Information on...

Barnett Waddingham

Pensions update for Universities

Welcome to the latest issue of our pensions newsletter for universities. In this issue we cover the Charity Commission's draft guidance on Charities' investment strategies, the results of our annual university pensions accounting disclosure survey, and forthcoming changes to the pension tax regime.

We would like to introduce Annemarie Allen and Melanie Stephenson who will be at the BUFDG Conference in March, which we are proud once again to sponsor. Annemarie and Melanie look forward to meeting you in St Andrews, in the meantime please see their biographies on the reverse of this information sheet.

Charity Commission Draft Guidance

The Charity Commission published draft guidance in February 2013 which put focus on the need for charities to take formal advice when considering their investment strategy. Barnett Waddingham's experience of advising charities can assist university endowment fund trustees in meeting this need.

Our view is that a fund's investment strategy should be fundamentally related to its anticipated distributions, which will vary from university to university. This is unlike the 'stand-alone' approach of an investment manager whose advice will be centred around the performance and objectives of available investment vehicles. In our opinion, this is only part of the full picture.

Our approach advocates that all three of the following areas are reviewed in setting a charity's investment strategy:

- Agreeing appropriate objectives and then setting an asset allocation to reflect this;
- Investment management styles and benchmarks;
- Finding managers who can implement a strategy which is appropriate to the trustees' risk criteria.

We can assist charities with these three stages, and although trustees often believe that manager appointments are key to investment success, in practice we find that the first two stages are far more important.

We tailor our services to each fund we advise. Services may include some or all of the following:

- Agreeing investment objectives and understanding risk;
- Advice on governance issues (e.g. ethical policy, voting rights and so on);
- Preparation of a statement of investment objectives;
- Consideration of alternative asset classes;
- Setting benchmarks for investment performance measurement;
- Fee negotiation with investment managers (whether existing or new);
- Ongoing performance measurement and analysis of investment manager reports;
- Attending trustee meetings.

For more information, please do not hesitate to contact our team by emailing: charityinvestment@barnett-waddingham.co.uk

University Pensions Accounting Disclosure Survey 2012 Results

We recently published the latest version of our annual survey of universities' pensions accounting disclosures, covering the year to 31 July 2012. The disclosures of 36 universities were analysed, with areas of focus ranging from funding levels and pension costs to the assumptions used.

The university schemes surveyed are defined benefit schemes that are separate from the Universities Superannuation Scheme (USS) or any local government arrangement. We refer to these as Self-Administered Trusts (SATs).

To request a copy of the full survey results or to discuss any of these issues further, please contact your usual Barnett Waddingham consultant or email: corporateconsulting@barnett-waddingham.co.uk

Comment

The average funding level of the 36 SATs had fallen over the year to 31 July 2012, from 81% to 77%. The most likely cause of this deterioration was the significant fall in corporate bond yields over the same period. For example, the yield on long-dated AA-rated corporate bonds, according to the iBoxx index, fell from 5.3% to 3.9% over the year.

The survey results also imply that many universities are making an adjustment to their discount rates to allow for the duration of their liabilities.

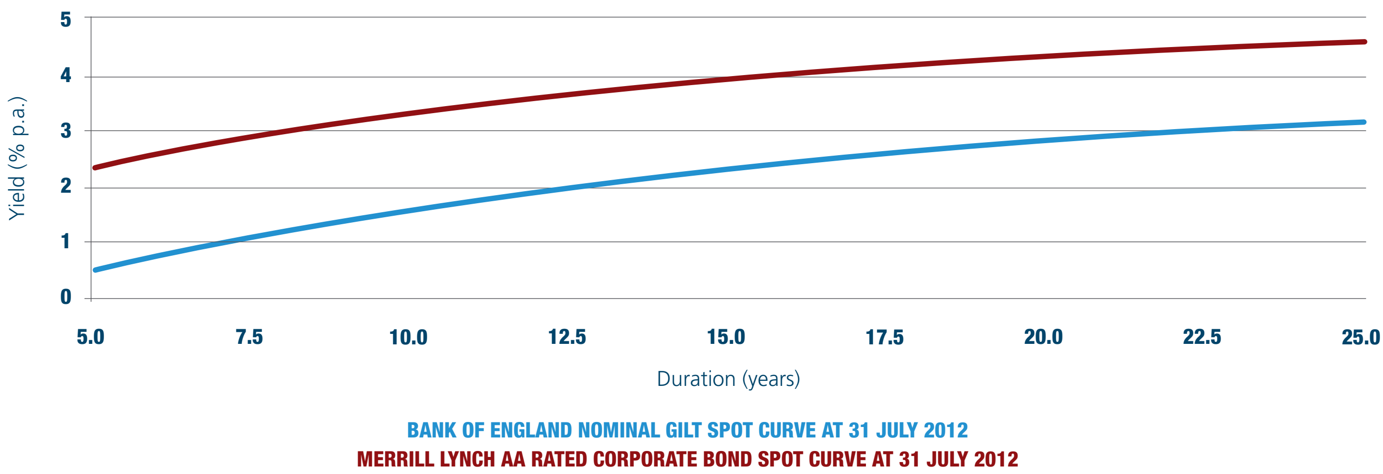
Last year, the average discount rate was broadly the same as the index yield, whereas this year the average discount rate used was 0.4% higher than the index yield.

The graph below shows yield curves for corporate bonds and gilts at 31 July 2012. The gilt curve is included as it provides a good guide for the shape of the corporate bond curve at higher terms. The curves are upward-sloping, in particular after the index duration (c. 14 years), and we would expect many of the schemes in the survey to have durations materially longer than this. Thus for schemes with durations above 14 years, using the unadjusted index may understate the discount rate.

There is a danger that universities which do not account for this duration adjustment may be overstating their pension scheme liabilities.

In terms of the cost of the pension schemes to their respective university sponsors, our analysis shows that the total employer contributions to the SATs surveyed, as a proportion of total staff costs, increased fractionally compared to the previous year, from 3.3% to 3.4%.

Corporate bond and gilt yeild curves as at 31 July 2012



Source: Merrill Lynch and Bank of England

Further Restrictions on Pensions Tax Relief

On 5 December 2012, in the Autumn Statement, the Chancellor announced that:

- From 6 April 2014 the Annual Allowance (AA) (the maximum amount of tax-privileged pension savings an individual can make in a single year) will be reduced from £50,000 to £40,000. For comparing defined benefit (DB) pensions against the AA, each £1 of pension accrued will continue to be valued at £16. This means that pension accrual in excess of £2,500 per annum (net of CPI inflation) will incur an AA charge. Currently this figure is £3,125 per annum.
- From 6 April 2014, the Lifetime Allowance (LTA) (the maximum amount of tax-privileged pension savings an individual can make over their whole lifetime) will be reduced from £1.5 million to £1.25 million. The new limit is equivalent to a DB pension of £62,500 per annum, if no lump sum is taken at retirement. Currently this figure is £75,000.

As a result, more individuals will be caught by the lower allowances and there are numerous implications for pension schemes and their members to consider in light of these changes, which are subject to the successful introduction of legislation; including whether any tax planning advice is required.

One such consideration will be around any protections available. It is expected that a fixed protection regime to help with the transition will be available to those who are likely to be affected by this change. This will work in a similar way to the existing fixed protection regime, allowing members to retain a LTA of £1.5million if they stop all further pension accrual (as defined in the legislation).

The Government will also discuss with interested parties whether to offer, in addition to fixed protection 2014, a form of personalised protection which entitles individuals to a LTA of the value of their pension rights on 5 April 2014, up to a maximum of £1.5 million. It is anticipated that personalised protection will give individuals a LTA of the greater of the value of their pension rights on 5 April 2014 (up to an overall maximum of £1.5 million) and the standard LTA (£1.25 million from April 2014).

However unlike with fixed protection 2014, individuals with personalised protection can carry on accruing pension in their pension scheme without losing their protection. Any pension savings above the individual's LTA will be subject to a LTA charge when benefits are taken.

Other considerations include, identifying affected individuals, communicating with them, and considering any options that may be available to them or the Scheme. As the changes affect Pensions Input Periods ending in the year 2014/2015, members may be affected up to 12 months before the start of that tax year.

We have advised Vice Chancellors and other senior staff at a number of universities with regard to their pension provision and worked with remuneration committees to assist their staff mitigate potential Annual Allowance and Lifetime Allowance tax charges.

The various implications of the lower allowances are discussed in our Briefing Note Commentary on Restricting Pensions Tax Relief.

Commentary on.. Reducing Pensions Tax Relief

To request a copy, or if you or your members require assistance with these issues, please contact your usual Barnett Waddingham consultant or Bhargaw Buddhdev, who leads our Executive Pension Team, by email to: bhargaw.buddhdev@barnett-waddingham.co.uk or telephone on 01494 788100.


Commentary on...

Barnett Waddingham

Restricting pensions tax relief

Executive Summary

- From the 2014/15 tax year the Annual Allowance reduces to £40,000 and the Lifetime Allowance reduces to £1.25million
- More individuals will be caught by the lower allowances and they should consider whether any tax planning advice is required
- Fixed Protection and a new Personalised Protection regime will be available from Summer 2013 for individuals likely to exceed the revised LTA

2012 Autumn Statement

On 5 December 2012, the Government announced that:

- From 6 April 2014 the Annual Allowance (the maximum amount of tax-privileged pension savings an individual can make in a single year) will be reduced from £50,000 to £40,000.
- For comparing defined benefit (DB) pensions against the Annual Allowance each £1 of pension accrued will continue to be valued at £16. This means pension accrual in excess of £2,500 per annum (net of CPI inflation; previously £3,125 per annum) will incur an Annual Allowance charge.
- From 6 April 2014, the Lifetime Allowance (LTA) (the maximum amount of tax-privileged pension savings an individual can make over their whole lifetime) will be reduced from £1.5 million to £1.25 million. The new limit is equivalent to a DB pension of £62,500 pa if no lump sum is taken at retirement.

There are numerous implications for pension schemes and their members to consider in light of these changes.

Identifying affected individuals

Similar to the processes carried out for the tax changes made in April 2011, trustees and scheme sponsors should identify who is caught, and who has the potential to be caught, by the revised Annual Allowance. The extent to which there are individuals affected will determine what actions are necessary. If there are individuals affected, trustees and scheme sponsors will need to decide how much support to offer staff in their planning. It naturally follows that the lower limits will mean that more individuals will be affected from April 2014.

The value of contributions or benefits accrued will be compared with the Annual Allowance over an individual's "Pension Input Period" (PIP). PIPs do not necessarily coincide with tax years and therefore individuals may be affected up to 12 months before the start of the 2014/15 tax year.

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BUFDG Annual Conference

Barnett Waddingham LLP is delighted to be a sponsor of the BUFDG Annual Conference again in 2013.

Annemarie Allen, who heads our University Liaison Group, and Melanie Stephenson, an Actuary, will be in attendance throughout the Conference and they look forward to meeting you and to answering any questions you may have about pensions and about our services. Annemarie and Melanie are introduced below.

Annemarie Allen

Annemarie commenced working in the pensions' arena in the early 1980s. She worked in the pensions sections of the Greater London Council and the London Residuary Body prior to joining the London Pensions Fund Authority (LPFA), where she worked with many participating universities. In her last role at the LPFA she was a Principal Officer, member of the Corporate Management Team and Assistant Director Specialist Services.

She joined Barnett Waddingham in March 2010 as a Senior Pensions Consultant providing administration consulting, executive, employer and trustee advice and pension fund governance services.

Annemarie has the CIPFA certified qualification, Certificate in Payroll and Superannuation Administration (APSA) and, in 2008, passed the Institute of Directors' Certificate in Company Direction examinations, with distinction.

Annemarie is an experienced project manager and has considerable working knowledge of funding, data management, scheme change and other issues affecting the public sector and university schemes and their employers and how these may be managed. She has a successful track record in the introduction of processes and systems to increase effective data flow and processing and in 2007/2008 she led the Project that saw the smooth and successful introduction of the New Look LGPS at LPFA in 2008 for both its own Fund and those of its clients and participating employers.

Annemarie is our member representative of the Local Government Employers Pensions Technical Group, and leads the University Liaison Group at Barnett Waddingham.

Melanie Stephenson

Melanie joined Barnett Waddingham's Cheltenham office in September 2006 having graduated from Nottingham University with an upper second-class honours degree in Mathematical Sciences. Mel qualified as an Actuary and also as a Chartered Enterprise Risk Actuary in December 2011.

Mel works on both small and large pension schemes, including a large proportion of University clients and multi-employer schemes. She has been involved in a broad range of actuarial and consulting work for pension scheme trustees including valuation work, accounting work and scheme design. Her recent involvement with University clients has included withdrawing employers (including approved withdrawal arrangements and flexible apportionment arrangements), Section 75 Debt work, USS transfers, scheme closure and bulk annuity work.

She helps to run our graduate recruitment program and is responsible for training and mentoring graduate trainees joining the Cheltenham office.

Barnett Waddingham

The UK's largest independent provider of actuarial, administration and consultancy services.

We provide services and advice to many leading universities across the UK, including:

- *Advice on Self-Administered Trusts (SATs)*
- *Pension Administration*
- *Investment Advice*
- *Pension Provision Reviews*
- *Auto-enrolment Advice*
- *High Earner Pension Tax Advice*

For more information please talk to Annemarie Allen or Melanie Stephenson.

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