Barnett Waddingham
a true partnership approach

AUTUMN 2014

Current Pensions Issues

PPF Levies: 2015/16

The Pension Protection Fund (PPF) has said that it expects to raise £635 million in levies for 2015/16 - a 9% reduction compared with 2014/15 - and that it expects this amount to fall even further in 2016/17 and 2017/18.

Following a consultation in May 2014 (see Current Pensions Issues:Summer 2014), the PPF has issued a response confirming changes to the levy calculation approach and a set of draft levy rules. A further consultation on some of the finer detail closed on 14 November 2014.

New insolvency risk model

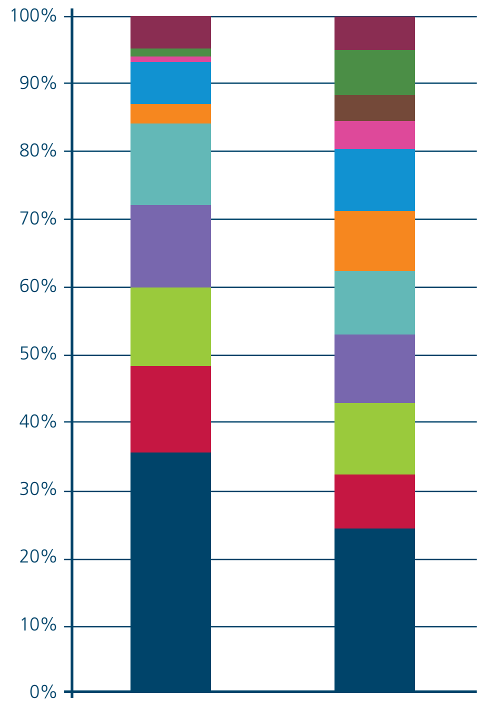
The PPF will no longer be using the D&B failure score to assess the risk of sponsoring company failure. Instead, a new bespoke model developed by Experian is to be used. Following the consultation, the PPF has decided to make a number of changes to the Experian model. These include ignoring unsatisfied immaterial charges or charges in favour of the pension scheme (because they do not indicate an increase in a sponsor's insolvency risk) and recognising assets underlying asset backed contribution (ABC) vehicles (subject to some stringent valuation conditions).

The Experian model will also be adjusted to better reflect the treatment of pension scheme deficits in ultimate parent companies' consolidated accounts. There will be changes to scorecards used by Experian in assessing the insolvency risk of different types of companies.

Other changes may result in a significant shift in score, for example amendments to Experian's approach to dealing with missing data for foreign parent companies. Experian will also use a wider source of data, including data from the Charities Commission.

The PPF will continue to use ten bands to categorise insolvency risk, with a more even spread of companies over the bands than under the D&B model (see the chart to the right, which shows the number of companies in each levy band).

Breakdown of levy by band



Band	D&B levy by D&B band	Experian levy by Experian band
10	5%	5%
9	1%	6%
8	1%	4%
7	6%	13%
6	3%	9%
5	12%	9%
4	12%	10%
3	12%	10%
2	12%	8%
1	36%	25%

Source: The Pension Protection Fund

'Last Man Standing' schemes

The PPF is pressing ahead with plans to reduce the discount given to associated 'Last Man Standing' (LMS) schemes where scheme membership is not well spread across different employers. LMS schemes have multiple sponsoring employers where the last one to become insolvent is responsible for any remaining shortfall in the scheme.

Following anecdotal evidence of misreporting, The Pensions Regulator (TPR) will be writing to schemes applying for the discount to seek confirmation that they have taken legal advice that supports their status as LMS schemes.

Impact on levy payable

Many schemes will see a significant increase or decrease in their PPF levy because of the changes applying from 2015/16. Hundreds of schemes will see their levies more than double, whilst many others will see equally dramatic reductions. The PPF has decided not to implement transitional protection for schemes seeing a large increase in their levies under the new model.

Key dates/actions

There are some key dates for trustees and employers to note in relation to the 2015/16 levy year (see below). Scores under the revised model are now available and will impact on PPF levies from 31 October.

PPF levy item	Key dates/deadlines
Experian Scores for 2015/16 Levy	As at month-ends: October 2014 to March 2015
Provision of updated information to Experian (to impact monthly Experian scores)	One calendar month before the measurement date (except October 2014 score: cut off was 31 October).
Submission of Scheme Returns on Exchange	Deadline: 5pm, 31 March 2015
Smoothing period for funding assessment	5 years to 31 March 2015
Certification of contingent assets	Deadline: 5pm, 31 March 2015
Certification of ABCs	Deadline: 5pm, 31 March 2015
Certification of mortgages (to Experian)	Deadline: 31 March 2015
Certification of deficit-reduction contributions	Deadline: 5pm, 30 April 2015
Certification of ‘full’ block transfers	Deadline: 5pm, 30 June 2015
Confirmation of legal advice on ‘last man standing’ status to TPR	Deadline: 31 May 2015
Invoicing starts	Autumn 2015

DC Flexibility - Update

Taxation of Pensions Bill

Following an earlier consultation, the Taxation of Pensions Bill was presented to Parliament on 14 October 2014.

The Bill, when it comes into effect in April 2015, will mean that individuals with defined contribution (DC) pension savings will be able to access their funds, from age 55, with significantly more flexibility than they currently have. In many cases, pension savers will be able to withdraw lump sums as and when they like. Further details of the reforms were included in the Summer edition of Current Pensions Issues.

Inheritance ‘death tax’ to be abolished

The Chancellor of the Exchequer has announced that, from April 2015, unused DC pension funds may be passed to a nominated beneficiary on death without incurring the 55% ‘death tax’ charge that currently applies. The abolition will affect individuals currently in drawdown arrangements (for example self-invested personal pensions (SIPPs)). It will not impact on individuals who have already converted DC funds into annuities or scheme pensions.

The change was initially suggested as part of the Government’s consultation on Freedom and Choice in Pensions (see Current Pensions Issues: Summer 2014). The Chancellor’s Autumn Statement on 3 December 2014 is expected to include more detail.

Under the existing regime, if an individual dies before age 75, their DC fund can only be inherited tax-free if the funds are 'uncrystallised' (i.e. the funds have not yet been used to provide pension or lump sum benefits). From April 2015 residual DC funds should be inherited tax free, whether they are in a drawdown account or untouched, as long as proceeds are paid out as a lump sum or through a 'flexi-access drawdown' arrangement.

Those aged 75 or over when they die currently leave their beneficiaries facing a 55% tax charge on unused DC funds. Such lump sums will, from April 2015, be subject instead to a tax charge of 45%. A further reduction is expected in 2016/17 so that the tax charge will be at the recipient's marginal income tax rate.

DWP: NEST restrictions to be scrapped

The Department for Work and Pensions (DWP) is consulting on draft legislation that will, by April 2017, remove the annual contribution limit and transfer restrictions on savings within the National Employment Savings Trust (NEST).

The restrictions were originally intended to ensure that NEST focused on its target market of small employers and low-earning individuals, rather than competing with other providers for more profitable business. The Government has now received approval from the European Commission to remove the contribution and transfer restrictions which it intends to do by 1 April 2017. The Government has said that the restrictions may be removed as early as 1 October 2015.

Around 9,000 employers use NEST to meet their auto-enrolment obligation, and the Government hopes the changes will help employees to save more for their retirement than the current £4,600 a year cap allows. The legislation should be laid before parliament in the New Year. The consultation closed on 29 October.

Arcadia: RPI vs CPI

The High Court has handed down its latest judgement in the ongoing saga of the switch in statutory pension increases to the Consumer Prices Index (CPI) from the Retail Prices Index (RPI). Arcadia Group Limited approached the High Court to determine whether the rules of two schemes of which it was Principal Employer conferred a power to select an index other than RPI.

Broadly, the rules of both schemes defined the reference for calculating pension increases as "the Government's Index of Retail Prices or any similar index satisfactory for the purposes of the Inland Revenue".

The judge found that this wording allowed the selection of an index other than RPI. There was no requirement for RPI to be discontinued or replaced before CPI could be considered a suitable alternative. The judge found that the power of selection rested jointly with the employer and the trustees.

Schemes with a similar rule may wish to revisit any decisions that have been made relating to the use of RPI or CPI for pension increases, taking legal advice as appropriate.

News in brief

Pension Schemes Bill debated in Commons

The Pension Schemes Bill, which will introduce a legislative framework for 'Defined Ambition' risk sharing schemes among other things, has received its second reading in the House of Commons. According to research by the Department for Work and Pensions (DWP), about a quarter of employers would be interested in providing risk sharing schemes and a further quarter are waiting to see how matters progress.

The Pension Schemes Bill 2014/15 will now enter Committee stage and parliament has issued a call for evidence to help inform discussions.

HMRC: Individual Protection 2014

HM Revenue & Customs (HMRC) has begun accepting applications for Individual Protection 2014 (IP2014) and has published detailed guidance for applicants. The deadline for applying for IP2014 is 5 April 2017.

Following the reduction in the standard lifetime allowance from £1.5 million to £1.25 million earlier this year, IP2014 gives individuals a protected lifetime allowance equal to the value of their pension savings on 5 April 2014, subject to an overall maximum of £1.5 million. Individuals with IP2014 can continue to make pension savings, but savings above their protected lifetime allowance will be subject to a lifetime allowance charge.

News in brief

FCA and TPR may merge

The Pensions Minister has signalled that a merger of the two current pension regulators – the Financial Conduct Authority (FCA) and TPR - may yet happen. Steve Webb has conceded that his experience in drawing up legislation over the past year has led him to the conclusion that a single regulator would be the eventual destination – although now was probably not the time to contemplate the upheaval this would create.

Scheme Accounts – SORP changes

The Pensions Research Accountants Group (PRAG) has been consulting on a revised Statement of Recommended Practice (SORP) in relation to pension scheme accounts. The changes are expected to come into effect for accounting periods commencing on or after 1 January 2015.

Key changes include the requirement to disclose further information about investment risk and an analysis of transaction costs. Furthermore, trustees will no longer be exempt from disclosing the value of insured annuity policies held within the scheme (although the final SORP may yet include a materiality exemption). These changes are likely to significantly increase the costs of preparing scheme accounts.

The final SORP is expected to be issued shortly.

Definition of 'money purchase'

On 23 July 2014, the new statutory definition of money purchase benefits was implemented with retrospective effect to 1 January 1997. Schemes such as those offering hybrid benefits, cash balance benefits and those which internally annuitise could be affected.

TPR has published a statement in which it urges trustees to review their schemes, seeking legal advice if necessary, and notify TPR immediately if the scheme's funding position is affected.

Furthermore, if the change to the definition of money purchase has a material effect on a scheme's 'section 179' PPF valuation trustees may be required by the PPF to carry out an out-of-sequence s179 valuation by 31 March 2015.

TPR: DC schemes - record keeping

TPR has published a quick guide to record-keeping to help trustees of DC schemes understand the importance of complete and accurate member records. TPR expects trustees to review their records annually, cross referring to employer records where appropriate. Trustees should also put in place an improvement plan where needed. TPR will contact individual trustees to ask them to evaluate the standard of their record-keeping.

TPR: 2013/14 Report and Accounts

TPR has published its annual report and accounts for 2013 – 2014, together with an overview of its activity during the year.

The report focuses on TPR's involvement in auto-enrolment raising standards of administration and trusteeship in defined benefit (DB) and DC schemes and stepping up 'the fight against pension scams'.

TPR has updated its Trustee Toolkit over the summer to reflect recent changes to the pensions landscape.

TPR: Lehman Brothers scheme

Following TPR's actions in relation to the Lehman Brothers pension scheme (see Current Pensions Issues – Winter 2013/14), companies within the Lehman Brothers group have now agreed to buy out members' benefits in full.

HMRC: 'fit and proper' requirement for pensions administrators

Since 1 September 2014, HMRC has been able to refuse to register, or to de-register, a pension scheme where they believe the scheme administrator is not 'fit and proper' to carry out the role. HMRC has now published guidance on the circumstance when it may use these powers.

HMRC: end of contracting-out

HMRC has issued the latest edition of its 'countdown to ending of contracting-out' bulletin. HMRC's Scheme Reconciliation Service is now live and the bulletin sets out how HMRC is working with the industry ahead of the abolition of contracting-out in April 2016.

ONS Occupational Pensions Survey

The Office for National Statistics (ONS) has published the 2013 edition of its Occupational Pensions Survey. The survey shows that active membership of occupational pension schemes rose slightly over the year from 7.8 million to 8.1 million, reflecting the increased coverage of auto-enrolment legislation.

Scotland Votes: 'No'

The results of the Scottish independence referendum showed a narrow majority preferring to remain part of the UK, ending mounting uncertainty of the effect that a 'Yes' vote would have on UK pension schemes – for example stricter funding requirements, greater costs and complexity.

Employers had been particularly concerned that, if an independent Scotland had become a member of the EU, schemes operating across the Scottish border may have been forced to become fully funded immediately without the opportunity to use a recovery plan. Our blog post on the subject considers this matter in more depth.

Forthcoming events

Trustee Training – final call!

All pension scheme trustees are legally required to have a minimum standard of knowledge and understanding. With the pensions world constantly changing, good training is essential.

Our one-day Trustee Training courses are aimed at both new trustees and those seeking a reminder of the basics of trusteeship. We have two remaining training days in 2014.

- **London** - Wednesday 19 November *Spaces available*
- **Bromsgrove** - Wednesday 26 November *Sorry fully booked*

For further information on the course please visit our website. Look out for details of our 2015 courses coming soon!

Annual Pensions Conference 2014: The transformation of pensions: a new beginning

Our annual London Pensions Conference, now in its fifth year, will analyse the wide-ranging and fundamental changes to pensions in 2014 and what they mean for existing schemes and the future of pension savings.

The conference, on Wednesday 26 November, will be chaired by Barnett Waddingham senior partner and President of the Institute and Faculty of Actuaries, Nick Salter, with our in-house experts joined by guest speakers Anne-Marie Winton of Nabarro and Jonathan Stapleton of Professional Pensions.

Our keynote speaker, Sir John Gieve KCB, former private secretary to three Chancellors and Deputy Governor of the Bank of England, will give his analysis of the UK and global economy and what is shaping policy for the future.

The conference is relevant to trustees of DB and DC pension schemes, sponsoring employers and pension professionals. It is a full day conference and is free to attend. Further details can be found on our website.

Investment Conference 2015

Barnett Waddingham's popular Investment Conference returns in January 2015. The conference will take place in Birmingham on 21 January 2015 and in London on 28 January 2015.

Registration is now open, with further details, including agendas for both days, available in due course. This is a full day conference and is free to attend.

About Barnett Waddingham - our services

Barnett Waddingham provides professional services spanning pensions, life and general insurance.

Our services include:

- scheme Actuary and associated services to the trustees and employers associated with defined benefit pension schemes
- advice in relation to defined contribution schemes
- pension accounting for UK and international companies
- administration and management services including pensioner payroll, preparation of annual accounts and secretarial services
- investment strategy reviews and advice on scheme evolution strategy
- management of closed schemes, wind-ups and reconstructions and schemes in PPF assessment
- employer risk management through buy out options, transfer exercises and PPF levy management
- advice on group personal pensions, stakeholder schemes and personal accounts
- group risk advice including group life assurance, private medical benefits and income protection benefits
- advice to individuals and employers on pension provision for executives, including pre-hire, advice upon early termination and tax efficiency in the lead up to retirement
- analysis and modelling of mortality and longevity risk for insurance companies, reinsurance companies, investment banks and pension schemes

Barnett Waddingham is also a provider of self-invested personal pensions (SIPPs), small self administered pension schemes (SSASs), specialist executive pension plans (EPPs) and other retirement arrangements

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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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