Barnett Waddingham
a **true partnership** approach

News on pensions and other business risks in the **Charities and Not-for-Profit sector**

BENE*FACT*

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Our experience working with charity and not-for-profit organisations stretches back to the foundation of the firm in 1989, and we have a significant number of clients in this sector. This is indicative of the culture and values of Barnett Waddingham and our ability to provide a cost-effective service.

Our expertise extends across a wide range of areas, including advice to organisations participating in multi-employer pension arrangements, such as those operated by the Pensions Trust, and advice to charities on the investment of charitable funds. This is in addition to our extensive capabilities in providing services to defined benefit (DB) and defined contribution (DC) pension arrangements operated by organisations in the sector.

Steve Hitchiner

Partner and Head of Charities and Not-for-Profit sector

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BENEFACT

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Generation Why?

Our 'Generation Why?' survey, now in its third year, examines how engaged everyday people are with their long-term savings. The 1500 respondents, from a broad range of age, affluence, gender and location, continue to help us understand generational attitudes and perspectives towards money matters and saving.

The survey makes it clear that what is important for one age group may very well bypass another and, so far, the message from our research continues to be that what drives individuals is heavily dependent on their age and affluence.

Financial priorities differ between age groups, with debt concerns listed at the top for those aged 18-29, in stark contrast to those in the 30-49 age band who cite saving for a house as their main financial focus. Unsurprisingly, the over 50s highlight that building a pension for later life leads the way in their financial priorities, with only 38% of respondents having a clear idea of what their retirement looks like.

Although the statistics across the range of questions were broadly similar for both men and women, there were two notable differences. When asked about worries over specific financial issues, both genders were fairly equally matched in concerns over debt, raising a family and saving for retirement. Of the 56% who said that they do not lose any sleep at all over any financial concerns, 41% were men in comparison to only 15% of women.

Secondly, and importantly, there is still a distinct disparity in retirement income expectations between men and women. 52% of the women surveyed expected to have a pot of less than £100,000 when they come to retire in comparison to 36% of men, and it's possible that the gender pay gap has a part to play in forming these expectations.

In a financial landscape that now offers greater freedom and choice than ever before, education has been highlighted as an essential element of the retirement journey, to ensure that individuals are fully informed about their options.

Our 2017 survey found that 79% of respondents believe that financial education should be provided in the workplace, whereas 40% of all those surveyed highlighted that they do not receive any help from their employer regarding their financial goals or concerns. There is a clear desire here for practical help and the provision of a more holistic approach to managing finances and not just pensions.

In addition, a tailored and personal approach is key to communicating effectively with different age and affluence cohorts. Our employer-sponsored engagement portal, Me2, has education and bespoke messaging at its forefront, empowering employees to make informed decisions around their retirement savings journey on any device and at any time.

For many individuals, retirement may seem like a long way off but with more flexibility than ever, engaging and educating members about effective saving for retirement is paramount. The desire to make the right choices is there, but it does not start with the long-term, it starts with the here and now.

DB pensions: PPF levy consultation

The Pension Protection Fund (PPF) is an arrangement that pays compensation to members of defined benefit pension schemes whose employer has failed leaving behind a scheme with a substantial deficit.

The PPF is financed by a 'levy' that is payable by all eligible DB schemes, and recently consulted on its proposals for the calculation of the PPF levy for the three levy years from 2018/19 to 2020/21. Along with this consultation, the PPF published an impact analysis showing the likely effect of the changes they are proposing.

The majority of schemes with sponsoring employers that the PPF classify as being in the Not-For-Profit (NFP) sector should see lower PPF levies as a result of the proposed changes. However, there will be some schemes where the changes will cause higher levies, typically schemes with weaker employers.

One of the key inputs in the model is the sponsor's probability of insolvency. The proposed changes mean that the average NFP sponsor will have a higher probability of insolvency under the new model, which would in isolation lead to a higher levy. However, for the majority of schemes this has been more than offset by other expected changes to the model, hence the lower expected levies. The exception to this is weaker employers. The new model distinguishes more sharply between strong and weak employers so weaker employers may see a significant worsening in their insolvency probability resulting in higher levies.

The consultation period has closed and the PPF is currently considering the responses. They are expected to issue a second consultation with their final proposals in autumn 2017. In the meantime, it may be worth considering the likely impact of the proposed changes on your scheme. If you are concerned about the potential impact or would like some assistance we would be happy to help.

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DB pensions: non-associated multi-employer schemes

The government has issued a consultation proposing changes to the employer debt regulations to help employers that participate in non-associated multi-employer schemes (NAMES).

NAMES are DB pension arrangements that a number of employers participate in on a collective basis. They normally target particular sectors, and within the charities sector there are a variety of different NAMES including some operated by TPT Retirement Solutions (formerly the Pensions Trust).

Currently, an employer participating in a multi-employer pension arrangement must pay a 'withdrawal debt' at the point it stops having employees who are active members of the scheme. This debt is based on the employer's share of the overall shortfall between the assets and the cost of securing pension benefits with an insurance company. This typically results in a relatively high deficit in comparison with other measures.

The proposed changes would allow employers participating in a multi-employer pension scheme to defer the requirement to pay this debt subject to certain conditions. This is mainly relevant to employers in NAMES because these employers are not normally able to use the options available to associated multi-employer schemes to avoid inadvertently triggering these debts.

WILL THE PROPOSED CHANGES HELP?

The proposed regulations do introduce more flexibility than is available at present so this is always welcome. In particular, the proposed changes may be helpful for some schemes where the existing arrangements for avoiding an employer debt are difficult to pursue.

However, there are a number of preconditions that have to be met before an employer will be allowed to defer paying its debt, which significantly reduces the practical value of this additional flexibility. These include:

- The trustees' consent is required before a debt can be deferred. Trustees will need to confirm that deferring would not be detrimental to the scheme or its members. In practice, it may prove difficult for trustees to give this confirmation.
- Trustees can terminate the arrangement at any time if they believe the financial strength of the employer has worsened. This means the employer lacks control and could in future have to pay a debt at an inopportune time, which it may not be able to afford.

Focus on TPT Retirement Solutions Growth Plan Series 3

WHAT IS GP3?

Series 3 of the Growth Plan (GP3) is part of a large multi-employer arrangement where individuals hold their own 'pot' of assets to provide retirement benefits. These individual pots have a capital guarantee ensuring that the absolute value of the benefits does not decrease. However, because of the guarantee, all of the assets in GP3 are currently invested in cash.

WHAT IS THE PROBLEM?

In 2014, GP3 was reclassified as a DB arrangement, due to the existence of the capital guarantee. As a result, employers with employees (or ex-employees) in GP3 are exposed to different risks.

Specifically, an employer with GP3 liabilities must now pay a 'withdrawal debt' if they wish to terminate their association with TPT, despite the fact that this debt actually relates to the historic defined benefits in the Growth Plan, namely Series 1 and Series 2.

Further, from the member's perspective, their GP3 pot is invested in cash, which, depending on the individual's specific circumstances, may not be an appropriate vehicle for long-term retirement saving. Indeed, in recent years the return achieved on GP3 assets has been lower than inflation, meaning that the value of these benefits has been reducing in real terms.

TRANSFERRING FROM GP3 TO GP4

Within the Growth Plan, there is a fourth section, Series 4 (GP4), which is entirely 'defined contribution' in nature. This means that GP4 benefits do not count towards the withdrawal debt calculation.

In addition, from the member's perspective, GP4 offers a wide range of investment choices, including an option to invest the funds in cash if they wish.

As a result, many employers are looking to communicate with their GP3 members to let them know they have the option of transferring to an alternative arrangement, such as GP4. This can have a benefit to the member of increasing their investment choices (albeit at the loss of the capital guarantee) and a benefit to the employer of a reduced exposure to a withdrawal debt.

However, there are some issues to consider and some pitfalls to avoid. If you are considering communicating with your GP3 members and would like further assistance with this then we would be happy to help.

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General Data Protection Regulation

The Data Protection Act will be replaced by the General Data Protection Regulation (GDPR) on 28 May 2018. Whilst this might sound like ample time to ensure that everything is in place, there are important areas to consider for a successful transition. The Information Commissioners Office (ICO) has already issued significant fines to charities for the misuse of donors' data, so this is an important issue for charities to consider.

We asked Rod Otey, our Information Security Manager, to summarise the key point that charities should be focussing on in relation to these new requirements.

"GDPR is a commitment that needs to start at the top of your organisation and permeate down to your junior employees. The key to successfully implementing the GDPR is not expensive technology or endless procedures that nobody reads, it is the attitude that everyone must adopt to protect data.

These are some of the areas you should already be thinking about:

- *There is no escape from GDPR. If you control or process the data of even a single EU citizen, then you are bound by it, regardless of the Brexit process.*
- *The first step is to conduct a Data Audit. Find out what you have, where it is, who owns it and who can access it. From there you will have to formulate a Privacy Impact Assessment, which should tell you what data you need to protect and how.*
- *You will have to review your Privacy Notices to make sure they clearly state what data you are collecting, what you are going to do with it and who you will share it with. You must also provide a channel for data subjects to raise any issues regarding data handling concerns.*
- *Individuals' rights are enhanced: Subject Access Requests are now free and have a reduced turnaround time of 30 days. You need to facilitate and be responsible for the correction of inaccuracies, and if requested and legally possible, you must erase all trace of an individual's data from your systems. This is known as 'the right to be forgotten'.*
- *Consent for marketing and sharing of data with 3rd parties shall be explicit, informed and unambiguous. When anyone under 13 years old agrees for their data to be processed, consent must be obtained from a parent or guardian.*
- *Most data breaches will now need to be notified to the affected individuals and to the regulator (ICO) without undue delay. The potential cost of a breach can reach €20,000,000 or 4% of global turnover, plus the public exposure.*

Unfortunately, guidance on implementation has not been forthcoming, so there are still many unknowns on how the regulations will work in practice. However, this should not stop you from setting a framework to protect your data and re-educate your workforce."

About Us

Steve Hitchiner FIA

Partner and Head of
Charities and Not-for-Profit sector

Steve is an actuary with wide ranging DB pension advisory expertise, who has a particular focus on the Charities and NFP sector. Around half his scheme actuary clients are in the sector, and he has advised a large number of charities participating in sector-wide multi-employer pension arrangements.

Steve's aim is to provide pragmatic and straightforward advice and to communicate complex subjects in a way that can be easily understood.

Neil Davies FIA CERA

Charities and Not-for-Profit sector:
Partner and Investment Specialist

Neil advises a range of UK businesses on investment matters relating to DB and DC pension schemes, as well as advising trustees of charities on their investment strategies.

His work advising charity clients on the investment of charitable funds covers a number of areas, including support with objective setting, asset allocation advice, governance issues, and manager monitoring.

Martin Willis APFS

Charities and Not-for-Profit sector:
Associate and Workplace Health
and Wealth Specialist

Martin currently advises on the implementation and on-going governance of workplace benefit arrangements with a focus on DC pension arrangements.

This includes providing consultancy support to a range of not-for profit organisations operating in the Arts & Culture, Education and Religious sectors.

How we can help

Our expertise in the charities and NFP sector extends across a wide of range of areas. We provide a full range of services in relation to DB and DC pension arrangements sponsored by organisations in the sector. This includes actuarial, investment and administration services to pension fund trustees, as well as actuarial advice to employers sponsoring these arrangements.

Specifically within this sector, we have over 75 clients who we advise in relation to their DB pension scheme and over 20 clients who we advise in relation to their DC arrangements. We have also advised over 20 organisations in the sector who participate in multi-employer arrangements operated by TPT Retirement Solutions. In addition to our pension related services, we have also advised 15 charities on the investment of trust assets.

For further details of how you can use our expertise for you benefit, please visit our website: www.barnett-waddingham.co.uk/charities-sector

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