

Current Pensions Issues - Autumn 2013

PPF Levies

The Pension Protection Fund (PPF) has begun invoicing its 2013/14 levy. Information on the 2013/14 levy and the invoicing process can be found on the [PPF's website](#) - including an updated [guide to the levy](#), example invoices and updated [Frequently Asked Questions](#) (FAQs).

We are expecting a number of changes to the calculation of PPF levies in the next couple of years, which are described in more detail below.

2014/15: Determination

At the time of writing, the PPF [is consulting](#) on its approach to calculating the 2014/15 levy. As expected, the proposed framework is broadly unchanged from 2013/14. The PPF has, however, proposed a number of changes in relation to contingent assets.

Although in practice the certification requirements for "Type A" contingent assets (parent or group company guarantees) are similar to previous years, the PPF intends to revise the trustee certification wording. Trustees will now be required to certify they are "reasonably satisfied" that the guarantor could meet the guaranteed amount rather than having "no reason to believe" that it could not.

The PPF has also clarified that, in certifying Type A assets, trustees should consider the guarantor's ability to pay in the scenario that the scheme's participating employer(s) are insolvent. In particular, trustees should consider whether the guarantee would be affected by the insolvency of the sponsoring employer(s) and, if so, discount the value of the guarantee accordingly.

Until now it has only been possible to "recertify" contingent assets if an in-depth "full" certification took place in the preceding year. The PPF is proposing that schemes can recertify contingent assets that were last certified up to five years ago, as long as the underlying agreement has remained in place throughout the intervening period.

2014/15 will be the third and final year of the current levy framework. During 2014 the PPF will consult on changes to levy rules applying for 2015/16 to 2017/18. They expect to only make changes "where there is clear evidence to support them".

Due to changes in market conditions, the PPF expects that schemes' 2014/15 levies will be 10% higher than 2013/14 on average.

2015/16: Experian to replace D&B

Following a "competitive tendering process", the PPF [has decided](#) to appoint Experian to assess the likelihood of employers becoming insolvent for the purpose of calculating PPF levies from 2015/16. Dun and Bradstreet (D&B) have been supplying "failure scores" to the PPF since its inception in 2005.

The PPF intends to work with Experian to develop a model to assess the likelihood of insolvency of sponsoring companies. This model will replace the current D&B failure score and will be used in levy calculations from the 2015/16 levy, so the new scores are expected to become relevant from 30 April 2014. The PPF will give schemes and sponsoring employers access to the new insolvency risk scores from "early 2014".

If you would like further information on any of the above or help in managing your scheme's PPF levy, please speak to your usual Barnett Waddingham consultant or contact [Nick Griggs](#). Our fourth levy forum survey is also underway. To have your say, visit [our website](#).

Auto-enrolment Update

TPR guide: Selecting "quality pension schemes" for auto-enrolment

The Pensions Regulator (TPR) has published [guides](#) to help employers with limited pensions experience to select a good quality pension scheme for auto-enrolment purposes. TPR has also produced guides for financial advisers and accountants to clarify how they can help their clients to prepare for auto-enrolment.

Meanwhile, TPR has published [a guide](#) for management committees called "Monitoring your pension scheme". The guide is intended for employers who select a group personal pension plan or master trust for their workforce and wish to be more actively involved in the running of the scheme.

Commentary and analysis

TPR has published its first [in-depth analysis](#) of the initial six-months of auto-enrolment, covering the period from October 2012 to the end of March 2013. The research shows that during this period 83 employers completed registration, rising to a total of 1,153 as of July 2013. TPR intends to publish these in-depth analyses annually, as well as monthly reports and regular surveys tracking employer and intermediary readiness.

The report also shows that TPR had launched 89 investigations into possible non-compliance with auto-enrolment duties by large employers by 31 March 2013. The investigations focused on employer readiness and "helping employers to become compliant". At that time, TPR had not yet needed to use its statutory powers to compel organisations to meet auto-enrolment requirements (although see below for more recent developments).

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.

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.

Non-compliance notice

TPR has issued its first non-compliance notice to an unnamed employer in the period to 12 August that failed to meet its auto-enrolment duties. The notice compels the employer to make specific remedial action. A further 38 warning letters have been issued to companies in this time.

A TPR spokesperson commented: "Most of the investigations opened so far have been to help employers to comply on time where we had concerns they were not on target. We're pleased to say that in the vast majority of incidences this has been achieved through direct communication without the need to use our powers to compel compliance."

Opt-out rates low for large employers

The Department for Work and Pensions (DWP) has published a report analysing [opt-out rates amongst 50 large employers](#) with auto-enrolment start dates between October 2012 and April 2013. According to the findings, most individual employers reported that between 5% and 15% of the workers they had automatically enrolled opted out and the average opt out rate across all public and private sector employers was 9%. [Previous DWP research](#) had suggested that 30% of workers were likely to opt out.

Research: More employers answering "call to action"

[Research](#) by TPR shows that the proportion of medium sized employers who have drawn up plans for auto-enrolment, and started to act on these plans, increased significantly in spring 2013 compared with autumn 2012 (from 13% to 27%).

The survey also indicates that awareness of auto-enrolment remains high amongst all sizes of employers and attitudes remain supportive of the policy. Large and medium employers are significantly more positive about the changes than they were a year ago, with 80% of medium employers believing auto-enrolment is a good idea for workers compared with 64% in spring 2012.

However, TPR is [warning](#) against complacency because understanding of the detailed aspects of auto-enrolment remains poor and awareness of the need to complete registration by declaring compliance information to TPR after staging was particularly low.

Ban on consultancy charging

Legislation banning consultancy charges in defined contribution (DC) schemes used for auto-enrolment came into force on 14 September 2013. The new law means that an employer cannot receive advice under an agreement with a third party and pay for that advice out of members' pension pots or contributions.

The government [will consult in the autumn](#) over whether it should extend the ban to cover a small number of schemes that already had an agreement in place before 10 May (when the Pensions Minister, Steve Webb, announced that he intended to ban consultancy charges).

DWP: Auto-enrolment certification guidance

The DWP has updated its auto-enrolment certification [guidance](#) for employers to clarify that a contracted-out scheme automatically satisfies the test scheme standard for any non-contracted-out members provided their benefits are calculated in exactly the same way as for contracted-out members.

The DWP has also clarified that career average schemes can take a reasonable and practical approach on the timing of revaluation for the purposes of the test, and gives further detail on how certification is carried out for a scheme with more than one benefit scale.

Auto-enrolment for SMEs

Barnett Waddingham has partnered with Standard Life to develop auto-enrolment services for small and medium enterprises (SME) with staging dates commencing in early 2014. Further details can be found on [our website](#).

Latest news from The Pensions Regulator

Latest industry perceptions

TPR has published its report on the [2013 perceptions tracker survey](#), a survey on how effective TPR is perceived to be at fulfilling its statutory objectives and how users rate the services and information it provides. Key findings of the report include the following:

- Around 66% of respondents thought TPR's performance was very good or good - a similar proportion to the 2012 survey.
- 75% of respondents (up from 65% in 2012) viewed TPR as being effective in strengthening the funding of defined benefit (DB) schemes.
- 67% of respondents (up from 55% in 2012) viewed TPR as being effective in reducing the risks of claims to the Pension Protection Fund.
- 97% of respondents view [TPR's website](#) as very or fairly useful, whilst 94% view the Trustee toolkit in the same way.

TPR: New trustees and toolkit update

TPR has [published a short guide](#) to help new trustees get to grips with their role. The guide is designed to help new trustees, or those considering becoming a trustee, understand their obligations and to give an overview of the duties that the role entails.

TPR has also updated its [Trustee toolkit](#) to include a new module covering DB scheme wind-ups where the employer is insolvent.

New trustees may be interested in our trustee training days in London (21 November) and Bromsgrove (20 November). Please visit [our website](#) for further details.

Public service pensions governance

From April 2015, TPR will set standards of governance and administration in the Local Government, NHS, Teachers, Civil Service, Armed Forces, Police, Firefighters and Judicial pension schemes. Ahead of this it has published a report on [governance and administration](#) in public service pension schemes and a survey on current practice.

Stop Press! Double counting s75 debts

At the time of going to print, TPR has just issued [a statement](#) reminding trustees and employers of multi-employer DB pension schemes that payments agreed under a funding schedule of contributions cannot also be considered payments towards "section 75" (s75) debts (which can be triggered when an employer exits a multi-employer scheme) – and also vice versa.

Further details will be included in our winter 2013/14 newsletter.

News in brief

HMRC: Pensions liberation

HMRC has strengthened several of its processes with the aim of deterring pension liberation and safeguarding pension savings. In particular, HMRC has moved away from a "process now, check later" approach to registering a pension scheme, and will instead conduct a detailed risk assessment before making a decision.

To help trustees and administrators decide whether to agree to transfer a member's benefits, HMRC has said it is able to provide reassurance that the intended receiving scheme is a registered scheme and that the information held by HMRC does not indicate a significant risk that the receiving scheme is being used to facilitate pension liberation.

HMRC has recently published a [factsheet](#) highlighting the tax consequences of pension liberation on pension savers. In conjunction with the DWP and TPR, HMRC has also produced an [update](#) with further information on work to combat pension liberation.

OFT investigation: Workplace DC pensions

The Office of Fair Trading (OFT) has published its [Defined contribution workplace pension market study](#) examining whether, in the light of auto-enrolment, competition is capable of driving good outcomes for scheme members.

Overall, the OFT found that competition alone cannot be relied upon to drive value for money for all savers in DC schemes because the complexity of DC pension arrangements renders it difficult to make the "right choices". The OFT also noted that many employers lack the capability or the incentives to ensure that members of their schemes are receiving value for money in the long term.

The DWP has subsequently issued a [consultation paper](#) on charges, setting out proposals for restoring confidence in workplace pensions by providing consumers with better value from their saving plans through control and restriction of charges.

The DWP's proposals include capping charges on the default investment option at 0.75% of the annual fund value. Alternatives are also being considered - including an ability to charge higher fees if the scheme can explain why members should pay up to 1% pa. The DWP is also proposing an outright ban on "active member discounts" (where charges increase when a member leaves employment) and "consultancy charges" (see above) – not just in schemes used for auto-enrolment.

DWP: Disclosure regulations

The DWP has published a [response](#) to its earlier consultation on draft Disclosure of Information Regulations (see [Current Pensions Issues Spring 2013](#)). The government now intends for the new regulations to come into force in April 2014 to give schemes more time to prepare.

HMRC: Asset-backed contributions guidance

HMRC has updated its [draft guidance](#) relating to employer asset-backed pension contribution arrangements. The guidance explains how employers can obtain upfront tax relief on contributions to registered pension schemes using these arrangements and sets out transitional provisions where the contributions were paid before 29 November 2011.

Bridging pensions regulations

The government has published the final version of [amending regulations](#) that give trustees a limited power, subject to employer consent, to make amendments to their rules in relation to temporary “bridging pensions” (pensions provided as a top up from a member’s retirement age until their state pension commences).

The regulations are intended to help mitigate cost increases resulting from statutory increases to State Pension Age (SPA). Trustees can only use these regulations to make a change to their rules if it is “reasonable” in light of statutory changes to SPA

DC codes of practice

TPR has published revised codes of practice on reporting late payment of contributions to [occupational DC](#) and [personal](#) pension schemes, along with guidance for [trustees](#) and [managers](#) to help them monitor contributions.

FRC: Additional liabilities under International Accounting Standard IAS19

The Financial Reporting Council (FRC) has ordered WHSmith Plc to restate its accounts because they had incorrectly ignored an additional liability arising under “IFRIC 14”. Broadly speaking, IFRIC 14 requires companies to recognise additional amounts where a formal funding agreement (e.g. a schedule of contributions) is expected to lead to an accounting surplus under the international accounting standard IAS 19, unless the company has an “unconditional right” to benefit from that surplus in future.

Companies reporting under IAS 19 may wish to discuss this with their auditors.

55 year index-linked gilt

Speaking at the National Association of Pension Funds (NAPF) Investment Strategies Conference, Robert Stheeman, chief executive of the UK Debt Management Office (DMO), is reported to have said that the DMO intends to launch index-linked gilts maturing in 2068. His comments follow the successful issue of £5 billion of conventional 55-year gilts in June 2013.

High Court: Rectification of scheme rules

In the case of [Konica Minolta Business Solutions \(UK\) Limited v Applegate & Ors](#), the High Court has allowed an occupational pension scheme to rectify an error in its rules without the need for a full trial. A drafting error had arisen in a consolidation of the rules that had inadvertently created an underpin for certain preserved members.

The judge ruled that, since the parties had not known that the rules had granted enhanced benefits, or intended to provide such benefits, the rules were in error and could be rectified.

ONS: Occupational Pension Schemes Survey

The Office for National Statistics (ONS) has published its [Occupational Pension Schemes Survey 2012](#). The report shows that the average employer contribution rate to DB schemes (excluding deficit reducing contributions) was 15.2% of salaries in 2012. This compares with 6.6% of salaries for employers of private sector DC schemes.

Bank of England begins forward guidance policy

Following the 2013 Budget, the Chancellor of the Exchequer [suggested](#) that the Bank of England’s Monetary Policy Committee (MPC) might wish, in future, to issue “explicit forward guidance” on the committee’s intended future monetary policy.

The MPC has now issued [guidance](#) confirming that, subject to certain conditions, it does not intend to raise the bank’s base rate of interest from its current level of 0.5% at least until headline unemployment has fallen to 7%. The MPC also confirmed that it does not intend to reduce its stock of gilts purchased under “quantitative easing” until the unemployment threshold has been reached.

HMRC: Fixed Protection 2014

The standard Lifetime Allowance (LTA) will reduce from £1.5 million to £1.25 million from the 2014/15 tax year. Individuals may protect their benefits from changes to the LTA by applying for “Fixed Protection 2014” (FP2014) or “Individual Protection 2014” (IP2014). HMRC is now accepting applications for FP2014 (see [Current Pensions Issues Summer 2013](#)). HMRC expects to be able to accept applications for IP2014 from 6 April 2014.

For further information, please visit [our website](#).

Equitable Life payments

The government has [said](#) that, subject to the necessary legislation being passed, it will make payments of £5,000 to qualifying Equitable Life with-profits annuitants a year earlier than originally planned. An additional £5,000 will be paid to eligible policyholders in receipt of Pension Credit when the payments are made.

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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