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)
BIS: Department for Business, Innovation and Skills
DB: Defined benefit
DC: Defined contribution
DWP: Department for Work and Pensions
HMRC: HM Revenue & Customs
NEST: National Employment Savings Trust
PADA: Personal Accounts Delivery Authority
PPF: Pension Protection Fund
PPI: Pensions Policy Institute
TPR: The Pensions Regulator

BUDGET 2010

Tax relief restrictions confirmed

In his last Budget before the General Election (on 24 March 2010), the Chancellor, Alistair Darling, confirmed the Government's intention to implement the restrictions on pensions relief which were first announced in the 2009 Budget.

Alongside the Budget report, the Government published its response to the recent consultation on implementing the tax relief restriction - a mere three weeks after the consultation closed. The response sets out how the Government intends to apply and deliver the restriction.

Other pensions announcements in the Budget include:

- the Government remaining "open to proposals for further simplification" and, subject to additional review, the possible extension of trivial commutation provisions to allow couples to pool small pension pots in order to achieve better value by purchasing a joint life annuity;

- the Government's intention "to explore further facilitation of risk sharing between employers and employees, in both defined benefit and defined contribution pension schemes"; and

- future action "to tackle the use of arrangements to reward employees through the use of trusts or other intermediaries, with the purpose of avoiding, deferring or reducing liabilities to income tax and NICs or avoiding restrictions on pensions tax relief", with a view to introducing legislation from April 2011.

More detail on the pensions information emanating from the Budget can be found in our Alert: "Scant relief for pensions in Darling's pre-election Budget" (dated 25 March 2010).

LEGISLATION

The National Employment Savings Trust Order 2010

This Order establishes the NEST, which employers will be able to use from October 2012 to fulfil their duty to enrol "jobholders" automatically into a qualifying workplace pension scheme.

It is intended that NEST will operate as far as possible like any other trust-based, occupational pension scheme. It will be regulated by TPR, and is designed to provide benefits in respect of members and their beneficiaries on retirement, death and the onset of ill-health or serious ill-health. As well as establishing the scheme, this Order provides that the NEST Corporation will be the trustee of the scheme and also provides for the establishment of member and employer panels.

The Order will come into force on 5 July 2010.

Further information can be found in the Explanatory Memorandum which accompanies the Order.

The Personal Accounts Delivery Authority Winding Up Order 2010

This Order provides for the winding-up of PADA and makes arrangements for the transfer of its property, rights and liabilities to either the NEST Corporation or the Secretary of State.

It was always intended that PADA would be a time-limited organisation, with a remit to advise and assist the Secretary of State in designing and developing the infrastructure for a new, nationwide, low cost pension scheme.

PADA's work is due to be complete by July 2010, when it is expected to have finalised the NEST scheme order and rules (akin to the trust deed and rules of a traditional trust-based occupational pension scheme) and the procurement processes for services to support the operation of the scheme will be well advanced. Any remaining implementation will be completed by the NEST Corporation which will have ongoing responsibility for the operation of the scheme.

To coincide with the establishment of NEST, this Order will come into force on 5 July 2010.

Further information can be found in the Explanatory Memorandum which accompanies the Order.

The Registered Pension Schemes (Standard Lifetime and Annual Allowances) Order 2010

The Finance Act 2004 introduced:

- a limit on the amount of an individual's total pension savings in a registered pension scheme which can benefit from tax relief, known as the "standard lifetime allowance"; and

- a limit on the amount of annual contributions to registered pension schemes in respect of which an individual can benefit from tax relief, known as the "annual allowance".

As announced in the 2008 Pre-Budget Report, from April 2011 the lifetime and annual allowances will be frozen for five years at £1.8 million and £255,000 respectively, up to and including the tax year 2015/16. This Order implements these rates and will come into force on 15 April 2010.

Further information can be found in the Explanatory Memorandum which accompanies the Order.

The Social Security Benefits Up-rating Order 2010

This Order sets out the 2010/11 rates for all social security benefits and includes details of the Basic State Pension (BSP).

From April 2010, the BSP will be:

- £97.65 per week for a single person (up from £95.25); and

- £156.15 per week for the full couples' rate (for those whose entitlement is based on their spouse or civil partner's pension) (up from £152.30).

This represents a 2.5% increase, in line with the Government's commitment to up-rate the BSP by the higher of 2.5% or the growth in the Retail Prices Index.

The Order will come into force in stages, starting on 1 April 2010.

Further information can be found in the Explanatory Memorandum which accompanies the Order.

DEPARTMENT FOR BUSINESS, INNOVATION AND SKILLS

BIS Discussion Paper: Is business ready for an ageing nation?

BIS has published a discussion paper which looks at the "economic opportunities and challenges of ageing".

Among other things, the paper considers:

- how the capabilities of the "older generations" can be retained in the workforce;
- what opportunities there are for business in meeting the demand for goods and services from the older population; and
- how government policy can support these opportunities.

BIS invites responses to this paper by 30 June 2010.

DEPARTMENT FOR WORK AND PENSIONS

NEST Rules published

On 25 March 2010, the DWP published the NEST Rules, which provide for the administration and management of NEST and incidental matters.

The Rules supplement the NEST Order (see Legislation section above). Together the Order and Rules set the scope and parameters within which NEST will operate.

Further information can be found in the DWP's note which accompanies the rules.

NEST Corporation members announced

Angela Eagle, Minister of State for Pensions and the Ageing Society, has announced the appointment of further members of the NEST Corporation.

Jeannie Drake (Deputy Chair), Tom Boardman, Laurie Edmans, Dianne Hayter, Chris Hitchen, Julius Pursaill and Sue Slipman will join Chair designate, Lawrence Churchill, as members of the NEST Corporation.

The appointments as "members designate" will commence on 1 April 2010, for terms of either four or five years. The appointments will convert to "members" on 5 July 2010, when NEST is formally established. The members will receive a remuneration package of £20,100 per annum for a time commitment of 30 days a year.

DWP Press Release

2012 Reforms: Response to consultation on the use of default options in workplace personal pensions and the use of group self invested personal pensions for automatic enrolment

Between September and December 2009, the DWP consulted on draft guidance on:

- the use of default options in workplace personal pensions (WPPs - the umbrella term used in the consultation which includes group personal pensions, group self-invested personal pensions (SIPPs) and stakeholder pensions used for automatic enrolment); and

- the use of group SIPPs for automatic enrolment.

For both elements, the draft guidance explains the terms of the Pensions Act 2008 and the employer duty of automatic enrolment. For WPPs, it explains the ongoing process for default options, including design, implementation and governance. For Group SIPPs, the draft guidance focuses on the importance of choosing an appropriate product for the automatic enrolment vehicle, given that it will not be possible to require individuals to make an active choice during the automatic enrolment process.

The DWP's response to this consultation was published on 23 March 2010. In the light of comments received, the DWP intends to extend the scope of the guidance to employers and advisers and to incorporate occupational pension schemes. To achieve this, the DWP will undertake further research and consultation, with the aim of publishing combined guidance in spring 2011.

Delivering information on pensions: The role of intermediaries

The DWP has published a research report which explores the interaction between intermediaries and employers in relation to pensions.

The aim of the research was to deliver insights into how intermediaries may deliver information and advice to employers in the run-up to, and after, the implementation of the 2012 workplace pension reforms.

Among the findings, the report notes that:

- while intermediaries would like between six months and three years to prepare themselves and their clients fully for the 2012 reforms, it was generally felt that having comprehensive information one year before implementation would be ample time to prepare; and

- some intermediaries (generally those working with large employers) have already begun to approach and inform employers of the reforms.

NATIONAL ASSOCIATION OF PENSION FUNDS

NAPF introduces "Friends" of the Pensions Quality Mark

The NAPF has launched a new initiative linked to its "Pensions Quality Mark" (PQM) award.

From 25 March 2010, pension consultants, advisers, providers and Independent Financial Advisers who raise awareness of the PQM, or help clients with applications, will be able to become Friends of the PQM. This initiative has been launched to recognise the support which the PQM already receives from the pensions industry (the NAPF reports that one in five PQM applications are made by advisers on behalf of schemes and many more are made with their support).

Pensions fit for the future

The NAPF has set out a blueprint for the UK pensions system which builds on the Government's 2012 reforms.

The NAPF's proposals for reform include:

- the creation of a new simpler state pension, the "Foundation Pension", worth £8,000 a year, which would aim to lift two million people out of means-testing and give them a pension worth one third of average earnings;
- the development of new pension designs to help employers run schemes;
- a possible increase "in the near future" of the statutory overall minimum contribution to workplace pension schemes from 8% (the level which will apply from October 2012) to 11%; and
- the establishment of a permanent independent Retirement Savings Commission.

NAPF Press Release

PENSIONS POLICY INSTITUTE

Public sector pension schemes: policy objectives and options for the future

The PPI has published a report setting out the policy objectives that any further reforms of public sector pensions could aim to meet and identifies a set of policy options that have been proposed.

The potential objectives for reform identified in the report include:

- ensuring that public sector pensions provide adequate pensions for public sector workers in their retirement;
- addressing concerns that public sector pension schemes are unaffordable and not financially sustainable;
- improving the transparency of the cost; and
- addressing perceptions that public sector pension schemes offer higher levels of benefit than private sector schemes.

The second stage of the research, which is due to be published later in 2010, will evaluate a range of reform options against policy objectives which include:

- continuing current policy, and implementing agreed reforms for new entrants with no further change;
- making changes to existing DB schemes, such as increasing normal retirement ages in line with changes to the state pension age, placing a cap on the benefit accrued or increasing member contributions further;
- risk sharing measures, such as moving schemes to career average arrangements (as the civil service has done for new entrants); and
- moving to DC arrangements.

PENSION PROTECTION FUND

PPF publishes revised actuarial factors

The PPF has today published revised factors for commutation, early retirement and the compensation cap.

The new factors (which are used for all determinations of PPF compensation, as well as section 143 and section 179 valuations) should be used with an effective date on or after 1 April 2010 for the compensation cap factors, and 6 April 2010 for the commutation and early retirement factors.

The compensation cap from 1 April 2010 will be £33,054.09 at age 65. This equates to £29,748.68 once the 90% limiter is applied.

The factors can be found in the Technical Guidance section of the PPF's website.

SOCIAL MARKET FOUNDATION

Early access to pension saving

The Social Market Foundation has published a report which discusses the enabling of early access to pension savings.

The report examines the evidence that current pension rules, associated with the UK "annuities deal", deter pension saving and explores the practical considerations and problems that would be confronted by the various early access models of pension saving which have been proposed.

The findings indicate that in practice "no compelling evidence exists to suggest that the inflexibility of current pension rules deters individuals from saving for retirement through a pension". It also notes that the likely effect of each of the early access models put forward is "highly uncertain". The report concludes that policy makers should instead focus on the efficacy of current savings policy.