Bandwagon

The BWCI Group Newsletter

Quarter 3
2020

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BWCI

Welcome

to the latest edition of Bandwagon. We hope that you like refreshed and updated format.

We are pleased to be able to let you know that BWCI's office in Guernsey is operating normally. However, in Jersey, staff are still generally working from home.

BWCI is continuing to follow the advice issued by the States of Guernsey and the Government of Jersey. We have also implemented our own policies, to ensure that client care continues as effectively as possible, and that our staff are supported.

The best way to get in touch continues to be by emailing your usual contact, or using the Contact page on our website: www.bwcigroup.com/Us/Contact

BWCI's *newest* actuary

Amber Buckingham

We are delighted to announce that Amber Buckingham has just completed all of the exams required to qualify as a Fellow of the Institute and Faculty of Actuaries.

Amber joined BWCI in 2013 as an actuarial trainee, after having been awarded the BWCI Cup for Further Mathematics at the Ladies' College for her impressive A level results.

As well an experienced member of BWCI's pensions actuarial team, Amber plays an active role on the Channel Islands Actuarial Association's Committee. She took on the role of secretary to the Committee in 2019, having previously been the Committee's student representative.

Amber's final exam was particularly memorable, as the original exam date had to be pushed back a few weeks, due to the pandemic, to give the examining body time to switch the exams to an online format.

Amber said:

> *"My final exam was not how I imagined it would be, but I am grateful that the Institute and Faculty of Actuaries were able to move the exams online so that I did not have to delay qualification. I'm looking forward to continuing to use the knowledge and skills gained throughout my studies within my work at BWCI."*

BWCI Student study coordinator, Matt Stanbury, said:

> *"This is a fantastic achievement and very well deserved. It underlines that, while many of the entrants to the actuarial profession are graduates, it is also equally possible to enter the actuarial profession directly after A levels."*

2020 *Bursary* Student

We are delighted to announce that this year's BWCI bursary has been awarded to Adam Le Poidevin. Adam completed his A levels at Elizabeth College in 2019, achieving straight A* grades in all four of his subjects; English Literature, Mathematics, Further Mathematics and Physics. In addition, he also gained an A* in his Extended Project Qualification.

Adam is currently working in our Pensions Administration team, before taking up his university place at St Hilda's College, Oxford later this year to study Mathematics and Philosophy.

Adam is the 15th local student to be supported by BWCI's bursary scheme since it was launched back in 2007. As well as financial support each term whilst studying, the bursary also provides a structured programme of at least eight weeks' work experience in different areas of our business during the university vacations.

BWCI's Senior HR Manager, Alison Rimington, said: "Adam is a very worthy winner of our bursary this year and we are delighted that he has also been able to work with us during his gap year as well."

Diary *of* Events *2020*

16 AUG — ***Guernsey Alzheimer's Association Tower to Tower Walk***
https://www.alzheimers.gg/diary-and-events/tower-to-tower-walk

29/30 AUG — ***BWCI Festival of Football***
http://www.guernseyfa.com/news/2020/jul/14/bwci-festival-of-football-2020

14/15 NOV — ***BWCI Concert Series - GSO/Camerata weekend***

Life expectancy *assumptions* in light of *COVID-19*

> “*we still have very little information at this stage*”

Michelle Galpin

Estimating future life expectancy for the purposes of valuing pension scheme liabilities has always been challenging. Now we have one more thing to consider – the implications of a global pandemic! This article considers the impact of recent mortality experience on pension schemes and what it might mean for future assumptions.

Continuous Mortality Investigation (CMI)

The CMI (a body supported by the Institute and Faculty of Actuaries) carries out ongoing analysis of death data in the UK. The CMI has been producing weekly (rather than quarterly) mortality updates during the coronavirus pandemic, based on data published by the Office for National Statistics (ONS). The frequency of these updates has recently reduced to fortnightly, now that the number of deaths has fallen substantially. Indeed, there were 7% fewer deaths registered in the week ending 10 July 2020 than in the corresponding week in 2019; There were also 4% fewer deaths than 2019 in the next two week period.

Overall, at its peak, there had been around 63,500 more deaths in the UK up to 12 June 2020 than if mortality rates had been similar to last year. The reduction in the number of deaths in the UK since mid June means that the number of excess deaths for 2020 has also fallen, and stood at 62,100 at 24 July.

Causes of death

The chart compares 2020 mortality rates in the UK with each of the last 10 years. It is no coincidence that the increase in comparative mortality rates occurs at the same time as the start of the UK’s coronavirus pandemic. However, it is not straightforward to separate the number of COVID-19 deaths from those which would have been expected in normal circumstances.

The ONS classifies deaths based on whether COVID-19 is listed as a contributing factor on the death certificate. The vast majority of COVID-19 deaths were over age 65. It is likely that many of these individuals will have had some degree of underlying health condition, so the virus may not have been the primary reason for death. An unknown proportion of the deaths caused by the pandemic would have been expected in the short term, but will have been brought forward by the pandemic.

Indirect effects

The pandemic may also have had an indirect impact on the total number of deaths. The lockdown measures taken to manage the numbers infected and behavioural changes will have had some impact. For example:

- Unnecessary deaths from other causes due to insufficient NHS capacity or reluctance to seek medical help
- Reduction in pollution may have health benefits (potentially fairly short term)
- Deaths due to restrictions on movement during the pandemic, such as changes in traffic accidents, pollution and mental health issues.

Some of these factors will have tended to increase the number of deaths, whereas others will have reduced them.

Impact on pension schemes

Schemes may see more deaths than usual during 2020 as a result of the pandemic. However, if deaths have been accelerated, rather than being “additional” deaths, then we would expect to see correspondingly fewer deaths in the years immediately after the pandemic. Therefore, overall, the shorter term financial impact on pension schemes could be modest.

What do we assume for the future?

We anticipate that the spike in deaths observed so far during 2020 will impact on the next set of mortality base tables published by the CMI. This could potentially result in heavier base mortality assumptions. However, these updated tables are typically only published every 5 years or so; the most recent set of base tables was issued in December 2018. Therefore, it will be a few more years before recent mortality experience is reflected in the standard base tables.

By contrast, the CMI updates its mortality improvement model annually, with the next version currently expected in March 2021. Both the CMI and users of the model will need to form a view on whether the current pandemic is a one-off event, or whether we can expect to see annual flair-ups of this type of virus, when setting future assumptions.

What happens next?

At the time of writing, as the UK seemingly starts to emerge from the pandemic, with fewer deaths registered since mid June relative to the same period in 2019, we look to assess the longer term effects and what this means for life expectancies going forward.

There are a number of questions which currently remain unanswered;

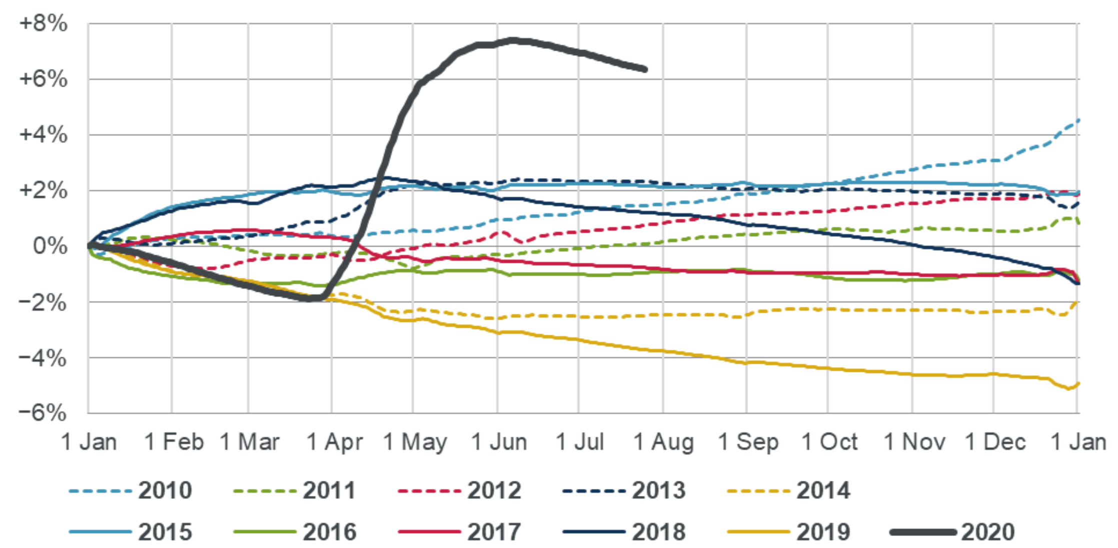
- Are there longer-term health implications for those that have contracted COVID-19 and subsequently recovered?
- Will we observe permanent changes in lifestyle as a result of the coronavirus restrictions that could impact on likely levels of future mortality?
- Could we see other, similar strains of the virus in future?

In practice, we still have very little information at this stage, so the true impact of COVID-19 on life expectancy may not be known for years to come.

What’s happened to mortality rates?

The chart shows the cumulative mortality rate each year since 2010, compared to the average rate between 2010 and 2019. The black line shows that initially the 2020 mortality rates were broadly in line with the equivalent rates in 2019. However, there was a significant spike during April and May. This then flattens out before starting to show signs of reducing from mid June.

Cumulative Standardised Mortality Rate Compared to the 2010-2019 Average



Source: CMI mortality monitor - COVID-19 update - week 30 of 2020

Anti-discrimination *Legislation* Guernsey

On 17 July 2020 the States of Guernsey agreed to the preparation of an Ordinance under the Prevention of Discrimination (Enabling Provisions) (Bailiwick of Guernsey) Law, 2004 which will see the phased introduction of anti-discrimination legislation in Guernsey. Ultimately, the new legislation will see protection from discrimination in seven areas: age; disability; carer status; race; religious belief; sex and sexual orientation.

The original proposals that were put out for consultation in July 2019 focussed on ten areas of potential discrimination. These have been reduced down to seven, with marital status, pregnancy and maternity status and trans status having been removed.

The first phase of these protections is expected to come into force during 2022. It will cover protection on the grounds of disability, race, carer status, sexual orientation and religious belief.

A second phase 'in 2024' will then introduce protection on two further grounds; age and sex discrimination. Complaints relating to discrimination in the field of education will be deferred for a further two years and are not expected to come in until 2026.

The timeline for the delivery of the different aspects of the legislation is summarised below:

The final phase will include a principle for 'equal pay for work of equal value' and some accessibility requirements; this is due to come into place during 2027.

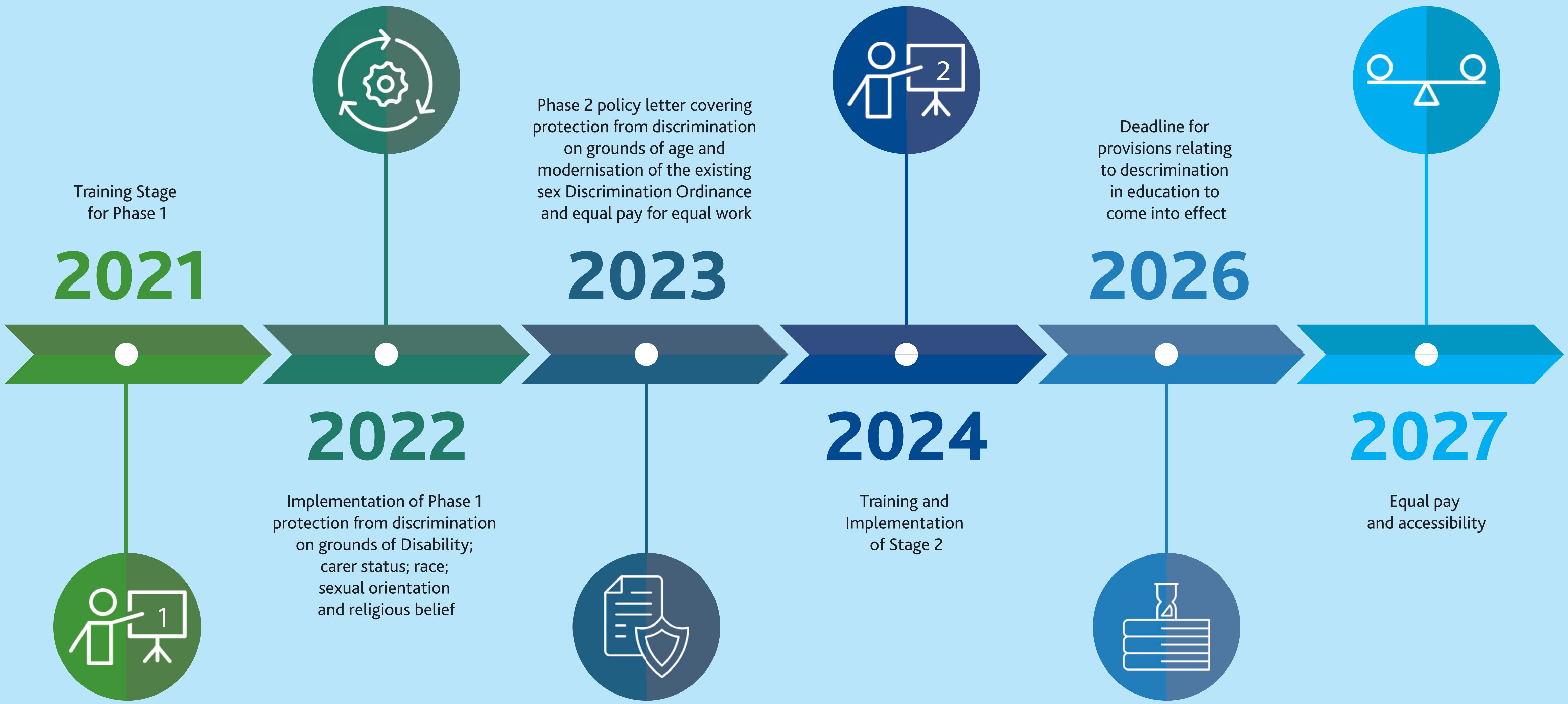
It will be interesting to see what these proposed protections will mean in practice in a number of areas, such as employment contracts, pension schemes and insurance. However, we will need to see the detailed proposals and any exemptions before considering this more fully.

We would hope to see the age-related exemptions for pension schemes that were included in the 2019 consultation. At that stage it was proposed that occupational pension schemes would continue to be able to use age criteria in some circumstances, such as:

- To fix ages for admission to a scheme or to fix an age for claiming benefits
- To use ages in actuarial calculations

Protection from discrimination on grounds of:

= **age**
= **disability**
= **carer status**
= **race**
= **religious belief**
= **sex**
= **sexual orientation**



UK RPI Changes?

Tom Ogier
tom.ogier@bwcigroup.com

> *"the change could reduce the UK's measure of inflation by around 1% pa in the long term"*

The calculation method for the UK Retail Price Index (RPI) is under review, due to known statistical flaws in the current method which mean that the measure can either greatly overstate or understate the level of inflation.

A consultation[1] launched in March 2020 on reforming the UK RPI's methodology, is being led jointly by the UK's Treasury and Statistics Authority and runs until 21 August. It is proposed that the current short comings be removed by changing the UK RPI measure to make it equivalent to the current CPIH[2] measure. As well as rectifying the problems with the current method, it is expected that the change could reduce this measure of UK inflation by around 1% pa in the long term. This could have wide-ranging consequences, potentially affecting any increases using the UK RPI index as a reference point. The change, if accepted, would be likely to come into effect sometime between 2025 and 2030. However, at this stage, both the outcome of the consultation and the timing of any changes in the UK RPI methodology are uncertain.

Impact on pension schemes

The impact of any change in UK RPI will depend on the nature of a scheme's liabilities, what assets it holds and its membership profile.

Pension Scheme Liabilities

UK Schemes

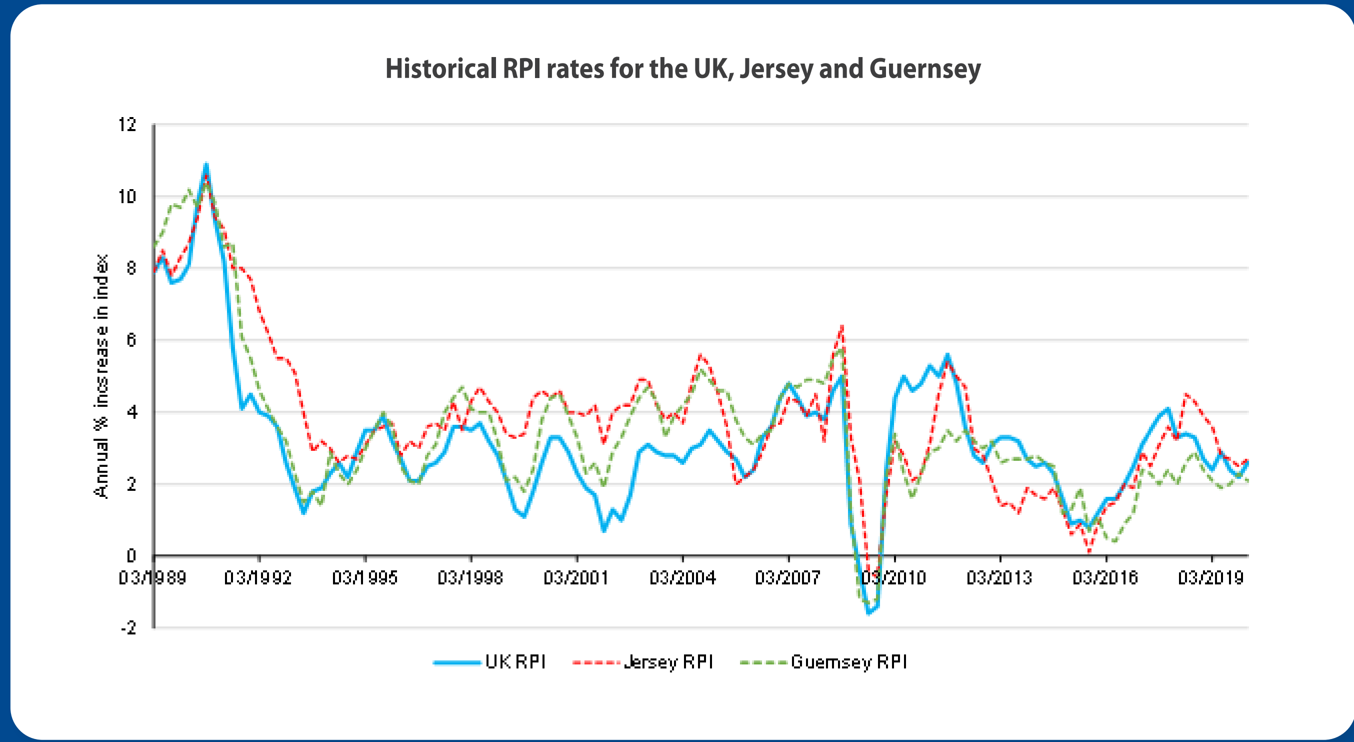
UK RPI-linked liabilities would be expected to fall in value if the proposed changes are implemented; pensioners whose pension payments rise in line with RPI would see their future pension income increase more slowly than previously expected.

Any UK CPI[3]-linked liabilities would not be expected to fall in value. However, the assumption for modelling future CPI increases for pension scheme valuations and transfer values is often set relative to the future RPI assumption. Therefore the relationship between the RPI and CPI assumptions is likely to need to be reviewed. This relationship is often referred to as the "RPI/CPI wedge".

Channel Island Schemes

It is worth noting that the methods used to calculate Jersey and Guernsey RPI are not only different from the UK, but also from each other, with Guernsey's approach being more similar to the UK's current methodology than Jersey's.

Currently Channel Island inflation measures are not expected be directly affected by any change to the method of calculating UK RPI. Consequently, on the face of it, the value of Jersey or Guernsey RPI-linked liabilities would not be expected to change, regardless of the outcome of this consultation. However, the graph shows that Jersey and Guernsey RPI have historically shown high levels of correlation with UK RPI. As assumptions for modelling future Channel Island RPI increases are often set relative to RPI assumptions for the UK (where there are deep and liquid markets from which to infer future inflation expectations), any future margins assumed for Jersey and Guernsey RPI relative to UK RPI may need to be reviewed.



Pension Scheme Assets

Any assets linked to UK RPI, such as index-linked gilts, are expected to fall in value if the proposed changes are implemented. Whilst the market has already priced in some expectation of a decrease in RPI rates from 2025 onwards, the full reduction expected under the proposed change does not yet appear to be reflected in current prices. This is due to the uncertainty in the outcome and timing of the consultation result.

Possible alternative outcomes to the changes being proposed include compensation being paid out by the UK government to the holders of index-linked gilts if the proposed changes go ahead; or even no change at all from the current method. If either of these outcomes were to materialise, the value of UK RPI-linked assets could increase in future. However, if the proposed change is implemented and no compensation is provided that then the value of index-linked gilts holdings would be expected to reduce.

Funding levels

The overall impact on an individual scheme will depend on the interaction of a number of factors; the relative changes in the values of their assets and liabilities will be key. Schemes with liabilities linked to Jersey or Guernsey inflation or UK CPI, backed by UK RPI-linked assets, could be amongst those seeing the greatest impact.

Potential Actions for Trustees

There is currently considerable uncertainty around what the impact might be in practice; ranging from no change at all, to a 1% pa fall in future RPI increases beginning within the next 5 years. It will be important for trustees to be aware of the potential changes and start to plan what action they may need to take. These include:

- Considering the range of possible outcomes and the resulting implications for their pension scheme
- Scheme rules may need to be checked for precise definitions of any inflation-linked benefits
- Valuation assumptions may need to be reviewed
- Reviewing the level and form of any inflation hedging in place with the scheme's investment consultant

[1] https://www.gov.uk/government/consultations/a-consultation-on-the-reform-to-retail-prices-index-rpi-methodology

[2] the Consumer Price Index including owner occupiers' housing costs

[3] Consumer Price Index

Celebrating *40 years'* service

On 30th June we marked the retirement of Alison Trump after exactly 40 years' service. Alison began working for what was then the Guernsey Office of UK actuarial firm Bacon & Woodrow on 30 June 1980, having just left school. Alison began her career with us a junior secretary, with enviable shorthand skills. Over the following four decades her role evolved considerably and would see her career progress and her become an assistant manager of our secretarial team. In addition to working as a personal assistant to several of BWCI's partners over the years, Alison has also played an active part in BWCI's charitable activities through her role as secretary to the BWCI Foundation.

"*Happy Retirement Alison!*"

In presenting Alison with her retirement gift, BWCI's Senior Partner, Stephen Ainsworth, thanked her for her contribution over the years and we would all like to wish her a long and happy retirement.

The BWCI *Festival* of *Football*

We are very pleased to be able to provide an update on a replacement for the popular BWCI Minis Soccer Festival. We have been working with the Guernsey Football Association to see how we could continue to support local minis football in 2020 and we are delighted that the 'BWCI Festival of Football' will replace the annual Mini Soccer Festival. While there will not be any teams from outside of Guernsey this year, the new format does provide an opportunity for many more local children to get involved as the 'BWCI Festival of Football' will be extended to include school years 2-5. This means that up to 500 local children aged 7-10 will have the opportunity to take part.

Guernsey FA Chief Executive, Gary Roberts, commented:

"Being able to host the 'BWCI Festival of Football' is fantastic news, and certainly not something we were expecting to be able to do when Guernsey entered into lockdown in March. Although the Festival will be a little different this year, we have no doubt that the local clubs and players will enjoy participating as part of the return of football in the island."

BWCI's Managing Partner, Diana Simon, added:

"We are delighted to be able to support the GFA to put on this festival as it gives so many children an opportunity to celebrate the return of inter-club mini football. Our thanks go to the GFA for their hard work in putting this together at short notice."

The BWCI Festival of Football will take place at Guernsey's Victoria Avenue pitches on Saturday 29 and Sunday 30 August.

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