

Current Pensions Issues

TPR: Annual funding statement

The Pensions Regulator (TPR) has issued its [2017 funding statement](#), intended as a guide for defined benefit (DB) schemes undertaking a valuation with an effective date between 22 September 2016 and 21 September 2017 ('Tranche 12' schemes).

- TPR notes that 'bond market yields have remained low over a relatively long period in comparison to historic levels' which is likely to have driven liability valuations higher (see below).
- In light of continuing uncertainty over future economic conditions, TPR highlights the importance of effective [risk management](#).
- TPR has acknowledged the current debate about setting discount rates in a low-yield environment – in particular, whether a 'gilts plus' approach remains appropriate, stressing that trustees are required to choose assumptions prudently.
- TPR acknowledges that employer covenants change over time and trustees should focus on the employer's ability to make cash contributions in the shorter term.
- TPR encourages trustees of 'stressed schemes' backed by a weak employer covenant to ensure risks are appropriately identified and controlled.
- TPR encourages all schemes to negotiate a legally enforceable contingency plan with employers, to be implemented if their funding position worsens significantly.
- TPR will be focusing on more proactive casework in future, including intervening early before the submission of recovery plans in some cases.
- TPR expects trustees to have an action plan in place to handle unexpected cashflow requirements.
- There is an increasing range of investment opportunities available to small pension schemes and so TPR says trustees should reassess the investment options that may be available to them.

TPR outlines the actions it expects trustees to take, depending on the risk profile of the scheme:

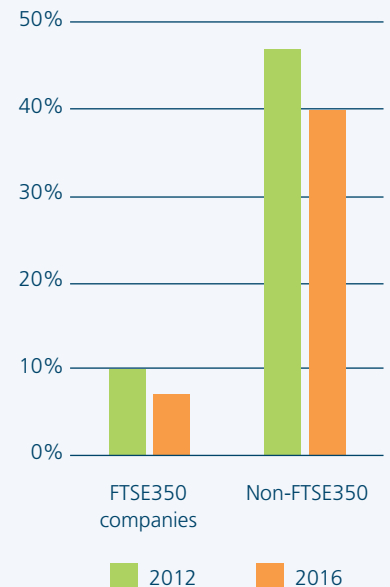
Employer	Scheme	TPR's expectations
Strong covenant	<ul style="list-style-type: none"> • Funding on track • Technical provisions not weak • Short recovery plan 	Continue current pace of funding. Do not extend Recovery Plans without good reason.
Strong covenant	<ul style="list-style-type: none"> • Weak technical provisions; or • Long recovery plan 	Seek higher contributions in case covenant weakens.
Weak covenant	<ul style="list-style-type: none"> • No formal support from parent company for example 	Seek legally enforceable support and opportunities to reduce risk.

TPR later published its [technical analysis](#), providing additional context to the annual funding statement. TPR believes most DB schemes remain 'affordable', but that many schemes could do more to reduce deficits and/or risk.

TPR's analysis suggests that for the majority of Tranche 12 schemes, the value of their liabilities is likely to have grown by more than their scheme assets since their last valuation. Broadly, it estimates that deficits will have risen by 150% for schemes with 31 December 2016 valuations and by 100% for schemes with 31 March 2017 valuations.

Deficit Reduction Contributions (DRCs) have fallen as a percentage of companies' overall dividend payments. This reduction has been driven by a significant increase in dividend payments without a corresponding increase in DRCs.

DRCs as a proportion of sponsor dividends



Average increase in deficit since previous valuation for schemes with 31 Dec 2016 valuations



Average increase in deficit since previous valuation for schemes with 31 Mar 2016 valuations

Same sex marriages and survivor benefits

The Supreme Court [has ruled](#) in the landmark case of Walker vs Innspec and others that survivor benefits should be paid on the same basis for same-sex couples as for opposite-sex couples. In particular, the court ruled that requiring equal treatment only in respect of benefits earned since 2005 (when civil partnerships were introduced in the UK), as legislated in the Equality Act 2010, is incompatible with EU law.

The Department for Work and Pensions (DWP) is expected to respond to the Supreme Court ruling in due course. In the meantime, trustees may wish to review survivor pension provisions in their scheme's rules with their legal advisers. For further information see our recent [blog post](#).



2017 General Election

Following a snap general election in June, the Conservative party were returned to a hung parliament having lost their majority in the House of Commons. As a result, they entered into an agreement with the Northern Irish Democratic Unionist Party (DUP) who will formally support a minority government led by the Tories.

Whilst the Conservatives set out a number of pensions-related policies in their [election manifesto](#), it remains to be seen whether some or all of them will be backed by the DUP or whether amendments and compromises are required, particularly in light of ongoing 'Brexit' negotiations. Their manifesto policies included:

- Increased protection from abuse by business owners for private pension schemes. Proposals include extending TPR's powers so it could issue fines to business owners, prevent business transactions (e.g. mergers) from proceeding and disqualify company directors.
- A commitment to promote long-term saving and pension products, including the Lifetime ISA (LISA).
- Plans to provide long-term investment opportunities to pension schemes via new 'Future Britain' infrastructure funds.
- Abandoning the 'triple lock' on state pensions (whereby state pensions are increased according to the greatest of the change in average earnings, inflation, and 2.5%) from 2020. A proposed new 'double lock' was intended to give increases based on the greater of the increase in average earnings and inflation. However, the [deal struck with the DUP](#) includes an agreement to retain the triple lock.
- Ensuring that the State Pension Age (SPA) increases in line with changes in life expectancy.
- Extending 'auto-enrolment' to cover small employers and the self-employed in order to ensure that more and more people are building up savings for their retirement.
- Introducing means-tested Winter Fuel Payments but retaining all other pensioner benefits, such as free bus passes. The DUP agreement however includes a promise that there will be "no change to the universal nature of the Winter Fuel Payment."

Further reading:

[Theresa gets tough on takeovers](#)

Employer debt regulations

The government has been [consulting](#) on changes to employer debt regulations.

The proposals being consulted on affect non-associated multi-employer schemes (NAMES) - schemes in which a number of unconnected employers participate – and follow an earlier consultation that ran from March to May 2015. The DWP is proposing that trustees of NAMES should be able to defer the requirement to serve a debt on an employer that ceases to employ any active members, subject to certain conditions, including:

- The employer retains responsibility towards the scheme, including in relation to funding.
- The employer is not restructuring.
- The 'funding test' is satisfied – i.e. all the employers of the scheme, including the deferred employer, will be reasonably likely to fund the scheme in future.
- Trustee consent is obtained.
- The scheme is not in, or about to enter, PPF assessment.

The DWP suggests certain trigger events would end the deferral and require the employer debt to be served and paid. These events include the employer failing to comply with its scheme funding obligations, or its covenant looking likely to weaken in the next 12 months.



PPF Levy – new triennium consultation

The Pension Protection Fund (PPF) is [consulting](#) on major changes to the way in which it will calculate levies payable in the ‘new triennium’ (2018/19 to 2020/21). The consultation focuses on three key areas of change, outlined below.

1. Insolvency risk

The PPF has proposed some fundamental changes to their insolvency risk model. The PPF’s analysis suggest a majority (70%) of companies should see a decrease in their annual levy as a result. Some employers will however pay significantly more (up to five times more), under the new approach.

The PPF is proposing that it will not use the Experian model to calculate insolvency risk scores in certain circumstances, including:

- Where the sponsoring employer has a public credit rating from Moody’s, Standard & Poor’s (S&P) or Fitch, that credit rating will be used instead of the Experian score (with the credit ratings mapping directly to the PPF levy bands).
- Quasi-governmental organisations will automatically fall into levy Band 1 (lowest risk).
- Banks, building societies and insurance companies who do not have credit ratings will be scored using a bespoke model built by S&P.

For all other employers, a modified version of the Experian model will be used.

The PPF is also considering whether the levy calculation should continue to reflect an average of month-end insolvency risk scores over a 12-month period, or whether instead to use a six-month average or simply the score on 31 March. Whichever option is chosen, any averaging period for the 2018/19 levy year will begin in October 2017 at the earliest, to allow time for the transition to the new models.

2. Contingent assets

Following levy-payer concerns regarding how the true value of some contingent assets is being reflected, the PPF is proposing that:

- All contingent assets will have to be re-certified before they can be used to reduce levies from 2018/19.
- Where contingent assets have a ‘Realisable Recovery’ above £100m, trustees will have to obtain an annual appraisal from an appropriate professional adviser.
- Where a contingent asset involves multiple guarantors, trustees may be allowed to certify a separate Realisable Recovery amount for each guarantor.

3. Deficit reduction contributions

The PPF is considering ways to simplify the certification process, primarily to help smaller schemes. They are considering two options:

- Simplify the calculations, for example allowing investment expenses to be ignored.
- Allow schemes to certify DRCs paid in line with a Recovery Plan. Where worth less than £1m, DRCs may be certified by a Trustee or Employer rather than by the Scheme Actuary.



Cridland review of State Pension Age

The [Cridland report](#), an independent review of State Pension Age (SPA) in the UK was published in March 2017. The report recommended that:

- State Pension Age should be increased to 68 over the period 2037 to 2039;
- State Pension Age should not increase by more than one year in any ten year period, assuming there are no exceptional circumstances; and
- If additional budget savings are required, the triple lock should instead be withdrawn in the next Parliament.

The report also sets out how the impact of raising the SPA on disadvantaged groups might be mitigated.

The DWP [responded in July](#) confirming that, in order to balance the need for inter-generational fairness with a desire to avoid big jumps in State Pension Age, Cridland’s recommendation to increase State Pension Age to 68 between 2037 and 2039 will be followed. However, a further review of life expectancy projections will take before this increase is legislated.

News in Brief

GDPR

The General Data Protection Regulation (GDPR) replaces the Data Protection Act from 28 May 2018 extending the rights of individuals and the requirements of data controllers. The Information Commissioner's Office has published a [12 step guide](#) to the changes.

Investment guidance

TPR has released new [investment guidance](#) for trustees making it clear that scheme-specific risk, return and long-term planning should be at the forefront when reviewing strategy.

The guidance focusses on investment governance, setting investment strategy, implementing the investment strategy and monitoring investments.

European Pensions Stress Test 2017

The European Insurance and Occupational Pensions Authority (EIOPA) has launched its second [stress test](#) to provide an "insight into the risks and vulnerabilities of the European occupational pensions sector". In the UK, TPR has contacted larger schemes and those who participated in the EIOPA's first stress test in 2015 to request their participation.



Further reading:
[A safe pair of hands](#)

Work and Pensions reshuffle

David Gauke, former Chief Secretary to the Treasury has been appointed as the new Secretary of State for Work and Pensions, replacing Damian Green. Mr Gauke has reportedly promised that he "will not shy away from the big decisions and where change is needed, it will be made".



TPR fines

TPR has [set out the fines](#) and other actions that have been imposed on trustees for failure to meet the legal requirements to complete a scheme return or annual chair's statement. The report also highlights the various excuses given for not complying, which were not accepted by TPR.

Fit and proper trustees

A working group has been created to set 'fit and proper' standards for professional trustees. The [Professional Trustee Standards Working Group](#) has been created following a recommendation by TPR.

Fraud Compensation Levy

The PPF is raising a [Fraud Compensation Levy](#) in 2017/18 for the first time in five years. The levy will be 25p per scheme member. TPR will collect this alongside its general levy.

MPAA

In order to pass the Finance Act before Parliament was dissolved for the General Election, a number of provisions were dropped. Most notably, the planned reduction in the Money Purchase Annual Allowance (MPAA) from £10,000 to £4,000 was not included. However, the required clauses will be included in a second Finance Bill, and backdated to 6 April 2017.

FCA Asset Management Study

The FCA has published the [final findings](#) of its 2016 asset management market study, alongside a further consultation on a package of remedies to "address the concerns identified", including that "price competition is weak in a number of areas of the industry" and that "investors are not always clear what the objectives of funds are". The FCA also had "concerns about the way the investment consultant market operates".

Exemption for pension funds from central clearing

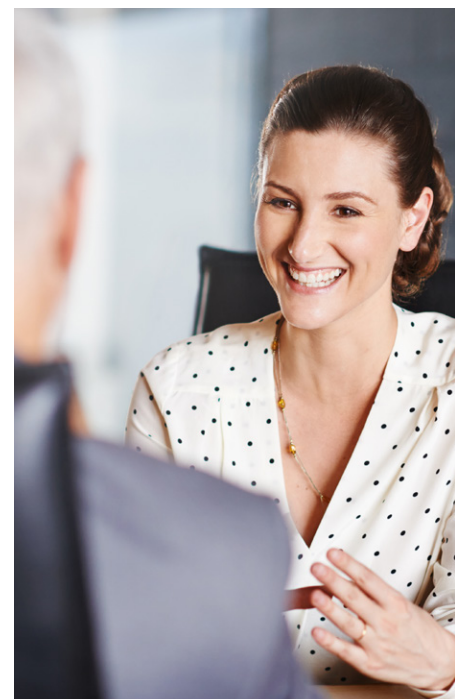
The European Commission has given pension schemes a three-year temporary exemption from [central clearing](#) for over-the-counter derivatives. It is unclear how these proposals may be affected by ongoing Brexit negotiations.

Early exit charge cap for trust-based DC schemes

The government has issued [draft regulations](#) that will cap early exit charges for members of occupational DC pension schemes. These regulations also aim to stop the cost of commission payments made to advisors in relation to pre 6 April 2016 contracts being passed on to members.

FCA consultation – transfer advice

The FCA is consulting on advice relating to pension transfers and has set out what it will expect from advisers to ensure members consider all the relevant factors when transferring their benefits. The proposals include new rules requiring all transfer advice to take into account the member's wider circumstances. The FCA aims to reduce the number of members becoming victims of pension scams.



As one of the UK's largest independent providers of actuarial, administration and consultancy services, Barnett Waddingham offers:

- Advice relating to DC pension schemes – trust, master trust and contract
- Scheme Actuary and associated services to DB pension schemes – in the Public and Private Sectors
- Accounting for UK and international companies
- Consultancy and administration services to companies on all wellbeing policies
- Consultancy to the Higher Education sector, across a top-tier client list spanning the UK
- Business insights through practical, risk-based solutions
- Administration services including pensioner payroll, preparation of annual accounts, secretarial services and administration consultancy
- Investment strategy reviews and advice on investment managers
- Employer support regarding insurance arrangements (group life insurance and PHI)
- Employer support in relation to pension arrangements for senior executives
- Guidance for senior executives regarding retirement options
- Analysis and modelling of mortality and longevity risk for insurance companies, reinsurance companies, investment banks and pension schemes.

Barnett Waddingham is also a leader in the provision of self-invested personal pensions, small self-administered pension schemes and other retirement arrangements.

Forthcoming events

Trustee Training 2017 / 18

London: 14 September 2017, 1 March 2018, 6 September 2018

Leeds: 7 June 2018

Our interactive one day courses are designed to give new DB scheme trustees (and experienced trustees who would like a refresher) a thorough grounding in pension matters and the confidence to complete TPR's trustee toolkit.

The DC Snapshot

21 September 2017

Would you like to attend a pensions event with a difference? Our full day event, The DC Snapshot will be the first ever 'pop up' DC event combining the science of pensions with the creativity of photography.

We will firstly focus on a black and white view of UK and global DC. Industry experts will share exclusive DC insights, review industry movements and question if consultancy is still as black and white in the new world. Adding a splash of colour to the picture in the afternoon, we will focus on the future of DC pensions with interactive sessions and our keynote speaker. Lastly, join us to process and unwind as we welcome in the evening over drinks.

Chair of Trustee Forums

Coming in January 2018

These round table events bring together the Chairs of Trustees of DB schemes to discuss current affairs in the pension industry and issues that may be affecting their schemes. Previous topics included pension scheme investment strategies, different approaches to setting discount rates for actuarial valuations and updates on current issues including the latest market reaction to Brexit.

For further information, please speak to your usual Barnett Waddingham consultant.

VISIT OUR WEBSITE TO FIND OUT MORE
INFORMATION ABOUT OUR EVENTS OR TO REGISTER >

Further information

You may also find the following Barnett Waddingham briefing notes and blog posts interesting:

Blogs

- [Interesting times: How to adapt to survive a turbulent pensions world](#)
- [Hard times? Leaving the EU and the impact on pension schemes](#)
- [Making predictions just got harder](#)
- [Why covenant comes first](#)
- [Walker vs Innospec – Equality wins, but will it cost?](#)

Briefings and research

- [Big Schemes Survey 2017](#)
- [Buy-outs and buy-ins - Summer 2017](#)
- [AA and LTA survey - our analysis](#)

This newsletter is intended as a summary of recent pensions-related events. Whilst we have tried to ensure all information is correct at the time of going to press, the content of this newsletter should not be relied on as advice to act, or refrain from acting, in relation to any of the subjects contained herein. Before taking any such action (or deciding not to act) you should seek appropriate professional advice.

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:

✉ info@barnett-waddingham.co.uk

☎ 0333 11 11 222

🖱 www.barnett-waddingham.co.uk



Barnett Waddingham LLP is a body corporate with members to whom we refer as "partners". A list of members can be inspected at the registered office. Barnett Waddingham LLP (OC307678), BW SIPP LLP (OC322417), and Barnett Waddingham Actuaries and Consultants Limited (06498431) are registered in England and Wales with their registered office at Cheapside House, 138 Cheapside, London EC2V 6BW. Barnett Waddingham LLP is authorised and regulated by the Financial Conduct Authority and is licensed by the Institute and Faculty of Actuaries for a range of investment business activities. BW SIPP LLP is authorised and regulated by the Financial Conduct Authority. Barnett Waddingham Actuaries and Consultants Limited is licensed by the Institute and Faculty of Actuaries in respect of a range of investment business activities.