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

DEPARTMENT FOR BUSINESS INNOVATION AND SKILLS (BIS)

Government response to the Kay review

On 23 July 2012, Professor John Kay published the Final Report of his independent review to examine investment in UK equity markets and its impact on the long-term performance and governance of UK quoted companies. The Review's principal concern was to ask how well equity markets are achieving their core purposes: to enhance the performance of UK companies and to enable savers to benefit from the activity of these businesses through returns to direct and indirect ownership of shares in UK companies.[1]

On 22 November 2012, the Government published its response.

The response looks in detail at each of the Kay Review's 17 recommendations and highlights the steps being taken to deliver them, either through specific policy measures or by business and industry working together to develop good practice.

Delivering on this agenda will require a sustained commitment from Government, regulators and others. The Government intends to publish an update in Summer 2014 setting out the progress achieved in delivering Professor Kay's recommendations and reporting how well companies and investors have stepped up to the plate.

DEPARTMENT FOR WORK AND PENSIONS

Webb: EU pension plans to have "devastating" impact

On 20 November 2012, Steve Webb, the Pensions Minister, gave a speech to the European Retirement Federation in Frankfurt slamming the EU's plans to use a Solvency II-style basis to measure pension liabilities.

Publishing new calculations, carried out for the UK Government by TPR, the Minister says the likely outcome would be a cost to UK employers with DB schemes of around £150 billion. In a worst case scenario, pension shortfalls could rise by as much as £400 billion.

In the Government's opinion, if the Commission proposes rules requiring the maximum level of funding, more DB schemes would be forced to close. On the basis of current trends, it is possible that over the next 20 years the percentage of remaining schemes open to new members would be brought further down, from a current 16% to 5%, and those open to existing members from 58% to less than 25%.

[1] Please see 7days dated 23 July 2012

The Government has been clear there is no "one size fits all" model for pensions across EU member states.

Reinvigorating Workplace Pensions

On 22 November 2012, the Government unveiled its strategy for "Reinvigorating workplace pensions". The proposals build on the Coalition Agreement commitment to put in place "arrangements that result in the provision of high quality pension schemes people can trust and take confidence in".[2]

The DWP paper outlines a number of so-called "Defined Ambition" ("DA") arrangements, much promoted in recent months by the Pensions Minister as a means of ensuring greater sharing of risk between employers and members.

For details, please see our Alert: "The Government defines its ambition" dated 26 November 2012.

Attitudes to Pensions: The 2012 Survey

The DWP today published its latest survey on retirement saving, Attitudes to Pensions: The 2012 Survey. The research shows nearly three quarters (70 per cent) say they are likely to stay in a pension scheme if they are eligible to be automatically enrolled.

The survey of 1,949 adults across Great Britain also highlights the need for pensions people can understand. The research shows that many people find pensions too complex. Almost two-thirds (59 per cent) do not feel they know enough about pensions to decide with confidence how to save for retirement. Two-fifths (41 per cent) of respondents with a private pension have no knowledge of what their income will be in retirement, this rises to four-fifths (79 per cent) for those without a private pension.

Minister for Pensions Steve Webb said:

"Automatic enrolment is helping millions to save for the first time and this survey shows most people will "stay in" when they are offered the chance to save in a pension. The simple fact of being offered a company pension is a clear driver to helping people save. However, too many people are put off saving for their old age by a pensions system which is too complex and too few know clearly what they will get when they retire. We are taking the hassle out of saving in a pension through automatic enrolment, we are working with the industry to restore trust and confidence in pensions and we will reform the state pension to make it simpler and clearer to understand."

EUROPEAN FEDERATION FOR RETIREMENT PROVISION (EFRP)

EFRP to be renamed PensionsEurope

At the European Pension Funds Congress in Frankfurt on 20 November 2012, the EFRP launched its new name "PensionsEurope".

During her opening speech, Chair of the EFRP Joanne Segars, presented the new name stating that it would make it much easier to understand what the Federation represents.

[2] Written Ministerial Statement (22 November 2012)

FINANCIAL REPORTING COUNCIL (FRC)

New accounting standards for the UK and Republic of Ireland

The FRC has taken into account feedback received over many years to issue FRS 100 Application of Financial Reporting Requirements and FRS 101 Reduced Disclosure Framework, the first in a suite of accounting standards that aim to:

- simplify accounting and reporting for unlisted entities;
- improve reporting of financial instruments; and
- provide cost savings for subsidiaries of listed groups.

The standards will be applicable to all companies and entities in the UK and Republic of Ireland, other than listed groups. They will be effective from 1 January 2015, but may be adopted early.

FINANCIAL SERVICES AUTHORITY (FSA)

Consultation on new capital regime for Self Invested Personal Pension (SIPP) operators

On 22 November 2012, the FSA published a consultation paper outlining how much capital Self Invested Personal Pension (SIPP) operators must hold in future.

The proposed regime reflects the growing popularity of SIPPs as a way to invest, the wide range of assets that can be placed within them, and will help protect consumers should the operator have to be wound down.

The absolute minimum capital a SIPP operator must hold will increase from £5,000 to £20,000 because experience has shown the cost of winding down an operator is unlikely to be less than this amount.

In addition to the minimum capital requirement, the FSA is proposing that an operator's total capital requirement should take into account two further key elements:

- the amount of assets under administration; and
- an additional capital surcharge for operators that hold non standard asset types (i.e. assets that will take longer to deal with during a wind down).

Finally, the FSA is also proposing that core capital must be held in a form that is realisable within a year, while capital held against the surcharge must be realisable within 30 days.

The FSA recognises that the proposals will require some operators to raise significant new capital, so there will be a transitional period of one year between the publication of final rules and implementation.

The consultation closes on 22 February 2013.

NATIONAL ASSOCIATION OF PENSION FUNDS (NAPF)

Pension funds urged to back Stewardship Code

The NAPF is urging pension funds to support the Stewardship Code and, on 22 November 2012, launched a new policy to help them sign up.

The NAPF Stewardship Policy aims to give pension funds a clear roadmap of how they can address their stewardship responsibilities. It sets out six best practice principles that the NAPF advises its members to follow. These include:

- setting mandates for their asset managers which explicitly cover stewardship responsibilities; and
- reporting to the members of the pension schemes on how their policy has been implemented.

The Stewardship Code, which was launched by the FRC in 2010 to improve engagement between institutional investors and companies, has already been signed up to by 57 asset owners, including many of the UK's larger pension funds, and 189 asset managers. The NAPF is hopeful that more funds will follow in the coming year.

NATIONAL EMPLOYMENT SAVINGS TRUST

Allow at least 18 months to get ready for automatic enrolment

Research by the Chartered Institute of Professional Development (CIPD) has identified high awareness levels of automatic enrolment among employers.

Of the 1,000 employers surveyed, 88 per cent have confirmed they're fully aware of automatic enrolment. 38 per cent have already costed or modelled the impact of automatic enrolment on their finances and a further 25 per cent intend to do so in the next 12 months. NEST's own research complements that of CIPD, identifying that 96 per cent of organisations with over 50 workers are aware of automatic enrolment.

While this data is encouraging, NEST highlights the need for businesses to convert awareness into "preparedness".

PENSION PROTECTION FUND

PPF Bulletin November 2012

The PPF has published its 12th bulletin. It includes:

- an update on the PPF's long-term funding strategy;
- comment on its last annual report and accounts;
- information on the pension protection levy estimate for 2013/14;
- an investment update; and

- a general news round-up.

PPF Appoints Farmland and Timberland Fund Managers

On 22 November 2012, the PPF announced the appointment of seven farmland and timberland fund managers:

- Brookfield Asset Management LLC;
- Dasos Capital Oy Ltd;
- GMO Renewable Resources LLC;
- Hancock Timber Resource Group;
- Macquarie;
- New Forest Pty Ltd; and
- Stafford Timberland Ltd.

Some managers will be funded immediately while others are appointed for deferred investment.

The move is part of the development of PPF's alternative investment portfolio so it can benefit from greater diversification and reduce its overall risk. These investments will be predominantly in land and the operations needed to cultivate and market agricultural produce or to grow and sell timber.

The proportion of PPF assets allocated to farm and timberland will vary over time and depend on the opportunities available now and in the future.

All fund managers were appointed following a thorough selection process. They were appointed for four years, with the flexibility for two extensions of up to two years.