

Pensions News – April 2012

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Budget 2012

The End of Contracting-out?

The Chancellor of the Exchequer delivered his [2012 Budget](#) speech in the House of Commons on 21 March and said “I don’t intend to make any significant changes to pensions relief in this Budget”.

Before the Budget statement, there had been a great deal of speculation that the Treasury were about to make further changes to the way in which pension arrangements benefit from tax relief. None of these rumours turned out to be true however, and the only changes were relatively minor technical amendments.

State Pensions and Contracting-out

In April 2011, the Department for Work and Pensions (DWP) consulted on options for simplifying the current State Pension system (see [Pensions News - April 2011](#)). In his Budget speech, the Chancellor confirmed that the Government is intending to implement the proposal for a single-tier State Pension.

Under this approach the Basic State Pension and State Second Pension (S2P) will be combined into a single benefit worth around £140 week for individuals with a full National Insurance record. Full details will be published later in the Spring.

We expect one consequence of the reforms will be to end contracting-out for salary-related schemes, leading to a rise in costs for employers

and employees who are currently contracted-out (because there will be no further National Insurance rebates) unless pension benefits are correspondingly reduced. We expect transitional arrangements to be put in place.

The Chancellor also announced plans to begin automatically linking the State Pension Age (SPA) in future with increasing life expectancies. Full details will be published later this year.

Other Aspects

The big news related to the reduction in the top rate of income tax from 50% to 45% in 2013/14. The Chancellor also covered some other pensions-related points in his speech:

- There will be an overall limit on income tax relief of 25% of income (for those seeking to claim more than £50,000 of relief). However the Government confirmed that this will not impact on pensions tax relief arrangements.
- The Government will consult on integrating the National Insurance and Income Tax systems.
- Her Majesty’s Revenue and Customs (HMRC) has published further documentation in relation to Employer Asset-backed Contributions, closing certain taxation loopholes with immediate effect.

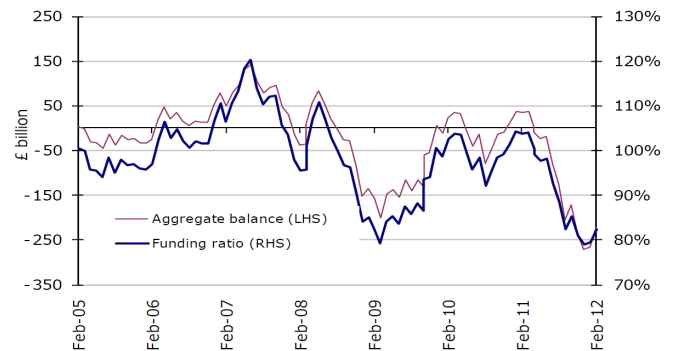
Latest News from the Regulator and the PPF

PPF 7800 Index

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

The aggregate funding position of the 6,432 schemes in the index is estimated to have improved slightly over the month from a deficit of £265.5 billion at the end of January to £222.2 billion at the end of February. However, the estimated funding position has worsened over the year (February 2011: surplus of £35.5 billion).

Chart 1: Estimated aggregate balance (assets less s179 liabilities) and funding ratio of schemes in the PPF universe



Auto-enrolment

The Pensions Regulator (tPR) is contacting over 100,000 independent financial advisers, accountants and HR professionals to [advise them](#) of their role in workplace pensions reform.

tPR's announcement follows the launch of [another consultation](#) by the Department for Work and Pensions (DWP) on "revised implementation proposals". The DWP's consultation seeks views on the changes to the automatic enrolment implementation timetable for employers of fewer than 250 employees, and the phasing of minimum contributions for all employers, as announced last year (see [Pensions News - November 2011](#)).

Draft amending regulations are intended to help smaller employers whose PAYE schemes are artificially inflated because, for example, the pensions of former employees are paid through the company payroll. The update also includes revised staging dates for smaller employers (fewer than 50 workers) who are part of a multiple employer PAYE scheme.

The DWP has [also confirmed](#) that the auto-enrolment earnings trigger will be aligned with the PAYE tax threshold (£8,105 for 2012/13).

Toolkit Updated

tPR has re-launched its [Trustee toolkit](#) following a content update and a re-design of the layout.

The toolkit is intended to help new and existing trustees to meet the "Trustee Knowledge and Understanding" criteria set out in the Pensions Act 2004. Changes include:

- the inclusion of downloadable resources, such as case studies and tutorials
- more tailoring of the programme to suit individual trustees' scheme characteristics
- clearer navigation and an overview of progress
- increased screen size, and
- simplification of the registration process.

The subject matter of the toolkit has not altered but tPR expects that additional modules and content will be added in due course.

The Trustee toolkit

Other news

HMRC: Fixed Protection/Short Service Refunds

Her Majesty's Revenue and Customs (HMRC) has [clarified tax rules](#) in relation to "fixed protection" (where individuals could protect themselves from the fall in the Standard Lifetime Allowance from £1.8 million to £1.5 million in April 2012). In particular, HMRC has explained how fixed protection is affected by the continued provision of lump sum death-in-service benefits.

If the death benefit is "defined benefit" in nature (including refunds of contributions), then continuation of this benefit should not cause loss of fixed protection. However, individuals should be aware that where occupational pension scheme rules restrict the death-in-service lump sum to the proceeds of a life insurance policy, fixed protection may be lost.

HMRC has confirmed that re-instating life cover will not typically lead to the loss of fixed protection provided that this happens as soon as possible.

Meanwhile, HMRC has also [clarified the position](#) in relation to "Short Service Refund Lump Sums" (typically refunds of contributions on leaving an occupational pension scheme with less than two years' membership) where the individual was contracted out of S2P.

HMRC warns that care must be taken where a scheme's rules require that "protected rights" be retained on payment of a refund, as splitting benefits in this way may constitute an unauthorised payment following the abolition of contracting-out on a money purchase basis from 6 April 2012.

Where a scheme paid a refund but retained protected rights before 6 April 2012, HMRC notes that it may now be possible to pay a second refund, being the protected rights retained within the scheme.

Retirement Choices

The Association of British Insurers (ABI) has [published](#) a code of conduct on retirement choices which aims to ensure that individuals retiring from Defined Contribution (DC) schemes receive "much greater support to get the best possible retirement income".

The code requires ABI members to:

- provide clear and consistent communication
- prominently highlight where enhanced annuity rates are available
- clearly signpost customers to advice and support, and
- establish transparency in the annuity market.

Employer Debts

The High Court has ruled that the date of sponsor insolvency should be used to calculate "section 75" pension scheme debt liabilities.

The Trustee of the Singer & Friedlander Limited Pension and Assurance Scheme went to Court to argue that section 75 debts for an insolvent firm should be calculated using annuity rates at the time of an actuary's section 75 calculations rather than on the date an insolvency is triggered.

The judge held that annuity rates at the date of insolvency should be used in the calculations to ensure consistency with the value of the scheme's assets and the level of benefits being provided.

Royal Mail Pension Plan

The European Commission (EC) has approved the UK Government's plans to transfer the Royal Mail Pension Plan into public ownership, and provide the Royal Mail Group with restructuring aid consisting of a debt reduction of £1,089m. The EC established that the transfer and debt reduction would not create an unfair competitive advantage.

The Government will take on the Pension Plan's £28 billion of assets in April. The Government has also said that it intends to cancel the Plan's holding of gilts, worth approximately £11 billion.

ONS: Longevity Statistics

The most recent [longevity predictions](#) from the Office for National Statistics (ONS) estimate that one third of babies born today will survive to age 100.

The ONS also predicts that 37,000 men and 58,000 women who are 65 years old now will reach age 100. They also expect there to be 110,000 centenarians in the UK by 2035.

RPI vs CPI - again

Union representatives challenging a High Court decision which found that the Government's use of the Consumer Prices Index (CPI) for calculating pension increases was lawful (see [Pensions News – January 2012](#)) have lost their appeal.

The Court of Appeal upheld the decision unanimously, ruling that the Government would have made the switch from the Retail Prices Index (RPI) even if the UK's economic situation had been discounted.

Further Information

For further information on any of the topics in this bulletin, please speak to your usual Barnett Waddingham consultant, or visit [our website](#).

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

- [Setting Life Expectancy Assumptions](#)
- [Annual and Lifetime Allowance Changes](#)
- [Current Pensions Issues - Spring 2012](#)
- [Pensions News for Employers - April 2012](#)
- [Current Issues in Financial Reporting](#)

Our upcoming seminars on the subject of whether and how "Solvency II" will affect pension schemes will be held in our offices across the UK during April and May. For dates and booking information, please see [our website](#).

This bulletin is a summary of some recent developments and not a comprehensive description. Although we try to ensure its accuracy, Barnett Waddingham LLP accepts no liability for any errors or omissions the bulletin may contain. Readers should take professional advice in relation to their own circumstances and/or refer to the original source material as appropriate.

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