

PENSION N PROFILE



FACING CHALLENGES

In this edition we will focus on the challenges that Trustees are facing in these uncertain times and the changes/impacts we are expecting to see in pension scheme reporting.

- Environmental, Social and Governance considerations;
- Going Concern/Employer covenant disclosures
- DC consultation – the end of the small DC scheme?
- GMP equalisation

Continued overleaf ►

Environmental, social and governance considerations (ESG)

ESG bought about a big shift in the culture of the UK Pensions sector, but in doing so gave the members increased transparency and protection.



The pandemic has refocused our mindset again and now more than ever there is an increased focus on Environmental, Social and Governance factors not just from the Regulator, but on savers wanting to know how their money is invested and how the climate related financial risks to their savings are being managed.

The Trustees were already required to state the extent to which they consider ESG factors in their Statement of Investment Principles (SIP). But on 1st October 2019

trust-based DC and DB pension schemes with over 100 members, had to update their default investment strategy and publish their SIP. This included the need to include the risk of their investments to ESG factors, and their policy on taking account of financially material considerations.

From 1st October 2020 we had the increased requirements of schemes having to include an implementation statement in their annual report, detailing how the SIP has been followed and how ESG factors

were considered as part of the investment decision process. By October 2021 this needs to be published online too.

The Pension Schemes Bill demonstrates the governments intention to further regulate, with powers that could require schemes to report on their exposure to climate change risk. Guy Opperman states the new Bill “will make our pensions safer, better and greener”.

He also states that “we were the first government of the G7 to legislate to put net zero on the statute book by 2050. There’s no question on my mind, having spoken in Europe with European colleagues, that we lead the way on ESG”.

It is abundantly clear that the UK government is planning more action on climate change and environmental issues, and therefore for Trustees the key message is to ensure compliance with the regulations in place, but perhaps almost looking further to embrace the shift in mindset and embrace the new normal for investment.

Going concern/employer covenant disclosures

2020 gave us a whole raft of challenges and many Trustees and Administrators would have experienced a whole host of additional questions from their auditors on the strength of their employer covenant, and their Covid risk assessments.

Hopefully we are now at the end of the second and final lockdown, but the financial effect of the pandemic will be far reaching. Clearly the impact will depend on your industry sector, but 2021 is still going to include a continued focus on the trustee assessment of going concern.

ISA 570 is the Auditing standard on Going Concern, and this states that 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. We are also required to report material uncertainties too, i.e. the employer entering the PPF assessment period, the employer

experiencing financial difficulties and contributions that are consistently late.

The Pensions Regulator has published guidance to help Trustees with the difficult questions to ask of the sponsoring employer and also provide advice as to what the Trustees can do to protect the scheme, i.e. ensuring that dividends are not paid when contributions have ceased, obtaining a guarantee over the employer assets and also general increased monitoring of the employer performance.

It is important to remember too that a Trustee assessment of the covenant, should be for a nineteen-month period from the year end. This covers the twelve-month assessment period from the date of the audit report and the seven-month statutory reporting deadline.

DC consultation – the end of the small DC scheme?

The DC consultation issued in September 2020 is now closed and is awaiting DWP's response. However, the proposal is that all the amendments within the consultation will be brought into force on 5 October 2021.

The consultation is hoping to accelerate the pace in which the market is consolidating addressing the issue that some of the smaller schemes are poorly governed, incur high charges and simply do not have the scale to achieve the benefits a larger scheme has with investing in a diverse range of assets, ultimately resulting in poorer member outcomes.

DC schemes already address the point of value for members (VFM) in the chairs report, but the consultation goes a step further setting out a framework with an annual value for money report at the

centre. If the scheme fails its VFM assessment there is a presumption that the trustees should initiate winding up the scheme, but certain exceptions do apply.

The consultation requirements cover DC and Hybrid schemes over three years old, but with under £100m of assets. This excludes DB schemes where the only DC assets are AVCs, Public sector schemes and GPPs.

Early legal advice is encouraged for Trustees to assess the position of their scheme.



WEBINAR

In January 2021 Ensors teamed up with First Actuarial and BDB Pitmans to produce a webinar covering some of the issues raised in this newsletter, including:

- The Implementation Statement
- Pension Schemes Bill
- Pension Scheme Consolidation
- The Lloyds GMP judgement
- Going Concern considerations

In case you missed it, the link can be found here: <https://www.ensors.co.uk/resources/detail/key-issues-for-pension-schemes-in-2021/>



GMP equalisation

The High Court judgment on the 23rd November 2020 said defined benefit schemes should revisit historic cash equivalent transfer values and equalise guaranteed minimum pensions (GMP) and top up where necessary.

The judgement does not force organisations to actively correct all pensions transfers, the judgement states that Trustees should "proactively consider this".

From a risk perspective it may be wise for Trustees to look to do so to avoid legal proceedings from any members affected as Trustees are not discharged from liability of that breach.

In terms of accounting, many schemes have disclosed a potential contingent liability for GMP equalisation costs and this may now need to be revisited.

A contingent liability is defined as either a possible but uncertain obligation or a present obligation that is not probable and/or cannot be reliably determined.

It's only if the possibility of settling the contingent liability is remote or it is not material to the financial statements then disclosure is not required.

Trustees should therefore be liaising with their actuaries at the scheme year end to understand if this has been quantified and the likely disclosures required in the accounts.

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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“I have worked with Ensors for over thirty years as an Independent Trustee and a Benefits Consultant and have enjoyed a consistently solid no nonsense service at very competitive fees. Ensors, focus on the key audits issues offering practical solutions via a relatively stable team with significant pension scheme experience.”

Geoff Ashton – Capital Cranfield Pension Trustees



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