The blog notes that there is increasing interest in other vehicles such as DB superfunds, but stresses that protecting savers is at the Regulator's core and it expects trustees to think very carefully about whether such options are in their members' best interests. The Regulator is also aware that advisers and providers are beginning to explore other business models and wants to hear from them so that it can understand these models and support solutions that can improve outcomes for savers.

Code of good practice on incentive exercises

The Incentive Exercises Monitoring Board (IEMB) has said that it will stand aside from the industry code of good practice on incentive exercises and will no longer update it. This industry working group originally launched the code in 2012 in response to concerns that incentive exercises could be conducted in a way that disadvantaged pension scheme members. The code of good practice is still accessible on the Pensions Regulator's website. In future, schemes should follow the guidance set out by the Regulator, which includes reference to this code.

Pensions tax

Spring Budget 2020

The Budget on 11 March included a significant change to the annual allowance provisions. An annual allowance of £40,000 applies to the pensions savings of most individuals but since 2016/17 a lower tapered annual allowance (TAA) has applied for high earners. From 6 April 2020 the income levels at which the TAA starts to apply are increased, but the minimum TAA is reduced.

From 2020/21 the threshold income below which individuals do not have to consider the TAA increases from £110,000 to £200,000. The adjusted income (which includes allowance for pensions savings) above which the TAA starts to apply, increases from £150,000 to £240,000.

The taper reduces the individual's annual allowance, from £40,000, by £1 for every £2 of income above the adjusted income level. The minimum tapered annual allowance is now £4,000 (it was £10,000) – this minimum applies for individuals with adjusted income over £312,000.

It was widely expected that some adjustment to the TAA would be announced to address the concerns of NHS staff. The Budget proposal affects all workers, not just those in the NHS or public sector. The overall impact of the change is that far fewer individuals will be affected by the taper. However, those individuals with threshold income in excess of £300,000 (the point at which the TAA falls below the previous minimum of £10,000) will see a reduction in their annual allowance from the earlier position.

The Budget also included the following pensions tax announcements:

- **Lifetime allowance** – this increases to £1,073,100 for 2020/21, in line with the CPI increase to September 2019.
- **Review of pensions tax administration** – the government has committed to reviewing options for addressing the effect of different pensions tax relief approaches (net pay and relief at source) for those earning below the level of the personal allowance. It will shortly publish a call for evidence on this.

Action

The action for companies will depend on their current policy (if any) for those affected by the TAA. For example, arrangements that limited input to £10,000 pa may need amending.

HMRC guidance on GMP equalisation

In February, HMRC issued its long-awaited guidance on pensions tax issues that arise when benefits are equalised for the effects of unequal guaranteed minimum pensions (GMPs). As expected, the guidance tackles many of the questions surrounding equalisation using a dual records approach.

The guidance should help avoid situations where members receive disproportionate tax charges, although in some cases it could further increase the calculation and administrative burden on schemes.

In the main HMRC has suggested a relatively pragmatic approach for members who are yet to retire, in particular taking the stance that these benefits accrued prior to 2006:

- There will generally be no need for members to revisit historic annual allowance calculations or charges.
- Increases to accrued benefits due to equalisation will generally not result in breaches of lifetime allowance protections.
- Some members may have the ability to apply for more headroom for primary and individual protection.

Unfortunately, the position for pensioners is more onerous. In particular:

- There may be a need to revisit historic retirements from 2006 onwards and reassess the benefit crystallisation amount against the lifetime allowance, which could lead to additional recovery tax being due.
- This will lead to an extra layer of administrative and communication complexity, which could be particularly burdensome for members with benefits from multiple schemes, whose additional tax charge could depend on the nature (and order) of multiple benefit crystallisation events.

HMRC acknowledges that there are separate challenges to consider where GMP conversion is used for GMP equalisation. It is unclear whether it will publish further guidance, but it seems unlikely that there will be a major change in the tax legislation in the short term.

Action

We suggest that trustees and employers use this guidance as an opportunity to take stock of progress on GMP equalisation, discussing with their advisers how best to proceed.

VAT exempt treatment of DC pension funds

The government has introduced legislation that aligns UK law with EU law so that the supply of fund management and administration services supplied to a DC scheme are VAT exempt from 1 April 2020.

This follows the European Court of Justice decision in 2014 – relating to ATP Pension Service and its DC schemes – that the supply of fund management and administration services to DC pension schemes is VAT exempt. HMRC had previously given businesses the option to either exempt these fund management services in accordance with EU law, or to apply UK legislation and continue to charge VAT.

Investment news

Climate risk developments

There continues to be an increasing focus on encouraging pension schemes to take more action in relation to climate risk.

Pension Schemes Bill amendments

Amendments relating to climate risk were added to the Pension Schemes Bill during its progress through Parliament. These would enable future regulations to impose requirements for trustees relating to governance around climate change, including a requirement for information to be published relating to the effects of climate change on the scheme.

The progress of the Pension Schemes Bill has been delayed due to the COVID-19 crisis.

Consultation on trustee guidance on climate change risk

The Pensions Climate Risk Industry Group (PCRIG), set up by the government and the Pensions Regulator in 2019, has released draft non-statutory guidance for trustees of occupational pension schemes. The guidance covers assessing, managing and reporting climate-related risks in line with recommendations made by the Taskforce on Climate-related Financial Disclosures (TCFD).

The guidance has three main parts:

1. The introduction summarises the different types of climate-related risks, the legal requirements on trustees and the TCFD's recommendations.
2. A suggested approach for the integration and disclosure of climate risks and opportunities, within typical governance and decision-making processes for trustees. DB schemes have additional considerations, and trustees should identify and assess the materiality of these risks and opportunities to their sponsors.
3. Technical supplements on how scenario analysis, and the setting of metrics and targets, can be used by trustees – with their advisers – to understand, measure and reduce exposure to these risks.

A quick-start guide has also been published that summarises the guidance and includes easy steps to get started.

The consultation runs until 2 July (extended from 7 May) and the PCRIG intends to publish final guidance in autumn 2020.

UKSIF report on ESG and pension schemes' investment policies

The UK Sustainable Investment and Finance Association has published a report claiming that two thirds of trustees of DC schemes had not complied with the requirement to update their statement of investment principles (SIP) to allow for ESG considerations, including climate change, and publish it by 1 October 2019. It calls for the Pensions Regulator to conduct a thematic review into compliance with the legislation and to provide more guidance to trustees.

DWP sets expectations for the Pensions Regulator

The DWP has written to the Regulator setting out its views on integrating climate change risks and opportunities into the Regulator's activities. It envisages the Regulator setting out a strategy for dealing with the financial risks arising from climate change in the coming months. It notes that the Regulator has already undertaken to report on climate change in the occupational pensions sector by December 2021 and suggests areas for this report to cover. In response the Regulator noted that it has already taken action in this area, its focus being on master trusts as they are some of the largest schemes, and confirmed that it will be reporting on climate change adaptation in the occupational schemes sector.

PLSA stewardship guide and voting guidelines 2020

The Pensions and Lifetime Savings Association's (PLSA) stewardship guide and voting guidelines is an annual publication intended to help schemes engage with investee companies, and to provide practical guidance on how to vote at AGMs. It aims to support schemes that outsource their day-to-day stewardship activities, as well as schemes that undertake stewardship in-house.

This year's guidelines have been extensively updated to support schemes in light of disclosure requirements on stewardship, and to help them hold their asset managers and service providers to account. The guidance also looks at key issues including voting on climate change and individual accountability of directors, and urges investors to consider executive pension contributions, which should be in line with percentages applied to the overall workforce.

Regulations on investment governance awaited

The Competition and Markets Authority (CMA) Order requires trustees to set objectives for their investment consultants and carry out competitive tender processes for fiduciary management services. In the February edition of In Sight, we highlighted the Pensions Regulator's regulatory guidance and explained that the requirements of the CMA Order were expected to be incorporated into pensions legislation from April 2020. However, we are still awaiting the DWP's regulations and there has been no update on their progress. Trustees should continue to comply with the requirements of the CMA Order.

DC news

DC trust: scheme return data

The Pensions Regulator's summary of scheme return data for 2019/20 provides a snapshot of the current landscape of DC trust-based pensions in the UK. It includes information on the number and membership of schemes, as well as details on DC memberships of hybrid dual-section schemes.

The report shows that the number of DC schemes with 12 or more members has fallen by 12% over the year, indicating that many are consolidating, partly due to master trust authorisation, although the overall number of DC members has risen. There are currently 38 master trusts, covering 16.6 million members, and the Regulator believes that the new authorisation regime has created a safer and more stable market for workplace pensions.

FCA rules on costs and charges

Following consultation, the Financial Conduct Authority (FCA) has published new rules that require independent governance committees (IGCs) of workplace contract-based schemes to publish and disclose costs and charges information to scheme members.

Since January 2018, fund managers have been required to provide information about transaction costs and administration charges to trustees and IGCs on request. From 1 April 2020, the new rules require IGCs to pass this information on to scheme members, at least annually. The information also needs to be published in the IGC chair's annual report and on a website. Publication and disclosure of costs and charges is required for calendar years from 2020 onwards, by 31 July in the following year.

Similar requirements are already in place for trustees of occupational schemes.

ABI report on pension freedoms

We have now passed the five-year mark since the introduction of the money purchase flexibilities in 2015. The ABI has published a report that looks at the impact of those changes, which included allowing flexi-access drawdown and uncrystallised funds pension lump sums. The report analyses the risks to consumers, including concerns that rates of withdrawal are not sustainable. It makes a series of recommendations for government, regulators and industry, including a new Retirement Commission to advise on policy changes.

Auto-enrolment

COVID-19 guidance for employers

Recent guidance from the Pensions Regulator confirms that an employer's auto-enrolment duties continue to apply as normal, including re-enrolment and re-declaration duties, regardless of whether employees are still working or have been furloughed (see pages 2 and 3).

Thresholds for 2020/21

The 2020/21 earnings thresholds for auto-enrolment have been confirmed:

- The earnings trigger for auto-enrolment eligibility remains at £10,000.
- The qualifying earnings band, which determines minimum contribution levels for some DC schemes, is between £6,240 and £50,000 (continuing to be aligned with the National Insurance contributions thresholds).

Action

Employers should check that their processes remain compliant.

Recommendations on contribution levels

The Investing and Saving Alliance (TISA) has published a paper intended to help inform and influence the debate on auto-enrolment contribution levels. It recommends that minimum DC contributions are increased from 8% to 12%. It also calls for more guidance and advice to be made available to DC savers, to improve employee engagement and help them plan effectively.

The Pensions and Lifetime Savings Association (PLSA) has commented that this research supports its own modelling for Retirement Living Standards, which were reported in the February edition of In Sight.

Consultation on when and how to change RPI to CPIH

HM Treasury and the UK Statistics Authority (UKSA) have published their anticipated consultation on the reform of the Retail Prices Index (RPI) methodology, which confirms the direction of travel suggested by previous announcements.

Background

As reported in our November edition of In Sight, the consultation arises from concerns about the shortcomings of RPI and UKSA's proposal to address this by adopting the methods of the CPIH (a variant of the Consumer Prices Index including the owner occupiers' housing costs). UKSA said that the effect, at least initially, would be to turn the RPI into CPIH by another name.

March consultation

The Chancellor's consent is required to make such changes before 2030 and this consultation considers whether the change should be made at a date other than 2030 and, if so, when between 2025 and 2030. The consultation focuses on narrow aspects of the change. As well as timing, it considers:

- The technical details of moving from RPI to CPIH.
- An opportunity to provide evidence on certain broader issues – although these are likely to be outside the scope of the change from RPI to CPIH they might be relevant in wider policy contexts.

In addition to the issues being consulted on, the following points are of interest:

- The consultation confirms that from the implementation date, the RPI index will be calculated using the same methods and data sources as are used for the CPIH.
- UKSA must base its decision-making on its assessment of the statistical integrity of the RPI; the Chancellor cannot dictate the date at which the Authority would address the shortcomings (he can only indicate the dates during which he would consent to the proposal).
- There is no mention of any compensation to index-linked gilt holders affected by the changes.

The consultation will end on 21 August (extended from 22 April).

Impact on scheme funding

Many schemes have liabilities that are linked to RPI and investments in index-linked gilts (ILGs). The impact on scheme funding positions will be scheme specific, but in general:

- For well-hedged schemes using ILGs to hedge RPI-linked liabilities, there is unlikely to be a material change in the funding position.
- For schemes that use ILGs to hedge CPI-linked liabilities, a change from RPI to CPIH is likely to lead to a deterioration in the funding position.
- For schemes that are not well hedged but have RPI-linked liabilities, a change from RPI to CPIH is likely to lead to an improvement in the funding position.

Impact on members

Where schemes provide benefits linked to RPI, a change from RPI to CPIH is likely to lead to lower benefit payments to members in the future (from 2025 at the earliest, 2030 at the latest).

Preparing for the future EU relationship

The UK left the European Union on 31 January 2020 with transitional arrangements that will apply until 31 December 2020. The Pensions Regulator has issued guidance, *Prepare your pension scheme for future EU relationship*, to remind trustees of the areas on which it expects them to focus during the transitional period:

- Investment
- Employer covenant (for DB schemes only)
- Operations and administration
- Member communications.

There are separate notes for DB and DC schemes.

The Regulator may provide further guidance in advance of the end of the transitional period.

News round-up

Pensions dashboard progress report

The Money and Pensions Service (MaPS) has published its first full report on the progress made so far with the delivery of pensions dashboards, and the work that still needs to be done before the service launches to the public. MaPS also published working papers on the scope of dashboards and the data elements required from pension providers; and will be seeking input on these topics later in the year. No launch date has been proposed and it appears that, even when the impact of COVID-19 has decreased, timescales depend heavily on factors including technological developments and the progress of legislation; MaPS plans to lay out a more detailed timeline by the end of the year and promises progress reports every six months.

General levy increase cancelled

Following consultation at the end of 2019, new regulations were laid in early March to amend the rates of the general levy from 1 April 2020. However, given the COVID-19 crisis, the government revoked these regulations and the levy rates have not increased.

The general levy is paid by occupational and personal pension schemes to fund the activities of the Pensions Regulator, The Pensions Ombudsman and the pensions-related activities of the Money and Pensions Service. It had been due to increase by 10% on 1 April 2020, with further increases from April 2021 to be informed by a wider review of the levy.

Instead, the government has said that it will focus on reviewing the structure of the levy and will engage with industry over the course of the next few months.

PPF levy from 2021/22

Following consultation, the Pension Protection Fund (PPF) has confirmed changes to its methodology for assessing insolvency risk, which will start to be used in respect of levies from 2021/22.

The basis for scoring will be broadly as consulted on. The PPF also confirms that insolvency risk scores calculated by Dun & Bradstreet will go-live from the end of April 2020, for use in 2021/22 levy invoices.

The PPF is planning to consult on other areas of the levy framework for 2021/22 in the summer. It would usually publish the final rules for the 2021/22 levy year in December 2020. However, these plans may change in light of the developing COVID-19 situation.

Actions

Schemes and employers should ensure that D&B holds the correct information to calculate insolvency risk scores, if they haven't already done so. Updated information will be taken into account in future months' insolvency risk scores and hence PPF levies.

New mortality projections model

The Continuous Mortality Investigation (CMI), owned by the Institute and Faculty of Actuaries, has published its latest mortality projections model, reflecting data up to the end of 2019. The updated model, CMI_2019, reflects an additional year of mortality data in England & Wales.

Because 2019 saw the strongest full-year improvement in a decade, the new model will (all else being equal) increase pension scheme liabilities slightly compared to the previous version – we estimate that the impact for most schemes will be between ¼% and ½%. It will still produce lower liability values when compared with models for 2015 to 2017.

The evidence indicates that mortality improvements for pension scheme members and for the better off remain higher than those in the general population but have still fallen. The model can be adjusted to reflect this in valuations, taking into account assumptions that are appropriate for the particular scheme.

Action

Trustees and employers should consider using the latest CMI model and adjusting it appropriately for their pension scheme, whether for funding, accounting or other purposes.

Code of good practice for DB transfers

The Pensions Administration Standards Association (PASA) is consulting until 30 September on a draft code of good practice for defined benefit (DB) transfers. The code aims to improve the overall member experience through faster, safer, well-communicated and transparent processes; and increase efficiency for administrators (e.g. by using standard forms and templates).

The consultation follows the 2019 release of PASA's DB transfers guidance focusing on standard cases. Rather than following up with the second set of guidance covering non-standard cases, all DB transfers have been covered in one draft code, developed by an industry working group.

The code proposes maximum expected times of up to 10 working days where administration teams quote transfer values (rising to up to 15 working days where the case is referred to the scheme actuary for review or sign-off), and a maximum of 12 working days where transfer values are calculated and quoted by the actuary. Settling the transfer is expected to take no more than 11 working days.

The final code is expected to be released at the end of the year. Whilst it will be voluntary, it is anticipated that the Pensions Ombudsman will reference it when reviewing transfer complaints, as a source of what good industry practice looks like.

FCA delays changes to DB transfer advice

The Financial Conduct Authority (FCA) has delayed the implementation of changes relating to advice on defined benefit pension transfers. In the November edition of In Sight, we reported on the FCA's proposals, which are intended to improve the quality of advice in the IFA market and remove conflicts of interest. In particular, it proposed a ban on contingent charging whereby the adviser is only paid, or paid much more, if the person decides to take a transfer. The new rules will now be published in the second or third quarter of 2020, rather than in the first quarter as previously planned.

On the horizon

Here are some key future developments likely to affect pensions:

Spring 2020

- Further hearing scheduled in Lloyds Bank GMP equalisation case

October 2020

- Changes to SIPs and related disclosure requirements
- State pension age reaches 66 for men and women

Late 2020

- Part two of consultation on revised DB funding code

December 2020

- End of Brexit transitional period

Early 2021

- Regulator consultation on TKU code of practice

Late 2021

- New scheme funding code due to come into effect

Training and events

Dates scheduled for our pensions training seminars until December 2020 are set out below.

To mitigate the risk and further spread of COVID-19, Aon has taken the decision to modify some of our courses to webinars – please contact pensionstraining.enquiries@aon.com to register or Click **here** to reserve your place.

You can find a copy of our training brochure at **aon.com/pensionstraining**

Pensions training courses	Dates
Defined Benefit — part 1 (one day)	6 May (Webinar), 16 September, 17 November
Defined Benefit – part 2 (one day)	13 May (Webinar), 10 September, 8 December
Defined Benefit Trustee Essentials (two days)	1-2 July, 7-8 October
Defined Contribution (one day)	17 June, 17 November
Pension Governance Committee (half day)	30 September

Other events

To mitigate the risk and further spread of COVID-19, Aon has taken the decision to suspend upcoming Aon-hosted events. As and when we have further updates, we will share these with you.

To find out more about our events, go to: **http://www.aon.com/unitedkingdom/events**

Contacts

If you have any questions on In Sight, please speak to your usual Aon consultant or contact:

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About Aon

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