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PATHways

PENSION ADMINISTRATION TECHNICAL HELP

HIGHLIGHTING PENSIONS NEWS AND LEGISLATION THAT HAS PARTICULAR RELEVANCE TO WHAT WE DO IN PENSION ADMINISTRATION

Budget 2014: new pension provisions tabled for Finance Bill

On 26 June, the Government proposed significant and wide-ranging new amendments to the Finance Bill currently passing through Parliament concerning pension flexibility. The new amendments cover:

- a temporary extension of the period by which a pension must follow a pension commencement lump sum (PCLS);
- a temporary relaxation to allow transfer of pension rights after a PCLS has been paid;
- a temporary relaxation to allow a lump sum to be repaid to the pension scheme that paid it;
- payment, in certain circumstances, of a trivial commutation lump sum or a 'small pot lump sum' after a PCLS;
- preservation of a protected pension age following certain transfers of pension rights;
- operation of enhanced protection of pre-6 April 2006 rights to take lump sums;
- protected lump sum entitlement following certain transfers of pension rights;
- modifications to the reporting obligations; and
- scheme sanction charges.

The Finance Bill is expected to receive Royal Assent by 22 July 2014.

Queen's Speech

Pensions played a key role in the Queen's Speech on 4 June, as the Queen announced Government plans to give individuals "discretion over the use of their retirement funds". There are to be two Bills which will allow individuals more flexibility with their pension savings as announced in the Budget earlier this year.

The Pensions Tax Bill will effectively remove the current requirement for individuals with defined contribution (DC) benefits to buy an annuity on retirement. The changes are likely to also include the ability for individuals to take their entire pension savings on retirement if they choose to, giving individuals the freedom and choice to access their pension as they see fit.

The Private Pensions Bill will allow Dutch style collective pension funds encouraging greater risk sharing between parties and providing greater certainty about retirement savings. Savers will be able to contribute to pooled pension funds along with many others and, in return, be offered a target pension paid directly from the fund (instead of through annuities).

The NAPF welcomed collective DC schemes (CDC), but noted the fundamentals for good member outcomes still apply and require "strong governance, low charges and investment strategies based on members' needs." It also notes that large pension schemes are already starting to emerge in the form of master trusts.

Record-keeping must improve to protect member savings

TPR has warned that pension scheme record-keeping must improve to protect the hard-earned savings of members. New research carried out by TPR has shown that the failure of more schemes to properly assess the quality of their record-keeping is a serious issue.

Definition of money purchase benefits in occupational pension schemes

On 18 June, the DWP withdrew the Pensions Act 2011 (Transitional, Consequential and Supplementary Provisions) Regulations 2014 that were laid before Parliament on 6 May 2014. It plans to replace the withdrawn regulations with two sets of regulations containing the same provisions, both to become law by 31 July 2014. It is unclear from the announcement why it has done this, unless it has discovered a need to modify the original Regulations in some way (after an SI has been laid, Parliament can only approve or reject it in its entirety).

TPR publishes new DB Funding Code and Statement

On 10 June, the Pensions Regulator (TPR) published its updated Code of Practice No.3 on funding defined benefit (DB) pension schemes.

The key messages set out in the original consultation draft have not substantially changed in the final version, although the update is some 20 pages shorter. TPR has emphasised that it expects the code to be applied proportionately and clarifies that smaller schemes will not slip under its radar. TPR has also reviewed the emphasis on affordability of employer contributions. TPR's revised interpretation requires trustees to consider the 'risks to the scheme and the impact on the employer' rather than simply requiring deficits to be paid 'as quickly as reasonably affordable'. Alongside the code, TPR has published a short guide to the code for trustees, its funding policy and regulatory strategy and its 2014 annual funding statement.

The new code has been laid before Parliament and is expected to come into force in the next few months. It will apply to all schemes with valuation effective dates after this, although TPR expects trustees with earlier valuation dates to take the new code into account "as far as it is reasonable given where they are in their valuation cycle". In due course TPR will update its educational materials (such as the Trustee Toolkit) to reflect the changes.

Research shines a light on DC standards

Research into the presence of TPR's DC quality features was conducted among single employer DC trust-based schemes and master trusts earlier this year. The survey assessed the presence of 30 of the 31 features for DC and hybrid schemes, and 29 features for master trusts. TPR has now published research into how DC trust-based schemes are applying its DC quality features.

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