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
FSA: Financial Services Authority
DWP: Department for Work and Pensions
HMRC: HM Revenue & Customs
HMT: HM Treasury
PPF: Pension Protection Fund
TPR: The Pensions Regulator

HM TREASURY

Coalition Government Budget 2010

The first Budget of the Coalition Government will be delivered by the Chancellor, George Osborne, at 12:30pm tomorrow, 22 June 2010.

HMT notes that this Budget will reflect its stated values of "responsibility", "fairness" and "freedom", by setting out "a plan to tackle the deficit, restore confidence in the economy and support the recovery. The Budget will mark the start of the long-term task of moving from an economy built on debt to one based on saving, investment and exports where growth is spread more widely."

HMT refers to the pre-Budget forecast from the new, independent Office for Budget Responsibility (see further below), which it says shows that the UK is borrowing more than almost any other G20 economy. The Government therefore plans to "set out a comprehensive plan to deal with the nation's debts and significantly accelerate the reduction in the deficit over the course of this Parliament. The Government has said that this action is essential to restore confidence in the UK's economy, support the recovery and restrain inflationary pressures, allowing interest rates to remain lower for longer."

HMT's Budget and supporting documents will be published on the Treasury's Budget website immediately following the delivery of the Budget in Parliament by the Chancellor. We will be reviewing the Budget's impact for pensions and will report on developments in an Alert and next week's 7 Days.

John Hutton to chair Commission on Public Service Pensions

HMT has announced that former Labour MP (and previously Secretary of State for Work and Pensions) John Hutton, has accepted the Chancellor's invitation to chair the independent Public Service Pensions Commission (the Commission).

Among other things, the Commission is expected to:

- make recommendations on how public service pensions can be made sustainable and affordable in the long-term, fair to both the public service workforce and the taxpayer, and ensure that they are consistent with the fiscal challenges ahead;
- consider the growing disparity between public service and private sector pension provision;
- consider the need to ensure that future pension provision is fair across the workforce;
- assess how risk should be shared between the taxpayer and employee; and

- look at wider Government policy intended to encourage adequate saving for retirement and longer working lives.

HMT notes that existing accrued pension rights will be protected.

The Commission is expected to produce an interim report in September 2010, considering the case for short-term savings within the Spending Review 2010 period. (For more information on the Spending Review, please see 7 Days dated 14 June 2010.) Its final report, comprising a fundamental structural review, is expected to be ready in time for the 2011 Budget.

This review of public sector pensions will run alongside a further review being conducted by John Hutton, "Fair Pay in the Public Sector", on which an interim report is expected to be published in the autumn. The Fair Pay review will take into account any recommendations or findings from the public sector pensions review, and will not make independent recommendations on areas covered by the scope of that review.

HMT Press Release

The Government's approach to financial service regulation

The Coalition Government has said that the current system of financial regulation is no longer suitable and that it needs to be replaced with a framework that promotes responsible and sustainable banking.

In his first Mansion House speech, the Chancellor, George Osborne, set out the Coalition Government's plans to reform financial services following the financial crisis.

The proposed changes, and Hector Sants' agreement to remain as Chief Executive of the FSA, leading the transition and the creation of a new prudential authority, were welcomed by FSA Chairman, Lord Turner,

Lord Turner said: "The FSA now has the clarity of direction and timescale as well as the leadership that we need to meet the challenges ahead.

"In particular I am delighted that Hector, who has done so much to transform the FSA during the past few years, has agreed to lead the transition to the new structure in 2012, and to become the first Chief Executive of the Prudential Authority and a Deputy Governor of the Bank of England."

FSA Press Release

OFFICE FOR BUDGET RESPONSIBILITY

Pre-Budget Forecast

The interim Office for Budget Responsibility (OBR) was launched by the Chancellor on 17 May 2010 (see 7 Days dated 17 May 2010).

The OBR's first report has now been published, setting out a forecast on economic and fiscal development up to the end of the tax year 2014/15. The report is one of a number of sources which has been used by the Chancellor to inform his first Budget on 22 June 2010 (see above).

As requested by the Chancellor, the OBR has reviewed the public sector balance sheet and fiscal sustainability. The review included an assessment of the impact of ageing, public service pensions and PFI contracts.

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The OBR's initial assessment is "that a great deal of piecemeal information is available in many of these areas, but that a more transparent and systematic analysis of these obligations and their implications for fiscal sustainability would help inform policy-making."

PENSIONS POLICY INSTITUTE (PPI)

A Foundation Pension: A PPI evaluation of NAPF proposals

The PPI has published a report in which it has set out its assessment of the NAPF's proposals to introduce a "Foundation Pension".

The report notes that the Foundation Pension "is a simple, single pension worth £8,000 a year which combines the current Basic State Pension and State Second Pension, payable to every individual over state pension age if they have accumulated at least 30 years of National Insurance contributions. The report looks at the potential benefits and costs of implementing a Foundation Pension."

PPI Research Director, Chris Curry, notes that "A Foundation Pension, set at a level of £8,000 a year, would build on the progress made in the recent state pension reforms in providing more equal pensions for everyone, in particular women and carers. The Foundation Pension would also reduce, though not remove, the need for means-tested benefits and improve the incomes of low-income pensioners."

He also notes that, while such benefits would come at a higher cost to the Exchequer than the current, system, "a combination of measures could be used to off-set the additional cost of the Foundation Pension. For example, a faster increase in the State Pension Age and an increase in National Insurance contributions could potentially reduce the initial cost of a Foundation Pension introduced for all pensioners in 2017 from £25bn (1.5% GDP) to £6bn (0.3% GDP)."

PPI Press Release

PENSION PROTECTION FUND

Risk-based levy deadlines

The filing deadline for providing information to the PPF on the certification of block transfers is looming.

As highlighted in our February 2010 Alert (PPF levy deadlines: Have you "Exchanged"?), all certification information must be submitted via Exchange, the on-line system for updating the pensions register (used by both TPR and the PPF), by the applicable deadlines.

The forthcoming deadlines for providing information in connection with block transfers, are as follows:

- 5pm on 30 June 2010 for final certification of full block transfers that have taken place up to and including 31 March 2010 (for the 2010/11 levy).

- 5pm on 30 June 2010 for final certification of partial block transfers that have taken place up to and including 31 March 2010 (for the 2011/12 levy).

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THE PENSIONS REGULATOR

Guidance to help trustees monitor employer the employer covenant

TPR has produced draft guidance for trustees on how to monitor employer support, which includes information on how to assess the sponsor's (and other employers') covenant.

As the draft guidance explains, "The covenant is the employer's legal obligation to fund the pension scheme now and in the future. The strength of it depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them."

The draft guidance also notes that trustees "should consider appointing external experts to advise on covenant", unless they have the requisite skills themselves.

Items on the TPR's covenant hit list include:

- the employer's financial position;
- the scale of pension obligations relative to cash flow;
- the strength of the industry sector;
- an analysis of the wider economy; and
- the relative priority placed on pension obligations by the sponsor's board of directors.

Alongside the draft guidance, TPR has published a short guide for employers and a bite-sized learning module on employer covenant review

For more information, please see our Alert: "Employer covenant - first set of guidance issued".

TPR Press Release

The consultation period closes on 7 September 2010.

Revised internal controls guidance published

TPR has also published revised guidance on internal controls.

The guidance highlights procedures for monitoring and acting on deterioration in employer covenant as one of the key risk areas that should be covered by a scheme's internal controls. It also covers a number of other risks, such as conflicts of interest, relations with advisers and record-keeping; and highlights the usefulness of statements of internal controls in pension schemes' disclosure to members.

The guidance has been updated as part of an ongoing review by TPR, monitoring the effectiveness of controls that pension schemes have in place. TPR has said that it will continue to work with other agencies, such as the audit profession, to improve standards of risk management in the industry.

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