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Corporate pensions hot topics

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Defined benefit pensions

Government reforms and continued market innovation

The Chancellor gave a speech at Mansion House last year announcing a series of reforms to the DB pensions market, intended in part to stimulate more investment in the UK from the £1.4trn of assets in DB schemes and with the aim of improving pension member outcomes. Policy is still evolving, and the general election may slow things down a little but it's clear that there's broad party consensus on these reforms. The outcome is likely to make it more viable for schemes to run on for longer and potentially generate surplus for the benefit of both scheme members and sponsors.

Alongside this, we continue to see increased innovation in the market to compliment the traditional 'risk transfer' market which remains buoyant. Consolidation vehicles like Clara Pensions which, under certain circumstances, can allow sponsors a clean break from their pension obligations at a lower cost than insurance, have completed their first transactions and established proof of concept. We're also seeing more bespoke 'capital backed' solutions, as well as new investment strategy innovations, emerging to help schemes enhance their journey plans and provide contingencies against downside risks.

Key takeaway: Take an active role in setting your scheme's long-term strategy. Buy-out might still be the right option but don't sleepwalk into that without understanding these market developments and how they might benefit you.

Locking in value from the higher interest rates

Long term interest relates continue to be close to their 15 year highs, meaning funding levels for schemes generally remain healthy. However, yields remain volatile and the general election will only enhance this uncertainty. There are some immediate actions to consider, including:

- reviewing your investment strategy and hedging levels to 'bank' any funding gains experienced as yields have risen and protect against the deficit growing again; and
- making sure the Scheme's actuarial factors have been reviewed to reflect the increases in interest rates. Unless they have funding which could deteriorate as more than fair value is passed to members taking options on retirement.

Key takeaway: engage with the Trustees on hedging levels and actuarial factors to ensure corporate views are reflected and if appropriate, funding improvements are locked in.

Actuarial valuations and corporate transactions

The increased interest rates mean that scheme's liabilities and deficits (and assets for schemes holding Liability Driven Investment (LDI)) are likely to have shrunk materially compared to the actuarial valuation three years ago. This might well mean that:

- the scheme (and its deficit) is now far less significant in the context of the corporate covenant;
- current deficit contribution agreements (set in the low yield environment) appear significantly more favourable to trustees; and
- any contingent contributions or security are materially more valuable to trustees.

Key takeaway: consider improvements in funding and scheme shrinkage in the context of covenant assessment for corporate transactions and valuations. Review valuation and contingent asset agreements to ensure they reflect market developments since the last valuation.

Defined contribution pensions

Avoiding DC contribution inaccuracies in the light of increased monitoring

Earlier this year, The Pension Regulator's (TPR) General Code of Practice came into effect with a renewed focus on good member outcomes. This has resulted in many pension providers asking for extra contribution information from employers. This is to ensure they can meet their duty to monitor the payment of pension contributions, and identify both under and over payments, as well as non-payments. Due to this increased monitoring, we have already seen UK organisations checking for – and indeed finding – discrepancies in their contribution processes. Some key reasons for errors have been as a result of organisations transforming and changes in policies/processes/ personnel which either have added complexity to the benefits offering, or introduced gaps in knowledge of systems and processes.

Discrepancies in contribution payments can require large remediation projections and corrective payments. Reviewing your processes and practices can reduce the risk of such errors and costly corrections, which can often require the need to allow for missed investment returns as well as pension payments.

Key takeaway: review your pension contribution processes and rules, given the regulatory shift and the ever changing pensions and workplace landscape.

Addressing the Gender Pensions Gap

In 2023, the Department for Work and Pensions published official statistics revealing that the gap in private pensions stands at 35%. Recent months have also seen more coverage in the mainstream press. Additionally, pension providers, organisations and industry bodies are coming together to raise awareness, assess and consider ways to help to reduce the gap. One such body is The Pension Equity Group (PEG) which was launched in May 2023

The PEG recently published a guide titled 'Mind the Gap: Reducing the Gender Pension Gap,' aimed at helping employers address the gender pensions gap. The guide sets out practical actions corporates can take to understand their own gender pensions gap, go beyond statutory minimums, raise awareness with their employees and make meaningful benefit and corporate policy changes.

Key takeaway: it's a very good time to review your pension plan design and communications and consider if your current practices can be improved to address the gender pensions gap within your workforce.

Want to find out more?

To find out how we can help you, please get in touch with your usual Hymans Robertson contact or one of our corporate experts.

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