Placard

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IN BRIEF: TRYING TO KEEP UP!

In the midst of more stringent restrictions coming back into place in recent weeks, one thing that seems to be unaffected by Covid-19 is the pace of change in the pensions industry.

The ACA have responded to eleven consultations in the past three months, which is several times the number that we would normally expect. A number of these responses are summarised below.

As advisers we are able to keep up with this, but how are trustees and employers expected to be able to digest and prioritise this onslaught, particularly in the current environment where their attention might (understandably) be focussed elsewhere?

Our virtual conference in September covered a lot of these issues, but pleasingly one of the most popular sessions was the discussion on *Diversity and Inclusion* on 8 September. It was great to see so many experiences and perspectives shared, along with actions that people can take. A recording of this session is available upon request (please contact tracey.gleed@aca.org.uk) and we will be running a further session to build upon other areas of this important topic on 2 December.

Tom Hargreaves, Editor

DB Funding Code

The ACA's response to TPR's consultation on a new Code of Practice for DB Scheme Funding called for flexibility to be maintained without tying schemes to a 'Fast Track' approach that is seen as the default option; 'Bespoke' must remain as a genuinely scheme specific alternative.

Clearly the final terms of the Fast Track framework are key and, given the current environment, we believe that TPR should look towards the more flexible end of the ranges suggested in the consultation alongside a fit-for-purpose stress test.

We believe there should continue to be a focus on affordability, as ultimately the best protection for members is for the employer to be able to continue to support the scheme. This means that whilst covenant visibility is relevant, our view is that there should not be an automatic assumption of low or nil covenant beyond the visible period. Read the full ACA response **here**.

Pension transfer advice

In response to the FCA's consultation on advising on pension transfer (GC20/1), we noted our significant concerns over comments regarding illustrative figures. Under the draft guidance, providing generic illustrative figures of the income a transfer value may provide will be deemed as giving regulated financial advice.

Schemes that provide illustrative transfer values and/or an indication of the income this may provide outside the scheme, to help members understand their options, will have to change their processes. This will hinder members' ability to make good decisions, with those needing even basic help being forced through a full regulated advice process. Given the safeguards already in place on transferring DB pensions, we believe this is a step backwards.

Read the full ACA response **here**.

RPI reforms

We are supportive of the efforts to conclusively resolve the issues with RPI, but our response to UKSA and HM Treasury's consultation noted that the financial consequences to those exposed to changes need to be discussed.

As we know, there will be winners and losers from the proposed change; those with predominantly RPI-linked liabilities and lower levels of inflation hedging will see funding levels improve, whilst those with predominantly CPI-linked liabilities hedging these using index-linked gilts will see funding levels fall if these gilts reduce in value.

There are a number of ways to avoid index-linked gilt holders being penalised as a result of the reforms, albeit they do not appear to be in scope of this consultation.

Read the full ACA response **here**.

Value for DC members

We responded to both the DWP's review of default fund charge caps and standardised cost disclosure as well as the FCA's consultation on driving value for money in pensions.

In these responses we call for the focus on improving the quality of DC arrangements more broadly, rather than relying on the blunt instrument of a charge cap that does not deliver value in isolation. Investment returns remain one element of performance, arrangements should also look at other factors such as administration and member experience. For the younger generation, encouraging pot consolidation is likely to be more effective in preventing erosion of small pots than regulating on charging structures.

Read the full ACA response **here**.

Making sense of McCloud

Our response to HM Treasury's consultation on how to respond to the McCloud judgment calls for a comprehensive set of tools and guidance, including regulated financial advice where required, to be made available to members so that they can make an informed choice if they are required to make an immediate decision. Failing to do so leaves the process open to future challenge and highlights the importance of effective and comprehensive communication with members.

Both an immediate choice or a choice at retirement have merit, but how the Government wishes to proceed may depend on the extent to which it has the resource and commitment to carry out the work required for an immediate choice approach.

In addition, the eight pages of consultation dedicated to pensions tax issues is a further illustration of the complexity of the current pensions tax regime, an area where we have repeatedly called for simplification.

Read the full ACA response **here**.

Climate Risk Group

As mentioned in the Summer edition of *Placard*, the ACA's Climate Risk Group was established earlier in the year with representatives from a number of the ACA Committees. The objectives of the Group have now been agreed to be:

- Providing a Climate Risk lens and overlay to ACA consultation responses
- Through the conferences and sessional meetings, promoting awareness of the work of and education resources for consulting actuaries in the area of climate risk
- Connecting with other industry groups on climate risk to share and improve knowledge and understanding on the role that consulting actuaries can play

In what is a fast-moving area of policy and regulations, the Group has so far focused on the first of those objectives, responding to two significant consultations this year:

1. Pensions Climate Risk Industry Group and Department of Work and Pension's consultation on guidance to align pension schemes with TCFD recommendations
2. Department of Work and Pensions 'Taking action on climate risk'

The ACA position is supportive of the need for pension schemes and trustees to recognise the important role they have to play in relation to climate risk. Clearly consulting actuaries are well positioned to support schemes, sponsors and trustees in managing these climate related risks.

Forthcoming activity

Our 2020 *Pension trends survey* has now closed and we will shortly be reporting on the results of this.

Following the success of our 'virtual conference' sessions in September, we are planning to run our early 2021 conference virtually. In the light of current government guidance, we will also continue to run our sessional meetings as webinars for the time being. Whilst we know that a number of our members are missing the opportunity to catch up with friends and colleagues over dinner, we hope you continue to find the virtual meetings and topics interesting!

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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