News on...

Barnett Waddingham

a **true partnership** approach

Pensions - September 2013

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Bank of England begins forward guidance policy

Following the 2013 Budget, the Chancellor of the Exchequer *instructed* the Bank of England's Monetary Policy Committee (MPC) to consider issuing "explicit forward guidance" on its intended future monetary policy.

The MPC has now issued *guidance* confirming that, subject to certain conditions, it intends not to raise the bank's base rate of interest from its current level of 0.5% at least until headline unemployment has fallen to 7%.

The unemployment rate on the three months to July 2013 was 7.7%. This guidance will cease to hold if the MPC considers that CPI inflation in 18 to 24 months' time will be 2.5% pa or greater. The MPC also confirmed that it does not intend to reduce its stock of gilts purchased under "quantitative easing" until the unemployment threshold has been reached.

Bridging pensions regulations

The Government has published the final version of *amending regulations* which permit defined benefit (DB) schemes to make amendments to their rules in relation to "bridging pensions" (temporary pensions provided as a top up from a member's retirement age until their state pension commences).

The amendments, which come into force on 1 October 2013, will introduce a limited power (subject to the employer's agreement) for trustees of schemes who anticipate significant cost increases from increases to State Pension Age (SPA) to modify their rules by resolution. Specifically:

- where, on 5 April 2010, scheme rules provided for a bridging pension to cease when a member reaches a specified age (between 60 and 65), trustees may amend this so that the bridging pension ceases at a given point between age 60 and SPA; and
- where, on 5 April 2010, rules provided for a bridging pension to cease when a member reaches SPA, trustees may limit the effects of future SPA increases by specifying an age (between 60 and 65) at which the bridging pension ceases. In this case, the regulations cannot be used to modify pensions already in payment.

Trustees can only use these regulations to make a change to their rules if it is "reasonable" in light of statutory changes to SPA.

To discuss these issues in more detail please contact your usual Barnett Waddingham consultant or use the following:

info@barnett-waddingham.co.uk | +44 (0) 20 7776 2200 | @bw_llp | /barnettwaddingham

Latest news from The Pensions Regulator

Annual perception tracker survey

The Pensions Regulator (TPR) has published the results of its *2013 perceptions tracker survey* on how effective TPR is perceived to be in fulfilling its statutory objectives, and how users rate the services and information which TPR provides.

An increased proportion of respondents viewed TPR as being effective in "strengthening the funding of defined benefit schemes" (75%, up from 65% in 2012) and "reducing the risks of claims to the Pension Protection Fund" (67% of respondents, up from 55% in 2012). However, overall, the proportion of respondents who consider TPR's performance to be "very good" or "good" remained broadly unchanged at 66% (compared with 64% in 2012).

Other key findings include:

- 30% of those who consider TPR's performance to be "very good" say it has improved over the past year.
- 94% of those who have used TPR's Trustee Toolkit view it as "very" or "fairly" useful, whilst 97% of respondents expressed similar views of TPR's website.
- TPR met its target of at least 70% average agreement with the principles set out in its Corporate Plan, specifically: to be "proportionate, accountable, consistent, transparent and targeted".

PPF news

PPF: 2013/14 levy invoices

The Pension Protection Fund (PPF) has added information on the invoicing process for the 2013/14 levy, which began this month, to its *website*. This includes an *updated guide to the levy*, example invoices and updated *Frequently Asked Questions* (FAQs).

Further information on PPF levies can be found on *our website*.

PPF: Bulletin published

The PPF has published issue 14 of its bi-monthly *PPF Bulletin* for August/September 2013. The newsletter summarises recent developments at the PPF, including:

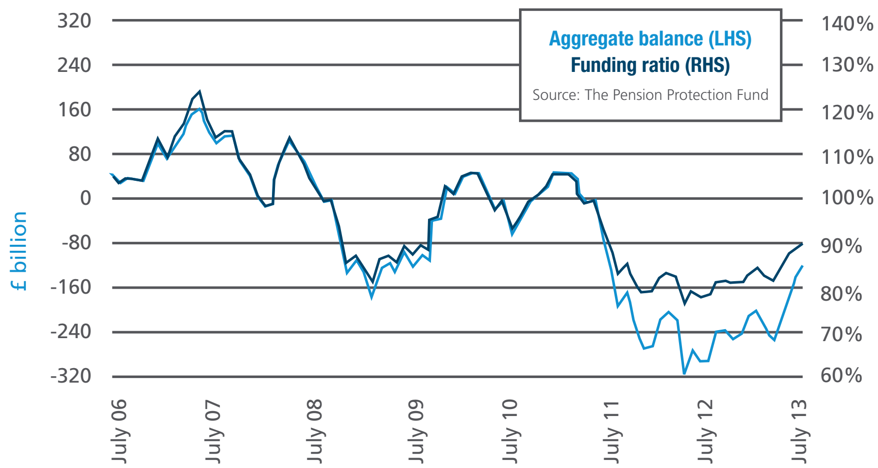
- 2013/14 PPF levy (see above).
- Appointment of Experian as the new insolvency risk provider to replace Dun & Bradstreet (see *News on… Pensions – August 2013*).
- "What's the PPF all about?" YouTube video.
- The PPF's new Trustee Advisory Panel.

PPF: 7800 Index

The *latest update* of the PPF's 7800 Index of schemes' funding (on the s179 basis) has been published.

The aggregate deficit of the 6,316 schemes in the index is estimated to have decreased over the month to £115.7 billion at the end of July 2013 (there was an aggregate deficit of £134.3 billion at the end of June 2013).

Overall funding has improved over the year – there was an estimated aggregate deficit of £292.6 billion at the end of July 2012. At the end of July 2013 there were 4,568 schemes in deficit and 1,748 schemes in surplus.



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Auto-enrolment update

DWP research shows fewer opt-outs than expected

The Department for Work and Pensions (DWP) has published *a report* analysing opt-out rates amongst 50 large employers with automatic enrolment start dates between October 2012 and April 2013.

According to the findings, most individual employers reported that between 5% and 15% of the workers they had automatically enrolled opted out, and the average opt-out rate across all public and private sector employers was 9%. Previous DWP research had suggested that 30% of workers were likely to opt out.

TPR: "More employers answering automatic enrolment call to action"

Research carried out on behalf of TPR shows that the proportion of medium sized employers who have drawn up plans for automatic enrolment and started to act on these plans increased significantly between autumn 2012 and spring 2013, rising from 13% to 27%.

The survey also indicates that awareness of automatic enrolment remains high amongst all sizes of employers, and employers remain supportive of the policy. Large and medium sized employers are significantly more positive about the changes than they were a year ago, with 80% of medium sized employers believing automatic enrolment is a good idea for workers compared to 64% in spring 2012.

However, TPR is *warning* against complacency because understanding of the detailed aspects of auto-enrolment remains poor, and awareness of the need to declare compliance information to TPR after staging was particularly low.

Meanwhile, TPR has reportedly issued its first *non-compliance notice* to an employer which has failed to meet its automatic enrolment duties. The notice, which was served to an unnamed employer in the period to 12 August, compels the employer to make specific remedial action. A further 38 warning letters have been issued to companies during this time.

For further information relating to auto-enrolment, please visit *our website*.

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Other news

HMRC: Fixed Protection 2014

Her Majesty's Revenue & Customs (HMRC) is now accepting applications for *Fixed Protection 2014*.

The standard lifetime allowance (LTA) will reduce from £1.5 million to £1.25 million from the 2014/15 tax year. Individuals may choose to protect their LTA from 6 April 2014 at the 2013/14 level of £1.5 million by applying for Fixed Protection 2014 (FP2014). The application can be completed online, and must be submitted on or before 5 April 2014. FP2014 is available to individuals who, at 6 April 2014, don't already have any of the existing LTA protections (i.e. Primary, Enhanced or Fixed Protection 2012). Under FP2014, there are restrictions on any tax relieved pension savings that an individual can make from 6 April 2014.

The Government is also planning to make a new form of protection available, known as Individual Protection 2014, under which a personalised LTA will apply (based on the value of pension benefits built up by 5 April 2014, capped at £1.5 million), and individuals can continue to make pensions savings (subject to LTA charges). It is expected that applications for Individual Protection will open in April 2014.

HMRC: Asset-backed contributions guidance

HMRC has updated its *draft guidance* relating to employer asset-backed pension contribution arrangements. The guidance explains how employers can obtain upfront tax relief on contributions to registered pension schemes using these arrangements, and sets out transitional provisions which apply to certain arrangements where the employer contribution was paid before 29 November 2011.

John Lewis: Holiday pay error adds £7m to liabilities

Retailer John Lewis' future pensions liabilities are reported to have increased by around £7 million after a recent *discovery of a holiday pay error*. John Lewis is also expected to repay around £40 million in total to those who have been affected by the error.

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