NEWS FROM THE PENSIONS TEAM AT
ENSORS CHARTERED ACCOUNTANTS

NOVEMBER 2019

PENSION PROFILE

At the time of writing, the uncertainty over whether we leave the EU on the 31st October is known, and yes, we are faced with yet another extension! We are now expecting an election in December, but by the time this is published, this could have all changed!

Continued overleaf ➤

The economic uncertainty surrounding this is profound and it has been prolonged too. Higher gilt yields are normally associated with a strong economic outlook, and therefore the uncertainty is understandably having a direct impact on both investment performance and measurement of liabilities.

The potential adverse impact of scheme funding could be compounded by the unknown effect that Brexit might have on the strength of the sponsoring employer, and consequently the ability of the employer to increase deficit funding or even to maintain contributions at their current rate.

In addition, we have the potential increase in liabilities created from landmark cases including the Lloyds case on GMP equalisation last year.

The recent high-profile collapses of certain retail giants have raised the scrutiny on company auditors, and on Trustees and Directors, particularly with regard to the issue of company dividend policy vs scheme funding.

There is clearly a heightened focus on pension schemes at the moment, with a lean to going concern.

The Trustees responsibilities in this regard are unchanged, but the reporting requirements have increased. For most schemes this will be straight forward, but for some, this could be controversial.

It is worth noting that the audit report on company and pension scheme accounts now makes a specific reference to the use of the going concern basis. Whether this is appropriate, and if there is an undisclosed uncertainty, that might cause doubt over the status for a period of at least 12 months from the date of approval of the financial statements.

The going concern concept for pension schemes is not the same as it is for companies. The measurement and classification of assets are already reported at fair value and the liability to pay future benefits are not included in the financial statements.

A scheme is considered a going concern unless the trustees have taken the formal decision to wind up, or a notice has been served to wind up the scheme or a trigger event has occurred which indicates that there is no alternative to wind up, such as contributions having stopped, or the employer has experienced an insolvency event.

If there are material uncertainties these need to be disclosed too.

Uncertainties include:

- The scheme has entered the PPF assessment period; and
- The employer experiencing financial difficulties and contributions are consistently late.

Trustees need to consider if the scheme can meet member benefits as they fall, due at least in the short term, and a well governed scheme will have assessed the employer covenant with an Independent review.

Pensions Bill

The long awaited pensions bill was rolled out in the Queens speech on the 14th October and it is believed to have cross party support too. However, it is looking unlikely now, if we do have a general election that it will pass through parliament before it dissolves.

The bill as it stands now, proposes regulatory guidance and a framework for the operation of Collective Defined Contribution schemes (CDCs).

CDCs are a new type of scheme which set a target amount it will pay out to individuals, based on a mixed risk investment plan.

Royal Mail received approval from workers in 2018 to set up one of these schemes and are expected to be the first to take up this opportunity.

The speech also set out rules to govern the pension dashboard to ensure that schemes comply and provide the data. The dashboard will enable UK users to access information and manage all their pots in one place.

It was announced that DB schemes will need to issue a statement from the Trustees on their funding strategy.

We envisage this is one of the first steps for DB schemes; the DC code and increased reporting requirements may give us some idea of what the next package of measures might mean for DB schemes.

Cybercrime and Pension Schemes

With malicious cyber attacks becoming increasingly more common, a strong cyber security stance is a crucial defence against cyber-related failures.

When auditing, we would expect to see that the Trustees have considered information security, network security and a disaster recovery plan and we would expect that the Trustees have introduced a system where:

- the sponsoring employer staff are aware of their role against preventing cyber security threats and regular training is given;
- there is a continual review of the ever-changing cyber threats;
- the Trustees have considered the controls in place by external advisers to mitigate cyber security; and
- the Trustees have carried out a risk assessment aimed at data security and if necessary undertaken a full Cyber Security Audit

Teachers' Pension Scheme

The Department of Education issued a consultation in September on the participation of some independent schools in the Teachers' Pension Scheme and the full document can be found here:

https://www.gov.uk/government/consultations/teachers-pension-scheme-independent-schools-proposal

It proposes flexibility to allow a school to withdraw from the scheme but retain existing members as actives.

Employer contributions will rise from 16.4% to 23.6% in September. This is currently funded by the Department of Education for state schools.

The consultation proposal will help manage the financial pressures of an independent school in the long-term and offers a phased withdrawal from the scheme. Whilst it protects the existing members, it will make it harder for them to move on to another independent school in the future.

Many schools are now considering their options, and some have started the process to exit the scheme.

The consultation closed at mid-day on the 3rd November.

The Regulators Power (TRP)

Last year the Regulator announced a shake up in the way that pension schemes are supervised and regulated. The recent Pensions Bill proposed the increases in the Regulators powers.

The Regulator issues fines for non-compliance. If fines are not paid, the Regulator has the power to seize assets. Every three months the TRP publishes the employers it has taken to court.

By publicising names, it shames the individuals with the hope to encourage them to take governance seriously. The published data also provides transparency and awareness of their decisions and actions.

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MEET THE TEAM

Pension specialists

Our pensions team have considerable experience in providing a wide range of services to pension schemes, including audit, preparation of statutory financial statements, pensioner payroll services and employer covenant reviews. Unlike many other companies which provide accounting services to pension schemes, we are also registered auditors.

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Geoff Ashton – Capital Cranfield Pension Trustees

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