News on...

Barnett Waddingham

Pensions - December 2012

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DWP: REINVIGORATING WORKPLACE PENSIONS

The Department for Work and Pensions (DWP) has published ***Reinvigorating Workplace Pensions***, a strategy document intended to generate discussion about increasing and improving pensions saving, and restoring confidence in the UK's pension system. One of the main focuses of the paper is the establishment of a framework for so-called Defined Ambition (DA) pension arrangements – schemes where the risks are shared rather than just falling on one party.

In re-starting* a debate on risk-sharing and other innovative ideas, the DWP is keen to try to increase the amount people are saving in pensions, and the amount they receive for those savings. It is also exploring ways to "increase transparency and build trust, confidence and engagement in pension saving as the norm", and to "ensure the sustainability and stability of the UK pension system".

Although this is not a formal consultation, the DWP intends to meet with industry and consumer bodies to explore ways forward.

Defined Ambition

Risks are shared under DA, typically between the employer and the member. The document outlines a number of ways in which this could work, starting from either a defined benefit (DB) or defined contribution (DC) reference point, and sets out principles for the development of DA schemes. The DWP believes such schemes must be consumer-focused, sustainable, inter-generationally fair, genuinely risk-sharing, proportionately regulated and transparent.

The DWP will continue to work with the pensions industry to develop possible models for DA, including exploring which changes can be made without the need for new legislation. The DWP aims to publish a framework for DA in due course.

The DWP notes that the current legislative framework already allows for risk-sharing, for example in the form of Career Average Revalued Earnings (CARE) schemes, cash balance schemes and schemes that adjust Normal Retirement Ages (NRAs) to reflect improving life expectancies. The document briefly explores new models which might be facilitated in future, starting from a DB standpoint (i.e. so-called "DB-lite" schemes) or a DC standpoint ("DC-plus" schemes).

Possible DB-lite approaches include:

- Simplified/Core DB Schemes – employers offer a core level of provision with discretionary extras such as optional indexation or spouse's benefits.
- Converting Benefits – a defined benefit is promised but, on leaving, retirement or death, the benefits are converted to a DC fund of equivalent value.
- Fluctuating Pensions – schemes pay a core pension plus a discretionary amount that fluctuates according to the funding position of the scheme.
- Linking Scheme Retirement Age to State Pension Age (SPA) – including an ability for schemes to change the retirement age for certain benefits already accrued.

The DWP also explores DC-plus options such as:

- Mutualised Guarantees – for example a "money back" guarantee where the individual would be guaranteed to get back at least the contributions they had paid in; or a guarantee to cover retirement income in later years (so the scheme would pay the pension up to a set age and a separate body would pay the later instalments).

  The guarantee would be paid for by a levy on members' funds.
- Guarantees provided by the insurance industry – such as guaranteed investment returns or a guarantee of a minimum income in retirement. Again these would be paid for by an insurance levy on members' funds.
- Smoothing funds, funded by employers – some of the contributions are paid into a central fund used to manage a "targeted outcome" at retirement.

The DWP believes that Dutch-style Collective DC (CDC) schemes are currently unlikely to be feasible in the UK, but it will explore whether elements of CDC schemes could inform the development of DA pensions.

Transparency on charges

The DWP recognises the progress that has been made by the pensions industry in reducing charges.

However, the report states that the DWP is "monitoring charges, including consultancy charges, very closely and… will take prompt action if" it sees "evidence that charging structures are being used inappropriately or if charge levels are excessive". Such action could include stopping a scheme from being used for automatic enrolment.

Disclosure of information

The DWP will consult early next year on draft regulations to simplify and consolidate the various disclosure legislation, which govern the way in which pension providers disclose information to members.

The document sets out some key principles for provision of pension information to members. These include:

- making it clear that members have a choice
- focusing on the benefits to individuals, not on their responsibilities, and
- making the information relevant now.

The DWP also suggests real examples are used to help people understand the context, that presentations are kept simple and that the level of information provided is tailored to the individual.

Next steps

Whilst the DWP says that it will be engaging in "further discussions with the industry, employers and consumers", it has not committed to a timetable and there is no formal process at this time for responding to the DWP with comments. **The DWP conducted a **consultation** on risk-sharing in 2008.*

We would be interested to hear your ideas for implementing Defined Ambition schemes. In conjunction with Professional Pensions, we have launched a £15,000 prize competition – see ***our website*** for further details.

LATEST NEWS FROM THE PENSIONS REGULATOR AND THE PENSION PROTECTION FUND

Purple Book 2012

The PPF and The Pensions Regulator (TPR) have published the 2012 version of their ***Purple Book***. Much of the analysis in the latest edition is based on scheme returns submitted to TPR between December 2011 and March 2012, and focuses on 6,316 of the 6,460 private sector DB schemes in the "PPF-eligible universe".

Highlights include:

- For the first time, more scheme assets are invested in bonds (43.2%) than in equities (38.5%).
- Aggregate funding (on a section 179 basis) deteriorated over the year to 31 March 2012. The overall funding ratio fell from 100% to 83%.
- The proportion of schemes that are open to new members and new accruals continued to decline, from 16% in 2011 to 14% in 2012.
- As at 31 March 2012 the PPF had an estimated 84% probability of meeting its objective of becoming self-sufficient by 2030, compared with 87% one year earlier.
- The top 100 PPF levy payers contributed 39.1% of the total levy (£227 million) but accounted for 45.8% of liabilities.
- Approximately £36.3 billion of Deficit Reduction Contributions were certified by 10 April 2012, compared to £28.0 billion certified for the previous levy year.

Perceptions of TPR - 2011/12

TPR has published a ***report*** on its annual Perceptions Tracker survey. The survey provides TPR with an understanding of how effectively it is fulfilling its statutory objectives.

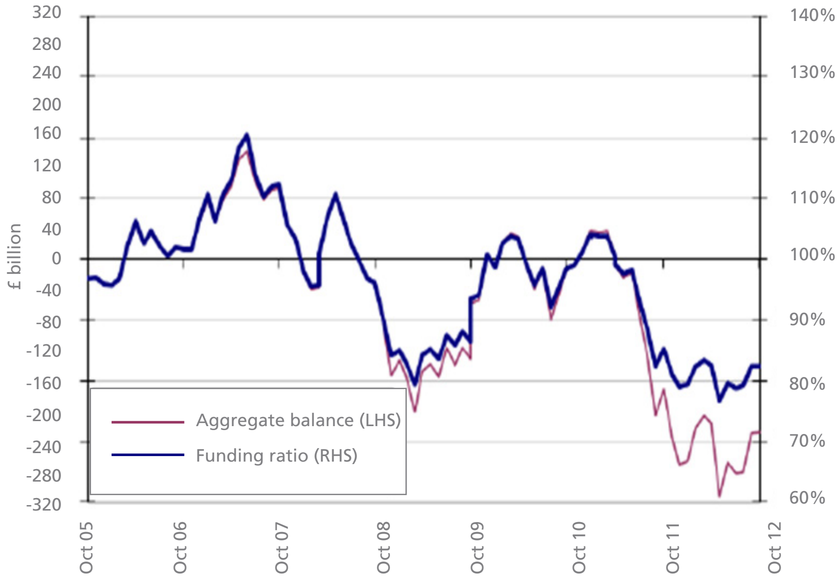
64% of TPR's various audiences rated its performance as "good" or "very good" - an increase from 59% in 2010. Ratings remained high for improving trustee knowledge and understanding, protecting scheme members' benefits and improving standards in scheme governance and administration. TPR was rated as being less effective than in 2010 at providing codes of practice and guidance, reducing the risks of claims to the PPF and addressing the risks to DC schemes.

PPF 7800 Index

The latest ***update*** of the PPF's 7800 Index of schemes' funding (on a section 179 basis) has been published.

The aggregate deficit of the 6,432 schemes in the index is estimated to have decreased slightly over the month to £227.3 billion at the end of October 2012 (there was an aggregate deficit of £229.1 billion at the end of September 2012).

The funding position has worsened over the last year (there was an aggregate deficit of £171.8 billion at the end of October 2011).



Source: The Pensions Regulator.

PPF Bulletin

The PPF has published issue 12 of its ***PPF bulletin***.

The bulletin summarises recent developments at the PPF, including its Annual Report and Accounts (see ***News On: Pensions – November 2012***), the levy estimate for 2013/14 (see ***News On: Pensions – October 2012***) and the launch of the Specialist Administration Service Panel (SASP) (see ***News On: Pensions – September 2012***).

DWP: ATTITUDES TO PENSIONS

The DWP has published "***Attitudes to Pensions – The 2012 Survey***" on retirement saving.

The survey showed a relatively high degree of support for auto-enrolment among those who were eligible (68% agreed it was a good idea) and a high proportion (70%) thought they might stay in a scheme once enrolled.

The survey also showed increased awareness of the need to make financial plans for retirement, although self-assessed knowledge of pensions had reduced. SPA changes had led to particular confusion.

DWP: NEST CONSTRAINTS

The DWP has issued a ***call for evidence*** on the impact of two statutory constraints on the National Employment Savings Trust (NEST), i.e. the annual contribution limit and restrictions on transfers in and out. NEST is concerned that the restrictions have cost them business with top employers.

The DWP is seeking views on:

- whether the constraints on NEST are affecting employers' choice of automatic enrolment scheme
- the development of low-cost provision by commercial providers, and
- whether the balance between employer choice and consumer interests shifts as smaller employers are phased in to automatic enrolment.

Real Time Information

HM Revenue & Customs (HMRC) has published a ***technical note*** and draft amendments to regulations to prepare for the introduction of Real Time Information (RTI), a new way for employers and pensions providers to report Pay As You Earn (PAYE) information to HMRC.

From October 2013 most providers will be required to electronically submit relevant PAYE information to HMRC about each payroll. For this to work, all pensioner records will need to include members' correct names and National Insurance numbers.

Lump Sums

The technical note also includes details of changes to the tax code to be used on payment of certain lump sums from pension schemes.

From 6 April 2013 trivial commutation lump sums, winding-up lump sums and some other small lump sum payments should be processed using the basic rate tax code rather than an emergency tax code.

Newsletter 55

HMRC Pension Schemes Services has also published the latest version of its ***Newsletter***.

The newsletter covers changes to HMRC's website (including a new area entitled *"Pension schemes for advisers and practitioners"*), improvements to the Relief at Source process and updated contact points for the reporting of pension liberation arrangements (aka "trust busting").

For further information on any of the topics in this bulletin, please speak to your usual Barnett Waddingham consultant, or visit our website www.barnett-waddingham.co.uk