

## Pensions - November 2012

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#### AUTO-ENROLMENT BEGINS

**Auto-enrolment began on 1 October** with the largest employers now required to enrol staff into a workplace pension. Steve Webb, Minister for Pensions, is "proud to be introducing this truly historic change, which will radically alter the way we save for our old age, and see millions more people putting something aside for the future".

Meanwhile, The Pensions Regulator (TPR) has published [research](#) showing that understanding of auto-enrolment amongst business advisors is largely unchanged since autumn 2011. The research shows that 85% of IFAs understand the reforms compared to 29% of bookkeepers for example.

The research also shows that many intermediaries believe that employers will leave seeking advice as long as possible. The regulator estimates that it will take the average large or medium employer about 18 months to plan and get ready for their staging date.

Further information on the new requirements can be found on [our website](#), where you can register to receive our current and future information sheets.

#### LATEST NEWS FROM THE PENSIONS REGULATOR AND THE PPF

## TPR: Flexibilities in the DB Funding Regime

TPR has published [a report](#) sorting out evidence on the way that pension schemes have used some of the flexibilities in the defined benefit (DB) funding regime with regard to discount rates, contingent assets and recovery plans. The report also includes an analysis of the contributions required to help schemes keep up with previously agreed funding plans.

TPR notes that:

- Contributions as a proportion of technical provisions vary significantly from scheme to scheme.
- Discount rates used by trustees vary significantly – assumptions for investment outperformance relative to gilt yields have varied from below zero to over 2% pa.
- Recovery plans for schemes in the current cycle increased by about 4.7 years in their last round of valuations three years ago.
- Use of PPF-compliant guarantees, security and contingent assets has increased seven-fold since 2006/07.

TPR used some of this analysis to inform its statement on "Pension scheme funding in the current environment", published earlier this year (see [News On: Pensions – May 2012](#)).

## TPR: Streamlined GMP Process

TPR has updated its **winding-up guidance** in which it encourages trustees to adopt a £2 per week tolerance when reconciling Guaranteed Minimum Pension (GMP) data with Her Majesty's Revenue and Customs (HMRC), rather than matching "to the penny".

It is hoped that this will not only speed up the process of winding-up but also boost members' benefits by avoiding costly reconciliation exercises.

## PPF: 7800 Index updated

The latest **update** of the Pension Protection Fund's (PPF) 7800 Index of schemes' funding (on a section 179 basis) has been published.

The aggregate deficit of the 6,432 schemes in the index is estimated to have decreased over the month to £229.1 billion at the end of September 2012 (there was an aggregate deficit of £280.3 billion at the end of August 2012).

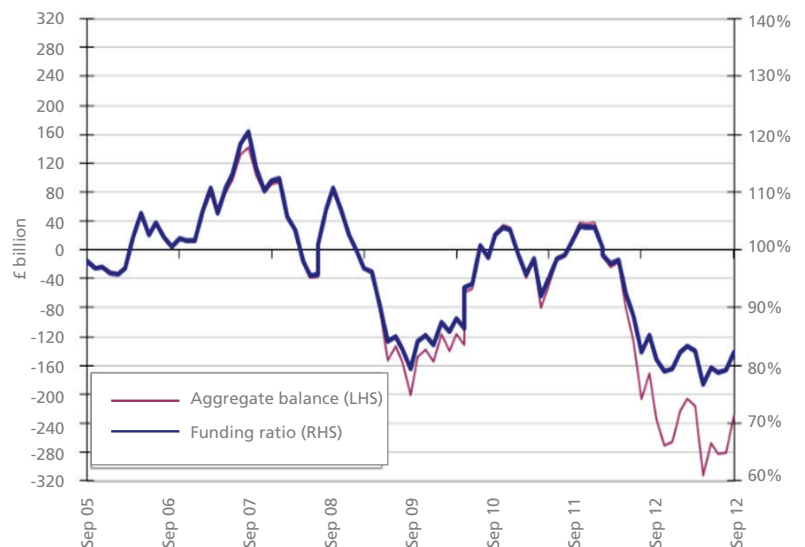
The funding ratio increased from 79.1 per cent to 82.3 per cent. There were 5,248 schemes in deficit and 1,184 schemes in surplus.

## PPF: Annual Report 2011/12

The Pension Protection Fund (PPF) has published its **Annual Report** for 2011/12 showing that:

- The PPF achieved a 25% return on invested assets in the year to 31 March 2012.
- At 31 March 2012, the PPF reported a surplus of almost £1.07 billion (2011: £678m).
- 128,000 people are members of the PPF.
- Since 2005, the PPF has paid out £463 million in compensation.
- The PPF is "on track to meet its long-term funding aims".

An **update** on the long-term funding strategy was also published. This showed that the PPF estimate the probability of reaching their target of self-sufficiency by 2030 has fallen from 87% to 84%.



### DWP/NEST CONSULTATIONS

The Department for Work and Pensions (DWP) is **consulting** on proposals made by the Secretary of State to amend **the National Employment Savings Trust (NEST) Order 2010** to ensure NEST operates efficiently and to align it with recent changes to auto-enrolment legislation. Meanwhile, NEST has launched its own **consultation** regarding changes to its **scheme rules** to reflect recent changes to legislation.

The proposed changes include:

- Amending the definition of "minimum contributions", removing the requirement for a self-enrolling member to sign terms and conditions, and amending the definition of "self-employed".
- Updating date of entry for some enrolments to reflect regulatory changes around pay reference periods.
- Amending the rules governing default benefit age to reflect recent changes to State Pension Age.
- Removing many of the previous barriers securing benefits after age 75.
- Simplifying processes relating to the payment of death benefits.
- Providing additional flexibility to employers over the way in members' requests to cease contributions are notified to them.

Both consultations close on 26 November 2012.

### FRC: IMPROVING FINANCIAL REPORTING DISCLOSURES

The Financial Reporting Council (FRC) has published a **discussion paper** setting out a road map for a disclosure framework for financial reporting. Amongst other things, the paper mentions the reduction of "clutter" in financial reports by applying the concept of materiality.

The FRC's aims are:

1. To ensure that disclosures are relevant and targeted to meet the needs of users.
2. To structure financial reports so that disclosures are organised in a way that's more informative and can be consistently applied.
3. To reduce the disclosure burden through the application of proportionality and materiality.
4. To develop a set of principles for good communication so as to improve the quality of disclosures.

The final report of the Wheatley Review, entitled “*The Wheatley Review of LIBOR*” has been published. It includes a 10-point plan for comprehensive reform of the London Inter-Bank Offered Rate (LIBOR) (see [News On: Pensions - September 2012](#)).

The key recommendations were to:

- Introduce a new regulatory structure for LIBOR, including criminal sanctions for those who attempt to manipulate it.
- Invite other groups to apply to take over the British Bankers’ Association’s role (after they resigned their role the previous week), which will include drawing up a code of conduct and carrying out regular audits.
- Encourage banks not part of the current group of 20 rate-setters to submit rates to LIBOR to make it more representative (EURIBOR - the Euro Inter-Bank Offered Rate - currently has 40 banks contributing).
- Reduce the number of LIBOR benchmarks published daily from 150 to just 20 and reduce the number of currencies and borrowing periods for which LIBOR is quoted, to better reflect the most-used rates.
- Publish individual LIBOR submissions after 3 months to reduce the potential for rate manipulation.

The Government has since **re-affirmed** its commitment to reforming the submission and administration of the LIBOR benchmark by accepting in full the recommendations of the review.

#### EIOPA – IMPACT STUDY: “SOLVENCY II FOR PENSIONS”

Following a consultation on its technical specifications (see [News On: Pensions – September 2012](#)), the European Insurance and Occupational Pensions Authority (EIOPA) has launched its Quantitative Impact Study (QIS) on European Commission plans to overhaul the Institutions for Occupational Retirement Provision (IORP) directive (aka “Solvency II for Pensions”).

The exercise runs until 17 December 2012 and the report on the QIS outcome is expected to be released in Spring 2013. TPR is carrying out calculations for the QIS on behalf of the UK occupational schemes using existing data. Larger schemes, however, may still wish to voluntarily submit their own calculations to EIOPA.

#### FURTHER INFORMATION

You might find our recent publications on the following topics useful:

- [Bulk Annuity Options](#)
- [Asset Allocation Survey](#)

## Competition!

Barnett Waddingham has teamed up with Professional Pensions to launch a competition to find the most pragmatic approach to introducing Defined Ambition pension schemes to the market.

The competition is open to all trustees, scheme managers, employer representatives and professional independent trustees. A prize of £7,500 will be awarded to the winning submission. Cash prizes will also be available for the seven other strongest entries. Further information can be found on [our website](#).

For further information on any of the topics in this bulletin, please speak to your usual Barnett Waddingham consultant, or visit our website [www.barnett-waddingham.co.uk](http://www.barnett-waddingham.co.uk)

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