Barnett Waddingham
a **true partnership** approach

News on Pensions

FEBRUARY 2016

Coming up… Budget 2016

The Chancellor of the Exchequer's 2016 Budget will be delivered in the House of Commons on 16 March 2016.

Following the Government's Green Paper on 'Strengthening the incentive to save' (see News on Pensions – August 2015), the Chancellor is expected to lead the Treasury's response and set out plans for the future of pensions tax relief.

In the meantime, the House of Commons Library has published a briefing note setting out the main options being considered, including:

- A shift to a single-rate of relief of between, say, 25% and 35%. It has been widely reported in the press that the Treasury is proactively considering a system of 'matching contributions', incentivising basic-rate tax payers, but leading to a reduction in tax relief for higher-rate tax payers.

  The government notes that "In 2012/13, people with incomes over £50,000 accounted for around 10% of income tax payers, but nearly half (47%) of private pension contributions attracting tax relief."

- Moving from an Exempt-Exempt-Taxed (EET) to a Tax-Exempt-Exempt (TEE) system. This might take the form of a 'Pensions ISA' scheme where contributions are made from taxed income and top-ups paid by the government. Such a process could be complicated to administer – particularly as it would involve the need to separate benefits built up under the current and new systems.

- Retaining the current system, but with modifications. For example, the Association of British Insurers (ABI) has suggested the Treasury could consider removing the Annual Allowance (AA) for defined benefit (DB) schemes and the Lifetime Allowance (LTA) for defined contribution (DC) schemes in order to reduce complexity.

Barnett Waddingham will be monitoring proceedings closely and we will update our clients and contacts as the details emerge. In the meantime, follow us through our social media channels to hear the latest developments.

PPF news

Key dates

The Pension Protection Fund (PPF) has confirmed key deadlines for trustees and employers to submit information to affect their 2016/17 levy. These include:

Action	Deadline
Monthly Experian Scores	30 April 2015 - 31 March 2016
Submission of data to Experian to impact scores	One month before measurement date
Submit scheme returns on Exchange	31 March 2016 (midnight)
Reference period for smoothing of funding	5-year period to 31 March 2016
Contingent Asset Certificates to be submitted on Exchange (with hard copy documents to PPF if required)	31 March 2016 (midnight)
Asset Backed Contributions certificate	31 March 2016 (midnight)
Mortgage exclusion certificates and supporting evidence	31 March 2016 (midnight)
Deficit-Reduction Contributions certificate	29 April 2016, 5pm
Certification of full block transfers	30 June 2016, 5pm
Invoicing starts	Autumn 2016

Contingent assets: PPF guidance

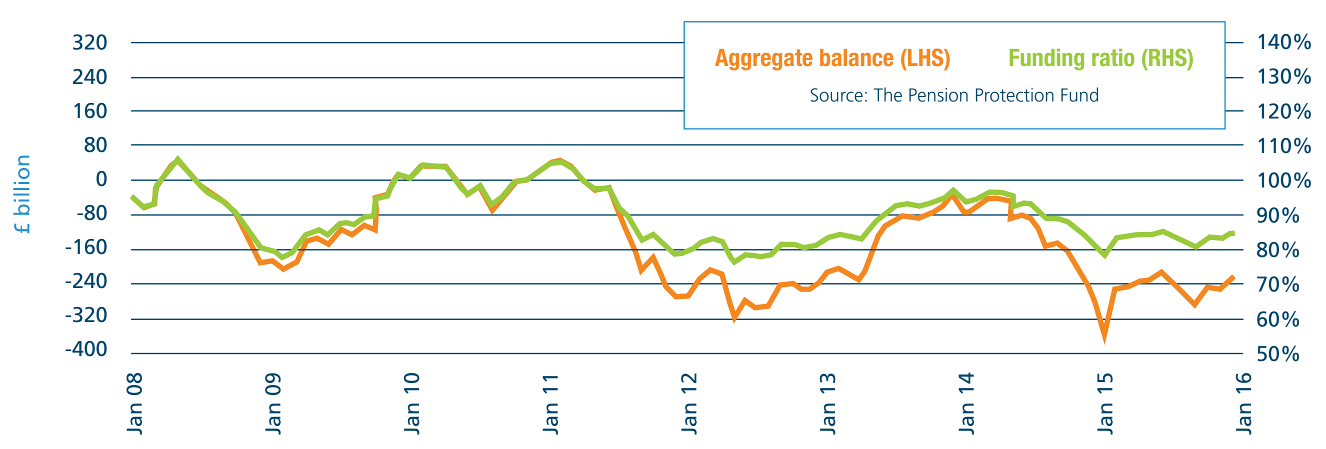
The PPF has published its annual guidance in relation to contingent assets. The 2016/17 guidance is broadly unchanged from the previous levy year, and also includes an additional note citing examples which may help trustees assess guarantor strength according to the PPF's requirements.

PPF 7800 Index

The January 2016 update of the PPF's 7800 Index of schemes' funding (on the section 179 basis) has been published. There was an increase in the s179 funding ratio from 83.4% to 84.9% between November and December 2015.

The PPF estimates that the aggregate deficit of the 5,945 schemes in the index has decreased over the month to £222.4 billion at the end of December 2015 (there was a deficit of £249.4 billion at the end of November 2015). There were 4,679 schemes in deficit and 1,266 schemes in surplus.

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



State pension

Impact of the new state pension

The Department for Work and Pensions (DWP) has published analysis setting out the longer-term impact of the new state pension on an individual's retirement income. The key results of the analysis include:

- Around 75% of females and 70% of males who reach State Pension Age (SPA) under the new arrangements are expected to have higher pension entitlements.
- The new state pension will lead to a reduction in gender inequalities. Around 650,000 women reaching SPA in the first 10 years will receive on average around £8 per week more than under the old system.
- Around 90% of those who will pay higher National Insurance contributions after contracting-out ends will gain enough extra new state pension to offset that decrease in take-home pay.
- Pension scheme members may lose out overall when the state no longer uprates Guaranteed Minimum Pensions (GMPs) to make them fully inflation-linked.

State pension age inequality

In order to equalise SPAs, the SPA for women is being increased to 65 over the period to November 2018. SPAs will then be increased (for both men and women) to 66 by October 2020.

The campaign group Women Against State Pension Inequality (WASPI) has called for transitional arrangements because it believes some women were not given enough notice that their state pension would not be payable from age 60. The National Centre for Social Research noted in 2011 that only 43% of women were aware of the planned changes to SPA.

The matter was debated in Parliament in January. We understand that the DWP does not intend to make further changes to SPA at this time.

Intergenerational fairness

The Work and Pensions Committee has launched an inquiry into intergenerational fairness. The inquiry will consider the consequences of government policies such as the 'triple lock' on State Pension increases, as well as 'broader economic and demographic trends' in order to assess 'the sustainability of the existing welfare system'.

EIOPA: Pensions stress test

The European Insurance and Occupational Pensions Authority (EIOPA) has published the results of its first EU stress test for the occupational pensions sector (see News on Pensions: December 2014). The stress test considers the impact of market and longevity shocks on pension schemes.

The approach, previously referred to as the 'Holistic Balance Sheet', has been re-branded as the 'Common Methodology' and EIOPA intends to continue to develop this further to enable comparison between EU countries. We can therefore expect these stress tests to become a regular occurrence. Further work is planned to consider the effects of prolonged adverse conditions on pension scheme sponsors, the wider economy and financial stability.

For the UK, the aggregate funding level was 85% under the Scheme Funding regime and 65% under the Common Methodology (excluding allowance for sponsor support). Pension schemes were shown to be affected more by the adverse market shocks tested than by the longevity shock.

EIOPA commented that due to the ability of schemes to invest for the long term, and to spread recovery plans over a period of time, pension schemes "might support the stabilisation" of financial markets in adverse conditions.

The report also considers the impact of shocks on members of DC schemes.

News in brief

HMRC newsletter

HMRC has published Pension Schemes Newsletter 75 which includes confirmation that legislation will be included in the Finance Bill 2016 ensuring there is no inheritance tax charge where a deceased member has not fully used up their pension draw-down fund.

HMRC also notes that individuals cannot apply for Individual Protection 2016 or Fixed Protection 2016 (in relation to the reduction in the Lifetime Allowance) until 6 April 2016 as the application process requires details of pension entitlement at 5 April 2016. Any requests made before this date will not be retained.

Auto-enrolment update

The DWP is consulting on technical changes to auto-enrolment regulations. Under these changes, formerly contracted-out DB schemes (which satisfy the contracting-out conditions immediately before the end of contracting-out on 5 April 2016, and which haven't changed their benefit structure) will be allowed to apply the cost of accruals test 'at scheme level'.

This easement will apply for a transitional period - until the earlier of the effective date of the first actuarial report on or after 6 April 2016 or 5 April 2019. Without this easement, regulations would require the accruals test to be applied to each different benefit scale.

The DWP also intends to impose a duty on trustees to advise service providers whether their scheme is being used as a qualifying scheme for automatic enrolment (this includes money purchase AVCs within qualifying DB schemes). Service providers will then need to comply with the ban on member-borne commission. The ban initially applies to 'new commission' arrangements - a further consultation on existing arrangements will follow later this year.

Early exit charges to be capped

Proposals have been put forward by the Chancellor of the Exchequer, to place a duty on the Financial Conduct Authority (FCA) to cap excessive early exit charges faced by people accessing their pension pots. It is hoped that this will allow individuals to better take advantage of the new pension freedoms, which came into effect on 6 April 2015.

The level of the cap on early exit charges will be set by the FCA, who are expected to consult on the cap in due course.

Further information

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

- PPF Levy: get your parent company guarantee right
- LDI in 2016: Navigating your way through the hedging maze
- PPF Levy Forum Survey 2015
- Case Study: Member communication and engagement - benefit accrual switch

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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