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News on Pensions

MAY 2016

Consultations: creating a secondary annuity market

Three consultations have been published setting out further detail ahead of the start of a secondary market for pension annuities – originally announced in the 2015 Budget (see Current Pensions Issues Spring 2015).

- The first consultation, by HM Revenue & Customs (HMRC), sets out how tax rules will be amended so as to permit the sale of annuity policies.

  Where individuals assign or surrender annuity rights purchased from a registered pension scheme (including annuities arising from defined benefit (DB) schemes where the policy is in the name of a member), this will no longer be classed as an 'unauthorised payment'. HMRC will require that certain conditions are met, including:

  - the individual selling the rights must be receiving payments from the annuity
  - the annuity must derive from membership of a registered pension scheme
  - it must be a lifetime annuity; and all the annuitant's rights must form part of the transaction (i.e. it will not be possible to partially assign or surrender annuity policies)

  Individuals selling their policies will be able to take the proceeds as a single cash lump sum, have them paid into a flexi-access drawdown fund or use to purchase a flexible annuity (i.e. an annuity where regular payments may increase or decrease). HMRC's consultation closes on 15 June 2016.

- The second consultation is from HM Treasury on draft legislation to help regulate firms or individuals acting as the buyer or intermediary of a secondary annuity. In particular, only buyers authorised by the Financial Conduct Authority (FCA) will be able to participate in the secondary annuity market.

  The Treasury's consultation closed on 2 June 2016.

- Alongside the Treasury and HMRC consultations, the FCA has launched a consultation of its own, on changes to the FCA Handbook which will set out rules for conducting sales of annuity income. The FCA's consultation closes on 21 June 2016.

  The rules will make sure individuals have the information they need and adequate protection when selling their annuities. The FCA is proposing, amongst other things, that:

  - appropriate risk warnings will have to accompany any offer, and buyers will have to recommend that the annuitant seeks guidance from Pension Wise and that they shop around
  - buyers and brokers will have to explain how their offer compares to the cost of buying a replacement annuity in the current market
  - brokers cannot be remunerated on a commission basis and must make their charges clear at the outset
  - the sale of annuity income will be covered by the Financial Services Compensation Scheme and annuitants will have access to the Financial Ombudsman Service

Latest from TPR

DC Code: 'how to' guides

Following publication of a revised defined contribution (DC) code of practice last year (see News on Pensions December 2015), The Pensions Regulator (TPR) is now consulting on a range of 'how to' guides. The guides are designed to help trustees implement the new DC code and, using best-practice examples, explain how trustees can demonstrate compliance with the law.

TPR hopes this 'educate and enable' approach will drive up standards – for example in relation to the completion of annual scheme returns, which some DC schemes are not meeting (see below).

The six guides relate to the following areas of the code: the trustee board, scheme management skills, administration, investment governance, value for members, and communicating and reporting. The new DC code and guides are expected to come into force in July.

Revised DC scheme returns

TPR has given advance notice of the changes to DC schemes' annual returns, noting that failure to comply with the requirement to submit information could result in fines for trustees.

The revised scheme returns will be sent out from July 2016 and additions include questions on charge controls, the chair of the trustees and to determine whether the scheme needs to produce a chair's statement. TPR has produced additional information and resources to help complete DC scheme returns including a checklist for the extra information needed to complete the DC scheme return for 2016.

Corporate Plan 2016 – 2019

TPR has published its Corporate Plan 2016 - 2019 which sets out its expectations for the next three years and TPR's ten priorities for the period, including:

- successfully implementing auto-enrolment
- protecting consumers from poorly governed master trusts and increasing member engagement with pensions

TPR has said it will facilitate the creation of tools such as a pensions dashboard or pensions passport, if deemed necessary for improving member engagement.

Read more in our blog: Top priority: The Pensions Regulator's plans for schemes.

Work and Pensions Committee inquiry: BHS

The Work and Pensions Committee has launched an inquiry into the adequacy of DB pensions regulation. The scope of the inquiry includes reviewing the sustainability of the Pension Protection Fund (PPF) and the fairness of the PPF levy system, as well as the use of TPR's powers - in general and specifically in relation to the pension schemes of complex and multi-national companies.

The inquiry will review the use of TPR's powers in recent cases, including that of BHS, and consider "how the receipt of pension liabilities of BHS [into the PPF] will impact on the increases in the levy that will now be placed on all other eligible employers."

EIOPA: common framework balance sheet

The European Insurance and Occupational Pensions Authority (EIOPA) has published the results of its quantitative assessment (see News on Pensions May 2015) reviewing how a 'holistic balance sheet' approach might be used in practice.

EIOPA is recommending to EU Institutions that an EU-wide risk assessment framework is implemented which would require the production of a 'common framework balance sheet' and 'standardised risk assessment'. The balance sheet would be valued using a risk-free interest rate and take account of all available security such as employer support, PPF protection, conditional and discretionary benefits and benefit reduction mechanisms as well as the scheme's assets. The standardised risk assessment would involve analysing the impact of a set of common and pre-defined stress scenarios on the balance sheet.

The balance sheet and risk assessment will not become part of the Institutions for Occupational Retirement Provision Directive (IORP II) (see Current Pensions Issues Spring 2014) which entered final negotiations in March 2016. However, it could likely be considered within the next few years at the next review.

EIOPA is not currently recommending changes to pension scheme funding requirements, though there is the possibility that it might be considered again in future.

Other news

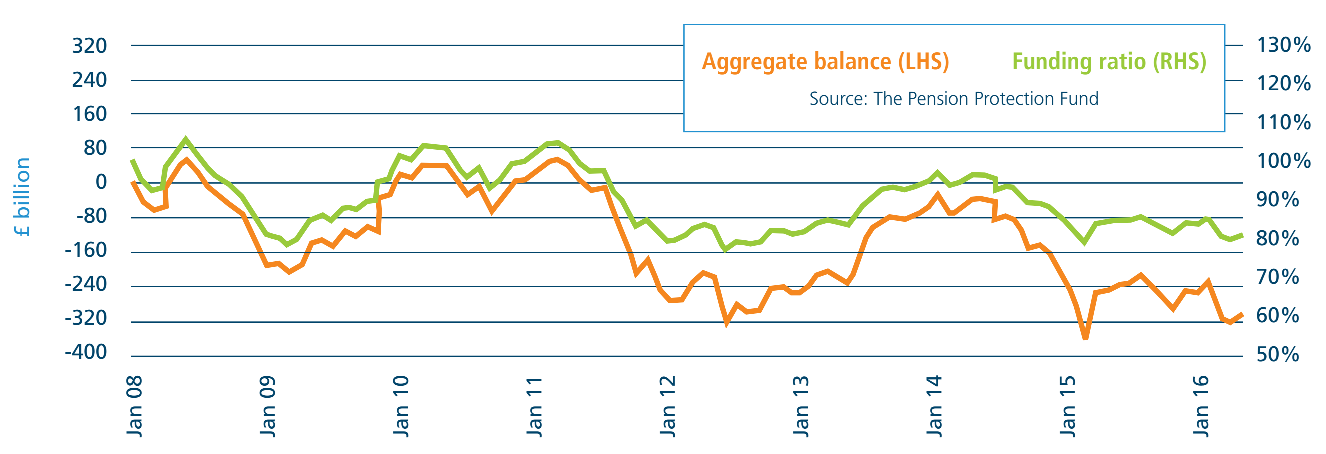
PPF 7800 Index

The latest update of the PPF's 7800 Index of schemes' funding (on the 'Section 179' basis) shows there was a fall in the overall funding ratio from 79.8% to 81.0% between February and March 2016.

The aggregate deficit of the 5,945 schemes in the index is estimated to have decreased over the month to £302.1 billion at the end of March 2016 (there was deficit of £322.8 billion at the end of February 2016).

There were 4,891 schemes in deficit and 1,054 schemes in surplus.

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



HMRC guidance: LTA protections

HMRC have published guidance for individuals on how to apply for protection from reductions in the Lifetime Allowance (LTA). The LTA reduced from £1.25 million to £1.0 million on 6 April 2016 and affected individuals may wish to apply for Individual Protection 2016 or Fixed Protection 2016. The guidance explains who can apply for which protection and the process involved.

Our briefing note includes further information.

HMRC bulletins: the end of contracting out

HMRC have published a bulletin on the ending of contracting-out. Topics covered include: the Guaranteed Minimum Pension (GMP) Checker (previously known as the GMP Micro Service), which is intended for pension scheme administrators to obtain GMP calculations and contributions and earnings information in respect of individual members; deferment of GMP while remaining in employment; the Scheme Reconciliation Service.

Threefold increase in DB to DC transfer quotations

The FCA has published the results of a survey of firms providing financial advice. The FCA received responses from 233 firms and found that enquiries from new customers for advice on DB to DC pension transfers had more than tripled (up 246%) between March 2014 and October 2015. Enquiries from existing customers had more than doubled (123% increase) over the same period.

The survey also showed that 94% of advice was delivered using face-to face meetings, with only 6% being delivered over the phone.

Further information

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

- Walk the line: between GMP rectification and benefit audit
- Top priority: The Pensions Regulator's plans for schemes
- Current Pensions Issues Spring 2016
- Big Schemes Survey 2016: £1bn+

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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