Sackers extra

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At a glance

COALITION BUDGET 2010
- Pension measures in the Coalition's Emergency Budget

BOARD FOR ACTUARIAL STANDARDS (BAS)
- Draft Actuarial Standard on Transformations published

DEPARTMENT FOR WORK AND PENSIONS
- Rise in the state pension age
- Review of workplace pension reforms

FINANCIAL SERVICES AUTHORITY
- Retail distribution review

PENSION PROTECTION FUND
- PPF Issues Revised Section 143 Valuation Guidance

CASES
- The Pilots National Pension Fund v Taylor

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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
HMT: HM Treasury
HMRC: HM Revenue & Customs
PPF: Pension Protection Fund
SPA: State Pension Age
TPR: The Pensions Regulator

COALITION BUDGET 2010

Pension measures in the Coalition's Emergency Budget

In the Coalition Government's first Budget, the Chancellor George Osborne declared Britain "open for business". But what did the Budget say about pensions?

Restrictions on pensions tax relief

Proposals to restrict pensions tax relief for high earners are to be reviewed, as the Government believes that the method put forward for doing so in the Finance Act 2010 "could have unwelcome consequences for pension saving, bring significant complexity to the tax system, and damage UK business and competitiveness".

One suggested alternative is a significant reduction in the annual allowance from the current £255,000 to an amount in the region of £30,000 - £45,000. It remains to be seen how many pension savers will ultimately be affected by a revised approach along these lines. However, the Coalition Government is clearly keen to balance the Treasury's books by ensuring that any new approach will yield just as much revenue as the more complex system which it is looking to scrap.

The Coalition Government plans to introduce legislation before the summer recess to repeal the legislation on restricting tax relief for high earners passed in the Finance Act 2010 and will consult on its replacement. For the time being, the anti-forestalling measures which were introduced by the Labour Government will remain in place.

Default retirement age

The Government will consult "shortly" on how quickly it will phase out the default retirement age of 65 set out under age discrimination legislation. The review will consider future increases to the SPA, as well as "how best to manage the ongoing challenges posed by increasing longevity".

State Pensions

The planned rise in SPA to 66 by 2026 will be accelerated and a call for evidence was issued by the DWP following the Budget (see DWP section below for more details).

As announced in the May 2010 Coalition Agreement, the link between basic state pension and earnings will be restored from April 2011, with a "triple guarantee" that pensions will rise by the higher of earnings, prices or 2.5%.

Public Sector Pensions

As previously announced, an independent commission chaired by John Hutton (a former Secretary of State for Work and Pensions under Labour) will review public service pension provision (see 7 Days dated 21 June 2010 for more information).

An interim report is anticipated in September 2010, with the Commission's final report, comprising a fundamental structural review, due in time for the 2011 Budget. In a shift away from the current system, in line with other welfare benefits (including tax credits but excluding the State Pension), public service pensions will increase in line with CPI (rather than RPI).

Automatic enrolment

The Coalition Government has already announced that it will be conducting a review of auto-enrolment and the delivery of NEST over the summer (with a view to completing the review by 30 September 2010). (See DWP section below for more details.)

Compulsory annuity purchase

Existing rules on compulsory annuity purchase by age 75 are also set to disappear in April 2011, and a consultation on the detail of this change is expected soon.

As an interim measure, transitional arrangements will be included in the Finance Bill to increase the age at which an annuity must be purchased to 77.

Further information

More information is available from HM Treasury's Budget website and related Budget Notes (see in particular BN 22 (Transitional measure deferring the effective Requirement to buy an annuity to age 77) and BN 23 (Pensions Taxation: NEST)).

Unsurprisingly there has been a significant amount of public comment on the Government's pensions proposals. A flavour of these can be found by following the links below:

Association of Consulting Actuaries Press Release

NAPF Press Release

BOARD FOR ACTUARIAL STANDARDS (BAS)

Draft Actuarial Standard on Transformations published

BAS, which is responsible for setting technical actuarial standards in the UK, is developing a new set of Technical Actuarial Standards (TASs). There will be three generic TASs, applying across the range of actuarial work - on data, modelling and reporting actuarial information. There will also be a number of specific TASs applying to work in particular areas such as pensions, insurance and accounting.

Following an initial consultation in December 2009 (for more information, please refer to 7 Days dated 4 January 2010), on 25 June 2010, BAS published its draft standard on pensions and insurance transformations in which the entitlements of scheme members and policyholders are changed. Examples of such transformations include:

- transfers of the benefits of some or all members of a pension scheme without consent (currently covered by GN16);

- the modification of pension scheme benefits without consent;
- the transfer of assets and liabilities to an insurance company on the winding-up of a pension scheme.

The consultation period for the exposure draft will close on 27 August 2010.

BAS Press Release

DEPARTMENT FOR WORK AND PENSIONS

Rise in SPA

The DWP has announced that it will review the planned rise in the SPA to 66, with a view to bringing the implementation date forward from 2026. The driver for this change is to address the fiscal implications of the UK's ageing population, with the Government seeking to ensure that the State Pension remains affordable over the long term.

The DWP notes that when the first contributory pension was introduced in 1926, the men receiving it lived, on average, until the age of 76. By contrast, men are now expected to live until age 86. For women, life expectancy has increased from 78 in 1926, to 89 today.

The DWP therefore announced a call for evidence on 24 June 2010, asking for views from organisations and individuals who have information that is relevant to the timing of an increase in the SPA to 66. In particular, the DWP has asked for views on:

- the evidence concerning changes in life expectancy and the changed economic context which should be taken into account when bringing forward the increase in the SPA to 66;
- the period of notice to be given to individuals affected by the change; and
- the evidence which should be considered by the Government to ensure that no group (including people from an ethnic minority, people with disabilities, different socio-economic groups, ages, marital status, sexual orientation, religion or belief and other groups) is disproportionately affected by the level of the SPA and any change to the timing of the state pension increase to 66.

Anyone wishing to submit evidence to the DWP must do so by 6 August 2010.

DWP Press Release

Review of workplace pension reforms

The DWP has also published the terms of reference for its previously announced review of the previous administration's planned workplace pension reforms (for more information on the Coalition Government's earlier announcements, please see our May 2010 News: The Coalition's Pension Plan).

In its two page scope document, the DWP notes that the review will reflect a range of developments since the Turner recommendations were formulated, including:

- the economic downturn and the fiscal deficit;
- a greater understanding of likely costs and the proposed charging structure for the National Employment Savings Trust (NEST);

- the proposed approach and profile for introducing the new employer duties relating to the automatic enrolment of “jobholders” into a qualifying pension arrangement and the phasing-in of minimum levels of mandatory contributions;
- the proposed review of the SPA; and
- other changes, including further increases in life expectancy and further decline in private sector pension coverage.

The review will look primarily at whether the proposed scope for automatic enrolment strikes an appropriate balance between the costs and benefits to both individuals and employers, or whether the underlying policy objective of increasing private pension saving and balancing those costs and better delivered by a different scope for automatic enrolment.

The DWP notes that in considering which individuals should be subject to automatic enrolment, the review may explore:

- the earnings threshold, above which automatic enrolment applies;
- the introduction of a *de minimis* level for contributions before automatic enrolment applies;
- the age group to which automatic enrolment should apply;
- the size of the firm to which automatic enrolment should apply;
- whether individuals should be automatically enrolled from day one of their employment or some other date; and
- the availability and capacity of pension providers other than NEST to serve the potential automatically enrolled population.

The review will be carried out over the summer, with conclusions and recommendations due by 30 September 2010.

PADA Press Release

NAPF Press Release

TUC open letter to the Secretary of State

FINANCIAL SERVICES AUTHORITY

Retail distribution review

Following a consultation in December 2009 on applying the Retail Distribution Review (RDR) principles of adviser charging to the market for group personal pensions, group stakeholder pensions and group self-invested personal pensions (together referred to as GPPs) the FSA published a Policy Statement on 25 June 2010. The FSA has also published a newsletter to accompany the Policy Statement, offering summary highlights from the statement.

The FSA has confirmed its intention to proceed with the introduction of "consultancy charging", the group pension’s equivalent to adviser charging (a new system of remuneration concerning firms that give investment advice to retail clients setting their own charges) in the individual pensions market.

The FSA is to ban firms from receiving commission set by product providers in return for recommending their products. It states that "the costs of advice and other services to employers about GPPs must be agreed with the employer, but can be obtained from employees' GPP accounts, in a similar fashion to individuals' advice costs under Adviser Charging."

The FSA intends to implement the new rules and guidance, with other RDR requirements, from the end of 2012. Its next step will be to set up an industry-wide working group to discuss the allocation of consultancy charges across different types of GPP members. It also plans to monitor the GPP market until 2013 to check that no-one is taking advantage of its decision to allow commission on existing GPPs.

PENSION PROTECTION FUND

PPF Issues Revised Section 143 Valuation Guidance

The PPF has issued new guidance for actuaries completing valuations under section 143 of the Pensions Act 2004 (which are used to determine whether the Board of the PPF should assume responsibility for a scheme).

This version of the guidance (which was subject to consultation in December 2009 - see 7 Days dated 7 December 2009) is effective for valuations with an effective date on or after 1 January 2010 or for valuations with an effective date prior to 1 January 2010 which are signed on or after 1 August 2010.

The PPF notes that the revised guidance is part of its programme to improve its processes on the basis of experience gained as a result of its work with the actuaries of schemes passing through the assessment period.

Appointment of Global Tactical Asset Allocation Managers

The PPF has today (28 June 2010) announced that it has recruited six Global Tactical Asset Allocation (GTAA) Managers.

Cantab Capital and Winton Capital are positioned for immediate appointment. And Aspect Capital, Bluecrest Capital, DB Advisors and Neuberger Berman are on deferred appointment.

In its press release, the PPF notes that with more than £4 billion in assets, it has sought to recruit these Managers as part of its new Statement of Investment Principles which was announced earlier this year (see 7 Days dated 15 March 2010).

The GTAA Managers will form part of the alternatives portfolio within the PPF asset allocation.

CASES

The Pilots National Pension Fund v Taylor (High Court, 28 June 2010)

The highly anticipated judgment in the Pilots case was handed down today. It concerns the Pilots National Pension Fund (PNPF), a UK industry-wide pension scheme for marine pilots. The PNPF is approximately £300m in deficit.

The Trustees asked the High Court for guidance as to who is liable for contributing to make up the deficit. Sackers acted for the Port of London Authority, one of the participating employers, which is responsible for pilotage services on the Thames estuary.

Both a press release and an Alert are available on our website.