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a true partnership approach

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THIS NEWSLETTER IS A SUMMARY OF THE TRUSTEE, COMPANY, AND OTHER ELEMENTS THAT YOU NEED TO BE AWARE OF TO HELP YOU WITH RUNNING YOUR DEFINED CONTRIBUTION (DC) SCHEME OR ARRANGEMENT.

Whether you are a trustee running an occupational scheme or a company offering a master trust scheme or a contract-based scheme (such as a Group Personal Pension), it is important to keep up to date.

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*** TRUSTEE ELEMENTS**

DC CODE OF PRACTICE

The Pensions Regulator (TPR) published a significant update to its DC Code in July 2016, supported by 'how to' guides covering key areas, e.g. value for members. TPR expects trustees to use the DC Code to check the quality of their DC arrangements.

The updated DC Code is extensive but trustees may adopt a proportionate approach to reviewing their AVC arrangements - we recognise this by significantly reducing the areas assessed.

EQUITABLE LIFE WITH-PROFITS FUND

Equitable Life has announced that there is a very real possibility that the 35% capital distribution may have to be suspended. Equitable Life says that, due to low interest rates (which fell further following the European Referendum), it faces the challenge of earning the 3.5% minimum return built into many of its with-profits policies.

The With-Profits Fund works in a different way to standard pension investment funds, as it is not a unitised investment fund. We briefly explain below how Equitable Life manages the With-Profits Fund.

Equitable Life maintains two values for members' investments in the With-Profits Fund:

- guaranteed benefit that for many policies increases at a minimum rate of 3.5% each year
- policy value that is not guaranteed (can go down as well as up) and is normally reviewed once a year

When taking retirement benefits or on earlier death, Equitable Life will pay the greater of:

- the guaranteed benefit; and
- the policy value plus the capital distribution amount (currently 35% of policy values as at 31 December 2014).

On transfer prior to retirement (to another investment fund or out of the scheme), the guaranteed benefit does not apply and Equitable Life will pay:

- the policy value plus the capital distribution amount less the financial adjustment (currently nil)

Equitable Life has written to individual policyholders to let them know that it may suspend the capital distribution amount but not to members of group pension schemes.

CHAIR'S STATEMENT

From 6 April 2015, trustees operating any DC benefits in addition to Additional Voluntary Contributions (AVCs) have been required to report by means of a Chair's Statement on how DC governance standards are being met, e.g. default investment arrangements and annual value for member assessments.

The Chair's Statement must be prepared within seven months of each scheme year end and published in the scheme's annual report and accounts. TPR will automatically fine trustees who are late or who don't comply and we have begun to see evidence of these fines.

SHOULD YOUR SCHEME INCLUDE HOLDINGS IN THE WITH-PROFITS FUND FOR MAIN SCHEME BENEFITS OR AVCS, WE CAN HELP WITH A COMMUNICATION TO MEMBERS IF YOU WISH.

STRONGER REGULATION OF MASTER TRUST SCHEMES

The Pension Schemes Bill, published on 20 October 2016, will boost member protection by requiring master trust schemes to meet higher operating criteria.

UNDER NEW LEGISLATION, TPR WILL BE GIVEN POWERS TO AUTHORISE AND DE-AUTHORISE MASTER TRUST SCHEMES, AND WILL MAINTAIN A LIST OF SCHEMES THAT HAVE BEEN AUTHORISED.

This authorisation regime will be based on the following key criteria:

- persons involved in the scheme are fit and proper to act in their roles
- the scheme is financially sustainable
- the scheme funder meets set requirements so as to provide assurance about its financial situation
- the scheme's systems and processes meet adequacy requirements, relating to administration and governance
- the scheme has an adequate continuity strategy

Existing master trust schemes will be brought into this authorisation regime.

DELAY IN PHASING IN THE MINIMUM AUTO-ENROLMENT CONTRIBUTION LEVELS

For employers who chose to 'phase in' the minimum auto-enrolment contributions, the legislative step ups planned for October 2017 and October 2018 have each been delayed by six months to align with tax years. These will now take place on 6 April 2018 and 6 April 2019.

THE GOVERNMENT HAS PREVIOUSLY STATED THAT IT INTENDS TO REMOVE THE CONTRIBUTION AND TRANSFER RESTRAINTS ON NEST IN 2017.

AUTO-ENROLMENT REVIEW

The Government will undertake its long-planned policy review of auto-enrolment in 2017.

As far as we are concerned, auto-enrolment has largely been a success, with substantially more workers brought into workplace retirement saving and opt-out rates significantly lower than initially forecasted.

There is however room for improvement, and included among the changes that may be considered are:

- easing the complex administrative rules, e.g. those applying to workers opting in
- review of the qualifying earnings band for the calculation of contributions, i.e. how this impacts low earners and multi-jobbers
- longer-term compulsion, i.e. no opt-out option

The Government has previously stated that it intends to remove the contribution and transfer restraints on NEST in 2017. The NEST scheme has been instrumental in the delivery of auto-enrolment, with a public service obligation to accept employers of any size.

* OTHER KEY ELEMENTS

DC CHARGE CAP

In 2017 we expect the Government to review the charge cap of 0.75% applying to the default investment arrangements of schemes used to meet employers' auto-enrolment duties, i.e. both qualifying schemes and auto-enrolment schemes. The review of the charge cap may be included within the wider auto-enrolment review.

WE BELIEVE THAT THE CURRENT LEVEL OF THE CHARGE CAP HAS GENERALLY IMPROVED VALUE FOR MEMBERS BUT FOR SOME SCHEMES FURTHER REDUCTION MAY DRIVE A MORE SIMPLISTIC INVESTMENT SOLUTION OR NECESSITATE A CHANGE OF PENSION ARRANGEMENT.

CAP ON EARLY EXIT CHARGES

The Government wishes to ensure people are able to access their retirement benefits flexibly without being unnecessarily penalised by early exit charges.

The Financial Conduct Authority (FCA) confirmed in November that it will cap early exit charges on personal pensions for existing and new schemes. The cap will be set at 1% of the value of benefits being taken or transferred, and will come into effect from 31 March 2017. Existing schemes with early exit charges set below 1% cannot increase these. New schemes set up after 31 March 2017 cannot impose any kind of early exit charges.

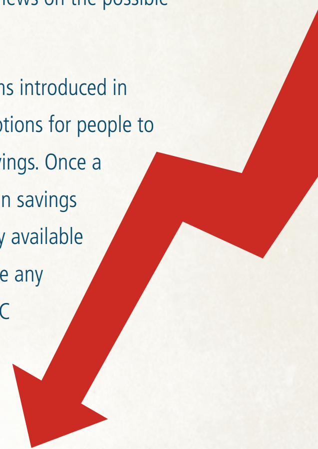
THE FCA CONFIRMED IN NOVEMBER THAT IT WILL CAP EARLY EXIT CHARGES ON PERSONAL PENSIONS FOR EXISTING AND NEW SCHEMES.

The Pension Schemes Bill published in October 2016 seeks to provide members of occupational pension schemes with an equivalent level of protection. The Bill introduces changes that will allow regulations to be made which override contract terms, where these provide for a prohibited level of charge.

PROPOSED REDUCTION TO THE MONEY PURCHASE ANNUAL ALLOWANCE

The Government announced in its Autumn Statement on 23 November 2016 its proposed reduction to the Money Purchase Annual Allowance (MPAA) from £10,000 to £4,000 with effect from 6 April 2017. It is consulting on the proposed change, seeking views on the possible impact of this reduction.

The pension freedom reforms introduced in April 2015 increased the options for people to access their DC pension savings. Once a person has accessed pension savings flexibly (i.e. through a newly available option), if they wish to make any further contributions to a DC scheme, tax-advantaged contributions are restricted to the MPAA.



PENSION SCAMS

For many people, their pension savings will be their largest financial asset, which they will save towards over the course of their working lives. Because of the size of people's pension pots, pension savings are an attractive target for fraudsters. Pension scams can leave people facing retirement with limited income, and little or no opportunity to build their pension savings back up.

On 5 December, the Government launched a consultation on a package of measures aimed at tackling three different areas of pension scams:

- a ban on cold calling in relation to pensions to help stop fraudsters contacting individuals
- limiting members' statutory right to transfer
- making it harder for fraudsters to open small pension schemes

ANNUITY PROPOSALS

The FCA has proposed new rules effective from September 2017 that will require annuity providers to inform their customers how much they could gain from shopping around and switching provider before they purchase an annuity. Providers will be required to show the difference between their own quote and the highest quote available from all other providers on the open market, and also provide some information to help the customer access the best quote.

FINANCIAL ADVICE MARKET REVIEW

Following a public Call for Input and subsequent engagement with a wide range of stakeholders, the Financial Advice Market Review (FAMR) recommended a package of measures that has the potential to promote a real improvement in affordability and accessibility of advice and guidance to people. For FAMR's vision to be realised, there needs to be continued commitment/co-operation not only from regulators and Government but also employers, consumer groups and the financial services industry.

LIFETIME ISA

The Autumn Statement did not mention the Lifetime ISA (LISA) at all. With a lack of clarity in the full details of how they will operate, it is unlikely that we will see much development from providers in developing LISAs for an April 2017 roll out.

SECONDARY ANNUITY MARKET SCRAPPED

The Government announced in October that it had scrapped its plans for a secondary annuity market, just months before implementation. The secondary annuity market plans would have extended pension freedom reforms, allowing people drawing annuities to sell their contracts from 6 April 2017.

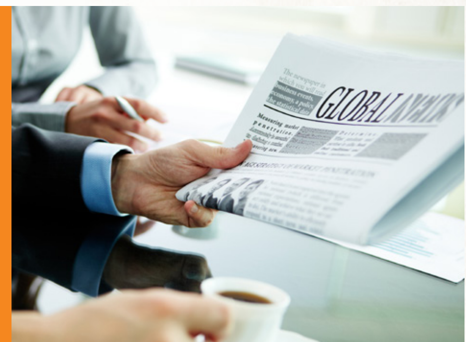
The Government undertook an extensive programme of engagement with industry, financial regulators and consumer groups, which had led it to decide the secondary annuity market would not work. The main reasons for this were the challenges in ensuring consumer protection and value for money.

THE SECONDARY ANNUITY MARKET PLANS WOULD HAVE EXTENDED PENSION FREEDOM REFORMS, ALLOWING PEOPLE DRAWING ANNUITIES TO SELL THEIR CONTRACTS FROM 6 APRIL 2017.

PROVIDER NEWS

In May, Aegon announced that it had agreed a deal to acquire BlackRock's UK DC platform and administration business. This will boost Aegon's position in the workplace pensions market. BlackRock will continue to work in the UK DC market through its investment solutions.

Following its acquisition of Friends Life in 2015, Aviva consolidated its Friends Life corporate pension business from its Exeter to Dorking office during 2016. Aviva plans to roll out its brand to Friends Life in 2017.



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