

## News on Pensions

JUNE 2015

### TPR: Annual funding statement 2015

The Pensions Regulator (TPR) has published its 2015 [annual funding statement](#). The guide is aimed at trustees and employers with defined benefit (DB) schemes with a scheme funding valuation date between 22 September 2014 and 21 September 2015 (Tranche 10).

TPR suggests that many schemes with valuations in this period will have larger funding deficits as a result of recent falls in bond yields, particularly where they have not been fully hedged against such risk. This is in spite of Tranche 10 schemes having paid £44 billion in deficit reducing contributions since their last valuations, and having had generally strong asset performance over the period.

This year's statement draws attention to the 'integrated approach to managing risks' set out in TPR's recently revised funding code of practice (see [News on Pensions – July 2014](#)). Trustees are encouraged to undertake contingency planning and to ensure they have 'a sound understanding of scheme risks and a strategy to address these risks'. TPR emphasises that this is particularly important for mature schemes which will have less time to address any deficits which arise and so are much more susceptible to a fall in funding position if investments do not perform as well as expected.

### Outlook

Given the uncertain outlook for financial markets, TPR recommends that trustees consider the impact on scheme funding plans if anticipated investment returns do not materialise in the future. More specifically, TPR believes that where trustees made allowance for 'gilt yield reversion' in previous recovery plans, they should review that decision this time around. TPR has also reminded trustees that they should understand the impact of, and 'actively monitor', changing market conditions after the valuation date and consider whether their assumptions remain appropriate.

Employers may be seeking longer recovery plan periods in order to deal with increased deficits, but TPR warns trustees to be aware of the increased risks being borne by the scheme if a recovery plan is extended.

Some schemes may have "capacity to take additional risk" if, for example, they had previously chosen to take a more prudent approach to funding. However, whilst it may be appropriate for these schemes to alter their approach to funding any deficit through, for example, a modest extension to recovery plan, a modest increase in contributions and/or adjusting assumptions used for investment returns, a lot will depend on the strength of the employer covenant and whether this has changed.

However, schemes that have previously been less prudent or that now have a weaker employer covenant will have less scope to take more risks. TPR expects such schemes to seek higher contributions whilst maintaining the same recovery plan end date (where the employer can afford to do so).



## Affordability

In cases where the employer is unable to afford the increased contributions that the trustees believe are necessary to address the deficit, TPR says trustees should undertake greater due diligence on affordability and should seek to manage the increased levels of risk (for example, through additional security, funding from alternative sources or a change to the structure of the recovery plan). These trustees will need to have a more robust monitoring framework in place.

Where an employer wishes to invest in its business at the expense of contributions to the pension scheme, TPR emphasises the need for trustees to investigate how this investment will be used and in particular, how it will improve the employer's covenant.

## Other documents

Alongside the statement, TPR has also published:

- [A 'look-forward' analysis](#) of the market data affecting Tranche 10 schemes, and which shaped the content of TPR's latest statement.
- [A review of outcomes](#) for Tranche 8 schemes (with valuation dates between 22 September 2012 and 21 September 2013) most of whom have now submitted their valuation results to TPR.

## TPR: Scheme returns - DC schemes

The 2015 TPR scheme return will include some new reporting requirements for defined contribution (DC) schemes and for schemes with DC sections (except where the only DC benefits are AVCs).

Trustees will need to identify who their chair of trustees is, whether their scheme has complied with the charge controls which came into force from 6 April 2015 (see [News on Pensions – November 2014](#)), and answer some questions regarding automatic enrolment.

The new version of the scheme return is expected to be released in next few months and TPR have issued a [checklist](#) for trustees covering 'what's new this year'.

## Pensions Ombudsman update

### Commutation factors

The Pensions Ombudsman has [upheld a complaint](#) against the Government Actuary's Department (GAD) from a retired member of the Firefighters' Pension Scheme.

The member complained that the scheme's commutation factors were not reviewed between 1998 and his retirement date in 2005 and, as a consequence, was offered a smaller lump sum than he would have received had the underlying assumptions been updated.

The Ombudsman found that GAD had failed in its responsibility to calculate appropriate factors. GAD were directed to calculate the factor that should have applied at the member's retirement had the factors been reviewed as at December 2004 and compensate the member accordingly.

This determination was the lead complaint for a number of similar cases involving former firefighters and police officers and GAD has issued a [technical bulletin](#) on how it intends to approach redress.



## TPR: Carrington Wire

TPR has issued a [Section 89 report](#) setting out the 'regulatory action' it took in a long-running international case involving the Carrington Wire Defined Benefit Pension Scheme. TPR has said that the report demonstrates how it does not shy away from pursuing foreign companies with warning notices when they suspect deals may have been engineered to leave a scheme without a source of funding.

The Carrington Wire scheme was left behind when the employer's business was transferred, and all plant and machinery were transported to Russia. All employees were then made redundant. A guarantee was put in place, but effectively became worthless when the employer was sold for £1.

TPR initially asked for £17.7m from the 'Russian Targets', but agreed to accept £8.5m rather than pursue the case in the Russian courts. The scheme still entered PPF assessment although TPR has, as a result of the settlement, been able to mitigate the exposure of the PPF to the new liabilities.

An individual who bought the employer for £1 is now being pursued by the Regulator for a £382,000 contribution to the scheme. A separate report setting out the background to this [determination notice](#) has also been published by TPR.

## Other news

### Summer Budget

The Chancellor of the Exchequer, George Osborne, has announced that there will be a Summer Budget on 8 July 2015. It has been widely reported in the press that the Chancellor may be considering changes to Annual and Lifetime Allowances, 'salary sacrifice' arrangements and tax relief on pension contributions.

### Nortel

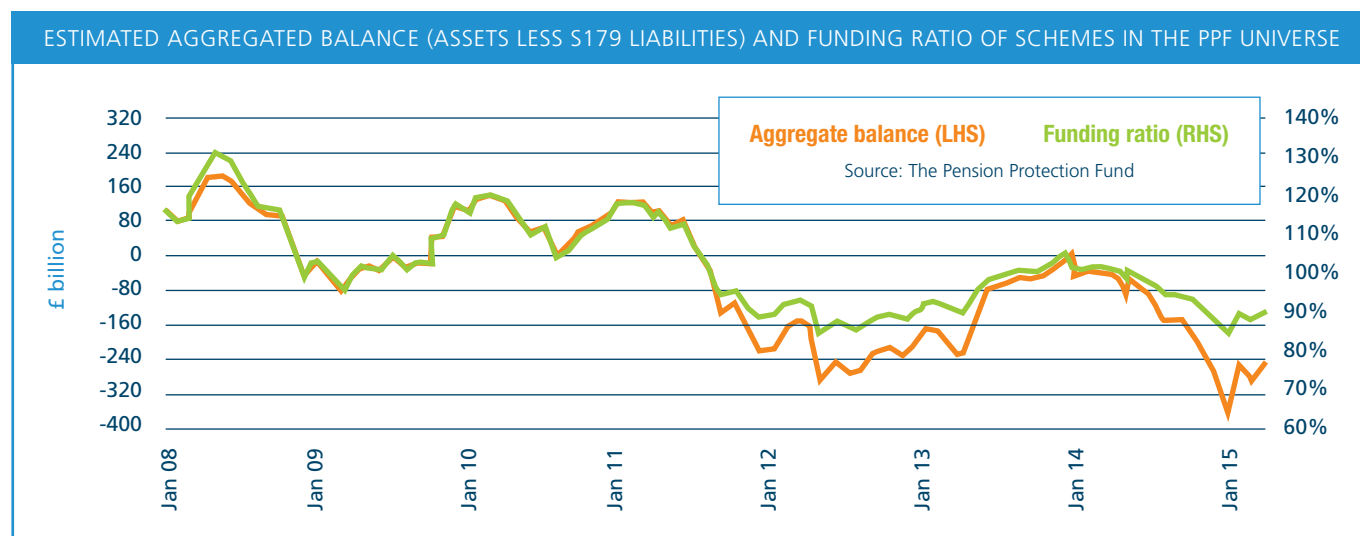
After six years of litigation, judges in the US and Canada have [ruled](#) that the assets of Nortel should be divided equally between its creditors - including the UK pension scheme (see [News on Pensions – August 2013](#)).

### NAPF: Securities fraud

The National Association of Pension Funds (NAPF) has [published](#) a guide for trustees on securities fraud. It provides an introduction to the remedies and procedures open to investors.

### PPF 7800 Index

The latest update of the [PPF's 7800 Index](#) of schemes' funding (on the s179 basis) has been published. There was an increase in the s179 funding ratio from 81.4% to 84.0% between March and April 2015. The aggregate deficit of the 6,057 schemes in the index is estimated to have decreased over the month to £242.3 billion at the end of April 2015, from a deficit of £292.6 billion at the end of March 2015. There were 4,820 schemes in deficit and 1,237 schemes in surplus.



## Further information

### On our website

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

- [New pensions flexibilities](#)
- [Actuarial valuations in 2015 – issues for employers](#)
- [Don't look back in anger \(FTSE100 survey\)](#)
- [EIOPAs latest exercises – worth stressing over?](#)
- [Dealing with a deficit – failing to plan or planning to fail?](#)

### Forthcoming events

#### Annual Pensions Conference – save the date (London – 4 November)

We are now able to confirm the date for the 2015 edition of our highly-regarded [annual Pensions Conference](#) in London. The sixth edition of the free-to-attend conference will take place on 4 November 2015. Further information will be available shortly but, for now, you may wish to save the date.

#### Trustee Training (nationwide – various dates)

There are still a few spaces available at our Trustee Training days in the second half of 2015. The training days are aimed at new trustees or those in need of a refresher. Upcoming dates include:

- [Leeds: 10 September 2015 \(DB Schemes\)](#)
- [Bromsgrove: 11 November 2015 \(DB Schemes\)](#)
- [London: 19 November 2015 \(DB Schemes\)](#)



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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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