News on...

Barnett Waddingham
a **true partnership** approach

Current Pensions Issues - Spring 2013

Budget 2013

The Chancellor of the Exchequer delivered his *2013 Budget Statement* to the House of Commons on 20 March. Whilst this year's Budget was lacking in the headline-grabbing pensions-related announcements that have characterised previous budgets, there were nonetheless several aspects of which pension scheme trustees and sponsoring employers need to be aware.

Scheme Funding - Smoothing Plans Abandoned

Following a consultation earlier this year, the Department for Work and Pensions (DWP) has listened to industry concerns that smoothing in Scheme Funding valuations would be unworkable. The *2013 Budget Report* included the following statement:

> *"DWP's call for evidence on asset and liability smoothing did not reveal a strong case for changing legislation to permit smoothing. The Government will therefore not be pursuing this measure."*
>
> HM Treasury, Budget 2013

In our response to their *call for evidence* in March, we told the DWP that "*we are not convinced that allowing smoothing of assets and/or liabilities in Scheme Funding valuations is the right way to incorporate … additional flexibility [into the Scheme Funding regime].*"

New objective for TPR

Alongside the smoothing consultation, the DWP also sought views on whether The Pensions Regulator (TPR) should be given a new statutory objective. The original suggestion was that TPR should take "affordability of pension scheme contributions" into account. However, the Treasury has now said that:

> *"The Government will provide The Pensions Regulator with a new objective to support scheme funding arrangements that are compatible with sustainable growth for the sponsoring employer and fully consistent with the 2004 funding legislation."*
>
> HM Treasury, Budget 2013

In theory this will introduce further flexibility for trustees and sponsoring employers in negotiating funding plans where the company wishes to retain funds to grow the business, rather than locking them away in the pension scheme.

The Regulator *responded* to the news saying that it "*will make the changes required … as part of a review of the Code of Practice for [Defined Benefit] funding … as soon as possible this year*". In addition, TPR's statement on Scheme Funding in the current economic environment is expected to be published later in the Spring.

The exact wording of the objective is expected to be set out in the forthcoming Pensions Bill later in the year and will be reviewed six months after it comes into effect.

Contracting-out to end in 2016

In January the DWP published a *White Paper* setting out details of its plans for reform of the State Pension system (see our *Winter 2012/13 Newsletter*). In the White Paper the DWP proposed that, from April 2017 "at the earliest", the current state pension structure would be replaced with a single flat-rate pension of around £144 per week (in today's prices) for everyone with a 35-year National Insurance Contributions (NICs) record.

Just before the 2013 Budget, the Chancellor *announced* that, in fact, these reforms would now be brought forward to April 2016. This was confirmed in the Budget speech on 20 March.

As a consequence of this change, the ability to contract-out of the State Second Pension (S2P) via a salary-related scheme will also cease a year earlier than expected. Rebates of NICs enjoyed by employers (3.4% of relevant earnings) and employees (1.4% of relevant earnings) by virtue of being contracted-out will be abolished – although the increase in employers' National Insurance bills will be partially offset by a £2,000 "Employment Allowance" from April 2014.

The DWP will consult on legislation later this year that will enable employers to adjust pension scheme benefits in light of the increase in NICs.

Trustees and employers should start thinking now about the effect of the end of contracting-out on their schemes.

Our Services

Barnett Waddingham provides professional services spanning pensions, and life and general insurance.

Our services include:

- Scheme Actuary and associated services to the trustees and employers associated with defined benefit pension schemes.
- Advice in relation to defined contribution schemes.
- Pension accounting for UK and international companies.
- Administration and management services including pensioner payroll, preparation of annual accounts and secretarial services.
- Investment strategy reviews and advice on scheme evolution strategy.
- Management of closed schemes, wind-ups and reconstructions and schemes in PPF assessment.
- Employer risk management through buy-out options, transfer exercises and PPF levy management.
- Advice on group personal pensions, stakeholder schemes and personal accounts.
- Group risk advice including group life assurance, private medical benefits and income protection benefits.
- Advice to individuals and employers on pension provision for executives, including pre-hire, advice upon early termination and tax efficiency in the lead up to retirement.
- Analysis and modelling of mortality and longevity risk for insurance companies, reinsurance companies, investment banks and pension schemes.

We also have a dedicated team that provides a wide range of services to the life assurance and general insurance industries in the UK and overseas including statutory actuarial roles.

Through our associated company, Barnett Waddingham Investments LLP, we provide assistance to individuals in respect of all aspects of their financial wealth management. These services include investment advice together with executive pension counselling and retirement option advice including an annuity bureau.

Barnett Waddingham is also a leader in the provision of self invested personal pensions (SIPPs), small self-administered pension schemes (SSASs), specialist executive pension plans (EPPs) and other retirement arrangements.

Other pensions-related announcements

- As *previously announced*, the Chancellor confirmed that the Finance Act 2013 will set out the reduction to the standard lifetime allowance (to £1.25 million) and Annual Allowance (to £40,000) from 2014/15.
- The Treasury *will consult* in the Spring on "individual protection" following the cut in the Lifetime Allowance to £1.25m (from April 2014), and legislation will be included in the Finance Bill 2014.
- Equitable Life with-profits annuitants who purchased annuities before 1992 (and therefore did not qualify for the original compensation scheme) will receive an "ex-gratia payment" of £5,000 each. Those on pension credit will receive a further £5,000.
- *Quantitative Easing* will remain in place for 2013/14.
- The Government is to explore ways in which pension schemes might be able to invest in projects where commercial properties are converted for residential use.
- The personal income tax allowance will rise to £10,000 from April 2014.
- The Consumer Price Index (CPI) inflation target of 2.0% pa will remain in place and the Monetary Policy Committee will in future issue explicit "forward guidance" on the path that interest rates are expected to follow, much like the Federal Reserve does in the US.

Defined Ambition

The Pensions Minister, Steve Webb, has called for a new type of defined contribution (DC) pension scheme which, for an upfront premium, would include a modest level of *guaranteed minimum investment return*. Mr Webb described this example of a Defined Ambition pension scheme as having a "stunning sales pitch" and also stated that the Government was considering setting up a "protection fund" model to provide these guarantees more cheaply than available in the open market.

For further information on Defined Ambition schemes, see the *information sheets* on our website.

Latest news from TPR and the Pension Protection Fund

TPR: "Predators stalk your pension"

TPR, *HM Revenue & Customs* (HMRC) and *Action Fraud* have launched an information campaign that aims to crack down on a type of fraud known as "pension liberation". This occurs when members are approached by companies claiming to offer early access to their pension pot, and can leave savers with large tax bills and significant losses to their pension savings.

Barnett Waddingham includes TPR's *warning leaflet* as standard in transfer value quotations for all our administration clients. A *more detailed information leaflet* is available on the Pensions Advisory Service's website and we will draw this to the attention of any members who ask to know more.

TPR has launched an *e-learning tool* to teach users how to identify fraud and detail the steps to be considered if fraud is suspected.

TPR: Record-keeping review

TPR has launched *a review* of whether schemes have met targets for keeping accurate records and how schemes have responded to the Regulator's record-keeping guidance.

For new data created after June 2010, TPR expects 100% of "common data" to be in place. For data created before June 2010, the target is 95%. The target deadline was 31 December 2012.

The Regulator is now increasing its focus on "conditional data" (detailed information used, for example, in calculating member benefits) Trustees may therefore wish to review their member records to check the accuracy of conditional data.

During early 2013, TPR will contact around 250 schemes of different types. The surveyed schemes will be asked to demonstrate actions taken to meet data standards and processes and controls in place to maintain or improve those standards.

PPF: Key dates

The Pension Protection Fund (PPF) has reminded schemes of certain *levy-related deadlines* includes:

- 5pm on 30 April 2013 to certify deficit-reducing contributions
- 5pm on 28 June 2013 to certify block transfers.

The 2013/14 PPF Levy will be based on scheme information submitted to Exchange prior to 5pm on 28 March 2013. The levy calculation will be based on an average of employer "failure scores" over the year to 31 March 2013.

The PPF has recently updated its guidance on the certification of contingent assets and has now published a *note* (including case studies) to assist schemes in assessing whether Type A contingent assets (parent company guarantees) meet the PPF's requirements.

Auto-enrolment update

Auto-enrolment began on 1 October 2012, with the largest employers now required to enrol staff into a workplace pension arrangement.

TPR: Auto-enrolment awareness

TPR has published a *research report* on employers' awareness, understanding and activity relating to workplace pension reforms. The report shows that employers' awareness and understanding of the key features of auto-enrolment has improved since the Regulator conducted its last wave of the employer tracker in Spring 2012.

TPR has also published *research* showing that financial intermediaries' awareness and understanding of auto-enrolment improved significantly during 2012. The Regulator has launched a *hub* on its website bringing together the information intermediaries need to help their clients comply with their duties.

Lifting the restrictions on NEST

The Work and Pensions Select Committee has published a report, "*Lifting the restrictions on NEST*", in which it reiterates an earlier recommendation to remove the cap on annual contributions to NEST (National Employment Savings Trust) and lift the current ban on transfers in and out of the scheme.

The Committee recommends that the restrictions be lifted "as a matter of urgency", rather than waiting until a review due in 2017, in order to support the continued success of auto-enrolment implementation.

The Personal Finance Society has conducted a *survey* in which 69% of the 699 financial advisers surveyed agreed that the annual contribution limit and transfer restrictions influence employers' decision making.

News in Brief

RPI: Not a National Statistic

The UK Statistics Authority has *said* that the Retail Prices Index (RPI) will no longer be classified as an official "National Statistic" as it does not comply with its relevant Code of Practice. This follows the National Statistician's *announcement* that widely anticipated changes bringing the construction of RPI in line with that of CPI were not to happen.

Trustees may wish to review the wording in their scheme documentation in light of this, to ascertain whether there are any implications of the change for their scheme - in particular, where they have discretion over which measure of inflation to use when increasing pensions.

GMP equalisation

The DWP has confirmed that it has "no doubt" that pension schemes are legally required to equalise for the effects of Guaranteed Minimum Pensions (GMPs). In an *interim response* to its January 2012 consultation (see *News on...Current Pensions Issues Spring 2012*), the DWP said that legislation and guidance will however be delayed whilst the Government considers the matter in more detail.

The DWP is expected to look in to whether equalisation could be better achieved via the conversion of GMPs in to ordinary scheme benefits.

A timetable for further guidance or legislation has not yet been broached. In the meantime trustees may wish to continue delaying a decision on equalising GMPs in their scheme, but should still consider whether contracting-out data held is accurate and up-to-date.

DWP: Disclosure of Information Regulations

The DWP *is consulting* on draft Disclosure of Information Regulations. The draft regulations, expected to come into force in October 2013, are intended to "consolidate and harmonise" the principal disclosure of information regulations for occupational and personal pension schemes.

The DWP is proposing to simplify the "basic scheme information" that schemes are required to disclose to members and to clarify the approach to communicating with members via a website.

PPF: Guidance published on FAS overpayments

The PPF has published *guidance* regarding Financial Assistance Scheme (FAS) overpayments. The guidance outlines what the PPF will do when members of the FAS receive more money than they are entitled to, and how members can ask for the calculation to be reviewed if the PPF seek recovery of the overpayment.

VAT on investment management services

On 7 March 2013 the Court of Justice of the European Union ruled that defined benefit (DB) pension funds are *not exempt from paying Value Added Tax (VAT)* on investment management fees.

The National Association of Pension Funds (NAPF) and Wheels Common Investment Fund Trustees had argued that pension funds are "special investment vehicles" and therefore should be exempt from paying VAT on investment management services under European law.

It is believed that an appeal is unlikely although the matter may yet be raised again in the European Courts.

ONS: Survey of Hours and Earnings

The Office for National Statistics (ONS) has published its *2012 Annual Survey of Hours and Earnings* Pension Tables. The survey showed that in 2012, membership of workplace pension schemes dropped to 46%, its lowest level since 1997.

ABI: Annuities Code of Conduct

The Association of British Insurers (ABI) has implemented a *code of conduct on retirement choices* for its members with effect from 1 March 2013. The code is intended to make options at retirement clearer and enable people to secure the best annuity deal for them. The ABI will review the impact of the code in 2014.

Trustee training

Many clients have used our one-day Trustee Training course to bring new trustees up to speed or as a refresher course. Details of courses being run in 2013 can be found on *our website*.

NAPF guides for trustees

The NAPF has published the latest in its series of "made simple" guides for pension funds, on fiduciary management. The *guide* explains the concept of fiduciary management and sets out issues for trustees to consider.

The NAPF has also published a guide "*Quizzing Fund Managers*" to help trustees assess the stewardship abilities of prospective investment managers. The one-page document suggests questions trustees should ask when selecting or reviewing their investment managers.

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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