News on...

Barnett Waddingham

a **true partnership** approach

Pensions - June 2013

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Pensions Bill 2013/14

Following its announcement in the Queen's Speech, the latest Pensions Bill has been published and is undergoing debate in Parliament. The key reforms in the Bill, which is expected to receive Royal Assent in spring 2014, are set out below.

State pension reform and the end of contracting-out

The Pensions Bill will introduce a flat-rate state pension of about £144 per week, replacing the Basic State Pension, earnings-related additional state pensions (S2P, formerly SERPS) and various means-tested benefits (including the pensions credit) from April 2016. Further details can be found in Pensions News – April 2011.

A consequence of the changes to state pensions is that contracting-out on a salary-related basis will be abolished from 2016. The Bill incorporates a measure which will allow employers to reduce future benefit accrual (without the need for trustee consent, but with actuarial certification) to reflect the expected increase in National Insurance bills.

The Bill also brings forward the increase in State Pension Age (SPA) from 66 to 67. Originally planned to take place between 2034 and 2036, the increase will now apply between 2026 and 2028. Included in the Bill is provision for a regular review of SPA to reflect trends in life expectancy. The first such review should take place before May 2017.

New objective for TPR

The Pensions Regulator's (TPR) new scheme funding objective is set out in the Bill:

> *"… to minimise any adverse impact on the sustainable growth of an employer."*
>
> *Section 42, Pensions Bill 2013/14*

The new objective will sit alongside TPR's current objectives (to protect members and the Pension Protection Fund (PPF), to promote the good administration of work-based pension schemes and to maximise employer compliance with auto-enrolment). TPR's interpretation of this new objective is yet to be determined but the objective is likely to be a relevant factor at future actuarial valuations for defined benefit (DB) schemes. TPR is expected to revise its Code of Practice on scheme funding in light of the new objective

Enhanced Transfer Values

The Pensions Bill will give the government the option to introduce an outright ban on incentivised transfer exercises at any point within seven years. It is understood that the power will only be used if the pensions industry's voluntary Code of Practice (see News on... Pensions – July 2012) is not adequately adopted.

Other clauses

The Bill also paves the way for:

- a "pot-follows-member" system where Defined Contribution (DC) pots under £10,000 will automatically be transferred to a leaving employee's new arrangements
- a ban on short service refunds of contributions for leavers from DC schemes with less than two years' service, and
- the abolition of "consultancy charging" in auto-enrolment schemes (see below).

More Parliamentary News

Public Service Pensions Act 2013

The *Public Service Pensions Act 2013*, which provides a framework for reforms to public sector pensions, has received Royal Assent. The Act paves the way for the new public sector Career Average Revalued Earnings (CARE) pension schemes from 1 April 2014 (for the Local Government Pension Scheme) and 1 April 2015 (for other public sector arrangements).

The Act also provides a framework for implementing many of *Lord Hutton's recommendations*, for example:

- pension ages will be linked to SPA (with the exception of firefighters, police and the armed forces)
- an employer cost cap will limit the ongoing cost of schemes.
- more detailed scheme governance requirements will be implemented, including the requirement for all public sector schemes to appoint a Scheme Manager, and
- the "Great offices of State" pension schemes will not be made available for future Prime Ministers, Lord Chancellors or Commons Speakers.

TPR's current role for the private sector will also be expanded in relation to public sector schemes, and TPR is expected to publish related Codes of Practice in due course.

"Solvency II" Postponed

The European Commission (EC) *has announced* that it is postponing its plans to introduce new solvency rules for pension funds.

In a move that has been *widely welcomed* in the UK, Michel Barnier (the EC Internal Market and Services Commissioner) has said that the funding and solvency aspects will not form part of the new regime for Institutions for Occupational Retirement Provision (IORPs) that is expected to be published shortly.

It had been estimated that the introduction of Solvency II style rules would add around £400 billion to UK pension scheme liabilities.

The debate surrounding solvency rules will, however, remain open as further "technical work" is required. In the meantime the EC will set out a proposal in the autumn of 2013 for a new directive which aims to improve the governance and transparency of occupational pension funds.

Smoothing in Scheme Funding: Government Response

Following the announcement in the 2013 Budget (see *News on… Pensions – April 2013*), the Department for Work and Pensions (DWP) has published *its response* to "Pensions and growth: a call for evidence" on the subject of smoothing assets and liabilities in scheme funding valuations.

The call for evidence asked whether allowing smoothing would materially improve sponsoring employers' ability to attract investment or to invest in the short term. It also considered the practical aspects of incorporating smoothing into funding valuations, and the question of whether TPR should be given a new statutory objective.

The response shows that only around 11% of those who responded to the consultation were in favour of allowing smoothing in scheme funding valuations.

> *"The call for evidence did not reveal a strong case for changing legislation to permit smoothing, with the overwhelming majority of respondents against the proposals. Instead, respondents favoured greater use of existing flexibilities within the funding legislation. Many felt that this, combined with an employer-related objective for the Regulator … would deliver a proportionate response to the difficulties highlighted in the call for evidence."*
>
> *Department for Work and Pensions, May 2013*

Clamp-down on Consultancy Charging

The Government has *announced* it is to ban consultancy charging in auto-enrolment schemes as part of a "two-pronged" plan to tackle inappropriate pension charges. The Government had conducted a review over the past six months and concluded that existing measures to prevent advisers deducting high charges from members' pension pots are inadequate. Furthermore, it found consultancy charges had a disproportionate effect on people who moved jobs regularly.

Consultancy charges, where scheme members pay for advice given to their employer, will be banned under legislation to be laid before Parliament "as soon as possible".

Under the second "prong", the Government will publish a consultation in the autumn setting out proposals which will include a cap on default fund charges in DC schemes.

Latest News from TPR and the PPF

Occupational Pension Scheme Governance Survey

TPR has published a report on its seventh *scheme governance survey*, which investigates standards of governance, administration and trustee knowledge and understanding in occupational pension schemes to March 2013. Key findings include:

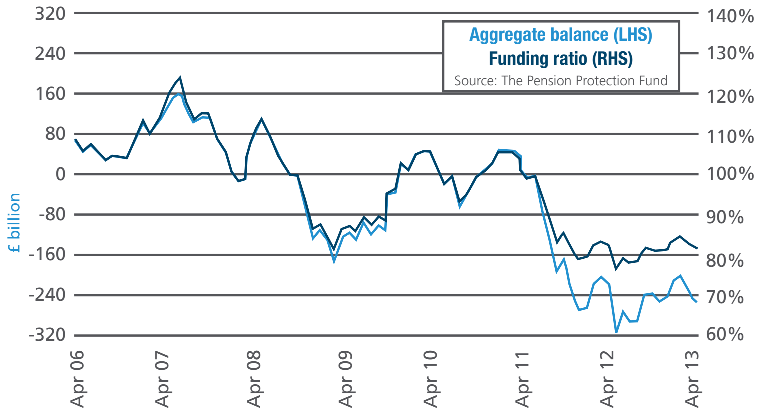
- large schemes, DB and hybrid schemes have higher levels of governance activity that than small, medium and DC schemes
- 75% of schemes have documented their internal controls, up from 68% in 2012
- 79% of schemes have documented service standards in place and, of these, 82% receive formal reports on the standard of administration at least annually
- 47% of schemes say that they fully integrate the management of their scheme risks, with a further 37% saying that these risks are integrated 'to some extent'
- trustee boards were less likely to be seen as "working together as an effective unit" (63% in 2013, down from 69% in 2012), and less likely to be reviewing the investment strategy of the scheme, as opposed to simply monitoring it (45%, down from 52%), and
- 12% of DC schemes say they have never reviewed their Statement of Investment Principles.

PPF: 7800 Index

The *latest update* of the PPF's 7800 Index of schemes' funding (on the s179 basis) has been published.

The aggregate deficit of the 6,316 schemes in the index is estimated to have increased over the month to £256.6 billion at the end of April 2013 (there was an aggregate deficit of £236.6 billion at the end of March 2013).

The funding ratio fell from 82.6% to 81.5%. There were 5,142 schemes in deficit and 1,174 schemes in surplus.



TPR: 2013-16 Corporate Plan

TPR has published its *corporate plan for 2013-16*, setting out its key priorities relating to the regulation of DB schemes, DC schemes and automatic enrolment arrangements. The document also includes TPR's business plan for 2013-14.

TPR has re-emphasised its focus on internal controls, governance and good administration. It will focus on educating trustees through the Trustee Toolkit, raising awareness of the threat to members' benefits by pensions liberation fraud, improving internal controls (particularly record-keeping), and preparing for its new duties under the Public Service Pensions Act 2013 (see above).

TPR also plans to review its Codes of Practice on funding DB schemes and trustee knowledge and understanding, and will publish two new Codes of Practice to ensure the appropriate flow of funds into auto-enrolment schemes.

PPF: 2013-16 Strategic Plan

The PPF has published its *strategic plan for 2013-16*. The plan outlines the PPF's vision and objectives for the next three years, which include:

- being self-sufficient by 2030, necessitating further reviews of investment management processes
- delivering excellent customer service, including a plan to move member administration in-house, and
- regularly reviewing their risk management processes.

Other News

Two-year-old girl sues Scotland Yard

The two-year-old daughter of a police officer, who died in service, is taking legal action over Scotland Yard's decision not to award her a share of her father's pension because she had not yet been born at the time of her father's death, and because her mother and father were unmarried.

Tabitha is taking legal action through her mother. Her barrister is arguing that the reasons for not awarding Tabitha a share in her father's pension are "incompatible" with the European Convention on Human Rights.

NAPF: Responsible Investment Guide

The National Association of Pension Funds (NAPF) has updated its *Responsible Investment Guide*. Previously published in 2009, the guide:

- summarises why pension fund investors should consider "extra-financial risks" (such as governance, environmental and social risks) within investment decisions
- sets out how pension funds can, in keeping with their fiduciary duty, help to make socially responsible investing the norm, and
- suggests several questions for trustees to pose to their investment managers.

Barnett Waddingham wins two awards

Barnett Waddingham has recently been presented with two prestigious awards.

We have been named best Actuarial Consultant at Pensions Week's 2013 Pension and Investment Provider Awards. The awards seek to recognise the excellence of providers of products and services to UK occupational pensions schemes.

Barnett Waddingham was also named Actuarial Advisory Firm of the year by ACQ magazine at the ACQ Global Awards 2013. This award recognises the mergers & acquisition work the Corporate Consulting Practice at Barnett Waddingham has carried out over the last 18 months.

Pension and Investment Provider Awards 2013
Pensions Week
Actuarial Consultant
Barnett Waddingham

ACQ5 Global Awards 2013

Further Information

The winners of the *Defined Ambition Competition 2013* were announced at the Pensions and Benefits Show 2013. The competition - run by Professional Pensions and Barnett Waddingham - was launched in a bid to find the most pragmatic approach to introducing defined ambition schemes to the market.

The competition was won by Royal Bank of Scotland head of pensions and benefits Ray Martin, for his Pension Points Builder Plan. Martin donated his £8,000 prize to a number of charities chosen by his team.

You might also find our recent publications on the following topics useful:

- *Accounting for Pension Costs – 12th Annual Survey of assumptions*
- *Executive Pensions Case Study*
- *Buy-outs, buy-ins and longevity swaps (Summer 2013)*

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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