Placard

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IN BRIEF: A CHANCE TO RESET

The last few months have been hugely challenging for everyone on a global scale, whether dealing with the physical effects of COVID-19 or the indirect effects of the accompanying economic turmoil.

The repercussions of the pandemic will be felt for some time, regardless of whether we see a further peak in infections later in the year. For many, dealing with the issues this presents will be all-consuming, leaving little resource to plan for the future. We must try to help facilitate a balance between short-term recovery and longer-term fairness and adequacy, and this will be a key theme for the ACA in the coming months.

Tom Hargreaves, Editor

Lockdown has also helped illustrate the impact we are having on the world. The images showing the reduction in pollution levels as a result of falling productivity suggests that the economic growth we've enjoyed in recent years has come at a cost. Whether this will encourage more to be done in order to combat climate change remains to be seen, but this is a chance for those in power to say, "look at what we could achieve".

A new Chair

The ACA welcomed Patrick Bloomfield as its new Chair on 1 June. Patrick replaces Jenny Condron, and I'm sure members will join us in thanking Jenny for her leadership over the past two years.

Setting out the stall for his term, Patrick has set his goal for the ACA: for the UK's policy response to COVID-19 to help deliver a UK saving strategy for our society that is as fair as is possible and intergenerationally coherent. There are four main components to this, which we discuss in more detail below, and are key areas of focus for the ACA over the next two years. The ACA's Main Committee has formed groups to focus on each of these in more detail.

Adequate savings

COVID-19 has laid bare successive Government's policy inaction for later life social care costs. Later life social care is inextricably intertwined with pensions and is an area where the ACA have been pushing for improvements for some time. Individuals need to understand the costs of a good retirement and how to plan for it financially. Failing to do so will lead to higher taxes for future generations and miserable later life living standards for many.

Workers will need help balancing today's livings costs and saving for their futures, particularly in the current environment where saving for the future may not be a priority. The next steps outlined in the Government's Auto-Enrolment Review need to be acted upon, plus gradually increasing pension savings rates. The results of our *2019 Pension trends survey* showed that employers are supportive of increased rates; although the pandemic may have an impact on this in the short term.

The Pensions Dashboard must also be delivered, making savings information accessible for today's digital society and recognising the mobility of the younger generation in the workforce. Neither individuals nor society can afford mass pension opt-outs or falls in savings rates.

Taxation and products

The economic recovery from COVID-19 will resurface old questions on pension taxation. The ACA's message is simple: we need a simple, fair tax system. Failure to save today leads to costs for future generations, so short-term cuts to tax incentives help nobody.

Government needs to simplify our outrageously complex pensions tax system; the introduction of the Annual Allowance 'taper' was not only difficult to understand, it had an unintentional knock on effect on public services. Increasing the income thresholds for this tax year only papers over the cracks, and significant thought must be given to this issue in the coming year.

This simplification should embrace short-term saving – so called 'rainy day' savings – as well as long-term saving for pensions. Helping younger workers onto the property ladder and helping older property owners release equity must feature in a fair and coherent UK saving strategy.

Balancing costs between current workers' and previous workers' pensions

The Pensions Regulator's new code of practice for funding Defined Benefit (DB) schemes must go ahead; planning for a long-term objective remains important despite the potential short-term issues. It needs to deliver simplicity for small schemes and flexibility for large schemes with strong sponsors. Most importantly, it needs to balance costs of funding pensions with businesses recovering from COVID-19 – the best outcome for a scheme is where the employer is around to continue to support it. If DB costs are too high, the first thing to suffer will be the amount employers can save for today's workers' pensions.

How the economic recovery from COVID-19 will take shape is far from certain, and there is also the possibility of further economic impacts later in the year if the virus returns. We encourage TPR to deliver a new DB funding code that has room to evolve as circumstances require. Actuaries acknowledge that DB scheme funding should gradually improve as scheme members retire. Meeting this cost too quickly will lead to systemic risks today. Meeting this cost too slowly will lead to systemic risks tomorrow. Maintaining balance has to be our collective goal.

TPR's new interim regime for commercial consolidators also needs to evolve into a practical reality. They have the potential to deliver a better outcome for some businesses and schemes. The ACA will be taking a prominent role in this, through our policy work and supporting firms working with affected schemes.

Tackling climate risk through the way savings are invested

Climate risk is an existential threat to us all and poses financial risks to pension savings. The temporary reduction in pollution from the COVID-19 lockdown has shown the scale of what is needed permanently to deliver the Paris Climate Accord.

Actuaries have a unique role to play, as professionals specialising in long-term risk, with oversight of trillions of pounds of long-term savings. We will be actively working to make climate risks transparent, helping our clients manage those risks, enabling investors to save in the socially responsible ways they want to, and will work with Government to encourage policies that align economic recovery with a greener future. For savers to do this, climate risks must become transparent in corporate reporting and financial advice.

With this in mind, the ACA have established a working group on climate change. The group will provide a climate risk focus across the ACA's activities; including raising awareness within the Membership and the wider pensions industry. The group has recently responded to the Pensions Climate Risk Industry Group's consultation, welcoming their proposals to report and manage climate risks within pension schemes and suggesting ways to improve the likelihood of wide-spread adoption of the proposals. In particular, we suggest a more graduated scale of actions constituting minimum, expected and leadership standards, perhaps alongside a scoring system, allowing trustees to bring in measures over time and get feedback on what they are doing to increase engagement.

To read the full ACA response click here.

Forthcoming activity

The agenda above will be at the forefront of our minds over the coming months as lockdown restrictions begin to ease and, hopefully, people can return to the semblance of "normal" life. We will be returning to consultation processes that have been delayed as a result of the pandemic, notably on the DB funding code and changes to RPI.

We are also in the process of collecting information for our **2020 *Pension trends survey*** and will begin to report on the results later this year.

ASSOCIATION OF CONSULTING ACTUARIES

Placard is the periodic briefing and discussion paper of the Association of Consulting Actuaries.
Please note that the views expressed in this publication are, on this occasion, the views of the Association and do not necessarily reflect those of individual authors.

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