News on...

Barnett Waddingham

Pensions - October 2012

In this issue:

ONS: RPI AND CPI

The Consumer Prices Advisory Committee ("CPAC") has concluded that there is ***"sufficient evidence to consider"*** addressing the use of different methods for calculating the Retail Prices Index (RPI) and the Consumer Prices Index (CPI). The Office for National Statistics (ONS) has therefore issued a ***consultation document*** setting out the following four possible options for the future approach to calculating the RPI:

1. No change.
2. Amend the approach to averaging price changes in relation to clothing only. This option would reduce, but not remove, the "formula effect" element of the RPI-CPI gap.
3. Amend an approach to averaging price changes for all categories that use it. This option would significantly reduce the formula effect, although not remove it altogether.
4. Fully align the RPI formulae with those used for the CPI.

Changes to the method of calculating the RPI will affect the liabilities of any schemes whose benefits remain linked to that measure of inflation (followng the change to the statutory minimum last year, benefits for many schemes are now linked to the CPI rather than the RPI).

If a change to the calculation of the RPI is agreed by all the necessary parties (including the Bank of England and possibly the Chancellor of the Exchequer), it is expected to be implemented in March 2013. The ONS consultation closes on 30 November 2012.

For more background detail on the RPI, the CPI and the formula effect, see our ***information sheet***.

LATEST NEWS FROM THE PENSIONS REGULATOR AND THE PPF

TPR: Record-keeping

The Pensions Regulator (TPR) has ***said*** that although progress has been encouraging, "there is still some way for schemes to go" to meet its December record-keeping deadline. TPR has also published an ***action checklist*** to help trustees and administrators meet the requirements.

Included in the checklist are the key tasks that trustees will need to undertake in order to meet TPR's targets – such as discussing plans with the scheme administrator, identifying their data score and taking steps to resolve systemic issues.

TPR has also published a ***frequently asked questions*** document relating to "common data". Further information on good record-keeping can be found on ***our website***.

TPR: Quarterly Stakeholder Newsletter

TPR has published "***Stakeholder Update: Autumn 2012***", the first of a series of quarterly newsletters for stakeholders.

The newsletter summarises the latest developments at TPR, key dates and hot topics.

Topics covered in the inaugural edition include:

- selecting a good auto-enrolment scheme (see ***News On: Pensions – July 2012***)
- record-keeping (see above), and
- defined benefit (DB) Scheme Funding (see ***News On: Pensions – May 2012***).

TPR: Codes of Practice - Maintaining Contributions

TPR is ***consulting*** on updated versions of its codes of practice 5 and 6 on reporting late payment of contributions to defined contribution (DC) schemes.

The codes, and accompanying guidance, are being reviewed in light of the forthcoming auto-enrolment requirements.

TPR's consultation closes on 6 December 2012.

PPF: 2013/14 Levy

The Pension Protection Fund (PPF) has estimated that the total levy to be collected for 2013/14 will be £630m. This represents an increase of 15% relative to the original estimate of the total levy collection for 2012/13 but is equal to the amount now expected to be collected for that year.

The PPF has, despite the significant increase in risk posed by UK occupational DB schemes as a result of falling funding levels, chosen not to increase the estimate of the amount it will collect by the maximum 25% allowed under legislation.

Alongside the related ***announcement***, the PPF has issued a ***consultation*** on its 2013/14 levy determination, confirming that the "New Levy Framework" will remain in place again this year.

PPF: Funding Determinations

The PPF has published a ***response*** to its earlier consultation on Funding Determinations and amendments to regulations. The PPF will shortly issue a statement setting out how it will implement the changes.

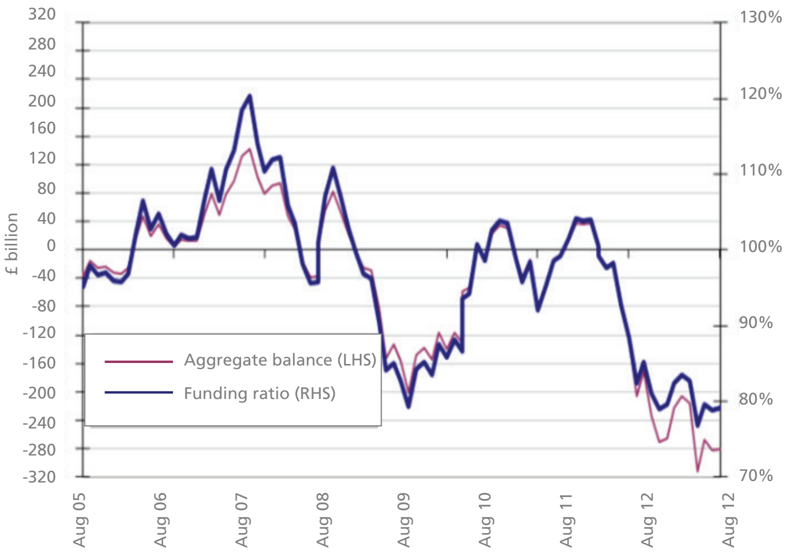
In the meantime, the PPF has updated its ***information on the reconsideration process*** to include reference to Funding Determinations and explain how an application for reconsideration will work where trustees have been unable to obtain a Protected Benefits Quotation.

PPF: 7800 Index

The latest ***update*** of the Pension Protection Fund's (PPF) 7800 Index of schemes' funding (on a section 179 basis) has been published.

The aggregate deficit of the 6,432 schemes in the index is estimated to have decreased over the month to £280.3 billion at the end of August 2012 (there was an aggregate deficit of £283.0 billion at the end of July 2012).

The position has worsened over the year (there was an aggregate deficit of £126.1 billion at the end of August 2011).



NEWS FROM PARLIAMENT

Public Service Pensions Bill

HM Treasury has published the ***Public Service Pensions Bill*** which, when enacted, will enable a number of changes to be made to public sector pensions.

The Bill will, in relation to public service pensions arrangements:

- allow the creation of Career Average pension schemes to replace some existing final salary schemes
- link normal pension ages to State Pension age (except for fire-fighters, police and the armed forces)
- introduce an employer cost cap
- set out requirements for scheme governance, regulation and administration, and
- reform public body and ministerial pension schemes and close the "Great offices of State" pension schemes for the Prime Minister, Lord Chancellor and Speaker of the House of Commons.

The finer detail will be set out in secondary legislation.

Treasury Select Committee: Quantitative Easing

The Treasury Committee has called for written evidence on the ***distributional effects of quantitative easing*** (QE) on individuals and the economy, following the publication of analysis by the Bank of England.

Evidence should be submitted by 1 November 2012. For further information on QE, see ***our website***.

Pension for property?

The Liberal Democrat Party has outlined a "pension for property" scheme under which parents would be able to use their future lump sum pension payments to help children get on the property ladder.

The scheme would be aimed at parents who have accumulated a pension pot worth around £40,000.

It is envisaged that parents would sign an agreement with their child's mortgage provider guaranteeing that the pension lump sum will go towards the purchase of their child's home.

FATCA: Pension Funds Exempted

The UK Government has signed an ***agreement*** with the United States to implement the Foreign Account Tax Compliance Act (FATCA). Under Annex II of the agreement certain UK institutions and products that are seen as presenting a low risk of being used to evade US tax are effectively exempt from FATCA requirements.

The exemptions include UK pension schemes, and ensure that withholding tax will not be imposed on income received by UK financial institutions or on payments they make.

AUTO-ENROLMENT: EARNINGS THRESHOLDS

The Department for Work and Pensions (DWP) is ***consulting*** on automatic enrolment earnings thresholds for 2013/14. The DWP is seeking views on how the automatic enrolment earnings trigger and the qualifying earnings band should be reviewed each year, and has proposed rates for these thresholds for 2013/14.

The DWP proposes using the personal tax allowance for those under 65 (£9,205) as the automatic enrolment earnings trigger – ie to determine who should be auto-enrolled. It also proposes that the lower limit of the qualifying earnings band, on which the minimum contributions are based, remains at the National Insurance (NI) lower earnings limit (projected to be approximately £5,720).

The upper limit of the qualifying earnings band would reduce were it to remain linked to the NI upper earnings limit (projected to be £41,450). The DWP proposes accepting this reduction, freezing the upper limit at its current level (£42,475) or increasing it in line with earnings (to £42,971).

DWP: DC CHARGING

The DWP has published a ***research report*** on charging structures in defined contribution (DC) pension schemes. The survey found that the average annual management charge for trust-based schemes was 0.71% of the fund each year, compared to 0.95% for contract-based arrangements (such as group personal pensions).

The report also notes that employers typically contribute more to trust-based schemes (on average, 6.2% of gross pay) than to contract-based schemes (5.0% of gross pay).

ONS: OCCUPATIONAL PENSION SCHEMES SURVEY 2011

The ONS has released the results of its ***Occupational Pension Schemes Survey 2011***, estimating total membership of public and private sector pension schemes to be 27.2 million.

Active membership has fallen to around 8.2 million – 4 million fewer than at its peak in 1967. The ONS estimates that this number is comprised of 5.3 million active members in public sector schemes and 2.9 million active members in private sector schemes.

Average contribution rates in private sector DB schemes were 4.9% and 14.2% of salary from employees and employers respectively. This compares with private sector DC schemes where the average contribution rates were 2.8% and 6.6% of salaries respectively.

PPI: PENSIONS PRIMER

The Pensions Policy Institute (PPI) has updated its ***Pensions Primer***. The "Guide to the UK pensions system" gives a detailed description of the current pensions system and some of the archaeology of its various layers.

The guide is intended for people wanting to find out more about UK pensions policy.

AUTO-ENROLMENT: ENHANCED AND FIXED PROTECTION

One of the key conditions of maintaining Enhanced Protection or Fixed Protection of a higher Lifetime Allowance is that neither the individual nor the employer makes any pension contribution to a new pension arrangement. If a pension contribution is made by the individual or on his/her behalf then protection will be lost, exposing the individual to a tax charge when benefits are taken.

HM Revenue & Customs has written to those with Enhanced Protection with a warning that this valuable protection could be lost if they are auto-enrolled into a company pension scheme and do not opt-out within 30 days. Similarly anyone with Fixed Protection can lose it if they are auto-enrolled and do not opt-out within 30 days.

To retain Enhanced Protection or Fixed Protection, individuals should make sure that they opt out of auto-enrolment once their employer starts the auto-enrolment process. They should speak to their employer about their plans for auto-enrolment and how to go about opting out when the time comes.

As employers must automatically re-enrol opted out employees every three years, it will be necessary for individuals who wish to retain protection to opt out within 30 days each time this happens.

Further information on Barnett Waddingham's retirement planning services for Executives can be found on ***our website***.

FURTHER INFORMATION

You might find our recent publications on the following topics useful:

- ***Current Issues in Pensions Financial Reporting - 30 September 2012***
- ***State Pension reform: Where do we go from here?***
- ***Buy-Outs And Buy-Ins Report – September 2012***

Finally, in response to demand, we will be hosting an additional introductory trustee training day in our London office on 21 November 2012. There are also a few spaces available at the trustee training day in Bromsgrove on 14 November 2012. These training days are aimed at new trustees and those who would like a reminder of the basics. Booking information and course details can be found on ***our website***.

Pension Conference 2012

The Annual Barnett Waddingham Pension Conference will take place at the Cumberland Hotel, London on 15 November 2012.

This year we will look at the latest developments in a number of important areas. The Conference will help to prime your scheme for the many challenges it faces on the road to success.

If you would like to book a space at the Conference please email ***pensionconference@barnett-waddingham.co.uk***.

For further information on any of the topics in this bulletin, please speak to your usual Barnett Waddingham consultant, or visit our website www.barnett-waddingham.co.uk

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