

# News on Pensions

APRIL 2016

## Budget 2016 - update

### LISA inquiry

The Work and Pensions Committee has [re-opened its inquiry into auto-enrolment](#) amidst fears that opt-out rates could be influenced by the introduction of the Lifetime ISA (LISA).

The LISA, announced by the Chancellor of the Exchequer during [last month's Budget](#), is due to be launched in April 2017 and will reward savers (under age 40) with a 25% government bonus on savings of up to £4,000 each year. LISA savings may be used to buy a first home or to fund retirement from age 60. However, the government bonus may be lost if drawn earlier, or used for other purposes.

The Work and Pensions Committee inquiry was launched following concerns that employees may not be aware of the relative benefits offered by occupational pension arrangements – for example employer contributions – and may therefore be encouraged to save into a LISA instead of a pension.

See our recent [blog post](#) for further commentary on the LISA.

### HMRC Newsletter 77

Following the 2016 Budget, Her Majesty's Revenue & Customs (HMRC) has issued [Pension Schemes Newsletter 77](#). The newsletter includes information relating to the minor changes that will be made to the tax rules surrounding pension flexibilities to ensure they work as intended. For example, changes will be made to the tax treatment of serious ill health lump sums and the trivial commutation of money purchase pensions already in payment.

With the Lifetime Allowance (LTA) having reduced from £1.25 million to £1 million as of 6 April 2016, two transitional protections are being provided, similar to those used in 2014. A new digital service is being provided for individuals to apply for the protections from July 2016 (with an interim process for individuals retiring before the new digital service is up and running). Further details are included in the newsletter.

Finally, the Government has published the [Finance Bill 2016](#) which, when enacted, will legislate for many of the minor changes made in the Budget and the 2016 LTA protection regimes.

## DB to DC transfers: FRC review

The Financial Reporting Council (FRC) has published the results of the Joint Forum on Actuarial Regulation's (JFAR) [review of transfers](#) from defined benefit (DB) to defined contribution (DC) schemes.

The review sought the views of Scheme Actuaries and other pensions professionals, and was intended to help JFAR "understand the impact on actuarial work of pensions freedoms introduced in April 2015" as well as "any consequent impact on actuarial regulation".

The results show that since the introduction of the pension freedoms, although numbers remain low overall, there has been a small increase in the number of DB to DC transfers being processed, largely amongst the over 55s. JFAR suggests that the value that members of DB schemes place on their benefits may explain the low take-up of the option to transfer. They also found many trustees are reluctant to actively promote transfers.

The FRC notes that as a result of the review, JFAR will "continue to monitor the level of transfer activity and any actuarial issues arising in this area".

## Latest from TPR

### Freedom & choice in DC schemes

The Pensions Regulator (TPR) has published a [report](#) on the approach that occupational DC schemes have taken in implementing new pension flexibilities from April 2015. The results are based on interviews with trustees and sponsoring employers.

- **Scheme demographics:** Member-led demand for new flexibilities appears to be low. This has been attributed to low proportions of members over age 55 and that many DC schemes form part of larger hybrid schemes where the presence of 'safeguarded' benefits is thought to influence member decisions about accessing retirement funds.
- **Sponsoring employers:** Making changes to a scheme often requires employer consent and incurs costs. Employers remain paternalistic about the schemes they support and see it as an important part of the benefit package they offer to employees. They therefore want to retain their influence on benefit structure and how such flexibilities are offered.
- **Member engagement:** Members' engagement with their pension savings was described as low. Trustees expressed their concerns at this and the effect it is having on members' 'savings journey'.
- **Investing in systems and product capability:** It is believed that the speed of legislative changes is making it difficult for some service providers to update record-keeping systems, develop suitable products or prepare advice.
- **Regulatory risk:** The results show that both trustees and employers are worried about the risks they take in offering such pension flexibilities – in particular where they may be perceived to be giving advice to members.

### Scheme returns: warning to DC trustees

TPR is warning DC scheme trustees who do not complete their 2016 scheme return that they are in breach of the law and risk a fine.

TPR is concerned that [DC scheme return completion rates have fallen](#) for the second year running, totalling a reduction in completion rates of 18% since January 2014. TPR is considering publishing details of schemes who breach this requirement.

## PPF news

### FAS closing to new applications

The Pension Protection Fund (PPF) is to [close the Financial Assistance Scheme \(FAS\)](#) to new applications from 1 September 2016.

Eligible schemes which have not yet notified the PPF should do so as soon as possible. The closure will not affect members currently receiving compensation or those with a deferred entitlement in the scheme.

The FAS was established to offer help to members who have lost out on their pension because they were a member of an under-funded DB scheme that started to wind-up and/or the employer went insolvent between 1 January 1997 and 5 April 2005 (after which the PPF was established).

### Compensation cap factors

The PPF has published updated [compensation cap factors](#) applying from 1 April 2016. The PPF compensation cap at age 65 for 2016-2017 is £37,420.42 per annum. This equates to £33,678.38 per annum after the 90% adjustment has been applied.

The compensation cap is applied to the benefits of members who retired early and/or had not yet reached their scheme's normal pension age when the employer went bust.

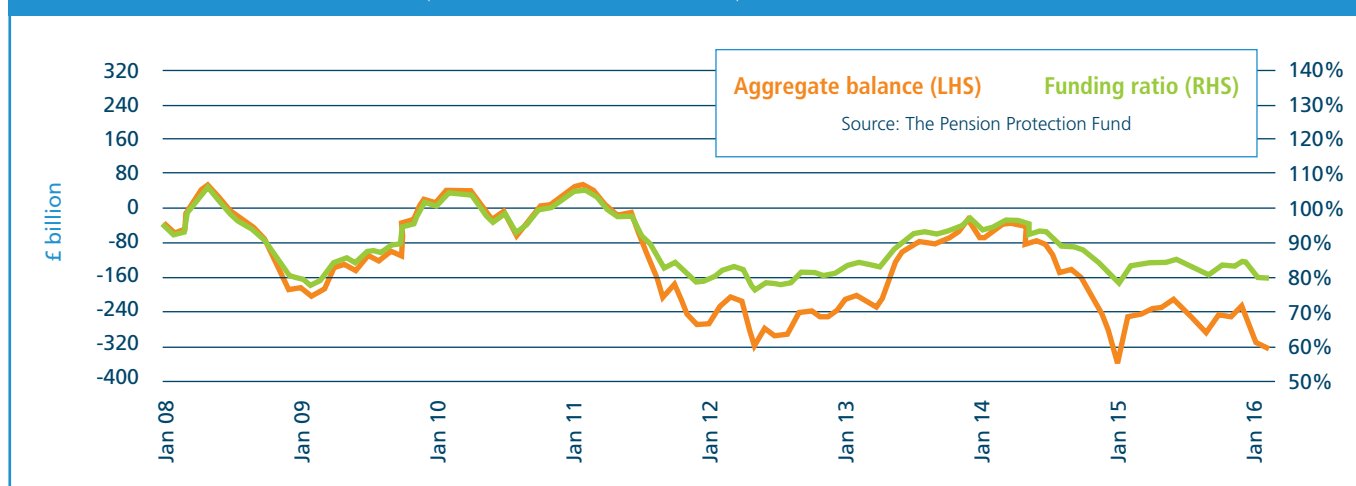
### PPF 7800 Index

The latest update of the [PPF's 7800 Index](#) of schemes' funding (on the 'Section 179' basis) shows there was a fall in the overall funding ratio from 80.5% to 79.8% between January and February 2016.

The aggregate deficit of the 5,945 schemes in the index is estimated to have increased over the month to £322.8 billion at the end of February 2016 (there was deficit of £304.9 billion at the end of January 2016).

There were 4,956 schemes in deficit and 989 schemes in surplus.

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



## Auto-enrolment: Formerly contracted-out schemes

From 6 April 2016, employers will no longer be able to rely on having a contracting-out certificate as evidence that their DB pension scheme continues to meet minimum requirements as an auto-enrolment (AE) vehicle for active members. It is the employer's duty to determine that the AE quality requirements are met.

The Department for Work and Pensions (DWP) has published guidance on the alternative tests of scheme quality to determine whether a DB or hybrid pension scheme may continue to be used for AE purposes. The DWP has not granted a period of grace to formerly contracted-out DB schemes, who must now re-confirm that their scheme meets the test as soon as possible (if they have not already).

The government has legislated for a simple test for formerly contracted-out DB and hybrid schemes that considers whether the actuarial value of future service benefits assessed at the last scheme funding valuation meets minimum criteria. To allow for different earnings definitions, the minimum percentages range from 9% to 13% of earnings. However, depending on the definition of earnings used to calculate members' benefits, some schemes may find they not be able to use this simple test. Instead, employers would have to certify schemes on the basis that the benefits provided meet the minimum prescribed standards.

There is no prescribed certificate to complete. The employer simply needs to keep a copy of the last actuarial valuation report showing that the contributions are greater than the relevant minimum. For a transitional period, formerly contracted out schemes may apply this cost of accruals test at overall scheme level (even if there is a material difference in the cost of the benefits accruing for different groups of members), but only:

- in respect of members who were in contracted-out employment on 5 April 2016; and
- where the scheme rules have not been materially amended after that date.

The transitional period ends when the scheme's actuary signs off the next valuation report (or 5 April 2019 if sooner).

## News in brief

### Auto-enrolment: earnings triggers

The [Automatic Enrolment \(Earnings Trigger and Qualifying Earnings Band\) Order 2016](#) came into force on 6 April 2016 and increases the upper level of Qualifying Earnings from £42,385 to £43,000. Other triggers and earnings thresholds [remain unaltered from 2015/16](#).

The Qualifying Earnings Band is the range of an employee's salary on which minimum contributions to auto-enrolment schemes are calculated.

### State Pension: early retirement?

The Work and Pensions Committee has recommended that the Government allow women who were given [short notice of the increase in the state pension age](#) the option to retire earlier, with a slightly reduced pension. As part of this recommendation, it has launched an inquiry into the possible [impact of this policy](#).

## Corporate trustees: persons with significant control

From 6 April 2016, company law requires most unlisted UK companies to take reasonable steps to find out if there is a person or entity with 'significant influence or control' over them; and create and maintain a register of those persons.

This requirement is expected to apply to most pension trustee companies where, in many cases, the principal employer is expected to be a 'person with significant control'. The information will need to be provided to Companies House from 30 June 2016, as part of the filing of the annual information.

## Further information

### Generation why? survey 2016

We have published the results of our [2016 Generation why? survey](#). This recurring survey, launched in 2014, is designed to help Barnett Waddingham gain a better understanding of generational attitudes and perspectives towards saving and money matters, and how an individual's affluence influences their thinking.

A new question for this year's survey was "Are you aware of the Budget changes (from April 2015)?", with 80% of respondents saying that they were.

### Comment and insight

You may find the following recent blog posts and briefing notes interesting:

- [How to survive the EU referendum?](#)
- [Buy-outs and buy-ins – Spring 2016](#)
- [Budget 2016 overview: everything you need to know](#)
- [Has Osborne given saving a new LISA life?](#)
- [Current Issues in Pensions Financial Reporting - March 2016](#)
- [RIP contracting-out: gone but not forgotten](#)

### Forthcoming events

#### Webinar: Pensions flexibilities - the impact on DB schemes

In April 2015 legislative changes were introduced which were designed to increase the flexibility individuals have when accessing their pension savings from age 55. In this webinar on 26 April 2016 we consider the overall market experience within DB schemes following these reforms. [REGISTER >](#)

#### Trustee Training (DB Schemes)

**Leeds - 23 June** [REGISTER >](#)      **London - 8 September** [REGISTER >](#)

Barnett Waddingham's one day courses are designed to give trustees a thorough grounding in pensions matters and the confidence to complete The Pensions Regulator's trustee toolkit.

#### Trustee Training (DC Schemes)

**Leeds - 15 June** [REGISTER >](#)      **London - 7 September** [REGISTER >](#)

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.

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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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