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News on Pensions

July 2014

TPR: Funding defined benefits

New Code of Practice

Following a consultation issued in December last year (see [Current Pensions Issues: Winter 2014](#)), The Pensions Regulator (TPR) has issued the final version of its revised [Code of Practice No. 3 on Funding Defined Benefits](#). TPR has also published a short '[essential guide](#)' to help trustees navigate through the code.

As a result of the consultation, TPR made a number of changes to the Code. In particular, TPR recognised that different approaches to risk management may be appropriate for different pension schemes and that trustees are not required to analyse every conceivable risk. TPR has also updated its phraseology – in particular the Code now refers to 'managing' risks, rather than 'mitigating' them, recognising that schemes may choose to take controlled, well-understood risks if this is believed to be of benefit to members.

The Code explicitly notes TPR's view that schemes can take a proportionate approach to assessing employer covenant.

TPR has reviewed the emphasis on affordability of employer contributions. The Code now requires trustees to consider the 'risks to the scheme and the impact on the employer' when assessing the appropriateness of a recovery plan rather than requiring deficits to be paid 'as quickly as reasonably affordable'.

TPR has clarified that trustees are only expected to scrutinise the employer's business decisions where they could impact materially on the scheme's funding position or the employer covenant. Where employers are asking to pay lower contributions to the scheme in order to invest in the business, trustees should assess the nature of the company's plans and the likely impact on the overall covenant.

The new Code was laid before Parliament and came into force on 29 July. TPR expects trustees with valuations in progress to take the new Code into account 'as far as it is reasonable given where they are in their valuation cycle'.

Annual funding statement

Alongside the Code, TPR has published its [2014 annual funding statement](#). The statement is intended as guidance for schemes with a valuation date between 22 September 2013 and 21 September 2014. The statement anticipates that current low bond yields will persist, and encourages trustees to plan for a longer period of low yields than previously expected.

Defined Ambition Pensions

Queen's Speech 2014: Pensions Tax Bill

Her Majesty the Queen delivered her [traditional speech](#) at the State Opening of Parliament on 4th June, setting out the Government's legislative plans for the final parliamentary session before next year's general election.

A Pensions Tax Bill will be on the agenda, enacting the changes outlined in the [Budget](#) on removing the requirement for members of a defined contribution (DC) pension scheme to purchase an annuity upon retirement (see [News on Pensions - April 2014](#)).

The Queen's speech also announced that a Pensions Schemes Bill would be put forward will pave the way for employers to offer Defined Ambition pension schemes - see below for more details.

DWP's response to 'Defined Ambition' consultation

The Department for Work and Pensions (DWP) has [published](#) the government's response on the consultation on reshaping workplace pensions for future generations (see [News on Pensions - December 2013](#)). The consultation set out a number of options for 'Defined Ambition' or 'risk sharing' pension schemes.

The consultation response notes that there is strong support from the public and employers for risk sharing schemes. The government has therefore presented a Pension Schemes Bill to Parliament that will allow the creation of risk-sharing defined contribution (DC) schemes and collective defined contribution (CDC) schemes.

Flexible defined benefit (DB) schemes have not been pursued, most likely due to little appetite for change to existing DB pension plans without allowing trustees to amend benefits already earned, which the government had already dismissed.

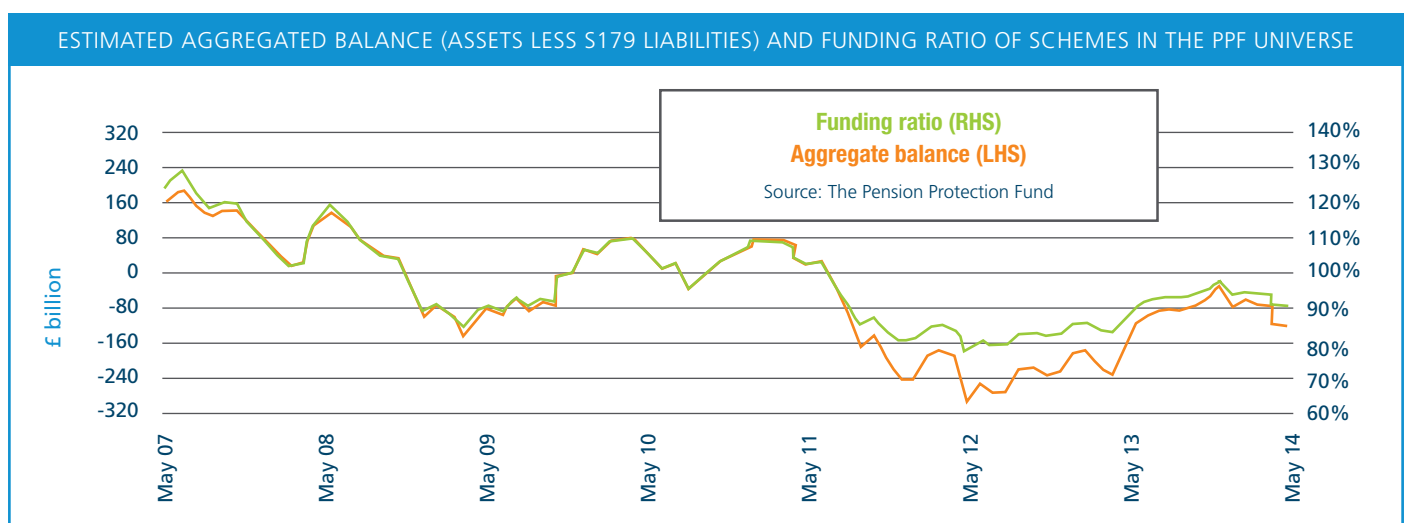
PPF news

PPF 7800 Index update

The [latest update](#) of the Pension Protection Fund's (PPF) 7800 Index of schemes' funding (on the s179 basis) has been published.

The aggregate deficit of the 6,150 schemes in the PPF 7800 index is estimated to have increased over the month to £118.2 billion at the end of May 2014, from a deficit of £112.3 billion at the end of April 2014.

The funding ratio fell from 91.1% to 90.8%. There were 4,348 schemes in deficit and 1,802 schemes in surplus.



Technical News

The PPF has published the latest issue of its [technical news](#) for schemes in PPF assessment periods and Financial Assistance Scheme (FAS) qualifying schemes. The PPF has also published FAQs on the [completion statement](#) for trustees of schemes transferring to the FAS, together with an example statement.

TPR: 2014 annual record-keeping survey

TPR has published the findings of its [annual record-keeping survey for 2014](#).

The survey finds that 63% of members of trust-based schemes are in schemes with a common data score of over 95% and that large schemes continue to outperform small schemes. Further, 42% of schemes (down from 46% in 2013) do not formally assess conditional data requirements.

TPR urges trustees to consider record-keeping a priority and will take action where problems become apparent. Please contact your usual Barnett Waddingham consultant if you would like to discuss record keeping requirements in more detail.

Review of survivors' benefits

The Marriage (Same Sex Couples) Act 2013 came into force on 13 March 2014, with the first marriages between same sex couples taking place from 29 March 2014. The Act has implications for survivor benefits granted to spouses or partners in pension schemes and trustees may need to take legal advice on how their scheme will be affected.

The legislation to allow couples to enter into civil partnerships came into force on 5 December 2005 and this date remains significant for pension schemes. Schemes were required to offer civil partners the same right to survivor benefits as married couples, but only in respect of:

- service after 5 December 2005 in contracted-in schemes
- service after 6 April 1988 in respect of contracted-out benefits.

These rights must now be extended to same sex spouses.

The government has now published its [review of survivors' benefits](#) required under the 2013 Act, alongside the research supporting the review. The review stops short of recommending any retrospective changes to survivor benefits and suggests the government should consider the issues 'very carefully before making a decision on whether the law should be changed'.

Many schemes will have given civil partners the same rights as opposite-sex spouses, in which case trustees may simply want to extend these rights to same-sex spouses now. However, the default benefit under existing wording in the Trust Deed and Rules may not provide for this, so legal advice should be sought.

FTSE 100 companies survey 2013

Barnett Waddingham has published our thirteenth [annual survey](#) of the assumptions adopted by FTSE100 companies for determining the value of their pension liabilities for accounting purposes. This survey is based on data in the published accounts of FTSE100 companies with financial years that ended on 31 December 2013.

Amongst other things, the survey shows that the average discount rate used by FTSE100 companies for their pension disclosures rose to 4.5% at 31 December 2013; the increase of 0.1% is the first since 2008.

Further information

Coming up...

In the August edition of News on Pensions, we will be considering in more detail:

- The new statutory definition of Money Purchase which came into effect on 23 July, and its implications for ongoing and winding-up schemes.
- The government's response to the Freedom and Choice in Pensions consultation, in which the Treasury confirmed that transfers from private sector DB schemes to DC arrangements will not be banned.

Save the Date – Pensions Conference: Wednesday 26 November 2014

2014 has seen the most fundamental changes in the pensions world for a generation.

Risk-based funding, unrestricted retirement drawdown, and shared risk schemes together with exceptional auto-enrolment retention rates provide an exciting new platform for future pension provision.





What does this mean for existing schemes and the future of pension savings?

Our highly-respected annual London Pensions Conference, now in its fifth year, will analyse the recent changes. Our expert speakers will focus on the likely short- and long-term impact these changes will have on existing and future retirement vehicles.

Our keynote speaker, [Sir John Gieve KCB](#), previously private secretary to three Chancellors, Permanent Secretary at the Home Office, and Deputy Governor of the Bank of England, will give his analysis of the UK and global economy and what is shaping policy for the future.

Please save the date in your diary and further details will be released in September. This is a full day conference and is free to attend.

To discuss these issues in more detail please contact your usual Barnett Waddingham consultant or use the following:

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