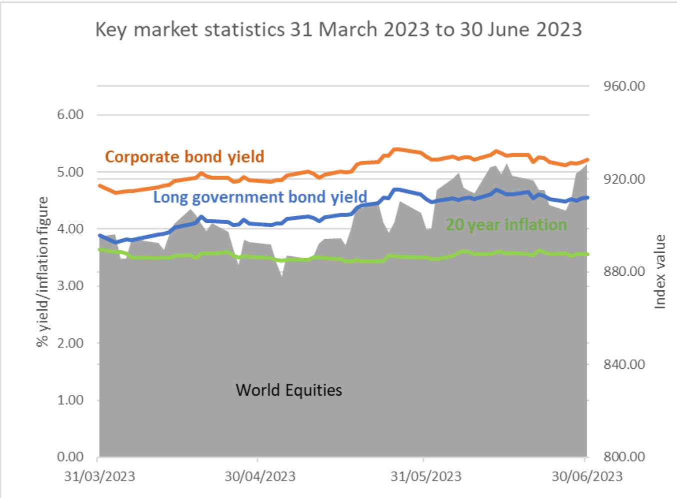
Broadstone

Employer Briefing

July 2023

Update on financial markets affecting DB pension schemes



	31 Mar 2023	30 June 2023
Government bonds (20yr)	**3.89%**	**4.55%**
Corporate bonds (15yr AA)	**4.76%**	**5.22%**
RPI inflation (20yr)	**3.63%**	**3.56%**
FTSE All World (ex UK) Total Return Index	**895.15**	**926.48**

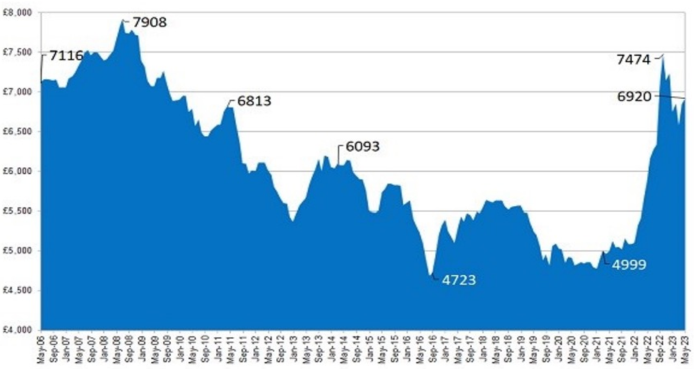
Q2 of 2023 was another interesting quarter for financial markets. Yields saw significant further increases during May although they were more stable over June. Long term inflation expectations remained broadly the same over the quarter.

With government and corporate bonds yields still at such relative highs, the funding positions of many Defined Benefit (DB) schemes are still likely to be in more positive positions than historically. Many schemes are pro-actively looking at buy-in and buy-out options to remove liabilities; however, insurance companies are very busy and not all schemes will be able to proceed down this route in the shorter term.

In addition, a recent High Court judgment has thrown doubt over the validity of scheme rule amendments made between 1997 and 2016. The case may be appealed or even legislation introduced to resolve the issue; however, there may be a delay for some insurance deals whilst this issue is resolved. It's therefore important that investment strategies are reviewed to protect favourable funding positions in the meantime.

Annuity income – last 17 years

Based on figures for May 2023



Annuity rates chart for £100,000 fund, aged 65, level and single life

What are your employees in Defined Contribution (DC) arrangements going to do at retirement?

The FCA releases data each year (late in the summer) on the choices retirees are making and, over the past 5 years or so, we have seen a sustained fall in the number of annuity purchases.

Many people have felt that the cause of this was the lack of flexibility and value provided by annuities but we have seen the latter mitigated dramatically in recent times as interest rates have risen – what was seen as an option for few has been rising in popularity again.

The table opposite demonstrates how, over the past 12 months, annuity rates have risen to levels not seen since before the 2007/08 financial crisis.

It has been widely perceived by retirees that annuity rates 'aren't very good' and they have therefore been dismissed as a suitable option. But we are seeing a growing number of retirees, even with pension savings of £250,000 or more, consider this option once they know the current facts.

Rates are much improved and the security / surety of payments should not be underestimated in today's financial environment. Especially when the alternative is to stay invested in the markets whilst volatility is so high and therefore retirees perceived risks are higher - lest we forget that around 40% of retirees using drawdown are taking withdrawals of 8% or more (according to FCA retirement income market data) which could be considered unsustainable.

This summer's FCA statistics will probably come too early to show this trend so as an employer or trustee it is important that you ensure members are aware of their choices, the real consequences of these and that your communications are reviewed regularly to ensure they are up to date.

Helping DB members make the most of their retirement income

In recent years, we have seen an increasing number of trustees and employers focus on improving the education provided to DB scheme members as they approach retirement.

This stage of a member's journey with the pension scheme can represent a significant risk, with individuals making important irreversible decisions on their retirement income, often without a full understanding of their benefits and the wider options available.

Many members are only aware of retirement options within their DB scheme but by considering a transfer value at the point of retirement, some members could make their money go further or reshape their income in a more helpful way:

- Purchasing an annuity that could offer higher income due to lower future increases or because the member has health issues to consider;
- Drawing money flexibly now to cover the period until a member reaches State Pension Age; or
- Using flexible drawdown to better manage wealth and estate planning.

There is usually a financial benefit to the scheme where members properly investigate their retirement options. Any savings that a scheme makes in relation to member benefits can help accelerate the scheme's journey to buy-out.

Broadstone can help employers with pragmatic, expert advice on improving member flexibility and scheme journey plans through member options; please consult your usual Broadstone contact or Stuart Bradbury at **stuart.bradbury@broadstone.co.uk**

Find out more

For more information on how Broadstone can help you, please contact your Broadstone consultant or use the details below.

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