THE ELEMENTS YOU NEED TO KNOW...

*PerioDiC

WE ARE PLEASED TO INTRODUCE OUR FIRST PERIODIC. THIS NEWSLETTER IS A SUMMARY OF THE TRUSTEE, COMPANY, AND OTHER ELEMENTS...

...that you need to be aware of to help you with running your defined contribution (DC) scheme.

Over the last 12 months we have seen significant changes in the legislation and regulations surrounding DC pension schemes. Whether you are a trustee or a company offering a contract - based scheme (such as a Group Personal Pension (GPP)) it is important to keep up to date.

* TRUSTEE ELEMENTS

Minimum governance standards in DC

From 6 April 2015, minimum governance standards have been introduced which cover the following areas:

- **Trustee knowledge + understanding**
- **Timing + accuracy of core financial transactions**
- **Value for members, including charges**
- **Governance around your default investment arrangement**

Those schemes where the only DC benefits provided are in relation to additional voluntary contributions (AVCs) are not subject to the minimum governance standards.

Each year, the Chair of Trustees will have responsibility for reporting on how the above governance standards are being met by means of a chair's statement. This must be prepared within seven months of each scheme year end and the Regulator may fine Trustees if they fail to produce the statement on time.

In particular, trustees are expected to assess the scheme they run on a regular basis to ensure it provides 'Value for Money (VFM)'. A key part of VFM is that trustees must assess the charges and (as far as they are able to) the transaction costs and assess the extent to which they represent 'good value for the members'.

Please refer to our 'DC Value for Money Assessment brochure' for further information on how we can help assess your scheme for VFM and ensure you have a list of actions/priorities.

Statement of Investment Principles – new requirements for default arrangements

One of the minimum governance standards is around the production of a Statement of Investment Principles (SIP). This written statement must set out the trustees' aims and objectives for the default investment arrangement. The trustees must review their strategy for the default arrangement and its investment performance every three years (and after every significant change in investment policy or member demographic profile). Our Governance and Engagement Monitoring (GEM) tool can help the trustees with these design changes.

The statement together with a description of any review and resulting action must be included in the Chair's statement which accompanies the scheme's annual report and accounts.

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TPR guidance on communicating new flexibilities

Members now have increased options over how they take their DC pension benefits. Although members have these new freedoms, trustees are not obliged to provide them within their scheme, however, trustees are obliged to tell members certain things within particular timescales (for example they must inform members about the new Government 'Pension Wise' service).

To help trustees with these new disclosure requirements TPR has introduced an 'Essential guide to communicating with members about pensions flexibilities for trustees and scheme managers'. Further information can be found on the Regulator's website.

DC Code/new guidance and update

In November 2013, The Pensions Regulator (TPR) introduced the DC Code which is underpinned by 31 quality features relating to the quality of DC trust-based schemes.

In light of the new minimum governance standards, TPR has issued a draft DC Code, will issue revised "how to" guidance and is in the process of consulting on the proposed revisions.

Meanwhile, trustees will have to ensure that they comply with the new minimum governance standards which came into force in April 2015 and should continue to assess their DC arrangements for quality. TPR has issued guidance on how the minimum governance standards and DC Code interact.

NEST's proposed default strategy for taking income

The increased pension freedoms have also prompted a great deal of research into appropriate investment strategies for decumulation. NEST has developed a blueprint for how to meet members' needs in retirement.

The idea is to provide people using NEST with a simple way of funding their retirement as some may be unable or unwilling to make a decision themselves. The blueprint is based on an in-depth consultation process and the proposed default strategy assumes that members will use the fund to take cash and drawdown in the early years before being provided with a secure income for the rest of their lives from within the NEST Scheme (i.e. without the need to purchase an annuity).

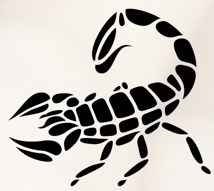
Further information about the Blueprint strategy can be found on the NEST website.

Short service refunds

From 1 October 2015, changes were made to the Short Service Refund (SSR) rules. These changes will have an impact on DC trust based schemes that accept new joiners after this date. As a result of this change, the SSR period for new joiners will reduce from 2 years to 30 days. Please note this change does not automatically override schemes' rules, so legal advice should be undertaken to avoid potential tax charges.

Pension scams

With the introduction of the new flexibilities, TPR would like to ensure that the new pension freedoms are not undermined by trustees inadvertently transferring members' pension pots to unregulated products. To help members and trustees avoid possible pension scams, the Regulator has recently re-launched its 'Scorpion' campaign to alert members and remind trustees of these potential risks.



In addition, a new voluntary Code (the Code of Good Practice) has been developed by an industry group in order to help combat pension scams. It is aimed at trustees and administrators and sets out a process that can be followed. This will enable trustees to be confident that they have taken necessary steps to protect members.

* COMPANY ELEMENTS

Auto-enrolment – latest easements

FINALLY REGULATIONS AIMED AT SIMPLIFYING CERTAIN ASPECTS OF AUTO-ENROLMENT INTRODUCED...

Following a long period of consultation, regulations aimed at simplifying certain aspects of auto-enrolment were introduced from 1 April 2015. These easements included:

- Providing employers with exemptions from the duty to auto-enrol or re-enrol certain categories of workers. Including: individuals with pension savings that have a tax protected status; individuals who are about to leave employment; and individuals who cease active membership after being contractually enrolled.
- Simplifying the communications that have to be issued to workers about the auto-enrolment process.
- Providing defined benefit (DB) schemes with an alternative quality test in view of the abolition of contracting out from 6 April 2016.

Some of these changes should prove helpful to smaller employers approaching staging for the first time. Larger employers may wish to review their current processes, in particular in the approach to their automatic re-enrolment date.

Auto-enrolment - cyclical re-enrolment

With auto-enrolment three years old in October, the largest employers have begun preparations for their cyclical automatic re-enrolment duty. Automatic re-enrolment occurs approximately every three years and generally is a repeat of the duties that employers carried out on their initial staging date – however, there are some important differences.

Broadly employers must re-enrol workers who have opted out or ceased active membership of their qualifying workplace pension scheme.

There are a number of things for employers to look out for, for example employers can normally choose a re enrolment date that falls anywhere within a six-month window which starts three months before the third anniversary of their staging date and ends three months after it. Postponement cannot be used. Employers must complete a re-declaration of compliance (formerly known as re-registration) normally no later than two months after their re-enrolment date.

Re-enrolment may provide an opportunity to undertake an audit to ensure ongoing processes are compliant to find out more about our auto-enrolment audit service please refer to our website). This may also be an opportunity to introduce some of the above easements.

AUTUMN STATEMENT [STOP PRESS] THE CHANCELLOR ANNOUNCED FURTHER STEPS TO SIMPLIFY AUTO-ENROLMENT.

IN PARTICULAR IT CONFIRMED THAT THE NEXT TWO PHASES OF MINIMUM CONTRIBUTION INCREASES WILL BE ALIGNED TO TAX YEARS. THEREFORE, THE MINIMUM AUTO-ENROLMENT RISES WILL NOW COME INTO FORCE IN APRIL 2018 AND 2019 INSTEAD OF OCTOBER 2017 AND 2018.

taxable annual income above

£110,000

Annual allowance cut for high earners

Individuals with taxable annual income above £110,000 could face a significantly higher pension-related tax bill after the Chancellor's 'Emergency Budget' announcement. From the 2016/17 tax-year, the current Annual Allowance of £40,000 will broadly be tapered for anyone whose total income (including the value of pension savings) is above £150,000 – so that if total income is over £210,000, the Annual Allowance will be cut to £10,000. Individuals with income (excluding pension savings) below £110,000 should not be impacted.

It is the individual's responsibility over the level of contributions they pay; however, company contributions will be included so employers may want to give consideration to communicating this issue with their senior employees and putting suitable solutions and processes in place to help avoid unexpected tax liabilities.

Independent Governance Committees

The Financial Conduct Authority (FCA) has published rules to require the providers of workplace personal pension schemes to set up and maintain Independent Governance Committees (IGC). IGC will have a duty to act in the interests of scheme members and will operate independently of the provider. They will assess and, where necessary, raise concerns about the value for money of workplace personal pension schemes.

We are in favour of the setting up of IGC and believe this strengthens the formal governance of workplace personal pension schemes, however, we still believe there is a need for sponsors of contract based schemes to have their own governance arrangements to address the employer's individual circumstances and objectives.

* OTHER KEY ELEMENTS

Consultation: Strengthening the incentive to save - a consultation on pensions tax relief

AS PART OF THE EMERGENCY BUDGET 2015, THE CHANCELLOR LAUNCHED A CONSULTATION INTO REFORMING TAX RELIEF TO PENSIONS AND ASKED WHETHER THE CURRENT SYSTEM ACTUALLY UNDERMINES INDIVIDUAL INCENTIVE TO SAVE.

It has been suggested that the Government may look to make radical changes and the consultation asked whether the current 'Exempt-Exempt-Taxed' approach could be replaced with a 'Taxed-Exempt-Exempt' approach akin to other savings vehicles such as ISAs, with the Government potentially paying top-up contributions.

Barnett Waddingham responded to the consultation. We would be happy to share a copy of our consultation response with you. Plus if you would like to discuss the potential impact on your pension arrangements, or the possibility of introducing work place savings for your employees, please speak to your usual contact.

AUTUMN STATEMENT

[STOP PRESS] THE GOVERNMENT ANNOUNCED IT WILL PUBLISH ITS RESPONSE TO THE CONSULTATION AT THE BUDGET 2016.

Pension transfers and early exit charges – government consultation

In addition to the FCA and TPR's information gathering analysis, the Government has undertaken a further consultation on early exit penalties, the transfer process and how greater clarity can be provided on when individuals should seek financial advice. Based on the research and consultation, the Government may consider imposing a cap on exit charges and looking at ways to make the transfer process more efficient. The consultation is now closed and we expect the Government to publish a response towards the end of the year.

> **'Exempt-Exempt-Taxed' approach could be replaced with a 'Taxed-Exempt-Exempt' approach akin to other savings vehicles such as ISAs**

State Pension top up

The Government has announced a State Pension top up which will be provided via a new class of Voluntary National Insurance contribution - Class 3A. It has been specifically designed to allow some of today's pensioners and those close to pension age to boost their retirement incomes.

The change will allow existing pensioners and those reaching State Pension Age before 6 April 2016 the opportunity to gain additional State Pension by paying voluntary Class 3A National Insurance contributions. A calculator is available online which provides an illustration of the contribution rates by age so that individuals can work out by how much they can increase their State Pension.

Defined Ambition, Collective Benefits and Automatic Transfers

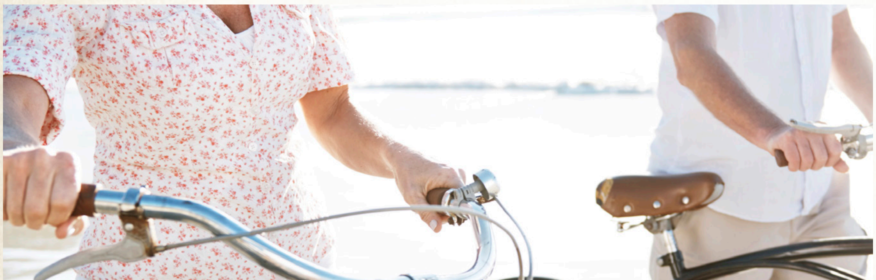
Given the amount of change within the pension industry, the Government has recently announced that it has decided to delay further consideration of Defined Ambition, Collective Benefits and Automatic Transfers. In particular the Government announced that 'the market needs time and space to adjust to the other reforms underway and these additional areas will be revisited once there has been an opportunity for that to happen'.

FCA: Financial advice market review

The FCA and HM Treasury launched the Financial Advice Market Review (FAMR) in August 2015 which will examine how financial advice could work better for consumers. The review will consider the current regulatory and legal framework governing the provision of financial advice and guidance to consumers and its effectiveness in ensuring that all consumers have access to the information, advice and guidance necessary to empower them to make effective decisions about their finances. The consultation exercise will close on 22 December 2015 with a view to producing proposals ahead of Budget 2016.

FCA: Smarter communications

On 25 June 2015 the FCA published a new discussion paper and consultation on the topic of 'smarter consumer communications'. We welcome this consultation and await the outcome this will have on contract based schemes. Hopefully this will streamline the communications that providers currently have to produce.



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State Pension top up which will be provided via a new class of Voluntary National Insurance contribution - Class 3A

Secondary annuity market

The Government has launched a consultation proposing that a market be created to buy and sell annuities. The Government reconfirmed its support for this in the Autumn statement and further details will be in the consultation response before the end of the year. However, this is unlikely to be launched until 2017 at the earliest. Whilst this may be helpful for some members, overall we believe that these proposals carry risk for annuity holders. Therefore, if the proposals do go ahead we hope that robust safeguards are put in place to protect members.

Pension freedoms: analysis and findings

The Government would like to ensure that members are able to access their pots as easily as possible. Following the introduction of the pension freedoms, there have been some high profile news stories highlighting that members have been unable to access the new pension freedoms without exit penalties. As such both the FCA and TPR have undertaken some initial research that shows how pension policies had been accessed within the first three months. The FCA will continue to track choices made by individuals through a new quarterly provider survey. This research can be used to help with re-designing your pension arrangement. The FCA will also undertake investigations into the charges that providers are currently levying on members when they access their pots and will report further in the New Year.

For more information on our services please contact Mark Futcher, Partner, Workplace Health and Wealth on:

mark.futcher@barnett-waddingham.co.uk

01494 788116

www.barnett-waddingham.co.uk

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