Barnett Waddingham
a true partnership approach

News on Pensions

MAY 2015

Pensions flexibilities – an update

The new pensions flexibilities for DC savers, first announced as part of the 2014 Budget (see News on Pensions – April 2014), have been in force since 6 April 2015. Individuals in a DC pension arrangement can now (subject to the rules of the particular arrangement) access their pension savings as they wish, without necessarily having to purchase an annuity. Further details on the implications for DB schemes can be found in our information sheet.

TPR has now published a guide for trustees, administrators and advisers of occupational pension schemes which provide flexible benefits. The guide provides information on changes to the disclosure regulations in connection with retirement communications and suggests good practice for communicating with members about their retirement choices.

The Pension Protection Fund (PPF) has clarified that PPF compensation cannot be accessed flexibly by members of qualifying pension schemes. Retired members will continue to receive regular payments rather than being able to take some or all benefits in the form of a lump sum and members who have not yet retired will retain the same options at retirement as before the new flexibilities came into force.

DB to DC transfers: TPR guidance

Following an earlier consultation (see News on Pensions – March 2015), TPR has finalised its guidance for trustees and managers of DB schemes where members wish to transfer their benefits to DC schemes. The guidance:

- sets out the requirements for trustees to check the member has obtained appropriate independent advice before transferring safeguarded (DB) benefits with a value over £30,000;
- will help trustees to ensure they have appropriate processes in place to manage transfer requests;
- encourages trustees to assess the impact of transfer values as part of their 'integrated risk management'; and
- will ensure trustees provide clear information to members.

TPR intends to review and consolidate its guidance on transfers in 2016 in light of experience.

Communicating with members

TPR has also published guidance for DC and hybrid scheme trustees on communicating with members about new pension flexibilities. In particular, the guide is intended to provide information on changes to disclosure regulations at retirement, and 'good practice suggestions' for communicating with members about their retirement choices.

The information that trustees must provide at least four months before a member reaches their retirement date includes:

- an estimate of the value of the member's flexible benefits;
- the options available to the member under the scheme's rules, and a note that they have the option to transfer flexible benefits;

- a statement noting that different options will be offered by different pension providers and that these options could have different features, rates of payment, charges and associated tax implications; and
- a copy of the Money Advice Service leaflet 'Your pension: it's time to choose', and a reminder that there may be tax implications association with accessing flexible benefits.

In addition, the Trustees should also include information on how member can access Pension Wise.

Emergency tax code

HMRC has published its latest Pension Schemes Newsletter which confirms that, unless a P45 is provided, any withdrawals from a pension pot under the new flexibilities will have an emergency tax code applied. HMRC has published forms to allow people to reclaim overpaid tax.

General Election 2015: New Pensions Minister

As a result of the General Election earlier this month, a majority Conservative government is running the country in place of the previous Conservative/Liberal Democrat coalition. Consequently, as well as having lost his seat as Member of Parliament for Thornbury and Yate, Steve Webb is no longer pensions minister.

Prime Minister David Cameron has announced that Steve Webb's replacement will be Ros Altmann, the former Director-general of SAGA, government adviser and high-profile campaigner on pensions issues. Read Malcolm McLean's comments here.

PPF news:

'Last Man Standing' schemes

With a 'last man standing' (LMS) pension scheme, a claim will not arise for PPF compensation until the last employer becomes insolvent. As such there is a reduced likelihood that the PPF will be called on and therefore the PPF applies a discount to the levies payable by LMS schemes.

The PPF is concerned, however, that there may be some misreporting of scheme structures as schemes seek to minimise their levy. The PPF has now published an online form for trustees who indicated that their scheme is LMS on the latest Scheme Return to confirm whether or not they have received legal advice about the scheme structure. The PPF is not asking for copies of the legal advice at this stage although it may require sight in the future.

Only those schemes who have received legal advice confirming their structure is LMS will be entitled to an adjustment to their levy. If the form is not submitted, the PPF will not apply the discount. The form should be submitted by 29 May 2015 in relation to the 2015/16 PPF levy, even if the scheme has not received an email from TPR requesting it.

Olympic Airlines

The Supreme Court has upheld a 2013 Court of Appeal ruling in relation to Greek company Olympic Airlines.

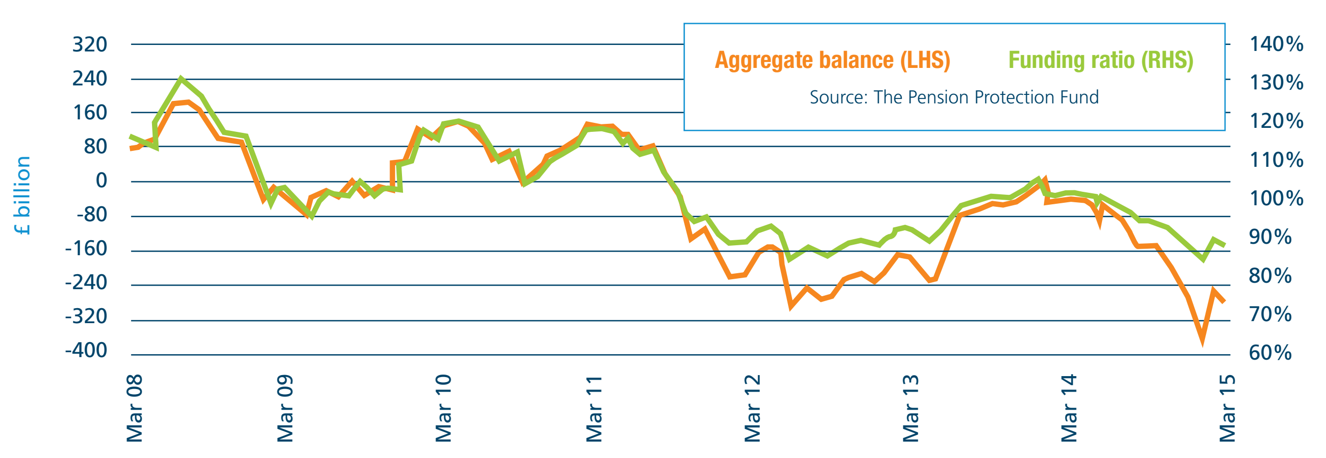
Olympic Airlines began to be wound up in Greece in 2009. The Supreme Court found that Olympic Airlines did not have a UK connection at the time which would allow the UK courts to commence secondary insolvency proceedings. As a consequence, Olympic Airlines' pension scheme members could not qualify for PPF compensation, because schemes could only qualify if the sponsoring employer entered a "qualifying insolvency event" in the UK. The PPF has long since amended its rules to allow schemes in this situtaion to qualify for PPF compensation. This court case therefore only determined when PPF qualification was technically deemed to have occured.

PPF 7800 Index

The latest update of the PPF's 7800 Index of schemes' funding (on the 'section 179' basis) has been published and shows a decrease in the funding ratio from 83.6% to 81.4% between February 2015 and March 2015.

The aggregate deficit of the 6,057 schemes in the PPF 7800 index is estimated to have increased over the month to £292.6 billion at the end of March 2015 (there was a deficit of £248.7 billion at the end of February 2015). There were 4,995 schemes in deficit and 1,062 schemes in surplus.

ESTIMATED AGGREGATED BALANCE (ASSETS LESS S179 LIABILITIES) AND FUNDING RATIO OF SCHEMES IN THE PPF UNIVERSE



Stop press: EIOPA data-gathering

The European Insurance and Occupational Pensions Authority (EIOPA) is simultaneously conducting two data-gathering exercises between now and 10 August 2015:

- A 'Quantitative Assessment' of the financial impact of using a European Union (EU)-wide solvency assessment regime based on its 'Holistic Balance Sheet' (see our October and November 2014 newsletters). The assessment will cover defined benefit (DB), defined contribution (DC) and hybrid schemes.
- An EU-wide 'stress test' for defined benefit schemes to test their resilience to market shocks and changes in life expectancy.

The Pensions Regulator (TPR) will gather data from UK pension schemes, and has already contacted 150 of the largest schemes for their help. EIOPA are seeking coverage of 50% of the market by assets – a significant number of schemes in the UK. TPR is also seeking to submit a suitably representative sample to EIOPA so it can demonstrate how the holistic balance sheet approach may not work for all UK schemes.

Smaller schemes may take part voluntarily, even if not directly approached by TPR.

EIOPA is still enthusiastic about setting harmonised solvency requirements for pension funds, in spite of fervent opposition within many member states (including the UK). The quantitative assessment will be used to inform EIOPA's advice to the European Commission on how their proposals might be taken forward.

The results of the stress test and quantitative assessment are due for publication in December 2015.

News in brief

Draft Pensions Tax Manual

HM Revenue & Customs (HMRC) has published a draft version of the new Pensions Tax Manual, the intended replacement for the Registered Pension Schemes Manual (RPSM). HMRC intends for the guidance to be updated this summer to reflect comments made through June 2015.

Further information on the changes made by HMRC to pensions taxation guidance can be found here.

High Court: Secondments and s75 debt

A High Court decision could mean that if employees are seconded from one employer (A) to another (B) within a group, then company B could be liable for a share of company A's 'section 75' debt on insolvency, in relation to those seconded employees. The court ruling in the case of MF Global UK Limited (B) and its service company (MF Global UK Services Limited) (A), relied on the contractual agreement between the two parties which stated that that company B would meet the employment costs (including pension contributions) of workers seconded from company A. Company A then became insolvent. Companies may therefore wish to seek legal clarification of potential section 75 debt issues before entering into secondment arrangements.

FSCS compensation limits increased

Following an earlier consultation, the Prudential Regulation Authority (PRA) has announced changes to the Financial Services Compensation Scheme (FSCS) compensation limits for annuities. The PRA will increase policyholder protection under the FSCS from 90% to 100% of the value of long-term insurance products (including annuity policies) and pension scheme buy-ins in the event that an insurer fails. The increased limit will apply to both the savings and protection elements of such products - i.e. including deferred members as well as pensions in payment. The changes will apply from 3 July 2015.

Further information

Big Schemes Survey: £1bn+

Our third annual survey of 170 private sector defined benefit (DB) schemes in the UK with assets of over £1bn focusing on scheme type, asset allocation, investment performance, deficit contributions, and adviser fees has now been published. Highlights include:

- 57% of final salary schemes in our survey are closed to new members and a further 24% are also closed to future accrual, leaving just 19% open to new members.
- 75% of schemes have a deficit on their company accounting basis, unchanged from last year.
- The average annual employer deficit contribution was £94m, but ranged from £7m to £400m.
- The average 3-year investment return was about 8.5% per year (for end dates ranging between March 2013 and March 2014), and the 5-year return was about 9.5% per year. These returns were significantly larger than the 1-year return which was around 5.5%.
- The average annual investment management fee was around 0.2% of assets, which is unchanged from last year.
- The average PPF levy was £3.2m.

On our website

You may also find the following recent blog posts and information sheets interesting:

- Current Pensions Issues – Spring 2015
- Gilt yields – is the answer still 4%?
- NI increase spurs employers to action

- Will the 'political earthquake' result in a seismic shift for pensions?
- Have you minimised your PPF levy?
- Spotlight on Longevity April 2015: Smoking habits - the impact on mortality improvements

Forthcoming events

Pensions 2015 – Where are we now? (Edinburgh – 3 June)

Our guest speaker, Brian Taylor, Political Editor of BBC Scotland will give his views on the contemporary political situation – in both the UK and Scotland – with an emphasis upon economic policy. Experts from Barnett Waddingham will focus on a number of additional topics, including funding and investment in the current climate, the implications for DB to DC transfers and developments in online DC tools for schemes, employers and individuals.

The half-day conference on 3 June 2015 in Edinburgh, will cover material relevant to pension scheme trustees, sponsoring employers and professional advisers alike.

Employer Pensions and Benefits Conference (London – 3 June)

Freedom and choice will transform the pensions world and offer new risks to scheme sponsors. Our conference – aimed at decision makers (Finance Directors, HR Directors, Pension Directors etc.) at companies that sponsor pension schemes – will focus on pension issues from a corporate perspective providing practical examples of the challenges employers face and how to tackle them.

The half-day conference is on 3 June 2015 in London. See our website for further information.

De-risking in pension schemes (London – 23 June)

With choice in pensions transforming the landscape, are we likely to see this accelerate the de-risking journey for DB schemes? What options and flexibilities are available to schemes to help them transact successfully? Find out at our seminar.

Trustee Training (Nationwide – various dates)

There are still a few spaces available at our upcoming Trustee Training days – aimed at new trustees or those in need of a refresher. Upcoming dates include:

- London: 4 June 2015
- Bromsgrove: 10 June 2015
- Leeds: 10 September 2015

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively contact us via the following:

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