Barnett Waddingham
a true partnership approach

News on Pensions

MARCH 2016

Budget 2016 – no pensions tax reform… for now

On Wednesday 16 March, George Osborne delivered his eighth budget speech in the House of Commons. Whilst there had been much speculation in the weeks beforehand about what the Government's anticipated response to the Green Paper on pensions tax relief might be, the Treasury's earlier announcement that there would be no such reforms announced at Budget 2016 meant that anticipation had been effectively curbed.

The Treasury has however published a Summary of Responses to the Consultation on Pensions Tax Relief, although this does not contain an indication of how the Government's pension taxation policy might develop in the future.

The Chancellor used the Budget to launch a new Lifetime Individual Savings Account (LISA) aimed at the under-40s. Savings into a LISA are expected to qualify for a 25% Government bonus of up to £1,000, which would be lost if the savings are withdrawn before age 60 for any other purpose than the purchase of a first home, valued at under £450,000.

Other pensions-related issues in the 2016 Budget included:

- Salary sacrifice arrangements remain under review, although such schemes covering pensions contributions, health-related benefits and childcare costs will be allowed to continue.
- Pension Commencement Lump Sums will continue to be payable tax-free despite speculation to the contrary before the Budget.
- Employer-funded workplace pensions advice for employees worth up to £500 will qualify for tax and NI relief (previously £150).
- The Government will consult on whether individuals may access defined contribution (DC) pension savings before age 55 in order to pay for retirement advice.
- Employer contributions to public sector pensions will rise, reflecting changes to the valuation discount rate as widely expected.
- The Government will push forward with plans to launch a 'Pensions Dashboard' so that individuals can view all their pension savings in one place, and which will be available from 2019.

Further details will be included in our April newsletter. In the meantime, we have produced a series of bulletins examining the impact of the 2016 Budget – available on our website.

Pension transfers and early exit charges

In July 2015, the Government launched a consultation on pension transfers and early exit charges, following on from the pensions freedoms which came into effect in April 2015. The consultation sought views on whether consumers face unjustifiable charges or other barriers, when moving scheme or accessing savings early.

Early exit charges

The Government has now said it will consider how existing powers can be used to implement a cap on early exit charges in trust-based schemes in a comparable way to that proposed for contract-based schemes.

For contract-based schemes, the Government will introduce legislation to place a new duty on the Financial Conduct Authority (FCA) to cap early exit charges. The FCA will decide and consult on an appropriate rate (or rates) for the cap following further cost-benefit analysis.

Transfer process

The Pensions Regulator (TPR) will introduce new guidance for scheme trustees to ensure transfer values are processed promptly and accurately.

A new regulatory requirement will be introduced for TPR-regulated pension schemes to report on an ongoing basis how they are performing in processing transfers, including against possible benchmarks and new transfer targets. TPR is aiming to bring this into force in summer 2016 following discussions with the industry.

The Government will consider whether there is a need for increased supervision of trust-based arrangements - particularly 'master trusts'. This could lead to quality assurance standards or a 'whitelist' of approved pension providers for transfers.

Pension Wise will develop guidance on pension transfers in order to help individuals understand the steps they need to take to transfer their pension, in particular in relation to the requirement to take independent financial advice before transferring from a defined benefit (DB) scheme.

Financial advice

The FCA and HM Treasury has undertaken a Financial Advice Market Review (FAMR) intended to improve the accessibility and affordability of financial advice, including in relation to pensions.

The recommendations outlined in the report (directed at the FCA and government but also employers, service providers and consumers) are intended to increase access to affordable advice for consumers, and to address industry concerns relating to adviser liability in respect of that advice.

Abolition of contracting-out

The Government has responded to its consultation on further amendments to legislation reflecting the abolition of contracting-out. The Department for Work and Pensions (DWP) said there was 'broad agreement' by most respondents to the changes put forward.

In spite of concerns, the Government has emphasised that in most cases, people will be better off under the triple lock uprating when the new State Pension replaces the additional State Pension from April 2016.

The DWP has also outlined reasons why many individuals would not expect to lose out when the state ceases to top-up Guaranteed Minimum Pension (GMP) increases in line with inflation (above 3% on post-88 GMP).

Other legislation issues covered in the consultation include:

- The Government has acknowledged that legislation currently prevents transfer between a section of a scheme that was formerly contracted-out on a DB basis and a DC section within the same scheme. The DWP plans to keep this issue on its agenda and consider potential changes to transfer legislation in due course.
- The Government will ensure that updates to legislation avoid re-setting the fixed rate revaluation start date for those members who cease to contract out before abolition takes place.
- Following comments raised during consultation, the DWP will ensure that Reference Scheme Test (RST) requirements are saved for those schemes which operate an RST underpin.
- Because of the complexity of the issues, the Government will consider further whether and how to amend regulations on the alteration of scheme rules for formerly contracted-out DB schemes, and whether HMRC rules on trivial commutation require updating.

Bulk transfers without consent

During the consultation process, concern was raised that the regulations would mean it was only possible to bulk transfer contracted-out rights without members' consents to a formerly contracted-out scheme (reflecting the fact that, until the end of contracting-out, bulk transfers of contracted-out rights was only possible between contracted-out schemes).

One way to circumvent this in the past was to set up a new scheme with a few contracted-out members in order to bulk transfer benefits without member consent. Setting up such a scheme will no longer be possible because contracting-out is ceasing. Respondents to the consultation suggested that schemes should be able to receive bulk transfers provided sufficient safeguards and protections were put in place. The Government has agreed to consider this and make legislative changes in 2017.

Individual transfers

Currently, where contracted-out rights are transferred, the receiving scheme is required to ensure that the transferring member has signed a statement that they understand the benefits they receive may be different in form and amount to those they would have received from the transferring scheme.

The Government is amending legislation to enable the transfer of contracted-out rights to either a former contracted-out scheme (where the member has signed the aforementioned statement) or to any scheme (which can include a former contracted-out scheme) where the receiving scheme agrees to preserve the contracted-out rights.

HMRC publications

HMRC has issued two further countdown bulletins relating to the end of contracting out in April 2016. The first includes feedback from HMRC's pension forum and closure scan survey and the second includes information on the Scheme Reconciliation Service and Guaranteed Minimum Pension Calculation Service.

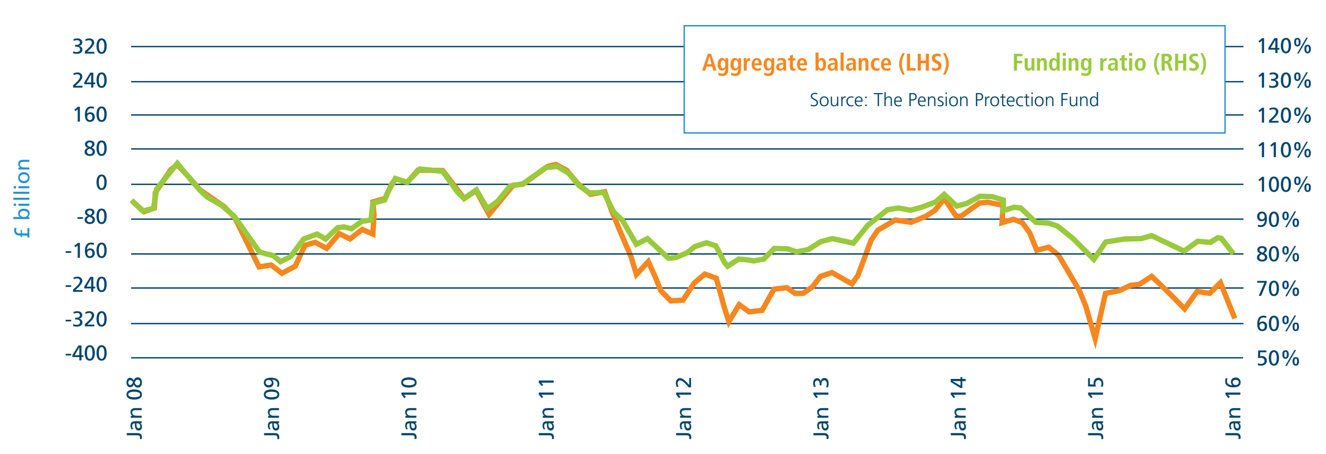
Other news

PPF 7800 Index

The February 2016 update of the Pension Protection Fund (PPF) 7800 Index of schemes' funding (on the s179 basis) has been published. There was a decrease in the s179 funding ratio from 84.9% to 80.5% between December 2015 and January 2016.

The aggregate deficit of the 5,945 schemes in the PPF 7800 index is estimated to have increased over the month to £304.9 billion at the end of January 2016, from a deficit of £222.4 billion at the end of December 2015. There were 4,923 schemes in deficit and 1,022 schemes in surplus.

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



AMNT: defined contribution guide

The Association of Member Nominated Trustees (AMNT) has launched a guide to help trustees to assess the levels of protection in place for DC assets, for example whether they are covered by the Financial Services Compensation Scheme.

DWP: State Pension Age review

The DWP has published terms of reference for its first review of State Pension Age, required during each parliament under the Pensions Act 2014. John Cridland CBE is expected to present recommendations in time for the Government to consider them before May 2017. A summary of planned State Pension Age changes can be found here.

Public sector: GMP indexation

The Government has confirmed it will fully index public service pensions for workers reaching State Pension Age from April 2016 to 5 December 2018. The Government is expected to launch a consultation this year on how to address this issue in the longer term, seeking to "balance simplicity, fairness and cost" for all stakeholders.

Lifetime Allowance – interim protection application

HMRC's Pension Schemes Newsletter 76 sets out pro-forma letters for the interim application process for 'Individual Protection 2016' and 'Fixed Protection 2016' from the reduction in Lifetime Allowance (LTA) from 5 April 2016 (from £1.25 million to £1.0 million).

The interim process applies to individuals who require protection and who intend to draw benefits between 6 April 2016 and July 2016. Anyone else who requires the protection, but will not be drawing benefits yet, are expected to apply for protection using the online digital service, which will be available from July.

Further information

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

- Lifetime ISA or pension: which is better?
- Budget 2016: introducing the Lifetime ISA and Pensions Dashboard
- Budget 2016: Pensions tax doesn't have to be taxing… does it?
- Budget 2016 overview: everything you need to know

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:

info@barnett-waddingham.co.uk
0207 776 2200
www.barnett-waddingham.co.uk