

Pensions - January 2013

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AUTUMN STATEMENT

The Chancellor of the Exchequer, George Osborne, delivered the Autumn Statement to the House of Commons in December. In it, he made a number of pensions-related announcements:

- The Department for Work and Pensions (DWP) will consult on two matters affecting pension schemes:
 - a. giving The Pensions Regulator (TPR) a new statutory objective to “consider the long-term affordability of deficit recovery plans to sponsoring employers”, and
 - b. allowing smoothing of assets and liability values in scheme funding valuations.

At the time of going to press, the DWP has just launched a **call for evidence** in which it is seeking industry opinion on these two matters. At this stage, however, few details are available and TPR has warned trustees that “until it is clear as to whether the regime will be altered in any way, there is no change in the responsibilities of trustees and sponsors”.

- Two changes to taxation allowances will come into effect from the 2014/15 tax year:
 - a. The lifetime allowance (LTA) will be reduced from £1.5 million to £1.25 million.

A fixed protection regime will allow individuals to retain a £1.5 million LTA if they forgo future benefit accrual or contributions. The Government will also consult on a more flexible “personalised” protection arrangement under which benefits already accrued will be protected, and further accrual will be permitted (although this will be subject to further tax charges).
 - b. The annual allowance (AA) will be reduced from £50,000 to £40,000.

Her Majesty's Revenue and Customs (HMRC) has confirmed that there will be no changes to the carry forward rules, meaning that any unused allowances from the tax years 2011/12 to 2013/14 available for carry forward will be based on the previous £50,000 limit.
- The “capped drawdown” limit will increase from 100% to 120% of the value of the equivalent Government's Actuary Department annuity, allowing members of defined contribution (DC) arrangements choosing not to annuitise at retirement to draw a larger pension each year.
- The Basic State Pension will increase by 2.5% in April 2013 (£2.70 a week) in line with the commitment to the “triple lock”.

An information sheet on the Autumn Statement is available on our [website](#). Barnett Waddingham's Executive Pensions team is also hosting a series of free nationwide seminars during February and March 2013 on the changes to the AA and LTA and how this impact high earners are affected. Further details can be found on [our website](#).

“Comply or explain” approach for DC schemes

TPR has pledged its support for the Government’s Reinvigorating Workplace Pensions strategy and has outlined ways in which it will **encourage auto-enrolment** into high-quality pension schemes.

The Regulator announced it intends to invite views on a voluntary “comply or explain” procedure, under which DC schemes might be required to disclose to employers, retirement savers or the Regulator how they implement TPR’s principles and features for well-governed DC schemes or explain why they do not.

TPR believes that “small DC schemes, not benefiting from economies of scale, and older, legacy schemes with higher administration costs levied on members’ pension pots should not be used by employers to auto-enrol their workers”.

“Larger schemes more likely to display DC quality features”

TPR has published **research** indicating that large (at least 1,000 members) DC schemes are more likely to display the quality features needed to provide good outcomes for retirement savers than smaller schemes.

325 schemes were tested for quality features in areas including investment, governance standards, value for money, contributions and communications to members.

The report suggests that 75% of large schemes possessed at least 15 out of 21 of the features tested. This compares with 51% of medium schemes (with 100 to 999 members) and 18% of small schemes (with 2 to 99 members). Other findings included:

- **Investment** – Overall 46% of schemes monitored the suitability of their default fund at least annually (39% of small schemes, 61% of medium schemes and 70% of large schemes).
- **Governance** – 47% of schemes undertook trustee training and/or skills reviews at least annually. 55% of schemes had a mechanism for identifying and managing conflicts of interest (94% of large schemes but only 45% of small schemes). Only 32% of schemes (83% of large schemes and 21% of small schemes) had procedures in place to maintain adequate internal controls.
- **Value for money** – Trustees were asked how confident they were that the charges incurred by members represented value for money – only 25% of schemes were confident of this.
- **Contributions** – 67% of schemes offered flexible contribution structures over and above the minimum scheme qualifying thresholds.
- **Member communications** – 54% of schemes tested had a mechanism in place to assess the effectiveness of member communications, and 77% of schemes (including 90% of large schemes) informed members of the importance of their own contribution levels.

Auto-enrolment checklist for trustees

TPR has published an updated five step action **checklist** for trustees to help them prepare for auto-enrolment.

The checklist provides trustees of schemes that are potentially to be used for auto-enrolment with a series of steps to follow. This includes making sure that their scheme meets the qualifying criteria, and assessing its suitability against TPR’s principles and quality features for a good DC scheme. Also covered are reviewing the default investment strategy, examining administration processes and member communication.

PPF 2013/14 levy determination

The Pension Protection Fund (PPF) has published its **2013/14 Levy Determination**. The risk-based levy scaling factor will be reduced from 0.89 to 0.73 and the scheme based levy multiplier will drop from 0.000085 to 0.000056 in order to make the estimated total levy to be collected £630 million.

The requirements for certifying a guarantee from a financial services company have been relaxed, so that in future an A- credit rating will be sufficient.

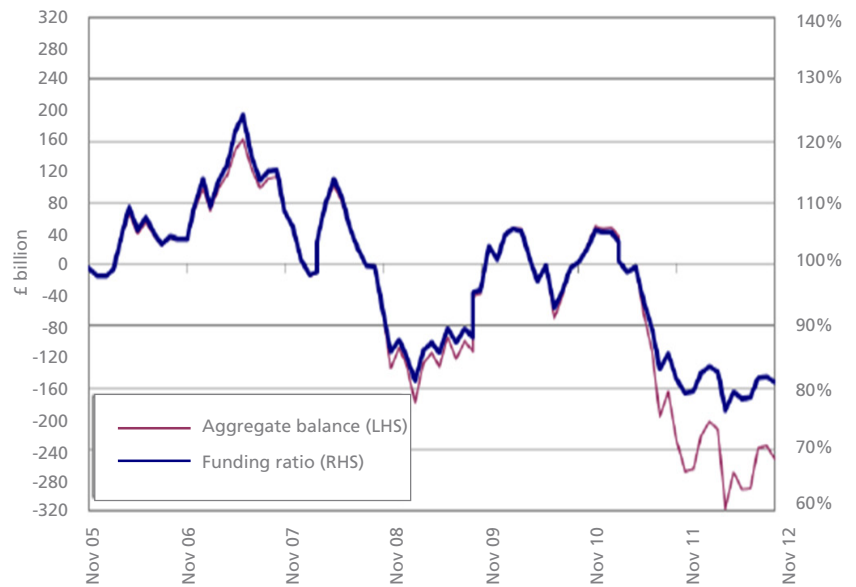
The PPF has also updated its guidance for putting in place contingent assets. They plan to publish case studies in due course showing how they have assessed whether a contingent asset is acceptable for the purposes of reducing a scheme’s levy.

PPF 7800 Index

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

The aggregate deficit of the 6,316 schemes in the index is estimated to have increased over the month to £252.2 billion at the end of November 2012 (there was an aggregate deficit of £235.7 billion at the end of October 2012).

The funding ratio decreased from 81.7 per cent to 80.8 per cent. There were 5,205 schemes in deficit and 1,111 schemes in surplus.



Source: The Pensions Regulator.

AUTO-ENROLMENT UPDATE

Earnings thresholds

The DWP has published its **response** to a **consultation** on auto-enrolment earnings thresholds for 2013 / 2014 (see **News on Pensions - October 2012**).

The thresholds have been updated following the Chancellor's Autumn Statement (see above) so that, with effect from 6 April 2013, they will be:

- £9,440 for the auto-enrolment earnings trigger (i.e. the Personal Allowance for income tax), and
- £5,668 and £41,450 for the lower and upper limits of the qualifying earnings band respectively (i.e. in line with the National Insurance Lower and Upper Earnings Limits).

Loopholes closed

The DWP has **announced** that it will amend the Pensions Act 2008 with retrospective effect to ensure that employers will only be able to defer automatic enrolment until 2017 in relation to existing employees receiving defined benefits in a defined benefit (DB) or hybrid scheme.

Without this change, legislation allowed employers to defer enrolment for existing employees who only had access to DC sections of a hybrid scheme.

Any firm that has issued a notice to an employee with a DC pension to defer auto-enrolment will have to backdate employer contributions and give the employee the option to pay backdated contributions themselves.

DRAFT PPF REGULATIONS

The DWP has published a **consultation** on the draft PPF and Occupational Pension Schemes (Miscellaneous Amendments) Regulations 2013.

The regulations are intended to make changes to PPF compensation and processes, such as reducing the time limit for applying for a valuation decision review from 2 months to 28 days, giving members the option to take compensation early or late, and allowing the PPF to pay money purchase pots up to £2,000 as a lump sum where the members are aged 60 or over.

The Office for National Statistics (ONS) has published a **report** comparing three measures of average life span:

- life expectancy (the mean age at death or the average total life span)
- median age at death (that age at which exactly half the deaths in a given time period were below that age and half the deaths were above that age) and
- modal age at death (the age where death is most likely or most common).

Life span is often measured by life expectancy at birth, which is highly influenced by deaths at young ages, so recently ONS has been investigating other measures of average life span. The ONS believes that modal age at death can be a useful measure for analysing mortality at older ages and can be used alongside other measures to help ONS to understand the ageing of the population of England and Wales.

The results show that in 2010 the most common age at death in England and Wales was 85 for men and 89 for women, and that over the 50 years to 2010 the average life span has increased by around 10 years for a man and 8 years for a woman.

TRIBUNAL RULING: CIVIL PARTNER AND WIDOW'S PENSIONS

A man has won a legal battle at an employment tribunal to secure equal pension benefits for his civil partner on the grounds that such discrimination contravenes both European Union law and the European Convention on Human Rights.

Innospec had used the exemption contained in the Equality Act 2010 that permits employers and pension funds to base benefits for surviving civil partners only on service on or after 5 December 2005, and offered John Walker's civil partner £500 a year in the event of Mr Walker's death. The tribunal agreed that he should receive the equivalent of a full widow's pension, which amounted to £40,000 a year. The Daily Mail reported that this could lead to claims of up to £90 million against companies.

FURTHER INFORMATION

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

- ***Managing Longevity Risk***
- ***Buy-outs, Buy-ins and Longevity swaps***
- ***The Impact on a Company's Share Price of its Final Salary Pension Scheme***
- ***De-risking your Pension Scheme***

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

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