Barnett Waddingham
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News on Pensions

OCTOBER 2015

Latest from the PPF

PPF levies: 2016/17 determination

In relation to the 2016/17 PPF levy 'determination', The Pensions Protection Fund (PPF) has published its consultaion.

Consistent with its stated objective to maintain stability of the levy over a three-year period, the PPF is not proposing many material changes to the calculation method and is estimating that it will collect £615 million in levies for 2016/17. For the current levy year (2015/16), the PPF estimated that it would raise £635 million through the levy framework.

Although the PPF expects funding levels to have worsened because of changing market conditions, it has noted that improvements in insolvency risk scores over the period (as a result of employers actively engaging with Experian over the information held about them) is a key driver of the reduced estimate of the overall levy collection.

In addition, the PPF has also confirmed the following:

Last Man Standing schemes - The PPF is intending to re-invoice schemes that may have previously been incorrectly identified as 'Last Man Standing' (LMS), which could be significant for some schemes. LMS schemes benefit from a reduction in PPF levy due to the lower risk that these schemes pose. The PPF will be contacting relevant schemes later this year and into 2016.

The PPF does however intend to give schemes another chance to obtain legal confirmation of their LMS status. This could be helpful where, for example, the cost of obtaining the confirmation was not justified by the short-term levy saving, when it was thought that having the confirmation would only affect future levy calculations.

Insolvency risk - As part of the consultation, the PPF is considering the way in which the 'PPF-specific' Experian model reflects mortgage charges. In particular, certain mortgages can be excluded when Experian formulates its view on employers' insolvency risk. These exclusions were brought in with the PPF-specific model and, in order to be accepted, certification in a pre-defined form had to be submitted within specified timescales. The PPF is proposing that, with the exception of immaterial mortgages, mortgage exclusion forms will not need to be re-submitted for the 2016/17 levy year.

The PPF is also inviting feedback on a possible limited extension of the regime for exclusion of some mortgages.

More generally, the PPF intends to monitor future movements in failure scores and may implement changes from 2018/19. In particular, the PPF has noted that around 29% of sponsoring employers are now in the top levy band, compared with the 20% it had anticipated.

Asset Backed Contributions - The PPF has set out guidance in relation to the recertification of Asset Backed Contribution (ABC) arrangements, with the intention of reducing the burden on schemes.

Valuing annuities - The PPF will be making an adjustment to their calculation to reflect that schemes will be required to value annuities in their accounts under new regulations from 1 January 2015. Where the asset breakdown given on the scheme return is given on or after 31 December 2015, the PPF will treat the proportion of 'non-accounts insured assets' as zero.

PPF levies: 2015/16 invoicing

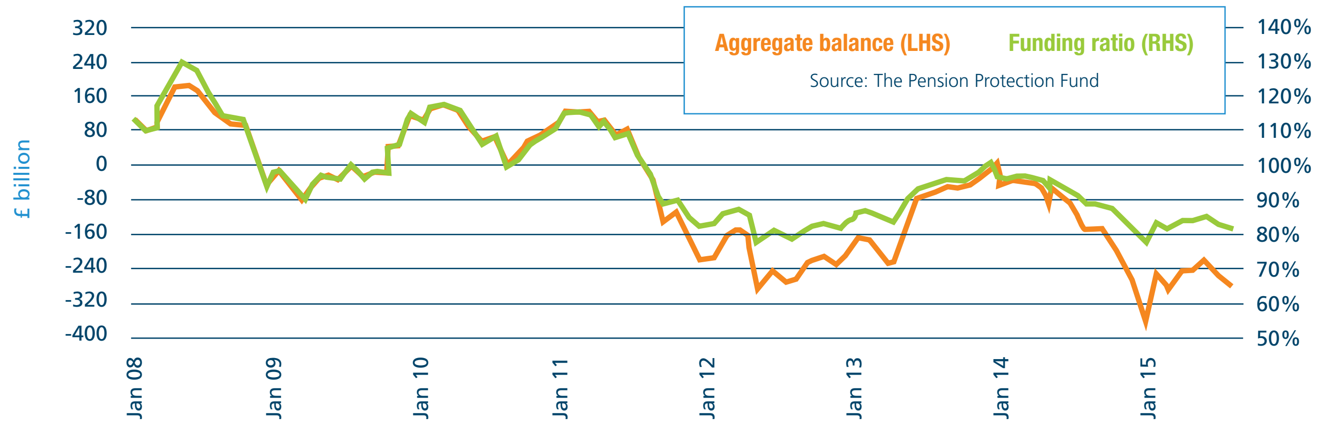
The PPF has published a guide which will accompany 2015/16 PPF levy invoices. The booklet contains information on how the levy has been calculated as well as how to query the invoice.

PPF 7800 Index

The latest update of the Pension Protection Fund PPF's 7800 Index of schemes' funding (on the s179 basis) has been published. There was a decrease in the s179 funding ratio from 83.2% to 81.6% between July and August 2015.

The aggregate deficit of the 6,057 schemes in the index is estimated to have increased over the month to £280.4 billion at the end of August 2015 (from a deficit of £254.2 billion at the end of July 2015).

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



TPR: DLR warning notice

The Pensions Regulator (TPR) has published details of its interactions with the trustees of the Docklands Light Railway (DLR) Pension Scheme, who failed to meet the statutory deadlines for both the scheme's 2009 and 2012 funding valuations, and who ended up taking the employer, DLR franchise operator Serco Limited, to court. This is the first time TPR has issued a 'section 89' report in respect of scheme funding matters.

The trustees and company had been unable to agree a recovery plan or schedule of contributions when a deficit was identified as at 1 April 2009. Initially TPR facilitated discussions between the employer and trustees, but these were unsuccessful, and TPR therefore issued a 'warning notice'. TPR directed the trustees to obtain a skilled person's report on the Scheme's funding position and the strength of Serco's covenant.

TPR also drew attention to the scheme's contribution rule, which appeared to give the trustees power to set contributions. Following correspondence with TPR, the trustees made a demand under the scheme's contribution rule and issued court proceedings against Serco to recover those contributions.

Given the length of time taken, the statutory deadline of the 1 April 2012 valuation also passed during these proceedings. The Trustees and Serco eventually agreed to a £37m recovery plan in November 2014, shortly before another company took over the DLR franchise.

Conclusions for trustees

TPR is clear that trustees of a scheme with a funding deficit should aim to agree an appropriate funding plan as soon as possible. TPR may use its powers where valuations are not completed by the statutory deadline.

TPR also expects trustees to understand their contribution rule and use any powers available to them to demand contributions. If TPR does get involved, it will seek to ensure that the scheme is put back in the position it would have been in had the recovery plan been agreed in a timely fashion.

Pension freedoms

Pension freedoms analysis

The Financial Conduct Authority (FCA) and TPR have published analyses of the ways in which individuals are accessing the pension freedoms introduced in April 2015.

TPR's analysis shows that 88% of members have been able to access uncrystallised funds pension lump sums (UFPLS) while only 18% are able to utilise 'drawdown' directly through their current scheme. TPR published these results with a health warning however, stating that the numbers may not be accurate as they believe that some schemes may have misunderstood the questions.

FCA rules / guidance

The FCA has outlined proposed changes to their rules and guidance in relation to defined contribution (DC) pension schemes. These proposed changes include issuing further guidance for financial advisers on how to communicate with their customers about accessing pension savings.

The FCA is also planning to update its rules on transfer value analyses, and to remind financial advisers of their duty to ensure 'lifestyling' investment strategies remain appropriate for their customers.

Other news

Increasing life expectancy

The Office for National Statistics (ONS) estimates that over the last 100 years life expectancy at birth has increased by nearly 3 years per decade. People aged 60 could expect to live about 9 years longer in 2010-2012 than 100 years earlier. The government will use the ONS report to inform policy regarding State Pension Age.

Eight things you need to know about pensions…

The Pensions Minister Baroness Altmann has launched a campaign aimed at helping to explain the new state pension reforms to individuals. The campaign begins with the tag line 'Eight things you need to know about pensions':

1. the new State Pension will be simple and clearer
2. the new State Pension, like the current system, is based on National Insurance contributions
3. if you take time off work to care for a relative or child you don't have to miss out
4. aged 55 or over? You can get a personalised new State Pension statement
5. you can easily check when you'll reach State Pension age
6. we're ending the complicated 'contracting-out' system
7. it pays to join your workplace pension
8. it's easy to get free and impartial guidance

Autumn Statement: Date confirmed

The Chancellor of the Exchequer George Osborne has announced that a joint Autumn Statement and Spending Review will be published on Wednesday 25 November 2015.

Pension Wise update

As part of the Work and Pensions Committee inquiry into pension freedom guidance and advice, Economic Secretary to the Treasury Harriett Baldwin has announced that responsibility for delivering Pension Wise will move from the Treasury to the Department for Work and Pensions in March 2016.

Meanwhile, the Financial Services Consumer Panel (FSCP) has published the findings of its own inquiry into the 'guidance' given through Pensions Wise. The FSCP is concerned about the low number of consumers using Pensions Wise, and recommends that guidance providers need to be suitably qualified to answer a range of complex queries.

ONS survey 2014

The Office for National Statistics (ONS) has published its Occupational Pension Schemes Survey for 2014. The highlights of this years' survey include:

- total membership of occupational pension schemes (excluding group personal pensions) was 30.4 million in 2014, the highest recorded by the survey and an increase of 2.5 million compared to the previous year
- the numbers contributing into a scheme rose from 8.1 million in 2013 to 10.2 million in 2014, however the average contribution rate for private sector DC schemes fell over the same period. The ONS says the fall may be linked to more individuals contributing at the minimum levels for automatic enrolment

Further information

You may find the following recent blog posts and information sheets interesting:

- The end of contracting-out for DB schemes and GMP reconciliation
- Buy-outs and Buy-ins: Autumn 2015
- The impact of pensions on UK business

Manchester Pensions Seminar: 11 November 2015

As the rate of change in pensions persists, our Manchester Pensions Seminar will cover a broad range of subjects to give delegates a thorough update of the industry as it stands. Further details and booking information can be found on our website.

Trustee Training: Bromsgrove 11 November, London 19 November 2015

Barnett Waddingham's one-day courses are designed to give trustees a thorough grounding in pensions matters and the confidence to complete The Pensions Regulator's trustee toolkit. For further information on our Bromsgrove (11 November) or London (19 November) training days, please see our website. We will shortly be announcing the dates of our 2016 training courses, so please watch this space…

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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