PENSION PROFILE

Equality, Diversity & Inclusion

In March 2023 the TPR issued guidance to help improve pension schemes' equality, diversity and inclusion (ED&I).

The guidance focussed on; The role of the chair, EDI policy and performance assessments, enhancing board diversity, fixed-term appointments, reasonable adjustments and inclusive communications.

Louise Davey, TPR's Director of Regulatory Policy, Analysis and Advice, said: **"All savers deserve to be in a well-run pension scheme that makes decisions in their best interests.**

"Harnessing diverse views can help pension scheme governing bodies weigh issues in more detail and openly consider aspects important to those impacted by their decisions.

"This enables all those involved to better understand and mitigate scheme risks, avoid unintended consequences, and learn from what is working and what is not.

"Employers also have an important role in ensuring EDI is considered by their scheme and they have a duty to support employees who are nominated to their scheme's governing body. That's why we've provided specific guidance for scheme employers.

"While we recognise different scheme types, sizes and sectors may face different challenges. We believe there are some quick and easy steps that can and should be taken to improve schemes' EDI now."

The guidance is detailed, and clearly for smaller schemes with a lay trustee board, training may be needed. The guidance need not be overwhelming, small steps in the right direction are a positive step to longer term; not only achieving a policy – but a policy in action.

New Pensions SORP

Financial Reporting Exposure Draft (FRED) 82 Draft amendments to FRS102, The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review, has been published for consultation and comments were invited by 30th April 2023.

The Pensions Research Accounts Group (PRAG) have responded, they raised a number of points but agreed with the proposed timetable. It is expected that the Financial Reporting Council will publish the revised FRS102 by 31 December 2023.

This gives PRAG enough time to adopt the revisions in the Pensions SORP which is expected to have an implementation date of accounting periods commencing on or after 1st January 2025.

In October we learned that the revised suite of standards reflecting the second periodic review of UK GAAP is now expected to be issued in the first half of 2024, and implementation not before periods commencing on or after 1 January 2026, instead of 1 January 2025.

The FRC has taken this decision to allow more time as it considers significant responses to FRED 82. These responses included challenges faced by the pensions sector in recognising historic annuity policies at fair value and risk disclosures.

The FRED currently proposes changes to fair value measurement definitions, to reflect the principles of IFRS 13 'Fair Value Measurement' – The impact of this change in the definition of fair value could potentially change how some investments are valued.

An amendment to pension scheme risk disclosures as follows: "A retirement benefit plan shall disclose information that enables users of its financial statements, to evaluate the nature and extent of credit risk and market risk arising from financial instruments, to which the retirement benefit plan is exposed at the end of the reporting period, and which may impact the ability of the plan to pay the promised retirement benefits to members.

Other potential changes that could feed into a new Pensions SORP include:

- master trust and consolidators
- refinement of hybrid disclosures
- further guidance on investment risk disclosures
- further guidance on information to be included in the Trustees' Report
- reduced disclosures for smaller schemes

With the delay in issue and the extended implementation date, we await to see how these changes will feed into the new Pensions SORP.

Going concern
Assessing the covenant

This is a recurring theme and one that we include in Final Management Reports of schemes we audit, but one that is consistently prevalent, given the backdrop of Covid, the conflict in Ukraine and now the cost-of-living crisis. The effect of rising inflation rates, interest rates, fluctuations in foreign exchange rates, energy prices and the financial markets are felt by all.

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.

However, another facet of the LDI collapse, is the improvement in funding positions of schemes even if the strength of the employer is strong and the scheme is fully funded.

Going concern might now be an issue if the scheme is considering a buy in and then a buy out and wind up.

As a reminder:

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.

Newsbites...

PPF Levy expected to decline

The Pension Protection Fund (PPF) has launched a consultation on its levy rules for 2024/25. The PPF is in a strong financial position and has reflected that in their proposal to halve the expected income for the next financial year. The PPF website reports **"the PPF expects 99 per cent of levy payers to see their levy fall compared to the current year"**, it also considers options to distribute levy's between schemes in future years.

The consultation closed on 30th October 2023.

Lifetime Allowance (LTA)

The government announced plans in the 2023 Spring Budget to remove the LTA charge from 6 April 2023 and abolish the LTA allowance completely from 6 April 2024.

Draft legislation and a policy paper were issued in July 2023, see: **https://www.gov.uk/government/publications/abolishing-the-pensions-lifetime-allowance/abolition-of-the-lifetime-allowance**

The lifetime allowance also affects how lump sum death benefits from uncrystallised funds, will be taxed for beneficiaries of those who die before the age of 75. These lump sums were previously tax-free to the extent that there was unused lifetime allowance.

Transitional rules will apply where pension savers have taken some benefits whilst the LTA existed, however we await HMRC Guidance on how these will apply.

State Pension increase

Under the triple lock, the basic state pension received in retirement rises each year in line with whichever is the highest out of three factors: wage growth, inflation or 2.5 per cent.

An update from the Office for National Statistics (ONS) revealed that annual growth in employees' average total pay from May to July 2023 was 8.5 per cent.

The effect of the triple lock on these figures would see the new full state pension and the full basic state pension rise by 8.5%; £221.20 per week and £169.50 per week respectively next year.

LDI report

The Work and Pensions Committee published its report on Defined benefit pensions with Liability Driven Investments (LDI) in June of this year.

The report focuses on the LDI collapse in September 2022 which led to the Bank of England having to intervene to protect financial stability.

The WPC makes a number of recommendations and supports the view that the Pensions Regulator should be given a remit to promote financial stability, by specifying minimum levels of resilience in which the LDI arrangements may invest, working alongside other regulators to achieve this.

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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