Barnett Waddingham
a **true partnership** approach

News on Pensions

SEPTEMBER 2014

Stop Press: 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 had 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 without the opportunity to use a recovery plan.

However, further devolution of power to the Scottish Parliament could yet lead to pensions issues. For example:

- The Scottish Parliament has the power to set different rates of income tax from April 2016, and the main political parties at Westminster have signalled their intentions to look again at tax relief on pensions.
- The debate on State Pension Age will continue, as life expectancy varies across different regions in the UK. Scotland, where average life expectancy is lower than England, may yet seek to define its own State Pension Age.
- Scotland may also seek to issue its own debt, leading to changes in the gilt market.

Our *blog post* on the subject considers this matter in more depth.

NEST restrictions to be scrapped

The Minister for Pensions, Steve Webb, has *confirmed* that the Government intends to *remove the restrictions* on contributions and transfers that currently apply to the National Employment Savings Trust (NEST).

NEST is a pension scheme established by the Government to support the introduction of auto-enrolment. It is aimed at small employers and low-earning individuals who may not have been able to find provision elsewhere. NEST is required to accept any worker automatically enrolled by a participating employer, and receives a subsidised loan from the Government to support it in this role. Since it was set up, there has been an annual limit on contributions, and transfers of benefits into or out of NEST are not permitted. These restrictions were intended to ensure that NEST focused on its target market, rather than competing with other providers for more profitable business.

The Government has now received approval from the European Commission to remove these restrictions. It intends to do so from 1 April 2017, although the Government may opt to remove the transfer restrictions as early as 1 October 2015 to coincide with the introduction of automatic transfers.

Legal and regulatory update

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. Pensions Minister Steve Webb expects that defined ambition type schemes will more likely be of interest to larger employers who wish to provide an attractive remuneration package.

The Minister for Pensions has also signalled that a merger of the two current pension regulators – the Financial Conduct Authority (FCA) and The Pensions Regulator (TPR) – may yet happen. Responding to a question about the regulation of defined ambition schemes, Steve Webb conceded that his experience in drawing up legislation over the past year had 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.

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) on its website. The deadline for applying for IP2014 is 5 April 2017. HMRC has also published *detailed guidance* on IP2014.

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.

For individuals with enhanced protection or either form of fixed protection, IP2014 can offer a safety net where the earlier lifetime allowance protections could inadvertently be lost. IP2014 will remain dormant unless the earlier protection is lost.

New European Commissioners revealed

President-elect of the European Commission, Jean-Claude Juncker has *announced the line-up* and responsibilities for his team. In a surprise but welcome move, the UK's Jonathan Hill has been appointed to the newly created post of Commissioner for Financial Stability, Financial Services and Capital Markets Union. Lord Hill will be responsible for the European supervisory authorities (ESAs), of which EIOPA – the regulator for insurance and pensions – is one.

The move could potentially be good news for UK pension schemes who have been concerned about proposals by the European Union in relation the Institutions for Occupational Retirement Provision directive - for example the so-called 'Holistic Balance Sheet' (see *News on Pensions: September 2012*). It is hoped that Lord Hill will be able to take a firm stance opposing these plans.

TPR news

Quick guide to record keeping

TPR has published a *quick guide to record-keeping* to help trustees of defined contribution (DC) schemes understand the importance of keeping their records complete, accurate and up-to-date. TPR expects trustees to:

- review their records at regular intervals;
- put together an improvement plan where records are incomplete or inaccurate; and
- ensure that records match the information held by the employer.

TPR will contact individual trustees to ask them to evaluate the standard of their record-keeping and, where necessary, contact their administrator to discuss their records. This is an area TPR is focusing on and it has powers to take action against individual trustees, employers and administrators.

Auto-enrolment update

TPR has revealed, in its new quarterly bulletin on auto-enrolment compliance and enforcement, that it has used its powers in this area 23 times up until the end of Q2 2014. The majority of these cases were notices regarding failure to comply with auto-enrolment duties. The bulletin includes a case study which resulted in payment of backdated contributions due from the employer's staging date.

According to TPR, *more than four million workers* have now been *automatically enrolled* into a workplace pension. A *poll* conducted on behalf of the DWP showed that almost half of those polled agreed that saving into a workplace pension is 'the normal thing to do'.

Lehman Brothers scheme

Following TPR's *actions* in relation to the Lehman Brothers pension scheme (see *News on Pensions August 2013*), companies within the Lehman Brothers group have now agreed to *buy out members' benefits in full*.

PPF news

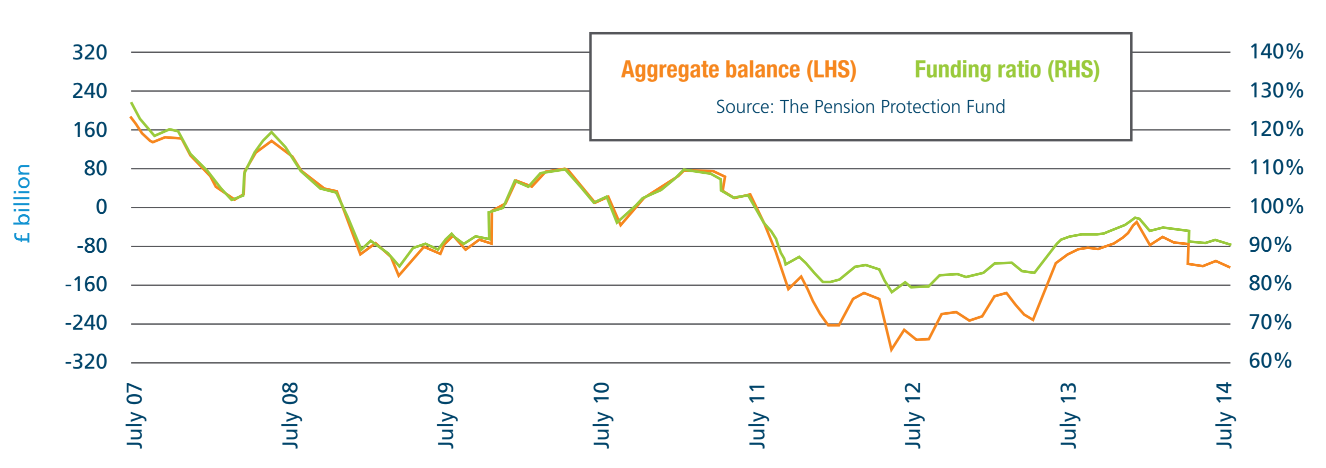
PPF 7800 index update

The *latest update* of the PPF's 7800 Index of schemes' funding (on the s179 basis) has been published.

The aggregate deficit of the 6,150 schemes in the index is estimated to have increased over the month to £122.7 billion at the end of July 2014 (there was a deficit of £109.0 billion at the end of June 2014).

The funding ratio fell from 91.5% to 90.5%. There were 4,387 schemes in deficit and 1,763 schemes in surplus.

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



Other news

Pension scams

Since 1 September 2014, HMRC has *new powers* to de-register or refuse to register pension schemes where it does not believe the scheme administrator to be 'fit and proper'. This new legislation is intended to combat pension liberation fraud – now re-badged as '*pension scams*' in new literature available from TPR.

Banking reform

HM Treasury has published *draft pensions regulations in relation to banking reform*. The regulations will require that ring-fenced banks cannot be part of a multi-employer scheme except in certain circumstances. This may require banks to restructure existing pension arrangements.

Further information

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 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 including Anne-Marie Winton of Nabarro and Jonathan Stapleton of Professional Pensions. Our keynote speaker, Sir John Gieve KCB, previously 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 defined benefit (DB) and DC pension schemes, sponsoring employers and pension professionals. It is a **full day** conference taking place on 26 November 2014 and is **free** to attend. Further details can be found on *our website*.

Interest rates – increases on the horizon

What is in store for interest rates? It is sensible to consider the Bank of England's own comments in relation to this, which are that when it does start to raise rates it will do so only gradually and to a level materially below its historical average. Our Investment Consulting team comment on the *implications for pension schemes*.

An introduction to Liability Driven Investment

In its broadest sense, Liability Driven Investment is an approach to investment in which all or part of the strategy is designed to match a scheme's liabilities. Our Investment Consulting team have produced a short *introduction to Liability Driven Investment* for trustees of DB pension schemes.

Save the Date - 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.

Please save the date in your diary. Further details will be released shortly. This is a **full day** conference and is **free** to attend.

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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