Barnett Waddingham
a true partnership approach

News on Pensions

JAN/FEB 2017

Regulation of DB pensions

Ahead of the Government's Green Paper, the Work and Pensions Select Committee has recommended the Government considers changes to the regulation of defined benefit (DB) pension schemes. The underlying theme of the recommendations is that the Pensions Regulator (TPR), the Pension Protection Fund (PPF) and scheme trustees should be "empowered" to make decisions which are "beneficial to the efficiency and sustainability of DB schemes and, ultimately, therefore, to scheme members and PPF levy payers".

The key recommendations set out in the Committee's report include:

Scheme funding valuations

- The committee recommends shortening the process for agreeing scheme funding valuations and 'recovery plans' (to make good identified funding deficits) – reducing the timescales from 15 months to 9 months.
- TPR should have the ability to impose even shorter timescales for funding valuations where it has material concerns for the security of members' benefits.
- Recovery plans of more than 10 years should be 'exceptional' and TPR's powers to impose contribution schedules on companies should be more widely used.

Further reading:

Will the WPC's punitive fines really act as a 'nuclear deterrent'?

New powers for TPR, for example:

- A 'nuclear deterrent' under which TPR could issue fines of up to three times the funding deficit where an employer attempts to avoid their pension scheme obligations.
- The power to wind up schemes where it appears to TPR that eventual transfer to the PPF is inevitable.
- A mandatory requirement to obtain 'clearance' from TPR for major corporate transactions involving significant pension arrangements.

Regulation and legislation

- Trustees should have freedom to restructure struggling schemes where this would be more beneficial to members than entering the PPF.
- Schemes should be allowed to withhold or reduce future pension increases where these are currently unaffordable for the employer.
- A statutory fund should be established, and operated by the PPF, which will enable the consolidation of smaller DB schemes.
- Good governance should be incentivised via reductions in PPF levies.
- The process for implementing Regulated Apportionment Arrangements (arrangements approved by TPR and the PPF, under which a company may reduce its financial obligations to a pension scheme in order to avoid insolvency) should be streamlined. TPR should consider amending the "the barrier of imminent and inevitable insolvency".
- Members should be more able to exchange DB pensions for lump sums.

STOP PRESS!

The Government has now published its Green Paper on "Security and sustainability in Defined Benefit Pension Schemes" picking up on many of the themes in the Work and Pensions Select Committee report. A full analysis of the Green Paper will be covered in our March newsletter.

Further reading:

Time for change? WPC's recommendations for Government Green Paper

Automatic enrolment: 2017 review

Richard Harrington, the Parliamentary Under-Secretary of State for Pensions has announced that the Government is reviewing auto-enrolment (AE) to ensure it continues to meet the needs of workers and encourages more people to save into pension arrangements.

The key areas the review will consider are:

- The needs of employees with multiple jobs who may not currently qualify for AE;
- Whether the thresholds and age criteria used to determine who qualifies for AE remain appropriate;
- What can be done to encourage the self-employed to save for retirement;
- Whether the requirements for certifying that DB and defined contribution (DC) schemes meet the minimum AE criteria remain appropriate; and
- The level of the charge cap on the default funds of qualifying schemes used for AE.

HMRC: LTA Protections

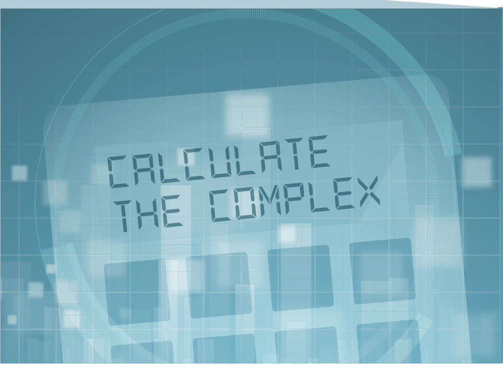
HM Revenue and Customs (HMRC) has developed a Lifetime Allowance Online Service which allows individuals to amend details of their Lifetime Allowance (LTA) protections. Amendments will be possible where a mistake was made previously or where a pension sharing order (following a divorce) affects the amount protected.

Further reading:

Open for business: HMRC's online registration for Fixed and Individual Protection

Applications for three types of protection remain open, with one imminent deadline:

- Taxpayers applying for 'Individual Protection 2014' – relating to the reduction in LTA from £1.5 million to £1.25 million in April 2014 - must submit their completed applications by 5 April 2017.
- There is currently no deadline for individuals to register their intention to rely on 'Fixed Protection 2016' or 'Individual Protection 2016' – relating to the reduction in LTA from £1.25 million to £1 million in April 2016.



We understand that working out pension tax allowances can be a complex and time-consuming business, so we have devised a useful tool to help in making these calculations.

Our AA/LTA Calculator helps individuals to estimate their tapered Annual Allowance and the amounts of tax relievable pension contributions (to DC arrangements) they are able to pay in 2016/17, 2017/18 and 2018/19.

CALCULATE YOUR ALLOWANCES >

Latest from TPR

Record keeping

TPR will ask trustees to report on record-keeping in their scheme return to help improve standards. This follows a recent survey which shows that standards have stagnated in recent years. TPR believe the inclusion of this information in the scheme return will enable them to target schemes where records are poor.

TPR has also launched a quick guide to record-keeping and will be providing further materials to help trustees in 2017.

IRM for small schemes

TPR has published a new quick guide to integrated risk management (IRM) and an IRM checklist aimed at trustees of smaller DB schemes, who may have limited resources.

The guide and checklist include the following five steps for the IRM process:

- **Step 1:** initial considerations to put an IRM framework in place
- **Step 2:** risk identification and initial risk assessment
- **Step 3:** risk management and contingency planning
- **Step 4:** documenting the IRM framework and the decisions reached
- **Step 5:** risk monitoring

Webinar:

A practical guide to Integrated Risk Management

2016 Purple Book

TPR and the PPF have published the eleventh edition of their annual Purple Book, in which they present statistics collected in the course of their interaction with DB pension schemes. The report summarises the risks faced by DB pension schemes, and highlights developments over the year to 31 March 2016 (i.e. before the EU referendum), as well as analysing trends between 2006 and 2016.

Key findings include:

- Although gilt yields fell over the year, the aggregate 'section 179' deficit reduced from £244 billion at 31 March 2015 to £222 billion at 31 March 2016.
- The average allocation to bonds rose from around 48% at 31 March 2015 to over 51% at 31 March 2016 with a corresponding fall in schemes' equity allocation.
- Within these asset classes the proportion of gilts and overseas equities rose at the expense of corporate bonds and UK equities.
- Around 17% of schemes paid no risk-based levy for the 2015/16 levy year (relatively stable since the introduction of the new levy framework in 2012/13).
- 3.6% of schemes had their risk-based levy capped
- The number of contingent assets submitted to the PPF for the 2016/17 levy year was 591 compared to 632 in the previous year. This is mainly due to a fall in the certification of Type A (company guarantees) following more stringent certification requirements.
- In the first half of 2016, employers made £10.5 billion in special contributions – compared to £11.3 billion in the whole of 2015.

Further reading:

PPF reveals further fall in contingent funding arrangements

Coats Group: £255 million settlement

Following warning notices issued in 2013 and 2014, TPR has reached an agreement with Coats Group plc, securing a total of £255 million additional funding for two pension schemes.

In addition, support for the scheme has effectively been strengthened through a change in the statutory employer and full guarantee of the schemes' liabilities.

Further reading:

Agreed! TPR and Coats Group plc reach £255 million settlement

Meanwhile, in a recent blog post, TPR has discussed its use of enforcement powers and actions it takes to thwart employers who try to "avoid paying for their pension scheme".

Silentnight: court ruling

TPR has defeated a legal challenge from private equity investors in an ongoing anti-avoidance case related to the Silentnight pension scheme.

The claimants had suggested TPR was acting 'beyond' its powers to issue of a warning notice in its attempt to recover assets of the Silentnight Group DB scheme.

However, the Administrative Court judge held that warning notices should ordinarily be challenged through TPR's Determination Panel and the Upper Tribunal, rather than seeking judicial review in this way.

TPR: governance standards

Following consultation, TPR plans to set out higher standards for professional trustees and targeted education for lay-trustees in spring 2017. TPR will also encourage employers to make time and funds available to support trustees.

The areas TPR intend to particularly focus on are investment governance, conflicts of interest, administration and record keeping. TPR has said it will look to target schemes that are failing to meet their expectations and will consider taking enforcement action where necessary.

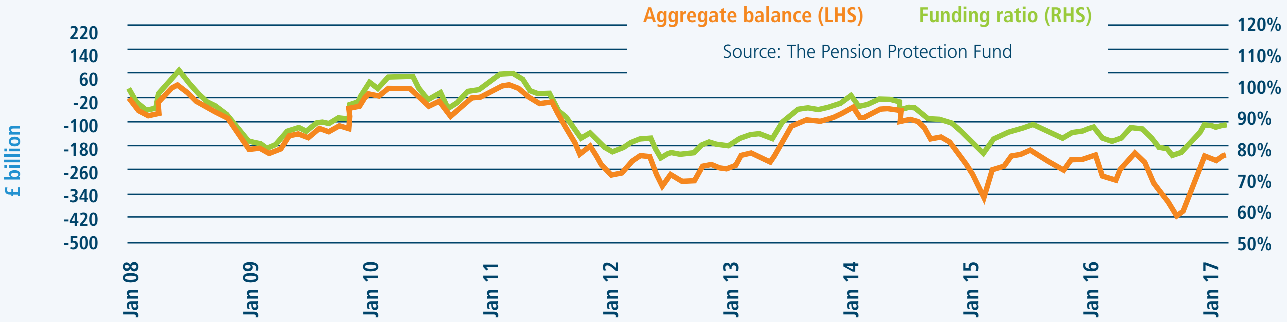
PPF news

PPF 7800 index

The aggregate deficit (on the 'Section 179' basis) of the 5,794 schemes in the PPF's 7800 Index is estimated to have decreased over the month to £196.5 billion at the end of January 2017, from a deficit of £223.9 billion at the end of December 2016.

The average funding ratio has improved from 86.8% at the end of December 2016 to 88.2% at 31 January 2017. There were 4,262 schemes in deficit and 1,532 schemes in surplus.

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



2017/18 PPF Levies

The PPF has issued its provisional levy determination for the 2017/18 year. Although the determination is not yet 'final' (as the PPF is intending to consult further on its approach to charging a levy to eligible schemes with no substantive sponsoring employer), it has said it plans to make no other changes.

The provisional determination is largely unchanged from the draft issued in September 2016 (see News on Pensions – October 2016).

The PPF has now agreed transitional arrangement whereby companies can self-certify if they have been unfairly affected by the change in accounting standard to FRS102 (although the PPF believe the change to FRS102 should have a limited impact on most levy payers).

Further reading:

2017/2018 levy determination

The PPF will consult on the methodology for the 2018-2021 levy triennium later this spring.

Key dates affecting 2017/18 Levy:

- Employer Experian Scores will be based on month-end data between **30 April 2016** and **31 March 2017**.
- Scheme returns submitted on Exchange by midnight on **31 March 2017** will be reflected in the 2017/18 levy. Note that, in some cases, TPR has notified schemes of a deadline to submit Scheme Returns after **31 March**.
- Contingent Asset Certificates and Accounting Change certificates should be submitted (with supporting evidence as appropriate) by midnight on **31 March 2017**.
- Deficit-Reduction Contributions Certificates should be submitted on Exchange by 5pm on **28 April 2017**.
- Full 'block transfers' certificates should be submitted on Exchange by 5pm on **30 June 2017**.

Invoicing for the 2017/18 levy will start in the autumn.

Further reading:

Take action! Time is running out for the 2017/18 PPF levy

News in brief

Judicial pension scheme: age discrimination

When new arrangements were introduced in 2012, many members of the final salary Judicial Pension Scheme were transferred without consent into a replacement career-average revalued earnings scheme whilst some older judges were able to remain until their retirement or the end of a protection period.

An employment tribunal has ruled that this arrangement amounted to age-discrimination.

Merger of TPAS, Pension Wise and MAS

The Government has been consulting on how pensions advice, publicly funded debt advice and money guidance may be brought together into a proposed single body, thus replacing the Pensions Advisory Service (TPAS), Pension Wise and the Money Advice Service (MAS).

The new body would deliver some services directly (via telephone, web or face to face) and commission specialist providers to deliver others.

Bulk transfers of DC pensions

The Government has called for evidence on how the provisions currently in place for the bulk transfer of DC pensions without member consent could be improved. The Government is particularly focussing on reducing 'unnecessary burdens' whilst ensuring members are adequately protected and removing potential barriers for smaller DC schemes to exit the market or consolidate.

FSCS limits

The Financial Conduct Authority (FCA) is consulting on changes to the Financial Services Compensation Scheme (FSCS) which could potentially increase the compensation limits for pensions drawdown products. The consultation closes on 31 March 2017.

Pension scams

The Government has been consulting on potential legislative changes to reduce pension scams.

It has proposed a ban on cold calling, a limit on the statutory right to pension transfer (allowing trustees or managers of schemes more scope to block transfers to arrangements that they believe may be a scam), and a requirement that only non-dormant companies may register a pension scheme (making it more difficult for fraudsters to open small pension schemes).

Further information

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

- Investment Conference 2017: Campbell, Brexit and 'Trumpsomnia'
- Cash-flow aware investment
- Interest rates to rise but no return to normal anytime soon
- Don't be paralysed by political risk
- European companies with UK defined benefit schemes

Forthcoming events

Today's Trustee: Under the Microscope

As the pensions industry continues to evolve, our full day conference will dissect the genetic makeup of today's trustee – helping them to future-proof their strategy and tackle complex issues effectively. We will be joined by the respected broadcaster and opinion leader, Andrew Neil, for what promises to be a memorable day.

FIND OUT MORE AND REGISTER >

Today's Trustee: Regional Pensions Conference

We will be running a half-day conference in Birmingham and Manchester providing delegates with a selection of presentations from our experts on key pension issues. Further information will be available in due course.

REGISTER >

Seminar: taking the longevity view

How well do you understand the factors that affect longevity for individual schemes? And how informed do you feel about the latest developments in this fast-moving area of longevity research? Our seminars focus on a practical approach to understanding and managing longevity risk for your scheme.

FIND OUT MORE AND REGISTER >

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