QUANTUM ADVISORY
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QUANTUM NEWS

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Flexible friend or foe?

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The Pensions Regulator (TPR) estimates that over 100,000 transfers out of defined benefit schemes took place in 2018, equating roughly to £34 billion.

This follows the pensions freedoms introduced by the 2014 Budget. However, there are risks that members are being poorly advised or that members are transferring their benefits into scam vehicles.

In light of the above, several measures have been announced to protect members and assist those responsible for running pension schemes.

Regulators warn the public of pension scam tactics

A campaign to tackle pension scams and raise awareness has been launched by the Financial Conduct Authority (FCA) and TPR. The campaign alerts the public to the most common tactics used by fraudsters. Statistics show that victims lose an average £91k each and those in the age group 45-65 are most affected. However, it is also believed that only a minority of scams are reported. The FCA and TPR are urging anyone who believes they may have been targeted to come forward.

FCA and TPR publish joint pensions strategy

They will undertake a strategic review of the entire consumer pensions journey, taking an in-depth look at the tools needed to enable members to make considered decisions about their benefits. They will also use their powers to drive value for money, including the setting and enforcement of clear standards and principles.

Having already launched a joint campaign to combat the risk of pension savers being scammed, the two regulators are already well equipped to work collaboratively.

Monitor transfer activity

TPR has asked trustees to keep records of transfer activity, including details of advisers and receiving schemes and report any suspicious activity to them, the FCA and/or Action Fraud. Trustees should have processes in place to check whether transfers are legitimate and, if in doubt, alert the member so additional due diligence can be carried out.

Trustees should review how they communicate the transfer option to members as good processes and clear communication will protect members from poor transfer decisions.

TPR urges schemes to cut transfer values

Some schemes that experienced high volumes of transfer activity have received a letter from TPR. The letter urges them to review the assumptions underlying the calculations, in circumstances where the funding level is insufficient, and the strength of the employer covenant is weak, to protect remaining members.

Our advice to trustees is to monitor activity and obtain regular advice from their Scheme Actuary on appropriate assumptions and the funding position to determine whether a reduction to transfer values should be put in place. ●

Who wants to live forever?

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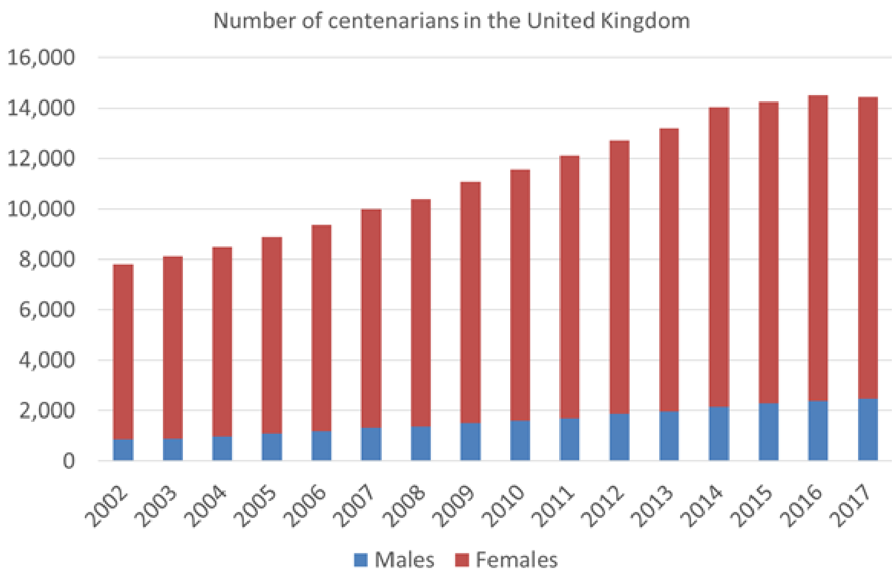
In 1917, King George V began a tradition of sending out messages to members of the public who had achieved the unlikely feat of reaching his or her 100th birthday. This first batch of telegrams covered 24 recipients across the British Isles.

Fast forward to 2018 and there were, based on ONS data published in September 2018, over 14,000 centenarians alive and well in the UK.

The chart on the right illustrates the significant increase in the number of those that reached 100, and one of the most noticeable aspects is that a female is far more likely to achieve this feat than a corresponding male.

Whilst 14,000 represents only 0.02% of the UK's population as whole, centenarians have in fact been the fastest growing age group in the UK over the last 15 years.

Current notable centenarians include Kirk Douglas (102) and Dame Vera Lynn (101) and others who achieved the feat included Bob Hope (who died age 100), and the current Queen's own mother (who died age 101).

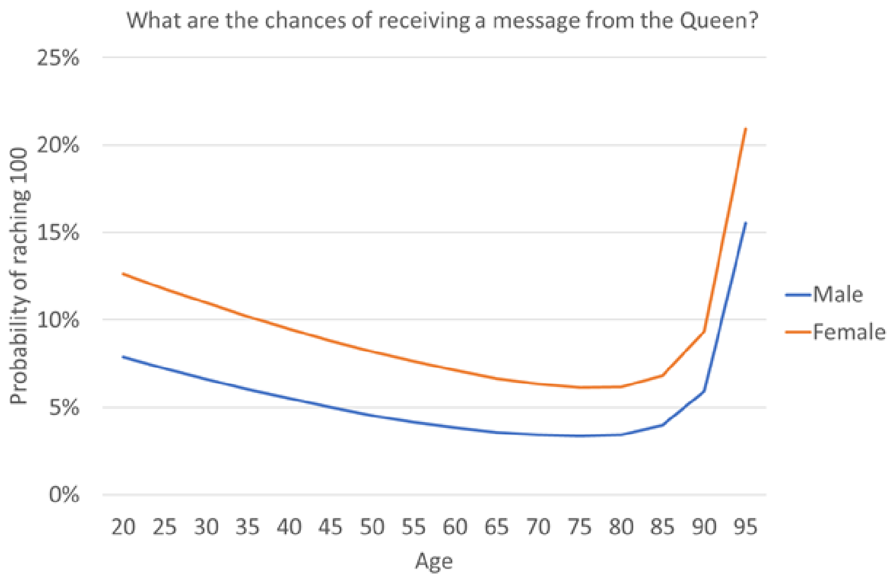


*Source: ONS – Mid-year population estimates of the very old, including centenarians: UK

So how likely is it that any of us will join this illustrious list? The graph below shows that the answer is "not very likely"! Due to expected future improvements in life expectancies, it can be seen that a current 20 year old has a higher likelihood than a current 85 year old!

It can also be seen that, even if you are currently 95 years old, you only have a 1 in 5 chance of reaching the milestone.

Of course, it is also worth noting that, if the Cambridge University geneticist Dr Aubrey de Grey is to be believed, the first person who will live to 1,000 has already been born. It is Dr de Grey's view that ageing is a disease that can be cured via regenerative therapies.



*Source: ONS – Life expectancies based on S2PxA base tables with CMI17 improvements including a long-term trend rate of 1% p.a.

> *"if the Cambridge University geneticist Dr Aubrey de Grey is to be believed, the first person who will live to 1,000 has already been born."*

Whilst this would undoubtedly be welcomed by many, I would hate to think the reaction that I would get from pension trustees if this theory was built into their liabilities!

DC

Collective Defined Contribution – a third way moves a step closer?

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In October 2018, the Department for Work and Pension (DWP) launched a consultation to "shape future legislation" of Collective Defined Contribution Schemes (CDC). The aim of the consultation is to gather views from across the pension industry and ensure that CDC schemes deliver a viable alternative option to the traditional choice of either Defined Benefit (DB) or Defined Contribution (DC) schemes for both employers and employees.

For a number of years now, as the costs of running DB schemes escalated due to increased longevity, soaring costs, onerous pension regulations and challenging economic conditions, employers have closed their DB schemes and opened a DC scheme for their employees. This puts a cap on the costs for the employer and removes the requirement to value the pension liabilities in the Company accounts.

"there has been a noticeable shift in opinion within the pension industry that traditional DC arrangements may not fulfil all members' requirements for an income in retirement."

However, there has been a noticeable shift in opinion within the pension industry that traditional DC arrangements may not fulfil all members' requirements for an income in retirement. Following the introduction of pensions freedoms in 2015, the traditional route of purchasing an annuity with a DC pot has become significantly less attractive. The alternative of accessing a DC pot via a flexi-access drawdown payment can potentially leave people with a large sum of money and no real idea how long they will need the money to last or how to reinvest it in the meantime.

CDCs are an alternative pensions vehicle and are not new – they are widely used in the Netherlands, Denmark and parts of Canada, and the merits of them have long been debated in the UK. They work by pooling the collective employee and employer contributions together in a combined fund – more akin to a DB arrangement. However, in a CDC scheme, members get to choose how their funds are invested and the investment choices are available at a lower charge than a non-pooled arrangement.

The pension benefits are available at retirement are calculated by the Scheme Actuary who considers the rate of pension members can reasonably expect to receive, given the rate of contributions promised to the scheme. The answer drives the rate at which pensions are paid. From an employer funding perspective, it would remain a DC scheme. The key point to note, is that if investment returns do not achieve the expected level of return, then the benefit payable to the member is reduced accordingly. This point is crucial, and clearly if CDC are to provide a truly viable alternative, communications with members will be critical.

The consultation asks a number of questions of the pension industry to gauge the appetite for CDCs, to understand the problems and complexities of CDCs and to seek views as to how these problems could be overcome. These include the possible minimum size for a CDC to be viewed as having sufficient scale to effectively pool longevity risk, if CDC should be legislated as a DC scheme, the best ways to manage risk, any additional communications and information requirements for CDCs and how CDCs would fit within the automatic enrolment regime. As part of the consultation, it has been confirmed that in order to protect the investments and to ensure costs are controlled, the DWP is proposing that all CDC pension schemes will be subject to a charge cap of 0.75%, set at the same level as DC schemes.

From within the industry, reaction to the consultation has been positive, with the acknowledgement that a new method of pension provision can provide a sound and reasonable solution, whilst acknowledging that there are many hurdles to overcome before a final path is set. CDCs are not without their critics. Some argue that they are inter-generationally unfair, as if a scheme overestimates the amount its assets will return, it must adjust its liabilities by cutting its pensions promise for some or all future members. Other argue that CDCs are untested in the UK and against the spirit of pensions freedom.

Whatever the result of the consultation, which runs until 23 January 2019, it is clear that the government has thrown some real backing behind the CDCs as a viable alternative to the traditional DB and DC arrangements and so the pension industry await further developments with great interest. ●

Pensions Monitor

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Cold calling

18 December 2018 was certainly a bad day for any fraudsters as the long-awaited regulations for a ban on cold-calling were finally approved by the House of Commons. Initially the ban was intended to have been introduced in June 2018 but the Treasury decided to consult further on several technicalities before it was able to sign off on the decision. The ban is now law under the Electronic Communications (Amendment) (No. 2) Regulations 2018 expected to come into effect in early January 2019.

However, a ban is only the first step in a long journey. Whilst it goes a long way to protect those with savings from potential fraud and will come down heavily on those caught, there will need to be much publicity needed to educate the public so that all are aware that cold calling is illegal and the traps to look out for.

Both the Pensions Regulator (TPR) and the Financial Conduct Authority launched a new look ScamSmart media campaign back in August warning savers of the dangers of being scammed (see page 1 for more details). Coincidently, TPR has itself been impersonated by possible scammers in their attempt to extract hard-earned savings from genuine, law-abiding, citizens.

The campaign has worked well though as TPR announced that six people have recently been questioned by the police after over 370 people transferred £18m into eight pension schemes in a suspected fraud operation.

The Pensions Regulator

Talking of the Pensions Regulator, they have just appointed Charles Counsell as their new chief executive, taking over from Lesley Titcomb in April 2019. Counsell is currently chief executive of the Money Advice Service and has previously worked for TPR as director of automatic enrolment so has the service credentials to enable him to direct the TPR as it implements a quicker and tougher approach to pension regulation, thus ensuring the 30 million members or so of workplace schemes are properly protected.

Self-employed pensions boost

Under plans unveiled in mid-December 2018, the Department for Work and Pensions (DWP) will develop new ways to include 4.8 million self-employed workers in saving for their ultimate retirement.

The DWP has disclosed that the trial will encourage individuals who become self-employed to continue making contributions to a pension or long-term savings product and will ensure that the better use of financial technology will help them overcome any barriers to saving. This has come not a moment too soon as the Parliamentary Under Secretary of State for Pensions and Financial Inclusion, Guy Opperman, pointed out recently that only around 14% of those who are self-employed were saving into a pension in the 2016/17 financial year. Although other organisations have indicated the figure may be as high as 30%, again, the numbers are still relatively small, given the fact that the self-employed will depend heavily on any pension savings to supplement their State pension.

Pensions dashboard

Whilst the DWP has finally signed off on the pensions dashboard it will now be up to the pensions industry to make sure it happens.

Even though the DWP's feasibility study was more than nine months overdue, it is clear that they had listened and have done much to allay concerns. The DWP intends to begin with a non-commercial, single dashboard, funded by the pensions industry and overseen by a newly created organisation – the Single Financial Guidance Body.

The DWP has confirmed though that ultimately it intends to move to a multi-dashboard approach - something that will eventually enable consumers to benefit from the individual innovation of the businesses and organisations they are involved in building their own dashboards.

Likewise, while the project will initially be voluntary, the DWP will legislate for compulsion "when parliamentary time allows" allowing consumers to have a complete view of their pension income. Any legacy and more complex pension schemes will have longer to prepare. The State pension will be included too even if this will only be through a link to begin with.

It is viewed by many that the dashboard will become a key part to improve engagement and help reunite people with lost pension pots or consolidate them. Whilst we are still a long way from perfection, it does just seem that we are moving in the right direction. Only time will tell.

The "B" word

Leaving the European Union with a "No deal" could cause nearly a 40% increase in the buyout deficit for defined benefit (DB) schemes, warn some industry experts.

Assuming sterling falls yet further against the dollar, gilt yields drop by ½% and an increase in inflation, DB schemes could see a surge in their liabilities, wiping out much of the gains they had made over 2018, despite a predicted 6% increase for the international constituents of the FTSE 100 on the back of any currency downturn.

In contrast, a "soft Brexit" could reduce DB schemes' buyout deficit by some 24%, as removing uncertainties would improve the UK's growth, increase the pace of increases in bank rates, strengthen sterling and increase gilt yields.

It certainly looks to be a great start to 2019 for many DB schemes.

The next ten years in pensions…

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Over the past decade, the pensions landscape has fundamentally changed, with Automatic Enrolment, increases in life expectancy, pension scams, poor pension transfer advice, big legal changes and Guaranteed Minimum Pensions issues to name but a few.

Against this backdrop, the Financial Conduct Authority (FCA) and The Pensions Regulator (TPR) have published a Joint Regulatory Strategy document (JRS) aimed at enhancing regulation of the pensions sector.

The JRS follows a joint Call for Input released in March 2018, which sought input from those with an interest in the sector to contribute. The overarching aim of the JRS is to help the sector deliver the best outcomes for pension savers and those in retirement, now and over the next decade(s).

The JRS identified the following four themes;

• People struggling to maximise their pension savings;

• Money not being managed in line with savers' needs;

• Pensions not being looked after properly; and

• People not being enabled to make good decisions.

From these four themes, the JRS has identified four main objectives:

To ensure that pension and retirement income products support people and increase their financial provision for later life.

This can be achieved by the coordinated actions of Government, Trustees, employers and employees. TPR wants to ensure compliance with auto-enrolment requirements and also an increase in the level of contributions being made and that existing schemes are resourced to provide better member outcomes.

Firms such as Quantum offer support for such provision through providing training and producing communication material for all, highlighting the issues and explaining the benefits of saving for later life.

Pensions are well-funded and invested appropriately.

In the case of both Defined Benefit and Defined Contribution pension provision, the funds need to be invested appropriately, with a balance struck between achieving good investment returns commensurate with a reasonable level of risk. To achieve this, the JRS proposes:

• Being more proactive by initiating one-to-one supervision with a "select" group of Defined Benefit schemes;

• Undertaking closer governance supervision for Defined Contribution schemes' default funds;

• Potentially extending the FCA's regulatory remit in line with the Competition and Markets Authority's recent recommendations;

• Having an increased focus on Environmental, Social and Governance factors in investment decisions.

Trustees will be encouraged to work closely with their advisers to ensure that the necessary outcomes are achieved. If they find that Trustees are slow to engage then more regulation may be forthcoming.

Pensions are well-governed, well run and deliver value for money.

Pension providers should have strong administration processes and systems and governance should be clear and effective. Funds and their data should also be protected appropriately from security threats.

Both Regulators intend using a broader range of powers to counteract poor governance and administration by supervising master trusts, introducing more regulation of public-sector schemes and assessing governance arrangements in unit-linked and with-profit funds. They also intend increasing collaboration with providers to promote data quality and security.

Access helpful information, guidance and advice that enables them to make well-informed decisions.

Engagement, understanding and support are the key ingredients to assist individuals to make good decisions. Both Regulators intend launching a joint review of the consumers' "pensions journey" in 2019 to not only examine the information that pension schemes and providers supply but also the guidance provided by external advice services.

Joint initiatives are planned to improve consumers' understanding and engagement including supporting technology-based innovation and implementing the Retirement Outcomes Review proposals published by the FCA in June 2018 which focussed on the need to improve the quality of information that consumers are receiving.

There are also proposals to support the Department for Work and Pensions and the wider pensions industry in areas such as the pensions dashboard implementation.

It goes without saying that even if there were no new issues arising in the pensions industry over the next decade, it certainly won't be a quiet period. All within the industry must pull together if we are to combat the problems that have arisen to date. ●

DB

The impact of cash flows on Defined Benefit pension schemes

Many DB pension schemes now find themselves in a negative cash flow position (i.e. the contributions they receive from sponsors and members are less than their immediate outgoings for benefit payments). This is because:

(i) Many schemes have closed to future accrual;

(ii) Funding levels have improved, such that some schemes are no longer receiving deficit repair contributions; and

(iii) Pension freedoms have seen more transfers out of DB schemes in recent years.

How then to manage this transition to a negative cash flow position? What does the future hold for cash flows? And what is the impact on the day-to-day management of a Scheme? We asked three of our senior team to consider the issues in greater detail.

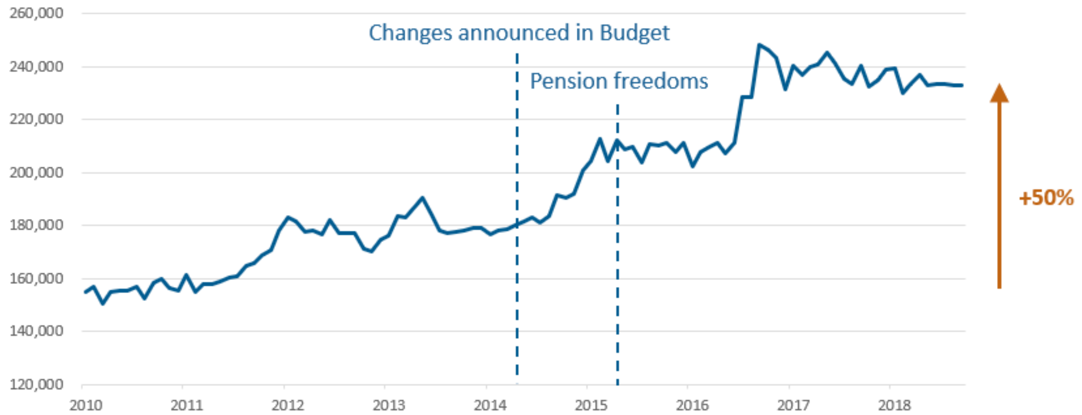
Actuarial

Simon Hubbard, Senior Consultant and Actuary at Quantum said:

"The increase in transfer payments has created peaks in short-term cash flows for schemes. However, these will not generally create a strain on a scheme's funding level because trustees normally set their transfer value basis below the level of scheme funding. This gives a funding gain when a member transfers out. However, the gain is often largest at young ages and might be small or non-existent as members get close to retirement. Around 80% of the transfer values we paid in 2018 were to members aged over 55, so trustees should consider reviewing their transfer value basis to make sure transfer values in this age band are set appropriately.

The Pensions Regulator wrote to a number of pension schemes earlier this year with concerns about transfer values being too high. Trustees should make sure transfer values represent no more than the best estimate of the value of the member's benefits unless the scheme is very well funded, otherwise members transferring out could disadvantage those remaining in the scheme. Trustees should also consider reducing transfer values if their scheme does not have enough assets to pay full transfer values to all members.

For most schemes it's tricky to model expected future transfer values because of their "lumpy" nature. We know there will be transfer values paid out but we don't know when or how large they will be. It's the few very large transfers that make cash flow management tricky and these will often be difficult to predict."



Administration

Jemma Jurgenson, Head of Administration at Quantum said:

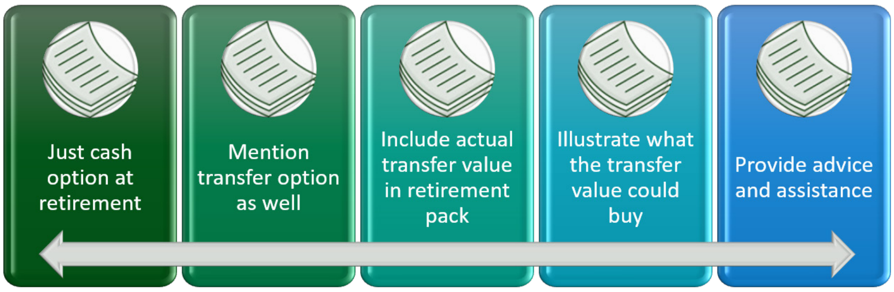
"Transfers out of DB schemes have certainly increased since the pension freedoms were first introduced. We have seen a trend forming of deferred members transferring out prior to retirement in order to access their pension savings flexibly; this is now extending to members at retirement.

Increasingly pension scheme trustees want to offer members additional choices at retirement, not just the traditional retirement lump sum and pension.

There are a range of alternatives that trustees are considering, from the standard pension and cash options at retirement through to quoting transfer options and making members aware of increased flexibilities. More schemes are now providing a full transfer quotation alongside the traditional retirement quotations at retirement. However, it is still rare for schemes to offer members free access to independent advice.

At Quantum we feel that the communication of these options is critical. Members who are not expecting to receive a transfer value alongside their retirement quotation are most likely to opt for the traditional pension options. For members to make the most of the choices available there needs to be improved communication, certainly in the ten years or so before retirement age, so that members feel able to make informed decisions.

Equally schemes and sponsors should consider the role of independent advisers in the retirement process. Offering members access to a meeting with an IFA as they consider their retirement options would further support members in their decision making." ●



Investment

Amanda Burdge, Principal Investment Consultant at Quantum said:

"Most pension schemes no longer receive sufficiently large contributions and do not hold a big enough cash reserves to pay pensions and transfer values of the size we are now seeing quite regularly. That means trustees need to think about their income needs in greater detail.

This boils down to two key issues:

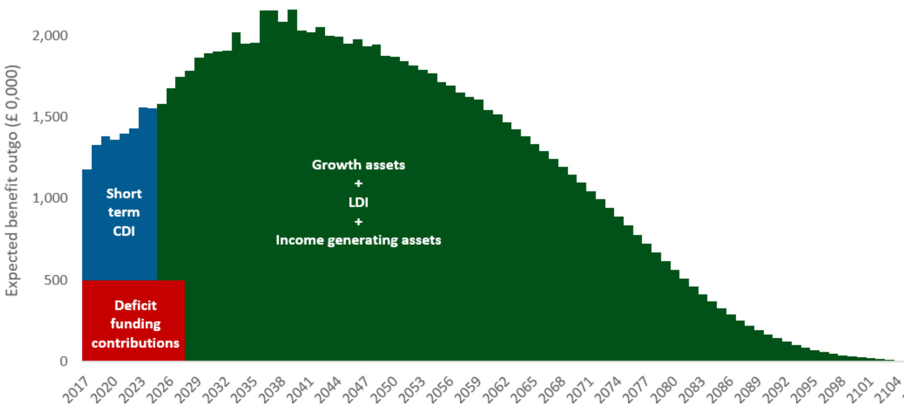
(i) How to deal with short term cash flow needs; and

(ii) How to effectively plan for future longer term cash flow requirements.

Whilst it is difficult to plan for transfer value payments, trustees should consider retaining some liquid assets to meet potential payments. In addition, the possible impact of any large transfer payments distorting the cash flow profile of the scheme will need to be analysed, particularly where there is an existing Liability Driven Investment ("LDI") strategy. For both short and long term income needs, Cash flow Driven Investment ("CDI") strategies can certainly help, perhaps alongside growth assets and LDI to help close any funding gap.

CDI strategies can focus on both short term expected cash flows and the longer term income needs of a scheme. CDI offers trustees a return above gilts and greater certainty of return compared to a traditional growth portfolio. Whilst the solution may sound complex, it can actually provide trustees with a cost-effective, low governance solution to both short term and longer term income needs.

A number of our clients have implemented CDI strategies, or are considering how they can assist them in meeting the challenges of cash flow management." ●



Example cashflow profile

Summary

There are a number of issues to consider and at Quantum we recommend a holistic approach is taken. Our teams work closely with each other and trustees and believe early engagement and clear communication is essential if members are to make the most of their pension options. Equally a clear understanding of the interaction between cash flow management and investment strategy is key.

DB Destination Equality Street

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The moment of undeniable absolute sex equality is coming. Of course, I'm only referring to pensions, but the High Court's recent GMP equalisation ruling feels like one of those defining moments. All connected to the pensions world will already be aware of the Lloyds' ruling and I envisage a universe of cash-strapped sponsors shaking their heads at yet another hike in costs; especially those who are old enough to remember the previous iteration of equalisation in the '90s.

But first – a bit of background. A Guaranteed Minimum Pension, or a GMP, is a pension payable to a member by a UK pension scheme that contracted out of the State Pension before 6 April 1997. A scheme that did so enabled its members and sponsor to pay less in National Insurance contributions each month in exchange for the member receiving a lower State Pension. The shortfall was made up by the pension scheme and held separately as "GMP". It all sounds logical and you would be forgiven for assuming that this GMP system would play out with little fuss.

It quite clearly hasn't. GMPs have caused administrators a variety of headaches since their introduction. Driven by the State Pension reforms in 2016, HMRC asked all UK pension schemes to reconcile their GMP records in a one-off mass record-keeping exercise, with a hard deadline of 31 December 2018. As expected, this proved to be another challenging, costly exercise. However, it does mean that the historic discrepancies that commonly crept up in day-to-day pension administration won't in future and every scheme now knows it's GMP obligations.

Turning to equalisation, in the '90s the State Pension was payable from 65 for men but from 60 for women, for whom it accrued at a faster rate to target the same pension for both sexes. UK pension schemes have been aware of the need to equalise GMPs for quite some time, but the problem was always how it would be achieved. The Lloyds Pension Schemes sought clarity on this, and on 26 October 2018 the High Court ruled that the Trustees must equalise the GMPs payable to their members.

This ruling has wider consequences – all schemes will now need to review and correct their GMPs – and of course any corrections will be in favour of the member. Now that GMP reconciliation projects (should) have concluded, the timing couldn't really be any better to tackle rectification en masse.

The court considered several correction methods in the Lloyds case. However, whether a method is suitable for a pension scheme will depend on its rules, trustee/sponsor preference, the level of associated member interference and more.

Quite rightly, everyone wants to know "how much will it cost?". The relative impact will be different for each pension scheme. The key drivers of cost will be the correction method used, scheme benefit structure and membership profile. Speaking very generally:

- A "better of" test will need to be conducted for each member, comparing their GMP to that payable to an equivalent opposite sex member. The higher benefit will be paid, meaning that a scheme's total pension obligations can stay the same or increase. Costs will not reduce.

- Schemes that didn't contract out of the State Pension or did so after 5 April 1997 will not be impacted at all.

- Schemes where GMPs are a high proportion of total pensions are likely to see larger increases.

- A range of expected liability increases have been seen to date and an estimate for your scheme can be requested from your advisers. Typical liability increases have been in the region of 0% to 10% of total scheme liabilities.

- Men will generally see the highest increases in corrected pensions. Schemes with a high proportion of men are likely to see larger increases in costs.

- If a pension scheme has a normal retirement age of 60 or earlier, the impact may not be as significant.

In the short term, legal advice will be essential. Schemes will need to think carefully now about quoting and paying transfer values. It's unlikely that trustees will be in a position yet to pay transfer values with equalised GMPs, which is a problem as any payment needs to include the full and fair value of benefits. However, it is notoriously difficult to justify non-payment of transfer values, regardless of the circumstances. Subsequent top-ups could be paid to some receiving schemes but not all will accept them. Retirements appear to be less of an issue as corrections can be made later, unless trustees routinely secure pensions with annuity policies at retirement.

Trustees might want to acknowledge GMP equalisation in member communications and manage expectations – uplifts are likely to be modest on an individual level. Some sponsor auditors have asked for estimates of the increase to liabilities now, others are happy to just acknowledge the issue at this stage, but more work will be required next year.

In the long term, I suspect most trustees will want to be proactive without setting precedents. Equalisation doesn't need to happen overnight, and reconciliation will need to be settled fully before starting.

The pensions community is eagerly awaiting guidance from the Department for Work and Pensions at which point trustees can start to look at a long-term plan. The judgement might still be appealed but any dreams of silver bullets should be ignored. The direction of travel is clear.

The road to sex equalisation was always going to be long and bumpy but, as we approach the 30th anniversary of the original Barber judgement, our distant destination is coming into focus. ●

DB

Are changes afoot for Housing Associations' pension arrangements?

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Many Housing Associations still offer their employees access to defined benefit (DB) pension arrangements either through the Social Housing Pension Scheme (SHPS) or the Local Government Pension Scheme (LGPS). This is contrary as to what is happening in the UK's private sector workplace where DB pension schemes are being closed by employers and employees are offered generally inferior defined contribution (DC) pension arrangements.

Why are DB pension schemes on the decline?

DB pension schemes are the "gold standard" for private pension provision in the UK, but worryingly most DB schemes in the UK have a deficit.

"DB pension schemes are the "gold standard" for private pension provision in the UK, but worryingly most DB schemes in the UK have a deficit."

DB schemes pay a pension to members based on their service and salary whilst in the scheme. Contributions are paid by members and the scheme's sponsoring employer which are invested into one common fund that is used to pay members' pensions when they reach retirement. If the value of the scheme's investments is lower than the current value of the benefits promised to members, then the scheme has a deficit. There are a few reasons why DB schemes have a deficit.

• While it's great news we have higher life expectancies than 30-40 years ago, people living longer means their pension is paid for a longer period which increases the cost of running these DB arrangements.

• Over the years, successive governments have put in place extra guarantees for members including annual increases, which were not in place when these schemes were set up. This, again, increases the cost to the sponsoring employers.

• Yields on government bonds are at historic low levels following the banking crisis of 2007/2008. When bond yields are low this increases the cost of providing a DB pension. To put it into context, a 1% fall in bond yields can increase the cost of providing defined benefits by as much as 20%. Since the banking crisis, bond yields have fallen by around 3%, so you can see why many DB schemes are in deficit and are struggling.

SHPS latest funding valuation

At the end of 2018, the results of the most recent SHPS actuarial valuation were sent to the 500 or so employers that participate in SHPS. Based on the points mentioned earlier, the deficit increased from £1.3bn to £1.5bn and the cost of providing future defined benefits in SHPS is increasing by around 30%.

As a result, Housing Associations have some big decisions to make:

• How will they fund the additional deficit contributions?

• How will the increase in the cost of providing future benefits be split between employees and employers with the risk that big increases to employee contributions could make current arrangements unaffordable to some employees?

• Should they offer inferior DB pensions to employees that are more affordable (for both employees and employers).

• Should they stop offering DB pensions to employees and replace them with DC arrangements.

This will be compounded further for many Housing Associations when the actuarial valuation results for the LGPS are published late in 2019 and no doubt this will have a similar theme as to that for SHPS.

What next?

To date, most Housing Associations have bitten the bullet and continued to offer DB pension schemes to their employees but perhaps this is now becoming an unrealistic promise to members.

I have no doubt that Housing Association senior management teams and Boards are considering the above and many will be engaging with professional advisers like us to provide them with the expertise at the start of this unwanted and uncomfortable but necessary journey. ●

DB

PPF/Experian – A case study… Don't leave it too late!

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A regular check-up at the dentist is certainly not on the top of many to do lists. However, periodic checks can save a lot of pain and, from my experience, a lot of money!

Similarly, monitoring the Experian score for the principal and participating employers of your pension schemes on the PPF/Experian portal could save you from a painful and costly PPF levy in September/October each year, as evidenced by this case study…

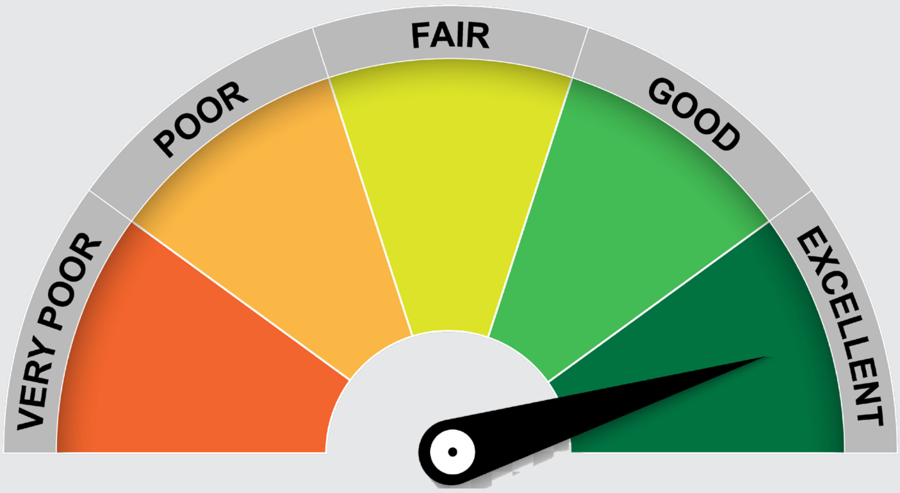
A client approached us in June 2018 with concerns about a jump in the Experian score of Company A and what impact it would have on their PPF levy.

With very little initial information, it was evident that the score had worsened significantly in December 2017, around the time Company A had filed their accounts with Companies House. The levy band had fallen from Band 3 (as it had been for the previous two levy years) to Band 6 and our calculations indicated a doubling of the levy from £150,000 to £300,000.

A simple explanation could have been that one of the metrics from Company A's new accounts (i.e. profit before tax) had fallen or that Company A had taken a recent secured loan resulting in a new "Mortgage Charge". This would have provided some reasonable objective justification for the rise in the levy.

However, it was neither of the above and required closer inspection…

The wider Group had undergone restructuring over the year. As a result, it was decided that Company B, another entity within the Group, would no longer file consolidated accounts as it had done previously and it would instead file individual accounts. Why would this impact Company A's Experian score? Company B was deemed to be the Ultimate Parent of the Group and therefore the metrics for this entity were used to measure "Parent Strength" on Company A's scorecard.



As a result of filing non-consolidated accounts, as per the PPF's determination, Experian performs a manual consolidation of the UK-only entities in the Group to produce a Parent Strength score. As you can imagine, in a case where the Group has significant operations across Europe, not including non-UK entities in the overall strength assessment produced a worse snapshot of the Group. It was this manual consolidation that was behind the doubling in the PPF Levy.

As we gathered more information from the client, it transpired that the auditors (one of the "Big 4") had produced fully audited consolidated accounts for Company B (alongside the individual accounts). However, as these were non-statutory, they had not been filed with Companies House.

We used our relationship with Experian and PPF, as well as our understanding of the determination to ensure that the "non-filed" accounts were used for future levy years. This was particularly important as the Group has extended their year-end, which would mean their financials are not going to change on Companies House for at least the next two levy years. In the absence of any other changes, our actions here will give a levy saving of roughly £200,000 over two years.

Frustratingly, if we had been engaged prior to 31 March 2018, we would have also been able to save the client another £100,000 for the 2018/19 levy year. In any case, we are appealing on behalf of the client as it transpired the manual consolidation produced by Experian had missed one of their largest UK subsidiaries!

"Frustratingly, if we had been engaged prior to 31 March 2018, we would have also been able to save the client another £100,000 for the 2018/19 levy year."

Our service at Quantum Advisory is not limited to simply reviewing the data, we also provide sensitivity analysis to highlight options where the levy can be reduced significantly. As mentioned, we have developed a strong relationship with the PPF and Experian over recent years which has helped to garner significant levy savings for several of our clients.

Corporate charity support

eleni.dowsell@quantumadvisory.co.uk

Our long standing relationship with the children's hospice Tŷ Hafan has seen us hold many events to raise money, including quiz nights, office sweepstakes, bake-offs, raffles, a glamorous black-tie dinner, and even a 51km walk! Along with our monthly dress-down Fridays, we are extremely proud to have raised £10,000 in 2018, and over £23,000 in total in the three years we have supported the charity!

Our first achievement for Tŷ Hafan was gained when we were awarded an engraved bronze apple to place on their commemorative Gift Tree at the hospice, for reaching our 'Pay for a day goal' of £11,000 - the equivalent of running costs for just one day. We have been invited to visit the hospice on a number of occasions since, having created our very own finger painting, taken part in their Christmas pantomime, and most recently a 'Crafternoon' session! As well as this a handful of staff have been given a tour of the hugely beneficial and extensive facilities.

We continue to support the charity and look forward to many more fundraising events, including our next Black-tie dinner in 2020 - details to follow later this year!

Providing comfort care to life-limited children and young people throughout Wales, Tŷ Hafan is one of the UK's leading paediatric palliative care charities. They provide emotional and practical support to parents and siblings, helping to create special memories, offering support and respite not only at the hospice but in the homes of the families or in hospital, doing so completely free of charge.

For information on how you can support Tŷ Hafan, please visit www.tyhafan.org/support-us/ ●

supporting tŷ hafan

Quantum chronicles

Past Events

- Trustee Training Course Part 1, Cardiff - 13.09.2018
- Trustee Training Course Part 2, Cardiff - 11.10.2018
- Wales and South West Pensions for Breakfast @ The Celtic Manor, Newport - 08.11.2018
- Trustee Training Course Part 3, Cardiff - 15.11.2018

Upcoming Events

- Seminar in conjunction with Bank Brokers @ Cardiff City stadium - TBC
- Wales and South West Pensions for Breakfast @ The Celtic Manor, Newport - 14.03.2019
- Wales and South West Pensions for Breakfast @ The Celtic Manor, Newport - 04.07.2019
- Community Housing Cymru (CHC) Finance Conference, Powys - 11.07.2019
- Wales and South West Pensions for Breakfast @ The Celtic Manor, Newport - 13.11.2019

New arrivals

Luke Rosser
Scott Jones
Izzy Driscoll
Erin Olding
Brogan Thompson
Dolly Hall
Richard Beddall
Richard Harris
Alex Owen
Elaine Pickering
Simon Hargreaves

For further information on any of our events, please visit www.quantumadvisory.co.uk/events/

Who we are

Established in 2000, Quantum Advisory is an independent financial services consultancy that provides solution based pensions and employee benefit services to employers, scheme trustees and members.

We design, maintain and review pension schemes and related employee benefits so that they operate efficiently and effectively and are valued by employees. This means that you can get on with doing the things that you do best, therefore saving you time and money.

Products and services

We offer a range of services to companies and pension trustees, all designed to focus on your specific needs, including:

- Actuarial services
- Administration of defined contribution and defined benefit pension schemes
- Banking, accounting and pensioner payroll
- Company advice
- Employee benefits consultancy
- Governance
- Health and Wellbeing
- Investment consultancy
- Pension and employee benefit communications
- Risk benefits advice
- Pension scheme wind up
- Trustee training
- Flexible benefits

Getting in contact

We have offices in Amersham, Birmingham, Bristol, Cardiff and London. Give us a call to see how we can help with your pension and employee benefit challenges.

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