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News on Pensions

JANUARY 2016

Creating a secondary annuity market

Her Majesty's Treasury and the Department for Work and Pensions (DWP) have issued a response to their earlier call for evidence on creating a secondary market for annuities (see News on: Pensions – April 2015).

From April 2017, pensioners will be allowed to sell the income from their annuity to a third party, subject to the agreement of the original provider. In exchange, they may receive a cash lump sum paid directly to them or into a drawdown arrangement. The penal tax charges that currently apply upon cashing in annuities will no longer apply and individuals will instead be taxed on the proceeds at their marginal rate of income tax.

The intention is to extend the government's pensions freedoms (see News on Pensions – April 2014) to an estimated five million current annuitants, as well as to those who buy an annuity in future.

Only those with individual annuities written in their own name may re-assign them. This includes annuities purchased by a pension scheme that have been assigned to the individual following a 'buy-out' with an insurer. The government currently has no plans to bring 'buy-in' annuities (purchased in the trustees' name, within an occupational defined benefit pension scheme) within scope.

The Government's response has also confirmed the following:

- **Tertiary market**
  The creation of a 'tertiary market' will be permitted, allowing annuities to be re-assigned more than once. This will potentially allow investors to combine several secondary annuities to sell on in bulk.
- **Purchasers of annuity income**
  The DWP is keen to allow a wide range of corporate entities to purchase annuity incomes, such as asset managers, pension funds and insurance companies.
- **Buy-back**
  The original annuity provider will be allowed to buy back annuity contracts they have issued. This will have to be done indirectly through a regulated intermediary. This is a change from the government's original proposal that buy-back would not be allowed.
- **Consumer protection**
  - The government will work with the Financial Conduct Authority (FCA) to develop an online tool providing estimates of annuity values to policyholders.
  - Pension Wise will be extended to incorporate guidance on selling annuities.
  - Independent financial advice will be compulsory for individuals selling annuities above a certain (as yet undefined) value.
  - Risk warnings will be used to highlight the dangers of selling an annuity, mirroring warning requirements introduced with recent pensions freedoms.
  - Annuity purchasers and intermediaries will have to be FCA authorised.
  - The FCA will consider whether consent will be needed from dependants or other potential beneficiaries of the original annuity.
  - The FCA will consider whether additional safeguards are necessary for vulnerable consumers.

2016/17 PPF levy

The Pension Protection Fund (PPF) has issued a response to its September 2015 consultation and, alongside it, the final 2016/17 PPF levy determination.

Details in the final determination are largely unchanged from the draft issued in September (see News on Pensions – October 2015), the key differences being as follows:

- **Voluntary accounts**
  Companies may voluntarily submit accounting information to Experian where they are not required to file accounts with Companies House. They may submit accounts for the three prior years to enable 'trend' variables to be calculated. For new employers, audited interim accounts may be voluntarily submitted to allow insolvency risk to be assessed.
- **Asset Backed Contribution (ABC) Arrangements**
  A 'lighter touch' approach to recertifying ABC arrangements will be put in place.
- **Mortgage exemptions**
  The PPF allows certain types of mortgage or charge to be excluded when calculating insolvency risk scores – for example where the PPF does not believe the charges are good indicators of risk. The PPF has made the following changes to the mortgage exemption rules:
  - With the exception of immaterial mortgages, any mortgage exclusions certified in the previous levy year will be carried forward.
  - A small tweak has been made to the PPF's definition of a 'refinance mortgage' to ensure that, as far as possible, genuine refinance mortgages may be excluded for scoring purposes;
  - Charges over bank accounts may now be certified for exclusion from the insolvency risk calculation if the amount deposited is immaterial;
  - The PPF are also allowing non-corporate entities (that are not required to file charges at Companies House) to exclude mortgages from the insolvency risk calculation (where otherwise a 'neutral' rating would be used) if they can prove that they do not have the power to grant security over their assets.
- **Non-sterling accounts**
  The PPF will move away from using a single date (1 April) to convert accounts not denominated in sterling, and will instead use the balance sheet date of the most recent accounts. Implementation of this change will be delayed until April 2016, and so will only affect Experian scores for the 2017/18 levy year.

The PPF will continue to consider whether any changes to the 2017/18 levy determination will be required following the introduction of the new accounting standard, FRS102. Further information can be found on our website.

Finance Bill 2016

The government has published a draft of the Finance Bill 2016. The Bill, when enacted, will bring into force reforms announced in the 2015 Budget and Autumn Statement:

- **Lifetime Allowance**
  The Lifetime Allowance (LTA) will reduce to £1million from April 2016 (see News on Pensions – April 2015). Fixed protection 2016 (FP16) and Individual Protection 2016 (IP16) come into force at the same time, allowing individuals to avoid retrospective tax charges (see News on Pensions – November 2015).

  Online application for FP16 or IP16 will not be ready until July 2016. Temporary applications will be possible in the meantime if HMRC are contacted in writing.

  HMRC has published Pension Schemes Newsletter 74 which, amongst other things, includes some example wording that pension schemes could use when communicating these changes to members.
- **Bridging pensions**
  Tax rules will be aligned with provisions in the Pensions Act 2014, ensuring that pension schemes may continue to pay bridging pensions (between scheme retirement age and State Pension Age (SPA)) after the introduction of the new single tier state pension in April 2016.
- **Dependants' scheme pensions**
  The Bill introduces some exemptions to annual tests of the value of dependants' pensions (against that of the deceased member) where the member died after age 75 and the value is below certain limits.

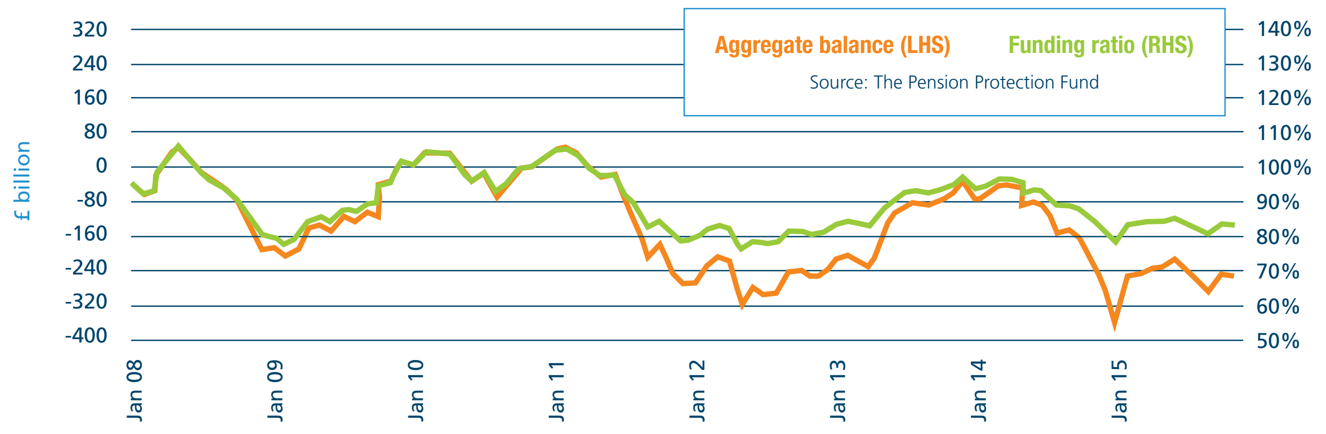
News in brief

PPF: 7800 Index

The latest update of the PPF's 7800 Index of schemes' funding (on the section 179 basis) has been published. There was a decrease in the s179 funding ratio from 83.6% to 83.4% between October and November 2015.

The PPF estimates that the aggregate deficit of the 5,945 schemes in the index has increased over the month to £249.4 billion at the end of November 2015 (there was a deficit of £244.4 billion at the end of October 2015). There were 4,751 schemes in deficit and 1,194 schemes in surplus.

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



Budget 2016: A date for your diaries

The Chancellor has announced that his next budget speech will be delivered in the House of Commons on 16 March 2016. He is expected to set out the government's plans following an earlier Green Paper on the future of pensions tax relief (see News on: Pensions – August 2015).

Contracting-out: April 2016

HMRC has issued its latest Countdown Bulletin providing additional guidance for pension scheme administrators on the ending of contracting-out in April 2016. This includes information on the following:

- From November 2015, state pension statements issued by the DWP have included a **Contracted-Out Pension Equivalent** (COPE) amount. The COPE is deducted from the state pension to reflect periods of contracted-out service.
- HMRC are launching their **Guaranteed Minimum Pension (GMP) Service** in April 2016. Pension Scheme Administrators will be able to use this service to obtain GMP calculations and contracted-out contributions and earnings information.
- HMRCs new State Pension Online service is now available. This can be used by individuals to claim their State Pension and is available "24 hours a day, 7 days a week".

Auto-enrolment: Earnings limits

The DWP has published analysis supporting a recommendation to keep the auto-enrolment earnings trigger at £10,000 for 2016/17. Employees earning more than the trigger level are required to be automatically enrolled into a workplace pension. It is estimated that freezing the trigger will mean a further 130,000 workers are eligible for auto-enrolment.

The government is also set to keep the lower and upper qualifying earnings band limits linked to the national insurance contributions lower and upper earnings limits. This would mean their 2016/17 values will be £5,824 and £43,000 respectively (their 2015/16 values were £5,824 and £42,385). Minimum contributions under auto-enrolment are based on earnings between these limits.

FCA Asset Management Study

The Financial Conduct Authority (FCA) has published the terms of reference for its 'asset management market study', in which it sets out the questions it intends to answer:

- How do asset managers compete to deliver value?
- Are asset managers willing and able to control costs and quality along the value chain?
- How do investment consultants affect competition for institutional asset management?; and
- Are there barriers to innovation and technological advances?

The review will cover both retail and institutional investors, including pension schemes. An interim report will be published in the summer, with the final report in spring 2017.

Further information

You may find the following recent blog posts and information sheets interesting:

- Pension Flexibilities: Impact on DB schemes six months in
- Buy-outs and buy-ins – Winter 2015
- Making sense of GMP reconciliation
- In, out, shake it all about: Britain and the EU hokey-cokey
- DB schemes: three ways to benefit from DC flexibility
- HMRC contracting-out forums: What have we learnt?
- TPR Guidance: Integrated Risk Management

Forthcoming events

Trustee Training – DB Schemes

10 March 2016 – London | 23 June 2016 – Leeds | 8 September 2016 – London

Barnett Waddingham's one-day courses are designed to give defined benefit (DB) scheme trustees a thorough grounding in pensions matters and the confidence to complete The Pensions Regulator's trustee toolkit. REGISTER >

Trustee Training - DC schemes

9 March 2016 – London | 15 June 2016 – Leeds | 7 September 2016 – London

Defined contribution (DC) trustees are legally required to have a minimum standard of knowledge and understanding. Our courses are aimed at both trustees of DC schemes and those involved with the governance and management of DC schemes. REGISTER >

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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