Barnett Waddingham
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News on Pensions

SEPTEMBER 2016

HM Treasury: Pensions advice allowance (DC benefits)

HM Treasury is consulting on the introduction of a new Pensions Advice Allowance for defined contribution (DC) pension arrangements. The new allowance was originally recommended in the Financial Advice Market Review (FAMR), and would permit individuals approaching retirement age to withdraw up to £500 from their DC pension pots to pay for 'holistic' financial advice on all of their retirement products (rather than just the pot from which the money has been withdrawn).

The government is proposing that the advice allowance will:

- be redeemable only against fully regulated advice (including automated advice models)
- exclude 'guidance only' services (e.g. those which stop short of a personal recommendation)
- be available 'before the age of 55' so individuals can plan for retirement 'well in advance'. The Treasury is seeking views on the ages at which advice may actually be sought by individuals
- be exempt from tax. The allowance is intended to be in addition to the increased (£500) tax exemption for employer-arranged pensions advice announced in the 2016 Budget – i.e. individuals may have access to £1,000 of advice in total before being taxed

The government is considering whether to allow members to access the advice allowance on more than one occasion and is seeking views of the frequency with which withdrawals will be permitted. The Treasury is also asking respondents to consider how to fairly reduce members' funds where the allowance is taken from policies with guaranteed income rates, for example.

The consultation closes on 25 October 2016.

VAT on pensions costs – deadline extended… again.

HM Revenue & Customs (HMRC) has further delayed new guidelines on how VAT on defined benefit (DB) pension scheme costs can be reclaimed by UK employers. HMRC has been consulting with the pensions industry on the changes required to comply with a ruling in the Court of Justice of the European Union (CJEU) relating to the Dutch Company, PPG.

These changes were due to be implemented by August 2014, but technical and regulatory requirements have already delayed them twice, and now HMRC has extended the transitional deadline again – this time to 31 December 2017. HMRC will "consider the need for a further extension if necessary" later next year.

In the meantime, transitional arrangements effectively allowing VAT reclaims to continue under current practices will remain in place until the end of 2017. Employers and trustee boards who have already begun to restructure adviser contracts or corporate set-ups should consider whether to put their plans on hold or press ahead with the transitions. Those who have not begun to transition may find themselves waiting and continuing under the transitional arrangements until HMRC's plans are better known.

It remains to be seen whether the delay is influenced by pending action in relation to the invoking of Article 50 and indeed whether Brexit will mean the European Court's ruling in PPG need not be applied in the UK after all. Our blog post considers this possibility further.

BLOG POST:
VAT on pension costs - part 4: inscrutable force meets immovable deadline

Latest from The Pensions Regulator

Warnings for DC trustees

Trustees of DC schemes have been warned by The Pensions Regulator (TPR) to make sure they comply with new disclosure laws or risk a mandatory fine.

TPR has ordered Pitmans Trustees Limited to pay three £2,000 fines (the maximum TPR could impose) for failing to meet the new statutory requirement to prepare an annual governance statement signed by the chair of trustees in relation to three schemes.

DC scheme trustees are also being pre-warned of changes to the information required in their annual scheme returns. In particular, they will be required to confirm that they have appointed a chair of trustees and issued an appropriate governance statement to members.

Auto-enrolment analysis

TPR has published its fourth annual commentary and analysis on the implementation of auto-enrolment (AE).

The figures show that AE has been a success in terms of employee participation, with 66% of UK employees in a workplace pension scheme by 31 March 2016 compared to 47% in 2012.

More than 95% of the first group of small and micro employers are in full compliance with their AE requirements, although the total number of employers expected to have AE duties has been revised downwards to between 1.32 and 1.46 million from an estimated 1.8 million last year.

Other statistics set out by the report include:

- Of the three million workers enrolled into master trusts, around 97% are in one that has achieved 'assurance' status, TPR's mark of quality
- TPR have used their formal powers of intervention 8,812 times in the year to 31 March 2016, including issuing 6,241 Compliance Notices and 2,002 Fixed Penalty Notices
- more than half (57%) of the employers left to stage are 'micro employers', with between one and four workers. 34% only have one worker

PPF news

New guidance for insolvency professionals

The Pension Protection Fund (PPF) has published new guidance for insolvency professionals and updated 'Restructuring principles' which set out the criteria that should be incorporated into any restructuring proposals made in respect of an employer suffering an insolvency event.

The PPF notes that, "Occasionally an employer, with a pension scheme in deficit, faces insolvency and will propose a restructuring package to allow them to continue trading, whilst the PPF takes on the pension scheme." Furthermore, "Regulated Apportionment Arrangements* are rare and we do not agree to them lightly. We will only support such proposals if they provide a significantly better return for the pension scheme than it would receive through the normal insolvency process. These arrangements can sometimes be controversial, so we feel it is important that people have a better understanding about our approach to them."

*The PPF can use a Regulated Apportionment Arrangement (RAA) when a scheme has entered or is about to enter PPF assessment. An RAA gives the PPF wide-ranging powers to secure an outcome for the scheme in question, provided TPR approves the resulting arrangement and it would result in a better outcome for members than if the scheme entered the PPF.

The key principles set out in the document include:

- insolvency must be 'inevitable'
- the pension scheme will receive more via the restructuring than if the employer went insolvent
- the offer must be fair to the scheme compared to what other creditors might receive
- the PPF will seek a minimum 10% equity stake in the restructured business (33% if parties involved with the current business will be future shareholders).
- the offer should result in a better outcome for the scheme / PPF than a Contribution Notice or Financial Support Direction being

issued by TPR

- bank fees for refinancing should 'appear reasonable' to the PPF
- the party seeking the restructuring should meet the trustees' and the PPF's costs

Technical news

The PPF has published Issue 8 of its Technical News bulletin. The bulletin mainly focuses on the new regulations (the Pension Protection Fund and Occupational and Personal Pension Schemes (Miscellaneous Amendments) Regulations 2016) that came into force on 6 April 2016. These new regulations:

- extend PPF eligibility of schemes to schemes where 'the centre of the employer's main interests' is within an EU member state or is an EEA insurer or credit institution. This will allow schemes of UK employers to apply for PPF protection where there is an insolvency event in another EU country
- reduce the age at which PPF Money Purchase Lump Sums and PPF Trivial Commutation Lump Sums can be paid from 60 to 55

The bulletin also details the revised actuarial factors which will apply from 1 October, as well the increase in the PPF Compensation Cap from 1 April 2016. The Cap increased this year in line with wage inflation over the year, which was 2.8%.

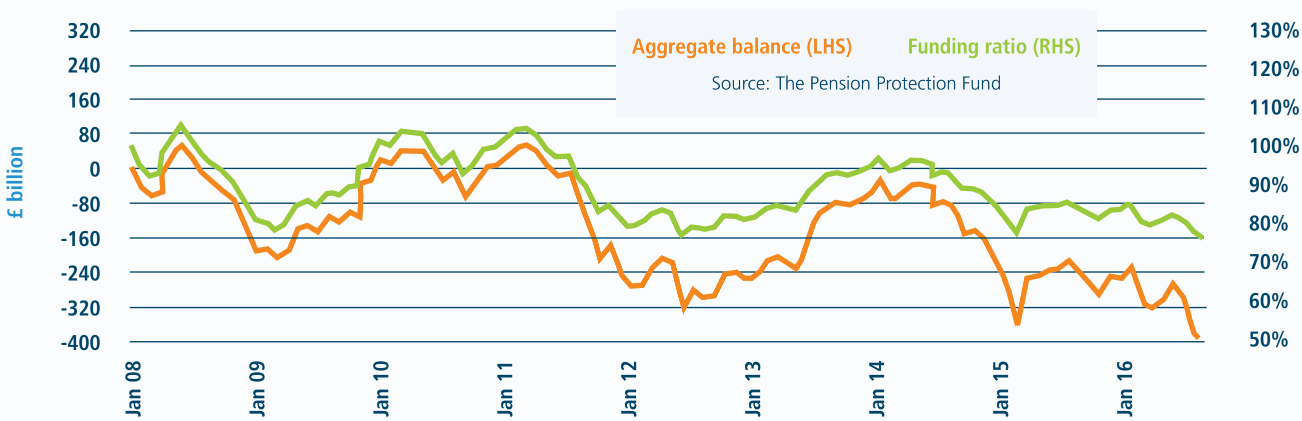
PPF 7800 Index update

The latest updates of the PPF 7800 Index of schemes' funding (on the 'Section 179' basis) show that there was a fall in the s179 funding ratio from 78.0% to 76.1% between June and August 2016.

The aggregate deficit of the 5,945 schemes in the index is estimated to have increased over the two months to £459.4 billion at the end of August 2016 (there was a deficit of £383.6 billion at the end of June 2016).

There were 5,042 schemes in deficit and 903 schemes in surplus. These statistics reflect the updates made by the PPF to their estimates of asset valuations between April 2015 and July 2016 which they say "have been understated by approximately 2%".

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



Other news

ABI stats on pension freedoms statistics

The Association of British Insurers (ABI) has published statistics for the first complete year (to April 2016) since the freedom and choice reforms (see News on Pensions – August 2014), with particular focus on the first quarter of 2016.

The data indicates that the majority of savers are being cautious, with 57% of pension pots having 1% or less of their value withdrawn over the first quarter of 2016, but 4% of pension pots have had 10% or more of their value withdrawn, with a small proportion taking their whole pot in one go.

Other statistics outlined by the report include:

- in the last quarter sales of annuity products have fallen slightly from £1.1 billion last quarter to £950 million;
- over the same period sales of drawdown products remained constant at around £1.5 billion; and
- 42% of savers switched providers at the point of buying an annuity, while 53% switched provider at the time they took money from their pension in drawdown

Further information

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

- Imagine . . . a world where pensions and music meet
- Brexit: has the result affected the bulk annuity market?
- Buy-outs and Buy-ins Report 2016 (annual bulk annuity update)

Forthcoming events

DC Conference 2016 (6 October 2016)

Barnett Waddingham's third annual DC conference takes place on 6 October at the Barbican Centre, London. This year's event is inspired by music and will highlight some of the biggest DC issues faced by employers today, provide valuable insights into the use of analytics and behavioural science and peer into the future of workplace savings and benefits.

Register >

Integrated Risk Management seminars

Our seminars are designed to let our experts share their insights on the pragmatic application of Integrated Risk Management (IRM) and how this can benefit your scheme.

The seminars will be held in London (1 November), Liverpool (4 November), Leeds (8 November), Birmingham (9 November) and Cheltenham (10 November), and will run from 8:30 to 10:30am (except Cheltenham 5:00-6:45pm). Refreshments will be provided. For further information and to reserve a place, please visit our website.

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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