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News on Pensions

DECEMBER 2015

Latest from TPR and the PPF

TPR: Integrated Risk Management

The Pensions Regulator (TPR) has issued regulatory guidance to help trustees and employers develop an 'Integrated Risk Management' (IRM) framework, which the regulator views as 'an important tool' for managing the risks associated with funding defined benefit (DB) pension schemes.

TPR's IRM approach focusses on modelling, understanding and mitigating the interaction between risks in three key areas, with which trustees will already be familiar:

- funding
- investment
- the ability and willingness of the employer to financially support the scheme (the employer 'covenant').

The idea of collectively monitoring these three risks as an important part of an overall strategy is not new. TPR's Code of Practice on funding DB schemes, for example, devotes an entire chapter to IRM, noting that 'trustees should adopt a proportionate integrated approach to risk management'.

TPR is keen to emphasise that IRM is an on-going process and that trustees should consider its introduction 'wherever the scheme lies within its valuation cycle'. Trustees are encouraged therefore to discuss with their advisers how risk management processes could evolve to take account of TPR's latest publication. Schemes may already have a risk-management framework in place which can be used as a starting point, though many will have to undergo an 'initial investment' to get IRM up and running.

As well as detailing the five key stages of IRM, the guidance explores a variety of possible risk-assessment approaches that trustees and employers may take, including 'stress testing', 'scenario testing', 'scenario projections', 'stochastic modelling' and 'reverse stress testing'.

Our blog post includes further detail on TPR's guidance.

2015 Purple Book

TPR and the Pension Protection Fund (PPF) have published the tenth edition of their annual Purple Book, in which they present statistics collected in the course of their interaction with DB pension schemes. The report summarises the risks faced by DB pension schemes, and highlights developments over the year to 31 March 2015, as well as analysing trends between 2006 and 2015.

TPR notes that trends seen in recent years 'have remained stable', although it remains to be seen how the pension freedom changes of April 2015 will impact these long-term trends.

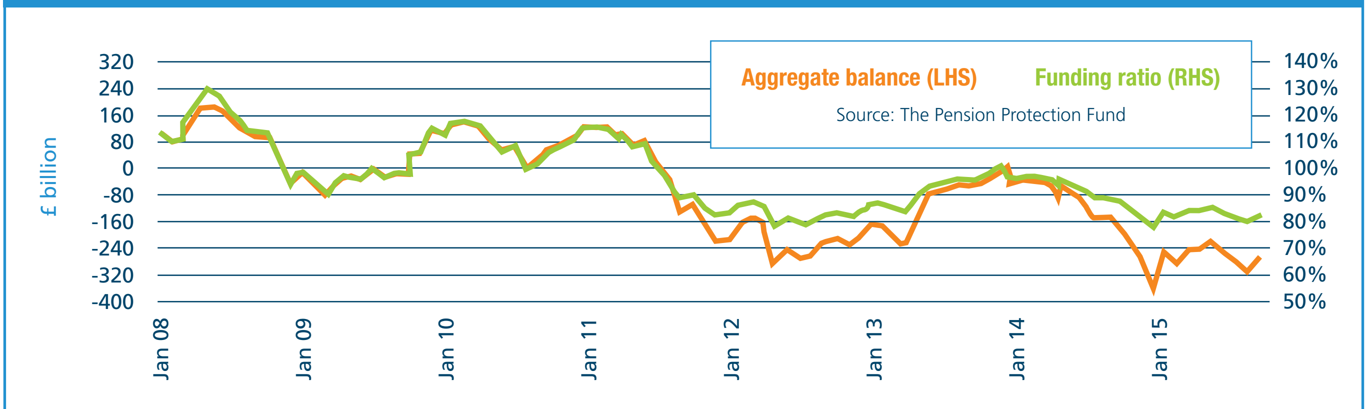
Key findings include:

- The aggregate 'section 179' (s179) deficit of PPF-eligible schemes increased from £39.3 billion at 31 March 2014 to £244 billion at 31 March 2015, the highest ever deficit at a March year end.
- The insolvency rate among sponsoring employers of eligible schemes currently stands at four-quarter moving average of 0.32% (Q2 2015), having fallen sharply since Q2 2013. Smaller schemes' employers tend to have higher associated insolvency probabilities.
- A continuing trend of de-risking and diversification is noted. For example, equities now make up only 33% of schemes' assets – a fall of almost half since 2006 (when 61% of schemes' assets were invested in equities).
- Average gilt and fixed interest asset allocations now stand at around 48% (44% in 2014) having increased from 28% over the last ten years. The proportion of index-linked gilts within bond portfolios has also risen steadily, and schemes have continued to diversify away from UK-quoted equities to overseas-quoted and unquoted or private equities.
- The top 100 levy payers accounted for £243 million, or 42%, of the total levy in 2014/15. In 2014/15, 18% of schemes were paying no risk-based levy (RBL).
- The total number of contingent assets in place for the 2015/16 levy year was about 632 - 20% lower than a year ago. This primarily reflects a fall in the number of Type A contingent assets (parent company guarantees) following the introduction of tighter recertification criteria.

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 79.9% to 82.7% between September and October 2015. The aggregate deficit of the 6,057 schemes in the PPF 7800 index is estimated to have decreased over the month to £262.5 billion at the end of October 2015 (there was a deficit of £311.7 billion at the end of September 2015). There were 4,943 schemes in deficit and 1,114 schemes in surplus.

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



DC Code of Practice

TPR has published a consultation on a revised Code of Practice for defined contribution (DC) schemes. The Code and TPR's regulatory approach are being reviewed in light of pension reforms introduced earlier this year, and the new draft Code is now much more concise (at 38 pages compared with 59 previously). TPR is aiming to ensure all of the requirements for trustees of DC schemes are in one place.

The Code applies not just to DC and hybrid schemes but also to DC Additional Voluntary Contributions (AVCs) within DB schemes. The new Code is expected to come into force in July 2016, and the consultation closes on 29 January 2016.

The new Code has been drafted assuming that readers have a good knowledge of the legislation, but TPR also intends to produce drafts of supporting 'how to' guides next spring. These guides will contain practical guidance that trustees can use to help them meet the standards set out in the code. TPR is seeking views on areas where guidance might be needed.

The code recognises that different approaches may be appropriate for different schemes. It does not cover 'decumulation' (i.e. the conversion of retirement savings into drawdown or pension products), although TPR is consulting on potential themes for guidance in this area.

For more information about how our Workplace Health and Wealth team can perform a value-for-money (VFM) assessment of your DC scheme, please see our website.

2016 scheme returns

TPR has published information about the new requirements for scheme returns due in early 2016. The site includes helpful checklists which should help trustees to locate relevant information. Trustees will now be required to submit additional information in the following areas:

- **DC governance requirements (where applicable)**, including confirmation of compliance with the charge cap restrictions which came into force on 6 April 2015, and the name of the chair of trustees.
- **Investment information** (likely to be applicable for only the largest schemes) including whether the scheme has direct investment in debt instruments (i.e. not through a pooled investment fund). Where a liability hedging strategy is in place, details about asset and liability sensitivities will also be required.
- **Multi-employer schemes** will be asked to provide employers' reference numbers and whether/what legal advice has been obtained regarding the last-man-standing status of the scheme.
- **Transfer value activity**, including total number and value of transfers over the last 12 months (with separate figures for transfers from DB to DC arrangements, and for low-value transfers (less than £30,000). Schemes which reduce transfer values to reflect underfunding can disclose this on the scheme return, although this information is not currently mandatory.

Autumn Statement 2015

As with last year's statement there were only a few new pensions-related points, and no big shocks, in the Chancellor of the Exchequer's Autumn Statement, delivered in the House of Commons on 25 November. The Treasury announced that auto-enrolment minimum contribution rate rises, currently scheduled for October 2017 and October 2018, will each be delayed by six months so that the step-ups will be aligned with tax years (i.e. 6 April 2018 and 6 April 2019).

Following confirmation that the starting amount for the new state pension will be £155.65 (5 pence above the Standard Minimum [income] Guarantee), the Department for Work and Pensions (DWP) has updated its factsheets and guidance. The Chancellor also confirmed that the Government's response in relation to their consultation on tax relief will be delayed until next March's 2016 Budget.

The Government remains concerned about the effect of the use of salary sacrifice arrangements on tax receipts, and has said that it intends to "gather further evidence, including from employers … to inform its approach".

The next two Finance Bills will contain several changes affecting pension provision in the UK, most of which have already been announced. For example the Government will:

- Simplify the tests that apply when a Dependant's Scheme Pension is payable [Finance Bill 2016]
- Ensure that inheritance tax does not arise on unused pension savings marked for drawdown (to be backdated to apply to deaths on or after 6 April 2011) [Finance Bill 2016]
- Align tax rules on bridging pensions with DWP legislation [Finance Bill 2016].
- Remove barriers to creating a secondary market for annuities [Finance Bill 2017]

STOP PRESS!

The Government has published a response to its March 2015 consultation on the creation of a secondary annuity market in April 2017 (see News on Pensions – April 2015).   The Government retains the view that, for most annuitants, selling their annuity for a cash lump sum will not be in their best financial interests. Some of the key points under consideration include:

- The establishing of a threshold value, above which it will be compulsory for selling annuitants to obtain financial advice.
- Annuitants will have access to Pension Wise, and a 'second line of defence' system of risk warnings will be prescribed.
- The Financial Conduct Authority (FCA) and the Government will develop an online indicative valuation system to help promote competitive pricing.
- Purchasers on the second-hand annuity market must be FCA-regulated.

A full analysis of the Government's response will be included in our January newsletter.

News in brief

Reducing the regulatory burden

The Government has recently consulted on various minor changes to pensions legislation, including:

- Proposing to simplify the scheme accounting requirements covered by the pensions Statement of Recommended Pratcice (SORP) – in particular by removing most of the detailed investment disclosure information in the current regulations.
- Seeking evidence on how information about investments in pension schemes is being, and can be, made available to beneficiaries.
- Inviting views from the pensions industry about where regulatory burdens on those running schemes can be reduced whilst maintaining member protection.

Meanwhile, the Financial Reporting Council (FRC) has released a consultation in which it proposes amendments to FRS 102 intended to simplify the asset split to be shown in pension scheme accounts. The consultation closes on 31 January 2016.

HMRC Countdown Bulletin

HM Revenue & Customs (HMRC) has published its latest Countdown Bulletin to the end of contracting-out. HMRC is seeking testers for its new GMP service which will be used to provide GMP calculations for any member who leaves, transfers, dies or reaches GMP payment age on or after 6 April 2016, in place of issuing statements or a data file.

PPF Ombudsman rejects late levy payment challenge

The PPF Ombudsman has rejected a challenge made by the TT Group (1993) Pensions Scheme regarding late payment interest due on their levy, which had remained unpaid while the levy was being appealed. The PPF maintains that schemes should pay levies which are subject to appeals as it will start calculating interest from the twenty-ninth day after the levy invoice date.

DWP auto-enrolment report

DWP has published its Automatic Enrolment evaluation report for 2015, which shows that, at September 2015, more than 5.47 million eligible workers had been automatically enrolled by over 60,000 employers since the start of automatic enrolment.

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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