TDC News, 30 November 2018

The Pensions Regulator and small DB schemes

On 5 November, we attended a Pensions Regulator seminar to hear about its plans for increased engagement with trustees and employers of small DB pension schemes. The Regulator's small schemes strategy includes the annual selection of 50 schemes that are on its radar for at least one of the following reasons – weak covenant, low funding level, long recovery plan period, potential conflicts of interest, weak valuation assumptions, risky investment strategy. A further set of 50 schemes are selected to act as a control group. The selected schemes receive a questionnaire which is to be completed and submitted along with the scheme's triennial valuation documents. The questionnaire is designed to encourage trustees to manage thoroughly all the different aspects of their triennial valuation exercise.

The Regulator clarified that it is the trustees' responsibility to complete the questionnaire, although they recognised that many will ask for assistance from their Scheme Actuary, and investment and covenant advisers if they have them. A case study of a £50m "small" scheme was used to illustrate the improved outcomes from this greater engagement by the Regulator, which included face to face meeting with the trustees.

The seminar also highlighted the Regulator's current thinking on the revised Code of Practice on DB funding, expected to be published for consultation in Spring 2019. The new code is likely to lead to a more objective approach to valuations, including refinement of the definition of prudent technical provisions, but it will not be a return to using a prescribed valuation basis (who remembers the MFR?). Trustees and employers will need to consider and agree on a long-term funding objective and appropriate risk management for their scheme. Both of these issues will be documented in the Statement by the Chair of Trustees and included in the triennial valuation submission.

Longevity assumptions

Most actuarial valuations in recent years have used the 2nd series of the Self-Administered Pension Schemes (SAPS) tables of mortality rates to anticipate longevity of scheme members, referred to as the S2 tables. These tables are based on the 2004-11 mortality experience of self-administered pension scheme members. The Continuous Mortality Investigation (CMI), a body supported by the actuarial profession, has announced that the S3 tables will be published next month. The S3 tables use mortality experience gathered over the period 2009 to 2016 and, in general, show slightly higher rates of longevity for both males and females than those in the S2 tables. But direct comparisons are not easy as the S2 and S3 tables use very different datasets of mortality experience.

GMP equalisation

The hot topic of Guaranteed Minimum Pension (GMP) equalisation continues to prompt much debate in the pensions industry. Some of our clients are already asking us to investigate the potential impact of the requirement to equalise GMPs for women and men, following the High Court ruling in the Lloyds Bank case on 26 October 2018. An initial exercise is to identify which members of your scheme accrued GMP between May 1990 and April 1997 as it is these members who are in scope for equalisation calculations. Also, some auditors are now asking for an adjustment to be included in the FRS102 valuations reported in company accounts.

The press headlines of members being entitled to “windfall” benefits following the court ruling are unhelpful as most members who will benefit are likely to receive only modest increases to pension amounts and arrears payments. Trustees may wish to take the opportunity to mention this to members in any communication exercise planned for the next couple of months. The suggestion from a few commentators to suspend the issue of transfer value statements until GMPs are fully equalised seems to be an overreaction.

The DWP said it would be issuing guidance on its suggested methodology for implementing GMP equalisation shortly.

Client survey

We are about to issue a survey to all our clients, asking them for feedback on our delivery of administration, actuarial and governance services and to suggest how we can improve what we do. As we are keen to enhance our reputation for making it easy for trustees and employers to manage their DB schemes, we hope you will be able to complete our short survey. Thank you.

And finally…

Sleep in the Park

On 8 December 2018, a team from TDC (Sandra, Ann Marie, Sinead, Ashley, Kate, Katrina, Mike, and Graeme) will be sleeping out in Kelvingrove Park in Glasgow as part of Social Bite's Sleep in the Park event. The aim of this initiative is to end homelessness in Scotland and we would really appreciate your support in our fundraising efforts. If you do wish to donate, you can do so online here http://uk.virginmoneygiving.com/team/team-tdc. You can find out more about Sleep in the Park at https://www.sleepinthepark.co.uk/.