Barnett Waddingham
a true partnership approach

News on Pensions

DECEMBER 2016

DWP: equalising GMPs – a new approach

The Department for Work and Pensions (DWP) is consulting on a proposed new method for equalising Guaranteed Minimum Pensions (GMPs) – together with the necessary changes to GMP conversion legislation which would facilitate its adoption by pension schemes.

The government has stressed that schemes will not be compelled to use this particular method to equalise GMPs – noting that other approaches could be used and it will be for trustees to decide what action is needed, if any.

Alongside the equalisation approach, the government is consulting on reducing the fixed rate of GMP revaluation from 4.75% to 4.0% for leavers from 6 April 2017.

The new equalisation method

Under the proposed method, a one-off calculation is performed comparing the actuarial value of each member's future benefit payments (that is all their benefits, not just the GMP, and including spouse benefits) with the value of these benefits had they been of the opposite sex.

The greater value is then used to derive the member's revised pension, which will be of a form consistent with the non-GMP benefits in the scheme.

An additional paper has been published by the Work and Pensions GMP Conversion Working Group which sets out more details about the proposed method – including a recommendation that a unisex approach should be adopted, and that the scheme actuary will have to certify the basis on which the value of benefits is calculated.

The working group also notes practical difficulties with carrying out the calculations for pensioners and has suggested a ten-step process for achieving equalised GMPs:

1. Trustees and employer reach agreement that conversion will take place and on what terms
2. Trustees and employer identify which members will have benefits converted (which may be a subgroup of members with GMPs, and may include other benefits accrued between 1978 to 1997)
3. Trustees and employer agree effective conversion date
4. Members are notified that conversion will take place
5. Actuary values member's benefits on same- and opposite-sex basis
6. The higher amount is the selected member's conversion amount
7. The value is converted into a revised non-GMP pension benefit using a consistent (but unisex) approach
8. Members are notified of their converted benefits and HMRC is notified if required
9. Actuary certifies equivalence
10. Scheme documentation amended (if not already done so) to permit payment on agreed basis

As conversion of GMP to non-GMP benefits is a key part of the process, changes have been proposed to conversion regulations to enable the new GMP equalisation method to be used and address practical difficulties identified by the industry working group. The government intends to issue guidance on the conversion process once the legislation has been amended.

Further reading:
government proposes method for equalising GMPs

Previous equalisation method

The DWP's new approach to GMP equalisation is less onerous than the previous method proposed by the government in 2012, which involved comparing the benefits for a man and woman in each future year and paying the higher of the two in each year.

The 2012 proposals had led to some concern about the complexity and cost of implementation, and the possibility that it could lead to some members receiving a higher benefit than would be the case had they been a man or a woman.

Public service schemes

The Treasury has, at the same time as the DWP's consultation, issued its own consultation on the indexation and equalisation of GMPs in public service schemes.

The Treasury's consultation considers how to avoid inequality in pension payments for public service workers as a result of the abolition of the 'Additional State Pension' top up following the transition to the new state pension (nSP) this year; and whether public service pension schemes should pay full indexation on members' GMPs now that these will not be included with nSP benefits.

Autumn Statement

The new Chancellor of the Exchequer Philip Hammond delivered his first - and potentially last - Autumn Statement in the House of Commons in November.

Further reading:
The New Budget Timetable - seven things you need to know

From the second half of next year, instead of a Spring Budget and Autumn Statement, the Chancellor will deliver an Autumn Budget (allowing policy announcements to be made well in advance of the start of the next fiscal year) and a Spring Statement (which, it is intended, will only cover the Treasury's response to the Office for Budget Responsibility (OBR)). There will therefore be two Budget statements in 2017.

The key pensions-related announcement in this Autumn Statement is a reduction in the Money Purchase Annual Allowance (MPAA) from £10,000 to £4,000 in April 2017. The MPAA is a special allowance which applies to individuals who have begun accessing benefits in money purchase pension arrangements (in particular using new flexibilities introduced by the previous chancellor in 2014) and is intended to prevent 'recycling' where individuals claim further tax relief on contributions made using flexibly accessed funds.

The government is consulting on the impact of the change.

Other points of note relating to pensions in the Autumn Statement include:

- Confirmation that, although the government is to clamp down on salary-sacrifice arrangements in general, payment of pensions contributions through such set-ups will not be affected
- As previously announced, the Chancellor confirmed that the government will "consult on how best to ban pensions cold calling and a wider range of pension scams"
- The government will look to "tackle the challenges of rising longevity and fiscal sustainability... [and] will review public spending priorities and other commitments … at the next Spending Review"

Further reading:
Autumn statement 2016 in review: the impact on pensions

DWP: cap on early exit charges

Following an earlier consultation (see News on Pensions – June 2016), the Pensions Minister has announced details of the planned cap on early exit charges for occupational defined contribution (DC) pension arrangements.

The cap will be set at 1% of the value of benefits for current members of occupational schemes and 0% for any new members. This will bring exit charges for workplace pensions in line with other personal and stakeholder pensions. The duty to comply will rest with either trustees or service providers, depending on who applies the charge in practice, and will be policed by The Pensions Regulator (TPR).

The government will consult on the regulations in early 2017, with the cap being set to come into force in October 2017. Meanwhile, the DWP has prepared guidance for trustees on the charge cap and its application to occupational pension schemes used for automatic enrolment.

In line with this, the FCA has also announced that it will be capping early exit fees for personal and stakeholder pensions at the same level from 31 March 2017.

Other news

ONS: inflation measures

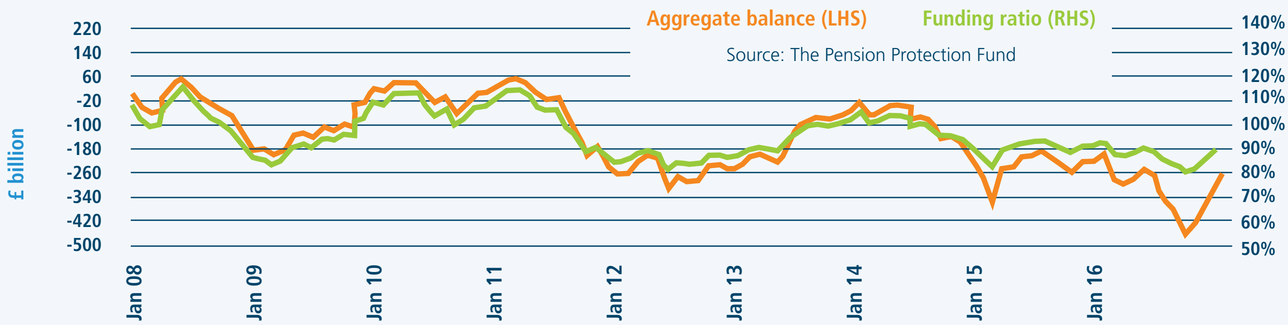
Further reading:
Official UK inflation measure changes to CPIH

The Office for National Statistics (ONS) has decided to make CPIH - the Consumer Prices Index which includes owner occupiers' housing costs - the main measure of price inflation in the UK from March 2017. It will also cease to publish RPIJ (the Retail Prices Index recalculated using a consistent methodology with CPI).

This change is expected to have a very limited impact on pension schemes at present. A more detailed consideration can be found in our blog.

PPF: 7800 Index

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



The Pension Protection Fund (PPF) has published the latest update of its 7800 Index of schemes' funding levels on the 'Section 179' (s179) basis.

The aggregate deficit of the 5,794 schemes in the index is estimated to have decreased over the month to £194.7 billion at the end of November 2016, from a deficit of £275.9 billion at the end of October 2016 (previously shown as £328.9 billion*).

The funding ratio improved from 84.1% at end of October 2016 (previously shown as 81.4%*) to 88.1%. There were 4,272 schemes in deficit and 1,522 schemes in surplus.

*Previous results have been re-stated to reflect updates to the data used in the index calculations, and changes to the PPF's s179 assumptions.

BHS: warning notices issued

The Pensions Regulator (TPR) has sent warning notices to several individuals and companies involved with the BHS pension scheme, indicating that it will take further enforcement action if a suitable settlement is not reached.

TPR has confirmed the notices were issued to Sir Philip Green, Taveta Investments Limited, Taveta Investments (No. 2) Limited, Dominic Chappell and Retail Acquisitions Limited.

Each notice sets out the evidence supporting TPR's argument that the recipients are liable to support the BHS pension arrangements, following the sale and subsequent insolvency of the BHS business in March 2015.

TPR: structured learning for trustees

TPR has produced a quick guide to personal development, including template study planners and a learning log to help trustees structure their learning and keep their knowledge up to date.

General levy reduction for large schemes

The DWP is consulting on amending the general levy rates (which fund the administration of TPR and PPF) to apply a reduction in the levy rate for schemes with 500,000 or more members. The consultation closes on 18 January 2017.

Further information

You may find the following recent blog posts and information sheets interesting:

- 2016 in review: the highs and lows of pensions
- How to tackle your year-end pension problem
- Contracting-out and the new state pension
- A squeeze on HMRC resources as the GMP reconciliation deadline approaches?
- Court of Appeal judgment: pensions are protected in bankruptcy
- Hotline sting and the cold calling ban

Forthcoming Events

Investment conferences 2017 [Birmingham: 12 January, London: 26 January]

Our ninth annual Investment Conference at the Belfry near Birmingham and Etc Venues Bishopsgate in London will bring together influentialindustry leaders to debate, discuss, and share their views on the most pressing investment problems for pension scheme trustees, employers and pension professionals.

We are delighted to welcome Alastair Campbell as our keynote speaker, who will be looking at how the world of politics has affected our investment decisions.

Save the Date: Annual Pension Trustees Conference (London: 28 March)

Our Annual Pensions Trustee Conference covers a wide range of topics to give delegates a clear understanding of the ever-evolving pensions landscape.

This full day conference, which is free to attend, is relevant to trustees of DB and DC pension schemes, sponsoring employers and pension professionals.

More information including the agenda and how to register will be available on our website in due course.

Webinars

You can view Barnett Waddingham's back catalogue of webinar recordings on our BrightTALK channel, including:

- Accounting for Pensions: How to reduce your deficit (December 2016)
- A Practical Guide to Integrated Risk Management (November 2016)
- The actuarial valuation of the USS - key challenges for DB schemes (October 2016)

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
0207 776 2200
www.barnett-waddingham.co.uk