Barnett Waddingham
a true partnership approach

News on Pensions

JUNE 2016

British Steel Pension Scheme: DWP consultation

The Department for Work and Pensions (DWP) has issued a public consultation on options for intervention in the case of the British Steel Pension Scheme (BSPS). Tata Steel UK, the BSPS's sponsoring employer, is being sold by its parent company, Tata Steel Limited. However, the scheme's large pension deficit is proving an obstacle to Tata Steel UK being sold as an ongoing concern.

As set out in the consultation, the DWP is considering four key options for the future of the pension scheme:

- A Regulated Apportionment Arrangement (RAA) could be used to separate the BSPS from Tata Steel UK, with Tata having no further liability to the scheme. The scheme would then either enter the Pension Protection Fund (PPF) or 'buy-out' benefits above PPF compensation levels if funded well enough.
- Tata Steel UK could end their relationship with the BSPS, triggering a buy-out debt. Tata and the BSPS trustees could then work with The Pensions Regulator (TPR) to agree a buy-out that would secure member benefits at above PPF compensation levels but below the value of the full member benefits. Tata have indicated, however, that this option would be unaffordable.
- The BSPS trustees could amend the scheme rules to retrospectively reduce the level of revaluation and pension increases payable to the minimum level required by law. This would require legislation specifically for the BSPS as such a change would be detrimental to members' benefits (as set out in the BSPS rules). This would be the first time such a change has taken place.
- The BSPS trustees could transfer the scheme liabilities to a new scheme, offering reduced revaluation and pension increases, but with benefits above the level of PPF compensation. The Government would also need to legislate to allow this, as it would be very difficult for the trustees to obtain consent to the change from every member of the BSPS.

The consultation closed on 23 June 2016.

TPR: 2016 funding statement

TPR has issued its 2016 funding statement for trustees of defined benefit (DB) schemes, intended as a guide for schemes undertaking a valuation with an effective date between 22 September 2015 and 21 September 2016.

The statement emphasises the importance of Integrated Risk Management (IRM), and how trustees "should take a proportionate approach to understanding the scheme's exposure to risk across employer covenant, investment and funding". Based on their funding analysis, TPR has concluded that:

- In light of recent "significant financial market volatility", TPR stresses the importance of taking a long-term view of investment markets, as well as understanding the impact on assets and liabilities of changing market conditions.
- TPR expects many funding strategies will be based on lower expected investment returns than at the last valuation, and encourages trustees to "reconsider their assumptions in light of market developments" if they had previously assumed gilt yields would revert to higher levels. Such a review should consider whether it would be more appropriate to assume reversion "over a longer time period and to lower levels than before", and whether it would be appropriate to implement any related contingency plans put in place at the last valuation.
- TPR expects "most schemes" will find themselves with a larger deficit than previously expected. Such schemes are encouraged to seek higher contributions where there is sufficient affordability for the sponsor. Where higher contributions may not be affordable, TPR expects trustees and employers to discuss the issue openly and to consider their options.
- Trustees who seek to adjust assumptions in light of 'pensions freedoms' should ensure these are evidence-based. TPR says that most schemes, however, are unlikely to have enough evidence to support such adjustments.

PPF news

New actuarial factors

The PPF has published new actuarial factors for members entitled to PPF compensation. The new factors apply to members who are taking early or late retirement, or who are commuting pension for a cash lump sum, with effect from 1 October 2016.

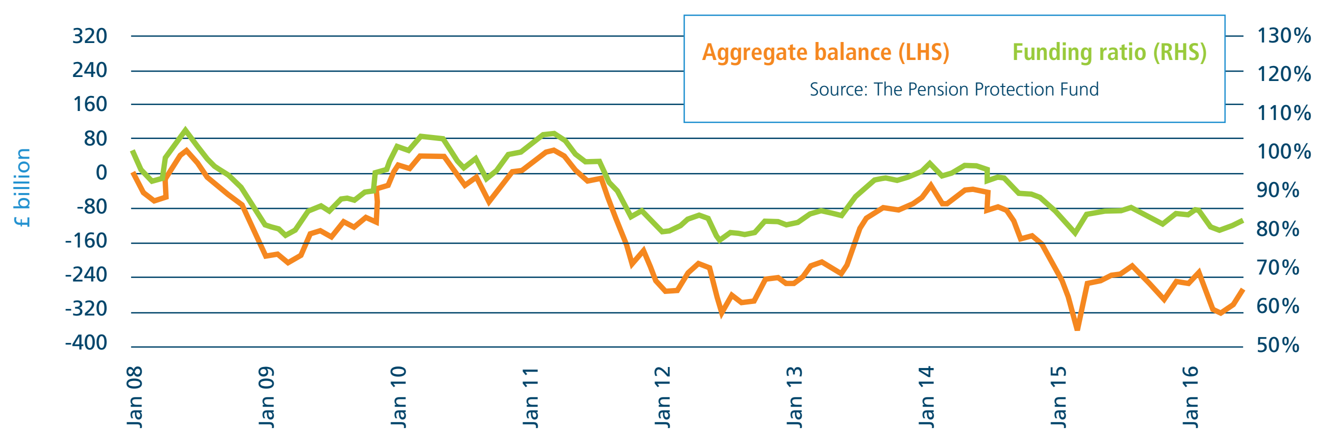
PPF 7800 Index

The latest update of the PPF's 7800 Index of schemes' funding (on the 'Section 179' basis) shows there was an improvement in the overall funding ratio from 81.0% to 82.6% between March and April 2016.

The aggregate deficit of the 5,945 schemes in the index is estimated to have decreased over the month to £270.2 billion at the end of April 2016 (there was deficit of £302.1 billion at the end of March 2016).

There were 4,804 schemes in deficit and 1,141 schemes in surplus.

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



Common misconceptions

The PPF has published a short document intending to correct several "common misconceptions about the PPF". The document is intended for use by journalists and others in the media, but may be of interest to those dealing with the PPF for the first time.

Other news

TPR: DC schemes code of practice

Following an earlier consultation (see News on Pensions – December 2015), TPR's revised code of practice for trust-based defined contribution (DC) schemes has been laid before Parliament.

Based on responses to the consultation, TPR has made a number of minor changes to the code, including:

- Renaming the code to make it clear that it applies to all trust-based schemes which offer DC benefits;
- Moving some detail on multi-employer schemes out of the code and into supporting guides; and
- Clarifying timescales for investing member contributions and issuing risk warnings to members.

The majority of the content, however, is unchanged from earlier drafts and the revised code is expected to come into force during July 2016.

BHS: inquiry continues

The House of Commons Work and Pensions Select Committee, and the Business Innovation and Skills Select Committee have continued to take evidence as part of their inquiry into the sale and acquisition of BHS (see News on Pensions – May 2016).

While most of the headlines have focussed on exchanges between BHS's current and former senior management, the committees have also published new pieces of evidence surrounding the BHS pension schemes and their interactions with TPR. These new pieces of evidence include a timeline of TPR's involvement with BHS and letters from TPR to parties involved in the sale of BHS in March 2015. There were also details of a proposed plan to permit the pension scheme's controlled entry into the PPF while BHS remained in business, known as Project Thor.

HMRC: Pension Schemes Newsletter 78

Her Majesty's Revenue and Customs (HMRC) has published Pension Schemes Newsletter 78, which includes additional guidance and clarification on the new tapered annual allowance (see News on Pensions: August 2015) – in particular clarifying that schemes are only required to provide standard pension savings statements only where the standard annual allowance (£40,000 in 2016/17) is breached, rather than if the tapered allowance is breached.

The newsletter also includes updated 'pro-forma' wording for individuals wanting to rely on Fixed Protection 2016 or Individual Protection 2016 between now and when HMRC's online application system is available, later this summer.

Pension Ombudsman: death benefits

The Pensions Ombudsman has ruled in favour of a dependant who incurred a 40% unauthorised payment charge when death benefits were paid outside of the two year deadline set out in the Finance Act 2004.

Although part of the delay was due to time it took the dependant to provide certain information, the Ombudsman held that there was still sufficient time for the scheme to have arranged payment. Scheme administrators may wish to review their procedures for processing death benefit payments in light of the Ombudsman's decision.

Capping early exit pension charges

As previously announced, the Government intends to impose a cap on early exit charges across occupational and personal pension schemes - both trust-based and contract-based - where members are eligible to access their pension flexibly. The cap is not relevant for DB schemes.

The DWP is consulting on how the cap will be implemented. In particular, the DWP intends for the provisions to mirror those for contract-based schemes (i.e. a cap of 1% for existing contracts and 0% for new contracts), and that the cap will apply to early exit charges imposed by both the trustees and their service providers.

The cap is likely to be implemented in 2017 and provisions will be included in the forthcoming Pensions Bill. The consultation for trust-based schemes closes on 16 August 2016.

DWP: tracing lost pensions

The DWP has also launched a Pension Tracing Service website to help people more quickly and easily locate pensions which they may have lost track of. The DWP estimates there is £400 million in unclaimed pension savings which it hopes to reunite with its rightful owners via the website.

Select Committee: auto-enrolment review

The House of Commons Work and Pensions Select Committee has published a report on the progress to date of auto-enrolment (AE). The report states that, while AE has been a "success story" so far, "gaps in pension regulation" have "allowed potentially unstable master trusts" into the market, which could lead to scheme members losing their savings, and wider faith in AE being undermined.

The Lifetime ISA, or LISA, is also highlighted as a risk to AE, as employees may opt out of their workplace schemes in favour of a LISA, especially before 2018 while minimum contribution rates are still low. The Committee has accused the Government of "sending mixed messages about the best way to save for retirement", fearing that members who invest in LISAs instead of occupational schemes will be left worse off. The committee has urged the Government to conduct "urgent research" before the 2016 Autumn Statement.

Further information

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

- UK votes Leave: how pension schemes can cope with uncertainty
- EU Referendum: change inevitable for pension schemes - leave or remain
- Changes to widows' pension rights - not just a 'Thai Bride' problem
- Buy-outs and buy-ins – Summer 2016
- Scheme funding in volatile conditions: TPR's 2016 annual funding statement
- Walk the line: between GMP rectification and benefit audit
- How big pension schemes reduce risk
- Spotlight on Longevity June 2016: what can we learn from international mortality data?
- Top priority: The Pensions Regulator's plans for schemes
- RIP contracting-out: gone but not forgotten

Forthcoming Events

Webinars

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

- How to survive the EU referendum (recorded 19 May 2016);
- Pension flexibilities, the impact on DB schemes (26 April 2016); and
- Pension Tax changes from April 2016 (23 February 2016)

Training

Trustee Training – London (8 September)

Barnett Waddingham's one day courses are designed to give trustees a thorough grounding in pensions matters and the confidence to complete The Pensions Regulator's trustee toolkit. Register >

DC Training – London (7 September)

DC trustees are legally required to have a minimum standard of knowledge and understanding. Our courses are aimed at both trustees of DC schemes and those involved with the governance and management of DC schemes. Register >

Tapered Annual Allowance

In the light of recent further changes to pension taxation, we have compiled a short survey in order to gain some insight into the varying approaches employers are taking, both by size of the company and type of pension scheme. The research will provide a valuable overview of how businesses are managing this change for their high earners.

The survey should take no more than five minutes, as a thank you for taking part you will receive a full report of the findings and the opportunity to discuss the results with one of our consultants.

Thank you for your time, we value your opinion and feedback.

TAKE THE SURVEY >

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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