Standing at the start of a new decade, we speculate what the next ten years may bring for defined benefit (DB) and defined contribution (DC) pensions. We also look back at the past ten years to see what lessons can be learnt.

Unlike the noughties which saw the introduction of the Pensions Regulator (the Regulator), Pension Protection Fund, new funding and new accounting rules, the last decade had fewer momentous changes. A success story was the introduction of auto-enrolment. Arguably the biggest impact came from the introduction of Freedom and Choice.

**Pensions timeline 2010 – 2019**

**DC Benefits**
- Total AE contributions rise to 8%.
- Total AE contributions rise to 5%.
- Master trust legislation introduced.

**DB Benefits**
- Regulator introduces Long-Term Funding Targets.
- White paper ‘Protecting Defined Benefit Pension Schemes’. Lloyds GMP judgment. GDPR.
- Contracting out abolished.
- Independent advice required for transfers over £30,000.
- New Regulator objective on employer sustainable growth.
- Flexible Apportionment Arrangements introduced.
- Minimum retirement age increases to 55.
- Minimum retirement age increases to 55. Statutory inflation switches from RPI to CPI announced.

**Assets**

80% ↑

DB pension assets increased from around £925 billion to over £1,700 billion.

**Taxation**

£215,000 ↓

Reduction in tax annual allowance for pension savings. More for those on higher earnings.

**Membership**

20% ↑

There was good news for pension saving. Over the decade the proportion of employees with a workplace pension rocketed from around 50% at the start of the decade to over 70%.

Source: Purple book, HMRC, ONS, XPS Analytics
So what might the twenty twenties hold for pensions?

If you speculate on the future, you are guaranteed to be wrong. But in the Christmas spirit and to spark debate on what the industry could do, we have made six guesses on the future.

<table>
<thead>
<tr>
<th>1</th>
<th>DB member behaviour brings new risks</th>
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<tbody>
<tr>
<td>With changes in funding rules and strengthened Regulator’s powers, there will be increased momentum to manage cost and risk by progressing towards low dependency targets. This will bring new risks as schemes get there. Member behaviour (e.g. transfers) introduces new liquidity risks to manage. Demographic risks will become ever more important.</td>
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**What can the industry do?**
- **Innovation in insurance** so third parties partner with schemes on their journey.
- **Resolve alignment of RPI with CPIH** to reduce uncertainty and cost.
- **Innovations in member profiling**.

<table>
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<th>2</th>
<th>Acceleration of DB members embracing Freedom and Choice</th>
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<tr>
<td>With time passing following scheme closures, employees will have proportionally less service with DB benefits. Income replacement will fall and the temptation to cash in ever lower, guaranteed incomes will increase.</td>
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</table>

**What can the industry do?**
- **A user friendly, functioning dashboard** to allow better decision making.
- **Employers and trustees providing access to independent unbiased advice and education**.
- **A holistic approach to savings and social care** integrating pensions with other savings needs through people’s working life and retirement.

<table>
<thead>
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<th>3</th>
<th>DC members forced to chase returns throughout retirement</th>
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<tbody>
<tr>
<td>Auto-enrolment has been a resounding success. Workplace savings will continue to increase as higher contribution rates take effect. But even then savings will not be enough to purchase an annuity to meet pensioners’ income needs. So, pensioners will become lifetime investors.</td>
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**What can the industry do?**
- **Employers provide a low cost default option for drawdown**. Master trusts are one option – allowing members to benefit from low charges.
- **Higher auto-enrolment contribution levels**.

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<th>4</th>
<th>Consolidation remains a dream for small schemes</th>
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<tbody>
<tr>
<td>Despite the possible emergence of superfunds and increasing governance requirements, large scale consolidation of small schemes for the benefit of members will struggle to take off. Benefit complexity and costs of settling pension liabilities will remain as barriers.</td>
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**What can the industry do?**
- **Benefit simplification**.
- **Superfund legislation** that promotes access for small schemes by reducing barriers to entry and, as a result, transaction costs.

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<th>5</th>
<th>Pensions sector will be irresistible for raising tax revenues</th>
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<tbody>
<tr>
<td>Government spending needs mean tax relief for pensions will be reduced. Options may be flat-rate tax relief or making employer contributions subject to National Insurance Contributions. To help simplify tax ideally lifetime allowances will be removed for DC and annual allowances removed for DB. This reflects some of the observations from the Office for Tax Simplification (OTS).</td>
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**What can the industry do?**
- **Government following up on simplification observations from the OTS**.
- **Review tax incentives** for saving before and after retirement.

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<th>6</th>
<th>Sustainability to become a central requirement for DC and DB investors</th>
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<tr>
<td>There is a growing understanding and drive for corporate behaviours to actively support sustainable practices and for investment to play its part. Increasing choice in the available funds will provide a platform for individuals to invest sustainably in a diversified way. Sustainable investing will become fundamental to DC arrangements and lifestyle options. Sustainability will also form a key element of how DB schemes will be managed.</td>
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**What can the industry do?**
- **Get ahead of the game** and adopt an approach that will benefit from first mover advantage.
- **Look to offer sustainable funds** as part of a DC offering.
Recent developments

**Proposed increases to general levy for pension schemes**

The Government has been consulting on significant increases to the general levy from 1 April 2020. This levy is payable by all occupational and personal pension schemes to fund the Pensions Regulator, the Pensions Ombudsman and pensions-related activities of the Money and Pensions Service.

The levy rates are calculated by reference to the total number of members (excluding spouses and dependants), as shown on the latest scheme return. They have remained unchanged for most pension schemes since 2012/13, other than the introduction in 2017/18 of a new lower rate for the largest schemes (with 500,000+ members).

Four options are proposed, with Option 1 being the Government’s current preference:

**Option 1**: A holding increase of 10% of the 2019/20 rates, then a wider review by Government of the levy structure and consultation on further increases from 1 April 2021.

**Option 2**: A three-year phased increase, which would mean the 2019/20 levy rates increased by 45%, 125% and 245% on 1 April 2020, 1 April 2021 and 1 April 2022 respectively.

**Option 3**: A ten-year phased increase, which would mean a 25% increase of the 2019/20 rates on 1 April 2020, followed by 20% increases in each of the next eight years.

**Option 4**: A ten-year phased increase from 1 April 2021, when the levy would increase by 30% followed by 25% increases in each of the next seven years.

As well as the above options, a one-off increase is proposed to the annual, flat-rate levy payable by schemes with 2 – 11 members.

**Simpler annual benefit statements**

Following the launch of an industry-backed, simpler annual benefit statement template in October 2018, the Government is consulting on how to make pension benefit statements easier for members to understand so as to help them to plan for retirement.

Three different approaches are proposed:

- the industry-backed, simpler statement template (which has seen limited adoption to date);
- set design principles to be applied to statements; or
- a template of descriptors (which would result in statements providing more detail than the above approaches).

The Government is exploring whether a voluntary approach could deliver sufficient simplification and consistency, or whether a regulatory approach may be needed.

It is also proposing that annual DC benefit statements should include information on member-level charges and transaction costs, in ‘pounds and pence’. This follows on from the requirement (from April 2018) for occupational pension scheme trustees to publish information on charges and transaction costs on a publicly-available website, and signpost members to this in their annual benefit statement.

Other issues explored in the consultation include how to encourage members to open their pension statements, having a ‘pension statement season’ and the relationship between simplifying statements and the development of pension dashboards.

The Government intends to consult on draft legislation and guidance ‘in due course’.
Recent developments (cont.)

Update on HMRC’s GMP Equalisation guidance
According to Pension Schemes Newsletter No. 114, HMRC’s GMP Equalisation Working Group plans to publish high-level guidance in December 2019, which will address certain pension tax issues caused by GMP equalisation. The guidance will be specific to GMP equalisation on the lifetime and annual allowances; it will not cover the use of GMP conversion to equalise.

The Working Party is continuing to work on other pension tax issues due to GMP equalisation and aims to provide a further progress update on these in December 2019.

Launch of Retirement Living Standards
The Pensions and Lifetime Savings Association (PLSA) has launched its Retirement Living Standards, which are designed to help individuals envisage the lifestyle they want in retirement, and understand how much they need to save in order to achieve that desired standard of living.

The Standards are set at three levels – ‘Minimum’, ‘Moderate’ and ‘Comfortable’ – and are based on a basket of goods and services, including household bills, food and drink, transport, clothing, holidays and leisure. A single individual would need around £10,000 a year to reach the ‘Minimum’ Standard, £20,000 for the ‘Moderate’ and £30,000 for the ‘Comfortable’. For couples, it would be £15,000, £30,000 and £45,000 respectively.

The PLSA envisages the Standards becoming a ‘rule of thumb for retirement planning’, with schemes including them in annual benefit statements, or even developing ‘personalised targets for their members’ pension planning’. It is also working with the Money and Pensions Service on the Standards being included in their tools, for example the Money Advice Service pension calculator.

A report by the Institute and Faculty of Actuaries sets out the level of pension contributions required to deliver the Standards.

Equitable Life: Proposal approved
Equitable Life policyholders (who include trustees of DB schemes with legacy additional voluntary contributions) and the High Court have voted in favour of a Proposal which will include the transfer of all with-profits policies to Utmost Life. Although policyholders will receive a one-off uplift to their funds, all investment guarantees will be lost. The funds will then be converted to unit-linked policies and transferred to Utmost on 1 January 2020.

However, before then, trustees had until 13 December 2019 to decide into which of Utmost Life’s fund choices members’ investments will be placed. If trustees did not make a fund choice by the deadline, Utmost will hold members’ investments in cash for 6 months, before transferring them into the default fund.

If you have not yet done so, you should discuss the options with your usual XPS Investment Consultant.

PPF consults on move to Dun & Bradstreet as its insolvency risk provider and warns of higher levies for larger employers
In February the Board of the Pension Protection Fund (PPF) announced the move from Experian to Dun & Bradstreet (‘D&B’) as its insolvency risk provider. The PPF has published its consultation on the impact for schemes of this move which will apply for levies invoiced in 2021 onwards.

The PPF consultation highlights two key changes that are expected to impact scores:
1. Developments in the PPF’s insolvency models to improve their ability to predict employer failure; and
2. D&B’s approach to data collection and corporate linkage.

The consultation makes clear that a majority of schemes can expect their insolvency scores to change. The most significant changes are expected for larger employers where two thirds of employers may see scores worsen.

Indicative scores for all sponsors in the PPF universe are available and all schemes should check the impact on their scores. The consultation runs until 11 February 2020.
If you have missed any of our publications since September 2019, you can find them on our website: [www.xpsgroup.com](http://www.xpsgroup.com).

**XPS Pensions Briefing Notes**

**15/19: PPF consultation on the 2020/21 levy**
This briefing note looks at the minor changes proposed by the Pension Protection Fund (PPF) to its levy for 2020/21. Although levies are expected to rise by 8% on average, some schemes could see little change whilst others could face a more significant increase.

**14/19: RPI to be aligned with CPIH**
This note considers the announcement in September 2019 that the Chancellor intends to consult in 2020 on aligning the retail prices index (RPI) with the consumer price index including housing (CPIH) at some point between 2025 and 2030.

**13/19: Further changes to SIP requirements for trustees**
This note considers the additional disclosure requirements for trustees of DB and DC occupational schemes in relation to their Statement of Investment Principles, which took effect on 1 October 2019.

**The Equitable Life saga takes a step forward**
This note looks at the next stage in Equitable Life’s Proposal to convert with-profits policies into unitised ones, and transfer these to Utmost Life.

**XPS Express for Employers**

**November 2019: XPS Express for Employers**
This edition looks at how the potential changes to RPI inflation are impacting schemes now.

**October 2019: XPS Express for Employers**
This edition considers what action employers can take to help those members affected by the ‘pensions tax trap’.

**September 2019: XPS Express for Employers**
This edition looks at the benefits to employers of providing their members with access to independent advice, and how this can support journey planning.

**XPS surveys and reports**

**Member outcomes under Freedom and Choice**
This report considers the importance of trustees and employers providing members with access to unbiased financial advice to help them navigate the options associated with Freedom and Choice.

**Taking control of your pension scheme’s future**
This 4-part guide considers how to form a coherent strategic plan to meet TPR’s expectations for all schemes to set a Long-Term Funding Target and document their journey plan to reach this.

**4: Members**
The final part in this series considers how a well thought-out strategy around member options should form an integral part of any scheme’s journey plan, and allows trustees and sponsors to take control of the likely impact.

**3: Assets**
Part 3 of this 4-part guide explores how to determine the right Long-Term Funding Target and the right level of risk to get there.

**XPS News Alerts**

**Queen’s Speech: Pensions Bill announced**
This News Alert covers the legislative programme announced in the Queen’s Speech on 14 October 2019, including the long-awaited Pension Schemes Bill. (The Bill has now been lost following the calling of the early General Election.)

**XPS Risk Transfer News**

**October 2019: XPS Risk Transfer News**
The first edition of this new quarterly publication provides a market update on the bulk annuities market. It reviews recent transactions and examines likely trends in pricing.
Key dates this quarter

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>December 2019</td>
<td>HMRC's GMP Equalisation Working Party due to publish high-level guidance on the treatment of the lifetime and annual allowances in GMP equalisation cases only</td>
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<td>Late 2019</td>
<td>TPR consultation expected on first phase of new single, modular code of practice, focusing on governance</td>
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<td>19 December 2019</td>
<td>PPF consults on the appointment of Dun &amp; Bradstreet to replace Experian as insolvency risk provider</td>
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<td>20 December 2019</td>
<td>Closing date for responding to the DWP's consultation on simplifying annual benefit statements</td>
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<td>By 31 December 19</td>
<td>Financial Conduct Authority due to publish Policy Statement and final rules on extending the remit of independent governance committees</td>
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<tr>
<td>By 31 December 19</td>
<td>Pensions Administration Standards Association due to publish Part 2 of its guidance on DB transfers (for 'non-standard' and complex cases)</td>
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<td>1 January 2020</td>
<td>New UK Stewardship Code comes into force</td>
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<td>31 January 2020</td>
<td>Expected date of Brexit</td>
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<td>Early 2020</td>
<td>Professional trustee accreditation framework due to launch</td>
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<tr>
<td>Early 2020?</td>
<td>TPR expected to consult on revised DB funding framework, depending on legislative timetable</td>
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Events

<table>
<thead>
<tr>
<th>Date</th>
<th>Location</th>
<th>Details</th>
</tr>
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<tbody>
<tr>
<td>12 Feb 2020</td>
<td>Leeds</td>
<td>Leeds Trustee Knowledge &amp; Understanding (TKU) Course</td>
</tr>
<tr>
<td>11 March</td>
<td>London</td>
<td>Trustee Knowledge &amp; Understanding (TKU) Course</td>
</tr>
<tr>
<td>03 June</td>
<td>London</td>
<td>Trustee Knowledge &amp; Understanding (TKU) Course</td>
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To discuss any of the issues covered in this edition, please get in touch with Caroline Ekins:

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0118 313 0700
caroline.ekins@xpsgroup.com

Alternatively, please speak to your usual XPS contact.

Event booking

Book your place on our website: www.xpsgroup.com/events
Alternatively, for more information, get in touch with Jyothi Binu on 0117 202 0449 or email events@xpsgroup.com


This communication is based on our understanding of the position as at the date shown. It should not be relied upon for detailed advice or taken as an authoritative statement of the law.