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News on Pensions

NOVEMBER 2016

The end of the secondary annuity market

The Government has announced that, after eighteen months in consultation and preparation, the planned launch of a secondary annuity market in 2017 will now not happen. The main drivers behind the Government's decision are:

- **Poor take up leading to uncompetitive prices**
  Most of those annuitants who wanted to be given the opportunity to cash in their policies would not be in a position to take it up. The government believes that only 5% of people who currently hold an annuity would take advantage of the reforms. This would lead to the secondary annuity market being both small and uncompetitive; hence pushing up prices.

- **Poor value for money**
  The Government said it was not prepared to pursue a policy that would put consumers at risk of receiving poor value for their annuity or suffering higher costs.

  The default assumption for insurers acting in this market would have been that the individuals selling their annuities were doing so because they were not expecting to live long and healthy lives (regardless of whether this is the actual reason for selling). The price being paid would therefore reduce accordingly with broker charges eroding the value even further.

  Sellers of annuities may therefore be faced with offers far below what they paid for them. Combined with the investment and longevity risk being passed back to them, cashing-in simply would not be in many individuals' best interests.

- **Potential mis-selling scandal**
  In the majority of cases, cashing-in an annuity would not be the right thing for individuals to do. IFAs would therefore be unlikely to sign off the transaction as a recommendation to sell would not be appropriate.

  However, some individuals may be desperate for cash and be tempted to shop around for someone who would be prepared to sign-off on the transaction. This risks secondary annuity sales becoming the next mis-selling scandal.

  In our blog post on the 'Five reasons why the Government was right to abandon the secondary annuity market', we consider the story in more detail.

Work and Pensions Committee update

Bernard Matthews Pension Scheme

The Work and Pensions Committee has published The Pensions Regulator's (TPR's) letter to the House of Commons regarding its involvement with the Bernard Matthews Pension Fund. The scheme was set to transfer to the Pension Protection Fund (PPF) after a 'pre-pack' administration of Bernard Matthews Ltd.

With concerns that hundreds of members would see cuts to their retirement benefits, Frank Field MP, Chair of the House of Commons Work and Pensions Committee, wrote to TPR regarding the scheme. The Committee has also commissioned a briefing on pre-pack administration by Professor Prem Sikka of the University of Essex, in which he issues a breakdown of the constituent parts of the pre-pack administration which acts against the interests of scheme members.

BHS

Sir Philip Green issued a rebuttal of the Work and Pensions Committee's report into the collapse of BHS calling it "bizarre" and with "serious factual errors". The Chair of the Committee, Frank Field MP, then responded in turn commenting that it was "based on the huge amounts of evidence the committees received throughout the inquiry".

Inquiry into PPF and TPR

The Work and Pensions Committee continues to take evidence in relation to its inquiry into the PPF and TPR. TPR has been calling for tighter regulation and the PPF has asked for:

- A "more interventionist" approach to the regulation of scheme funding;
- TPR to have powers to require the winding-up of pension schemes; and
- TPR to have powers to fine employers who seek to avoid pensions obligations.

The Committee is expected to recommend "strengthening the proactive powers and abilities of the regulatory machinery".

Latest from TPR

DCT Engineering

TPR has intervened in the DCT Civil Engineering Staff Pension Fund - a defined benefit (DB) scheme which was 'mistakenly' converted to defined contribution (DC).

The change would have been a material change to members' benefits, and with DCT Civil Engineering going into administration in January 2014, members would not therefore have been eligible for PPF compensation.

TPR therefore declared the rule change void, allowing the 11-member scheme to enter PPF assessment.

Fines for failure to submit DC Scheme returns

TPR has fined two sets of trustees of DC pension schemes - the New Station Bodyworks Ltd Retirement Benefit Scheme and M Holleran Ltd Pension Plan. The fines of £300 each are for failure to provide a scheme return. The regulator has published a regulatory intervention report detailing the reasons for the action taken.

With this in mind, TPR has repeated its warning to trustees of DC schemes that they will face fines if they do not comply with their legal obligations.

Database Group Ltd

TPR has intervened in the proposed sale of a data management company Database Group Ltd (without its DB pension scheme) to ensure that members of the DB scheme receive their full benefits.

Database Group Ltd was a trading company within the Database Group, and the sole sponsor of the pension scheme. In 2015, an offer was made by an unconnected third party to purchase the shares in the Database Group on the condition that the company is sold without its DB pension scheme.

TPR believed that the sale of the company would have resulted in an unstable future for the scheme. TPR's regulatory intervention report highlights how clearance was given once a revised deal had been agreed.

CBI: sustainability of DB pensions

The Confederation of British Industry (CBI) has published a paper in which it calls for reforms to tackle issues with the sustainability of DB pensions. In the paper, the CBI identifies a number of recommendations for reform which they say would help companies manage the real cost of DB pension schemes. In particular, the CBI is calling for:

- added "flexibility in pension scheme funding plans" within an "effective regulatory system";
- modernisation of inflation indexes, and in particular, allowing trustees and companies to use the Consumer Price Index (CPI) instead of the Retail Prices Index (RPI) as their measure of inflation for pension increases, regardless of the construction of their schemes' rules;
- the Government to address the 'self-defeating' liabilities created by a 'gilts plus' approach to funding valuations and setting investment strategies; and
- help for pension schemes to invest in more illiquid assets such as national and local infrastructure projects.

Other news

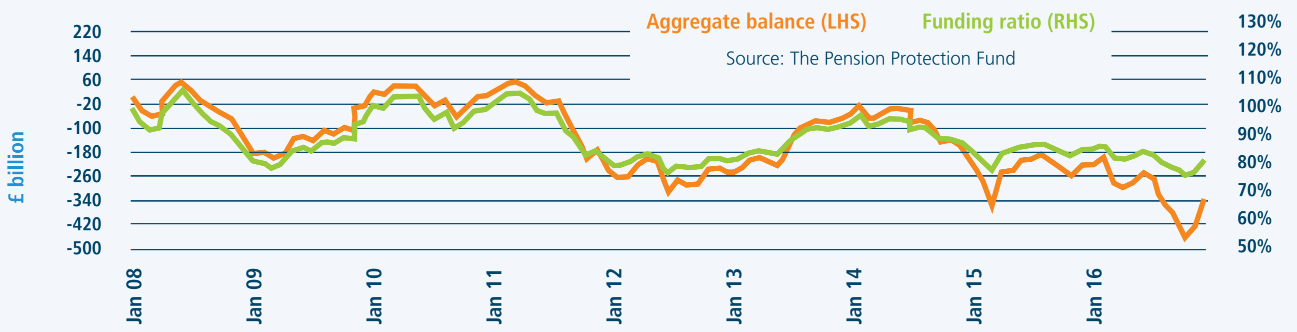
PPF 7800 Index

The latest update of the PPF 7800 Index of scheme's funding (on the s179 basis) shows there was an increase in the s179 funding ratio from 76.1% to 77.5% between September and October.

The aggregate deficit of the 5,945 schemes in the index is estimated to have decreased over the month to £328.9 billion at the end of October 2016 (there was a deficit of £419.7 billion at the end of September 2016).

There were 4,797 schemes in deficit and 1,148 schemes in surplus.

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



FCA: Disclosure of transaction costs

The Financial Conduct Authority (FCA) is consulting on proposed rules and guidance to improve and standardise the disclosure of transaction costs in workplace DC pension schemes.

In the consultation, the FCA proposes that asset managers should be required to:

- disclose aggregate transaction costs to pension schemes that invest in their funds; and
- provide the breakdown of transaction costs on request.

The consultation closes on 4 January 2017.

Single advice body to replace MAS, TPAS and Pensions Wise

The Government have announced plans for a single advice body to replace the functions of the Money Advice Service (MAS), The Pensions Advisory Service (TPAS) and Pension Wise. The aim of this move is to make it as easy as possible for individuals to access financial guidance.

Plans to replace the three organisations these with two were announced in the 2016 Budget, but this has now been revised down to a single body in light of industry feedback.

Court of Appeal decision: Horton v Henry

The Court of Appeal has ruled on the bankruptcy case of Horton v Henry, concluding that a bankrupt person cannot be compelled to draw down funds from their DC pension arrangement in order to make those funds available to their estate. The decision upholds an earlier ruling in the High Court (see News on Pensions – February 2015)

Cridland Review of SPa

John Cridland CBE has released an interim report in advance of his independent review of the State Pension age (SPa). The interim findings have been published for consultation before Mr Cridland makes his final recommendations to the Government in January 2017.

The full review will take into account existing arrangements already in law and consider the changing demographic, economic and behavioural landscape of the future when setting the right SPa.

HMRC statistics: Flexible payments from Pensions

HMRC has published summary statistics of the payments being made from flexible pensions arrangements. This includes the number of flexible payments made from pensions, the number of individuals who have received a flexible payment and the total value of all flexible payments reported to HMRC.

In 2016 a greater number of payments were made out to fewer recipients over Q3 compared to Q2. Total payments, however, have dropped from £1.77bn to £1.54bn.

HMRC: GMP Reconciliation delays

Delays of up to eight months to process GMP data are currently being reported as HM Revenue and Customs (HMRC) struggles to cope with demand for its Guaranteed Minimum Pension (GMP) Scheme Reconciliation Service (SRS). The volume of queries is expected to rise further because of contracting-out on a salary-related basis having ended in April 2016. There has therefore been some concern whether HMRC will be able to investigate and respond to all GMP reconciliation queries by the December 2018 deadline imposed on all schemes.

Trustees should regularly review progress with GMP reconciliation with their administrators. Further information regarding our recent experiences with the SRS can be found in our recent blog post.

Forthcoming Events

Annual Pensions Update

Glasgow: 6 December >

Our annual Glasgow pensions update seminar will be held at the Corinthian Club from 5pm on Tuesday 6 December. Join us for a lively evening reflecting on and debating key issues impacting the pensions world.

Investment conferences 2017

Birmingham - 12 January > | London - 26 January

Our ninth annual Investment Conference at the Belfry in Birmingham and Etc Venues Bishopsgate in London will bring together influential industry leaders to debate, discuss, and share their views on the most pressing investment problems for pension scheme trustees, employers and pension professionals.

We are delighted to welcome Alastair Campbell as our keynote speaker, who will be looking at how the world of politics has affected our investment decisions.

Webinars

You can view Barnett Waddingham's back catalogue of webinar recordings on our BrightTALK channel, including:

- A Practical Guide to Integrated Risk Management (coming up 29 November 2016)
- The actuarial valuation of the USS - key challenges for DB schemes (recorded 12 October 2016)

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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