

Pensions - February 2013

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DWP consultations

State Pension reform

The Department for Work and Pensions (DWP) has published a [White Paper](#) setting out its plans for reform of the State Pension system. From April 2017 at the earliest, the current system of the Basic State Pension plus State Second Pension (S2P) will be replaced with a single flat-rate pension of around £144 per week (in today's earnings terms) for everyone with a 35-year record of National Insurance contributions (NICs) or credits.

The DWP has also drafted the [Pensions Bill 2013](#) which includes clauses relating to:

- the introduction of the single flat-rate pension and the resulting abolition of contracting-out for salary-related occupational pension schemes
- bringing forward the increase in the State Pension Age (SPA) to 67 by 2028
- establishing a mechanism for future changes to SPA, based around the principle that the average proportion of adult life spent in retirement should remain constant
- reforms to bereavement benefits
- a ban on offering incentives to transfer pension rights from a salary-related occupational scheme to an alternative arrangement (this section will be repealed if the power to make related regulations is not exercised within seven years), and
- other amendments to pensions legislation, including technical adjustments to The Pensions Regulator's (TPR) powers.

Although the Pensions Bill is not under formal consultation, comments on the draft received by 22 March 2013 will be used to consider whether the Bill can be improved before it is introduced to Parliament.

The draft Pensions Bill gives employers the ability to change scheme rules without trustee consent to reflect the increase in NICs when contracting-out ends. The DWP are [inviting views](#) as to whether or not employers who sponsor schemes with "Protected Persons" should have the same power.

Protected Persons are employees of formerly nationalised industries (for example British Rail) who retained the right to certain conditions of employment following privatisation. These conditions often included the continued accrual of a contracted-out final salary pension on the same terms as before.

The Protected Persons consultation closes on 14 March 2013.

Smoothing in Scheme Funding and TPR objectives

Following the Chancellor's Autumn Statement (see [News On... Pensions - December 2012](#)), the DWP has published a [call for evidence](#) in which it poses two questions:

1. Should schemes be allowed to smooth the calculation of assets and liabilities?

The DWP asks whether allowing smoothing of assets and liabilities for schemes undertaking valuations from 2013 would materially improve sponsoring employers' ability to attract investment or to invest in the short term.

It is also seeing opinions on how smoothing could be implemented; the advantages and disadvantages for sponsoring employers, scheme members and the Pension Protection Fund (PPF); and whether the current regime is flexible enough to ensure that defined benefit (DB) pensions regulation does not act as "a material brake on investment and growth for the UK economy".

2. Should TPR have a new statutory objective to consider "long-term affordability"?

The DWP notes that TPR's current objectives "focus explicitly on protecting members and the Pension Protection Fund" but lack a formal requirement to consider long term affordability for employers. TPR's Code of Practice on funding, however, urges trustees to consider affordability.

The consultation asks whether the current implicit duty to consider affordability is sufficient. If not, would an explicit legislative objective to do so be beneficial, or are there any other options to ensure that TPR appropriately balances the needs of stakeholders?

RPI – No change

Following a consultation (see [News On... Pensions – October 2012](#)), the National Statistician *has announced* that the method of construction of the Retail Prices Index (RPI) will not be changed. Instead, a new index “RPIJ” will be introduced, for which the method of construction is more closely aligned to the Consumer Prices Index (CPI). The RPI will continue to be used for pension increases and for index-linked gilts and bonds.

Many commentators had been expecting the National Statistician to announce changes to the method of construction of the RPI so that it was more closely aligned with the CPI. The announcement means that previously observed differences between the RPI and the CPI are likely to persist in future, with CPI inflation expected to be lower on average than RPI inflation. It appears that financial markets had been anticipating some degree of change as, following the announcement, there was a sharp rise in market expectations of future RPI inflation.

Latest news from The Pensions Regulator and the PPF

DC regulation

TPR is *consulting* on how it regulates work-based defined contribution (DC) pension schemes. In particular, the consultation document sets out proposed standards that DC pension schemes should achieve in order to “increase the likelihood of good outcomes for individuals’ retirement savings”.

TPR is also working with the Financial Services Authority (FSA) to ensure that regulation of work-based personal pensions (i.e. contract-based, rather than trust-based schemes) delivers comparable outcomes.

The consultation, which closes on 28 March 2013, proposes a “comply or explain” regime (see [News On... Pensions – December 2012](#)) where DC pension schemes must demonstrate how they comply with the set of 33 quality features or explain inconsistencies. TPR will publish a code of practice and guidance to assist trustees.

TPR: “DC Trust: a presentation of scheme return data”

TPR has published a *“snapshot” analysis* at 31 December 2012 of around 40,000 occupational trust-based DC schemes. TPR’s analysis reveals that:

- 27% of employees who have access to workplace pension arrangements are in trust-based DC schemes.
- The ratio of contract-based DC scheme members to trust-based is approximately 70:30.
- The number of “micro”, “small” and “medium” DC schemes has reduced since 2009, while the number of large DC schemes has remained broadly similar. Numbers of members have declined by much less than the number of schemes.
- Average member pots in schemes with more than 12 members has increased year on year for the last four years, from £14,400 at the end of 2009 to £18,900 at the end of 2012.

NAPF Annual Survey 2012 published

The National Association of Pension Funds (NAPF) has published its [2012 Annual Survey](#). The survey covered 1,018 pension schemes with 9 million members. Some highlights include:

- The number of DB schemes closed to future accrual of benefits increased from 23% in 2011 to 31% in 2012. 29% of those which were still open to benefit accrual (but closed to new members) said they would make changes in the coming years, including closing the scheme or making it less generous.
- Of the DB schemes that are open to new members or future accrual, 83% were still contracted out.
- Total contributions from both employers and employees into DC pension schemes reached an “all-time high” of 12.5% of salary in 2012.
- Around two-thirds (68%) of sponsoring employers have already decided which pension scheme to use for auto-enrolment and a third (30%) have an employee communication plan in place.
- The proportion of total assets invested in UK equities fell from 12.2% in 2011 to 9.9% in 2012. Meanwhile, the allocation to corporate bonds rose from 12.4% in 2011 to 15.1% in 2012.

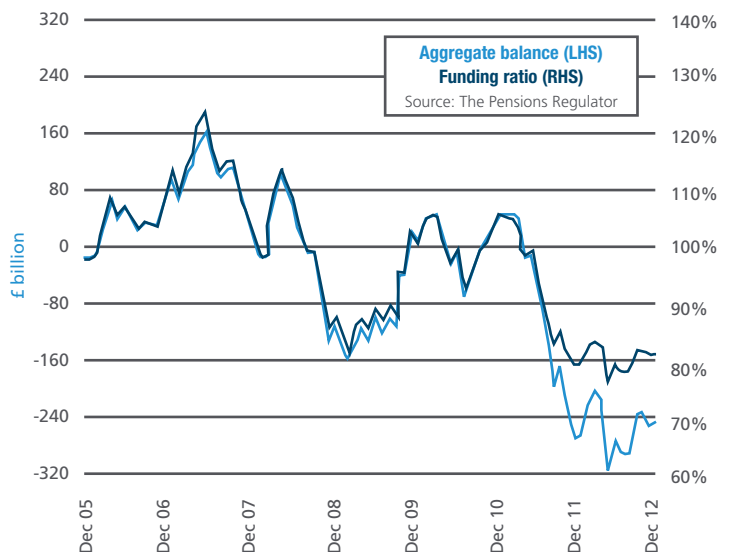
PPF: Member Communication Guidance

The PPF has published *“Member Communication Guidance”* to help trustees who are required to inform scheme members when their pension scheme enters a PPF assessment period. The guidance refers to the requirement to inform members within 28 days of an insolvency event, and includes a draft member announcement.

PPF: 7800 Index update

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 £244.7 billion at the end of December 2012 (there was an aggregate deficit of £252.2 billion at the end of November 2012). The funding ratio rose from 80.8 per cent to 81.3 per cent. There were 5,173 schemes in deficit and 1,143 schemes in surplus.



Other news

Auto-enrolment re-launch

TPR has re-launched its [tool](#) for identifying an employer's staging date from its PAYE scheme reference. TPR has also redesigned its auto-enrolment web page.

No improvement in mortality rates in 2012

The Actuarial Profession has carried out an [analysis](#) of the latest figures from the Office for National Statistics (ONS) and estimated that for the combined male and female population of England and Wales, mortality worsened by 1% over 2012. This compares with a 3.8% improvement in over 2011. The Continuous Mortality Investigation (CMI) cautions that it is too early to tell whether this is a long term trend.

The worsening of mortality rates was more pronounced at older ages. The estimates are subject to revision once ONS publish updated population estimates for the year.

FSA: Thematic review of annuity market

The Financial Services Authority (FSA) has [begun](#) a "thematic review of the annuity market" which will investigate annuity pricing and how consumers can get the best deal. The review will focus on the detrimental effect on consumers of not exercising the "open market option", and whether insurance companies are facilitating or inhibiting shopping around.

Nortel mediation fails

The Trustee of the Nortel Networks UK Pension Plan and the PPF has failed to settle its dispute with the Nortel companies. The parties had entered international mediation aiming to secure more than \$2bn (£1.3bn) of additional funding by gaining access to funds of the sponsoring employer's affiliates.

The Trustee is expected to pursue claims against Nortel in the Canadian and US courts. Reportedly the US claim will be for at least \$1.3bn, and the claim in Canada could be for up to \$4bn.

Further Information

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

- [Defined Ambition: Reinvigorating Workplace Pensions](#)
- [Current Issues in Pensions Financial Reporting 31 December 2012](#)
- [Current Pensions Issues Winter 2012/13](#)
- [Restricting pensions tax relief](#)

We are running a series of nationwide seminars during February and March, covering the outcome of the recent consultation by the National Statistician which surprisingly concluded that no changes would be made to the construction of the Retail Prices Index.

The seminars will consider the impact on pension scheme investments and liability assumptions, as well as reviewing other topical pensions issues. Further information can be found on [our website](#).

Further dates have also been added to our seminar series on Pension taxation changes for high earners. Please visit [our website](#) to find out more information.

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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