Sackers extra

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Abbreviations commonly used in 7 Days

Alert/News: Sackers Extra publications (available from the client area of our website or from your usual contact)
DB: Defined benefit
DC: Defined contribution
DWP: Department for Work and Pensions
ECJ: European Court of Justice
FAS: Financial Assistance Scheme
GMP: Guaranteed Minimum Pension
HMRC: HM Revenue & Customs
NEST: National Employment Savings Trust
PPF: Pension Protection Fund
TPR: The Pensions Regulator

LEGISLATION

The Automatic Enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2012

Automatic enrolment starts to go live from October 2012 with the largest employers able to bring automatic enrolment forward to July 2012. This Order substitutes the amounts of the automatic enrolment and re-enrolment earnings trigger and the qualifying earnings band in the Pensions Act 2008 with revised rates for 2012/13, aligning them with tax and national insurance thresholds.

The automatic enrolment and re-enrolment earnings trigger is the level of earnings at which employers are obliged to automatically enrol (and re-enrol) eligible jobholders into a qualifying workplace pension scheme. Employers are then obliged to pay contributions at least equal to 8 per cent of a band of qualifying earnings made up of salary, wages, commission, bonuses, overtime and statutory sickness, maternity, paternity and adoption pay.

Explanatory memorandum

DEPARTMENT FOR WORK AND PENSIONS

Workplace Pension Reform – Automatic Enrolment and European Employers

On 20 February 2012, the DWP launched a consultation on a set of draft regulations relating to auto-enrolment. This consultation sought views on proposals to exempt employers who employ individuals who work both in the UK and in other EU Member States from having to automatically enrol individuals who are subject to the social and labour laws of Member States in the European Economic Area, other than the UK, which are relevant to the field of occupational pension schemes.

On 11 June 2012, the Government published its response. This response was issued alongside the Occupational and Personal Pension Schemes (Automatic Enrolment) (Amendment) (No. 2) Regulations 2012 which exempt European employers from automatically enrolling cross-border employees who are subject to the social and labour laws (relevant to the field of occupational pension schemes) of another Member State in the European Economic Area.[1]

Working paper 108: "Trust and confidence in pensions: A literature review"

The DWP has published a Working Paper which reviews the available literature on trust and confidence in pensions. Although the emphasis is on pensions, it draws on evidence

[1] See 7days dated 11 June 2012

from other fields, including health, in order to investigate the nature, types and components of trust. It also discusses the measurement of trust, the relationships between trust and attitudes and behaviour and the dynamics of trust.

Working paper 109: "How can we incentivise pension saving? A behavioural perspective"

The DWP has published a Working Paper which looks at "behavioural" savings incentives: how these compare with "traditional" economic incentives, and available evidence, from the US and elsewhere, on the factors that might impinge on their successful implementation. This analysis suggests that success is by no means a foregone conclusion, and that careful planning and understanding of the characteristics, attitudes and behaviour of those the policies are trying to influence are essential.

EUROPEAN INSURANCE AND OCCUPATION PENSIONS AUTHORITY (EIOPA)

Public consultation on the draft technical specifications for the Quantitative Impact Study of its Final Advice on the IORP Directive

The European Commission has signalled its intention to propose revisions to the Institutions for Occupational Retirement Provision (IORP) Directive next summer. Any new proposal from the Commission would be unlikely to come into effect before 2017 and could be many years later.

As part of this process, the Commission has requested a quantitative impact study (QIS) to determine the impact of applying EIOPA's advice on the valuation and capital requirements for DB pensions.

On 15 June 2012, EIOPA launched a consultation inviting feedback on the proposed methodology to be used when the QIS takes place in the autumn. The consultation is primarily concerned with how the value of different components in a DB pension scheme's "holistic balance sheet" should be calculated - the scheme's assets, 'technical provisions' (i.e. liabilities) and the "employer covenant" as well as the solvency capital requirement.

The deadline for the consultation is 31 July 2012.

TPR is encouraging UK stakeholders to play a full role in responding to this consultation and will be holding a workshop shortly for DB pension specialists to explain issues in the QIS and how it is to be taken forward in the UK.

FINANCIAL REPORTING COUNCIL (FRC)

Actuarial standards for pension incentive exercises

Following the publication of the new Code of Practice for incentive exercises,[2] on 11 June 2012 the FRC's Board for Actuarial Standards (BAS) published a consultation paper which proposes to bring actuarial work on pension incentive exercises into the scope of the FRC's technical actuarial standards (TASs). The consultation also considers whether the TASs should include specific principles to be followed when providing actuarial advice on incentive exercises.

The consultation ends on 7 September 2012.

[2] Please see 7days dated 11 June 2012 and our Alert: "New Code of Practice on Incentive Exercises" dated 11 June 2012.

Press release

HM REVENUE & CUSTOMS

Draft guidance on asset-backed contributions

An asset-backed contribution (ABC) is an arrangement which allows an employer to use non-cash assets to underpin and/or act as a guarantee for regular income stream payments to the pension scheme. It does not usually result in the outright disposal of the asset to the scheme.

The draft Finance Bill 2012 contains provisions which deal with the tax treatment of ABCs, including the availability of relief for employers and the impact of any changes to the arrangement over its term.

On 13 June 2012, HMRC published draft guidance which explains the availability of upfront relief for employers who pay contributions to registered pension schemes using these arrangements with effect from 29 November 2011. The legislation includes transitional provisions that impact certain asset-backed arrangements where the employer contribution was paid prior to 29 November 2011. The guidance on these transitional provisions will be available early in July at which point this document will be replaced.

HM TREASURY

White paper on banking reform

On 14 June 2012, the Government published a White Paper setting out proposals to fundamentally reform the structure of banking in the UK. The White Paper, which details how the Government will implement the recommendations of the Independent Commission on Banking, offers further detail on plans to separate retail and investment banking through a 'ring-fence' and increase competition in the banking sector. It also sets out proposals which aim to make banks more resilient, as well as simpler to resolve in the event of failure.

In respect of pensions, the Government's preferred option is to separate the pension schemes for employees of ring-fenced banks from the pension schemes of other group entities "to ensure that the ring-fenced bank cannot be made jointly and severally liable for any pension deficit arising elsewhere in the group". Given the complexity of such splits, the Treasury proposes to give banks until 2025 to fully separate their schemes, and has invited suggestions on whether 10 years is an appropriate length of time. The White Paper says[3]:

> "The provision of additional time to achieve this separation would not be intended to increase the time allowed for banks to fulfil their recovery plan agreements with pension trustees. Banks and trustees will need to agree appropriate plans necessary to ensure that banks are able to afford a separation by the 2025 deadline."

The consultation closes on 6 September 2012. Draft legislation is due this autumn and the Government intends all legislation to be in place by the end of this Parliament (May 2015).

[3] At paragraph 2.79

PENSIONS ADMINISTRATION STANDARDS ASSOCIATION (PASA)

Standards and accreditation consultation

PASA has been created from within the industry to become the body to set meaningful administration standards, assess compliance with those standards and act as a focal point for government and the pensions industry on matters relating to administration standards.

On 18 June 2012, PASA launched a consultation on its draft standards and an accreditation framework. The consultation closes on 9 July 2012.

THE PENSIONS REGULATOR

Enabling a good member outcome in DC pensions: an update on industry dialogue

In December 2011, TPR published six principles for good design and governance of workplace DC pension provision.[4] These were developed to help inform TPR's regulatory approach for DC arrangements going forward.

Since last December, TPR has been liaising with a number of stakeholders and practitioners operating in the DC sector including, trustees, produce providers, benefit consultants, fund managers and administrators in order to understand how schemes meet these principles in practice. This approach has allowed it to identify a number of features which, if present, will make schemes more likely to be able to demonstrate they are meeting the principles.

TPR has now issued a statement to provide feedback to those providing and running DC schemes on what these features are and to set out the next steps for TPR in developing its regulatory approach for DC schemes.

Supporting providers and employers to deliver good DC pensions

On 13 June 2012, TPR published material to help product providers, trustees and employers deliver good outcomes for retirement savers from work-based defined DC pensions.

For product providers and trustees, TPR has published a list of the draft features that represent its current view of the core components of a DC scheme that are most likely to result in a better income for savers at retirement.

Each of the features sits beneath one of TPR's six principles for the good design and governance of DC pension provision which were first published last year (see above).

TPR has also published a tool to help employers to check whether their existing DC scheme meets the minimum criteria for an automatic enrolment scheme as set out in legislation.

Finally, it has issued a leaflet, "Selecting a good automatic enrolment scheme", which sets out a number of questions employers might want to ask advisers or product providers when they are selecting a pension scheme for automatic enrolment, or when assessing their existing scheme.

[4] See 7days dated 12 December 2011

Press release