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News on Pensions

OCTOBER 2014

DC pensions flexibility

Inheritance tax on drawdown funds

The Chancellor of the Exchequer has *announced* that, from April 2015, individuals will be able to pass on their uncrystallised defined contribution (DC) pension savings to any nominated beneficiary when they die, without incurring the 55% tax charge which currently applies. This change was originally mooted in the Government's consultation on 'Freedom and Choice in Pensions' earlier this year (see *News on Pensions - April 2014*), and is expected to be covered in more detail as part of the Chancellor's Autumn Statement on 3 December 2014.

The announcement will affect individuals whose DC pension savings are in drawdown (for example through a Self-Invested Personal Pension (SIPP)). It does not apply to annuities or to defined benefit (DB) scheme pensions, which are not inherited in the same way.

Under the current system, when an individual dies aged under 75, their unused DC pot can be inherited and is paid tax-free only if the funds are uncrystallised, i.e. if they have not been touched. From April 2015, all DC funds can be inherited tax-free if the individual was under 75 at death, whether the funds are in a drawdown account or untouched.

Those aged 75 or over when they die will currently leave their beneficiaries facing a 55% tax charge on unused DC funds on their death. Such a lump sum will, from April 2015, be subject to a tax charge of 45%. Further changes are expected in 2016/17, which will replace the flat rate charge of 45% with tax at the individual's marginal rate. Drawdown at an individual's marginal rate of income tax will also be available, and this will be available to any beneficiary, rather than a spouse/civil partner or child under 23 as at present.

Guidance guarantee

Meanwhile HM Treasury is reported to be establishing a guidance guarantee operation for face-to-face meetings, branded separately from the services which are expected to be offered by organisations such as The Pensions Advisory Service (TPAS).

The guidance guarantee was promised to all retirees in the Budget earlier this year as part of the reforms to DC pensions (see *News On Pensions - April 2014*).

Comment: Scotland votes 'No'

With Scotland voting to remain part of the United Kingdom, the prospect of schemes having to operate across international borders (and therefore be subject to stricter funding requirements according to European legislation) has, for now at least, ceased to be a major concern.

However, pension schemes and sponsoring employers may yet encounter issues when additional powers are transferred from Westminster to Holyrood as promised. In particular, differences in legislation and taxation between Scotland and the rest of the UK may arise, leading to administrative complications and increased costs.

Specifically, we may see changes in taxation when the Scottish Parliament has the power to set different rates of income tax from April 2016. The main political parties have also signalled their intentions to look again at tax relief on pensions after the next general election. Scotland could also feasibly seek to issue its own debt, leading to changes in the gilt market.

We can also expect the debate on State Pension Age to be re-opened in the future, because life expectancy varies significantly across different regions in the UK.

Devolution is not an issue only for Scotland: England, Wales, and Northern Ireland are likely to seek similar powers to those promised to Scotland, resulting in even more local differences over time.

VISIT OUR WEBSITE FOR FURTHER ANALYSIS >

EIOPA: 2015-17 Work Programme

The European Insurance and Occupational Pensions Authority (EIOPA) has published its *work programme* for 2015-17, in which it reiterates a commitment to looking at solvency issues for pension schemes and developing the 'holistic balance sheet'.

The report states that pensions regulatory regimes should face an "economic reality test … via the objective valuation of assets and liabilities on a market-consistent basis". EIOPA intends to continue advising governments on solvency topics in relation to occupational pensions and supporting a risk-based regulatory regime which provides employers and schemes with the right incentives for managing risks.

EIOPA confirms that a pensions stress test is being prepared for Institutions for Occupational Retirement Provision (IORPs – including trustees of pension schemes) to run in 2015. EIOPA is also planning the publication, in the next 3 years, of a good practices report on trustee training standards, and a report on management of conflicts of interests. It will also produce guidelines on complaints handling.

STOP PRESS!

EIOPA has published another consultation on potential new solvency requirements for pension schemes, considering how a 'holistic balance sheet' might be used by pensions regulators to set solvency and minimum funding requirements. A more detailed summary will be included in the November edition of News on Pensions. In the meantime, our *blog post* provides some initial comments.

Pensions Research

ONS: Occupational Pension Schemes Survey

The Office for National Statistics (ONS) has published the latest edition of its *Occupational Pension Schemes Survey*, gathering information about scheme membership, benefits and contributions.

The survey provides a detailed view of the nature of occupational pension provision in the UK. According to the report, total membership of occupational pension schemes with at least two members was estimated at 27.9 million in 2013, which rose by 300,000 compared with 2012. Average employer contributions to private sector DB schemes was 15.4% of salaries (this figure excludes any lump sum payments to address a deficit).

TPR: Auto-enrolment research

The Pensions Regulator (TPR) has warned small businesses to check when they are required to meet workplace pensions 'auto-enrolment' duties.

The call to action follows research showing around 20% of small employers (5-49 employees) and almost half of micro employers (1-4 employees) do not know the exact date they need to comply with the new workplace pensions legislation. These companies will be required to auto-enrol eligible staff into a qualifying workplace pension scheme from their 'staging date' which will fall between June 2015 and April 2017.

VISIT OUR WEBSITE FOR MORE INFORMATION ON AUTO-ENROLMENT >

Developments in scheme administration

TPR: 2014 annual record-keeping survey

TPR has published the findings of its *annual record-keeping survey for 2014*.

The survey has found that 63% of members of trust-based schemes are in arrangements with a 'common data' score of over 95%. Large schemes continue to outperform small schemes. However, 42% of schemes (46% in 2013) do not formally assess 'conditional data' requirements.

TPR has urged trustees to prioritise record-keeping and will take action where problems become apparent.

HMRC: 'Fit and Proper' requirement for administrators

From 1 September 2014, amendments to the Finance Act 2004 come into effect which give Her Majesty's Revenue & Customs (HMRC) the ability to:

- refuse to register a new pension scheme; or
- de-register an existing registered pension scheme

where it appears to HMRC that the scheme administrator is not 'fit and proper' to perform the role.

The *new legislation*, which is intended to help combat pension liberation fraud, does not define 'fit and proper'. HMRC has therefore prepared *guidance*, setting out how they will determine whether a scheme administrator is suitable to perform the role.

SORP: Scheme Accounts

The Statement of Recommended Practice (SORP) – Financial Reports of Pension Schemes – is shortly to be updated following consultation by the Pensions Research Accountants Group (PRAG). The *revised SORP* is expected to apply for accounting periods beginning in 2015.

One of the principal goals of the new SORP is to ensure pension schemes' accounts comply with new UK accounting standards, in particular FRS102. Key changes include:

- **Annuity policies**: Pension schemes previously only had to note the existence of annuity policies used to guarantee benefits payable to members. However, FRS102 removes the ability for schemes to exclude the value of matching annuity policies from their accounts and the revised SORP includes a recommended valuation approach.
- **Investment risk and fair value hierarchy disclosures**: Under FRS102, schemes should disclose information on risks which arise from financial instruments, as well the approach used to determine the fair value of such financial instruments. The revised SORP will give advice on how to apply this to investment portfolios held by pension schemes.

These additional disclosure requirements are likely to lead to increased costs in preparing trustees' annual reports and accounts.

Other news

DPO: Discretionary increases

A ruling by the Deputy Pensions Ombudsman (DPO) has suggested that an expression of intent by a sponsoring employer to continue awarding annual discretionary pension increases does not create a "reasonable expectation" for members that the practice will continue indefinitely.

Before 2010, the GE Pension Plan's trustees, with the agreement of the sponsoring company, had awarded inflation-related increases for pensions earned before 1997. From 2010, this practice ended because the Plan's funding level had fallen.

Mr Thomson, a pensioner member of the Plan had argued that the established practice of applying inflation increases until 2010 created a "reasonable expectation" that it would continue. He also argued that the sponsor had given verbal assurances that the increases would be applied every year, although no formal record of such assurances could be produced.

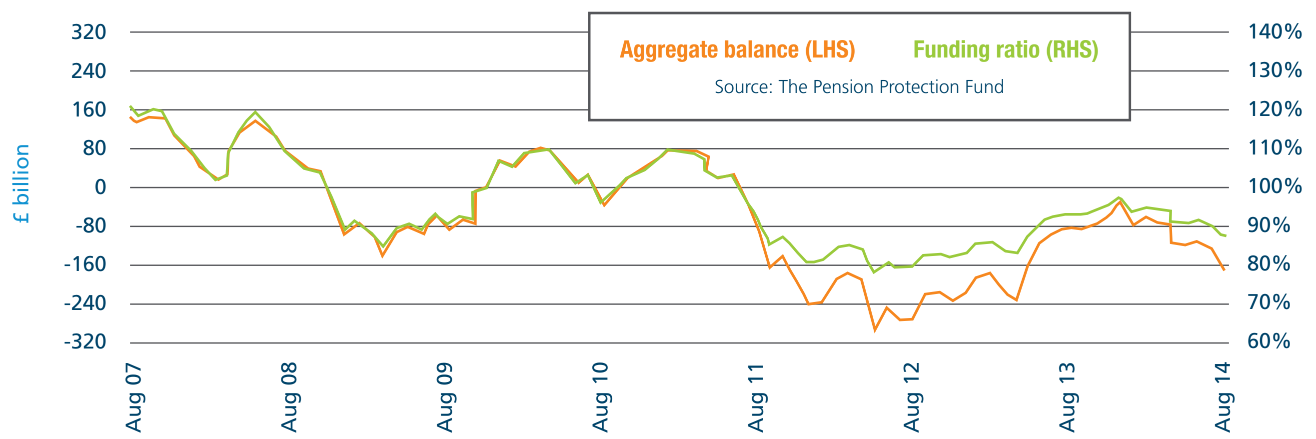
PPF 7800 index update

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

The aggregate deficit of the 6,150 schemes in the index is estimated to have increased over the month to £170.6 billion at the end of August 2014 (there was a deficit of £122.7 billion at the end of July 2014).

The funding ratio fell from 90.5% to 87.6%. There were 4,601 schemes in deficit and 1,549 schemes in surplus.

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



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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