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
GMP: Guaranteed Minimum Pension
IASB: International Accounting Standards Board
NAPF: National Association of Pension Funds
PADA: Personal Accounts Delivery Authority
PPF: Pension Protection Fund
TKU: Trustee Knowledge and Understanding
TPR: The Pensions Regulator

LEGISLATION

The Registered Pension Schemes (Authorised Payments) Regulations 2009

As we explained in our Alert on the Registered Pension Schemes (Authorised Payments) Regulations 2009 (the Authorised Payments regulations) new trivial commutation provisions come into force on 1 December 2009. These will allow the commutation of benefits of up to £2,000 in certain circumstances. Unlike the existing trivial commutation provisions introduced under the Finance Act 2004 which require the aggregate value of a member's benefits across all schemes to be taken into account, these new provisions allow the commutation of small pension pots on a scheme specific basis. (In some cases, however, the trivial commutation limit will need to be assessed across all of a member's schemes referable to the same employment).

Trustees and employers wishing to take advantage of the new commutation rules will need to check their scheme documentation to see whether any changes are required.

Alongside the HMRC regulations, the DWP's Occupational and Personal Pension Schemes (Authorised Payments) Amendment Regulations 2009 come into force on the same day. These regulations are designed to ensure that the administrative easement measures of the Authorised Payments regulations are reflected in DWP legislation.

The Pensions Act 2007 (Supplementary Provisions) (No.2) Order 2009

For people who contract-out of the State Second Pension, rebates of National Insurance Contributions are payable. For this purpose, age-related percentages are used to work out the amount of these rebates which are paid into a personal pension scheme.

From 6 April 2010, only two accrual rates will be used for the State Second Pension, instead of three, as currently. This Order is therefore designed to ensure that the age-related percentages for personal and stakeholder pensions continue to be based on the rates of accrual used for the State Second Pension from that date.

More information can be found in the explanatory memorandum which accompanies the Order.

HM TREASURY

Corporate Governance: Walker reforms on pay and governance

On 26 November 2009, Sir David Walker published the final recommendations from his review of corporate governance in UK banks and other financial industry entities.

The review was commissioned in February 2009 to explore failures of corporate governance and management of banks. His final report suggests a series of reforms "to strengthen the role of shareholders, improve the quality of bank boards, and to increase transparency of pay and bonus policies".

One area which will be of particular interest to pension schemes in their capacity as institutional investors is their role in terms of communication and engagement. The report acknowledges the difficulties encountered by many such investors "to act as owners in the way that would be normal where there is concentrated ownership, for example in relation to a portfolio company owned by a private equity fund for which the general partner acts".

The recommendations therefore include the extension of the remit of the Financial Reporting Council to cover the development and encouragement of adherence to principles of best practice in stewardship by institutional investors and fund managers. The report also recommends that the new role "be clarified by separating the content of the Combined Code, which might be described as the Corporate Governance Code, from what might most appropriately be described as the Stewardship Code".

The Financial Services Secretary, Paul Myners, is due to meet with major institutional investors to discuss what steps can be taken to implement Walker's recommendations as owners of UK banks.

HM Treasury Press Release

INTERNATIONAL ACCOUNTING STANDARDS BOARD

IASB issues amendment to its requirements on accounting for pension schemes

The IASB has issued a minor amendment to its requirements on accounting for pension schemes.

The amendment to IFRIC 14 (an interpretation of IAS 19 Employee Benefits) applies in the circumstances when an entity is subject to minimum funding requirements (these will generally depend on the local laws where the entity is based) and makes a payment of contributions to cover those requirements. The amendment permits the entity to treat the benefit of such an early payment as an asset.

The amendment has an effective date for mandatory adoption of 1 January 2011, with early adoption permitted for 2009 year end financial statements.

IASB Press Release

NATIONAL ASSOCIATION OF PENSION FUNDS

NAPF Pensions Funds Annual Survey 2009

The NAPF survey, which was published on 27 November 2009, points to a continued decline in private sector DB schemes. According to the survey (which covers 300 NAPF scheme members), only 23% of schemes remain open to new members, compared with 28% in 2008.

Key findings from the survey indicate that:

- contributions to DC schemes have not been cut back as a result of the recession. Average DC contribution rates have remained stable and stand at 11.5%;
- allocation to equities in DB schemes has continued to fall: the average equity allocation now stands at 44%, compared with 51% in 2008. This decline is a result of both falls in equity values and continuing de-risking by pension schemes;
- by contrast, DB schemes' allocation to fixed asset classes has increased by 5% and now stands at an average of 38%;

- there is continued uncertainty over the impact of the proposed 2012 pension reforms. 48% of respondents to the survey said that they would continue to maintain their scheme in its current form and use it as the automatic enrolment vehicle for their employees. However, 8% of schemes indicated that they plan to reduce their contributions in 2012, while 27% of schemes have yet to decide on what action they will take.

Copies of the survey can be ordered from the NAPF's website.

NAPF Press Release

PERSONAL ACCOUNTS DELIVERY AUTHORITY

Investment consultation findings published

PADA has published the key findings from its consultation on the discussion paper: "Building Personal Accounts: Designing an investment approach".

The object of the paper was to collate ideas and evidence on the most appropriate investment approach for future members of the Personal Accounts (PA) scheme. PA scheme members are likely to be low to moderate earners, with a tendency to be relatively risk averse.

The response document sets out the findings of the consultation which will inform PADA's recommendations to the trustee corporation. PADA's work to develop the recommendations is ongoing.

The findings indicate that overall, stakeholders understood and supported PADA's objective to create a low charge, simple scheme, and agreed that target date funds are an effective mechanism for ensuring that individuals' investments are managed appropriately.

PADA is now undertaking further research and analysis to address some of the issues raised, including the overarching investment objective and behavioural attitudes to loss.

PADA Press Release

PENSION PROTECTION FUND

FAS Technical Bulletin on tranched benefits

The PPF has issued a technical bulletin relating to the provision of data in respect of members who receive assistance from the FAS.

Scheme data provided to FAS must include a breakdown of the accrued benefit elements into relevant tranches, for example, pre-/post-1997 service.

As the PPF has noticed errors in the way scheme data is presented – for example tranches of pension with different dates of entitlement are not always being provided to reflect equalisation correctly – it has produced examples to assist those providing data to do so in the required format.

THE PENSIONS REGULATOR

TKU: Revised code of practice in force

TPR consulted in late 2008 on amendments to its code of practice on TKU.

The revised code has now been brought into force with effect from 26 November 2009, by the Pensions Act 2004 (Code of Practice) (Trustee Knowledge and Understanding) Appointed Day Order 2009. However, at the time of going to print, the final version of the code had not yet been published on TPR's website.

We will be issuing an Alert on the revised code as soon as it becomes available.

Scheme governance campaign launched

TPR has launched a campaign which is aimed at encouraging good governance and administration and better management of pension scheme risks.

Alongside its 2009 governance survey, TPR has published a statement in which it outlines its key areas of focus.

TPR is keen to promote good governance "because pension scheme members entrust their savings into the hands of others. And it matters because UK occupational pension schemes hold more than an estimated £1 trillion in assets."

In its statement, TPR makes it clear that trustees who are responsible for running pension schemes need to make sure that:

- they have the right skills and they get the right people to help them run their pension scheme; and
- they have the right processes in place to manage scheme risks.

According to TPR, its latest survey shows many positive aspects of pension scheme governance, including an increase in the number of schemes whose trustees have reviewed the employer's business plan, as well as those who strongly agree that the trustee board is able to conduct effective negotiations with the employer. Despite this, however, TPR has also found that there are still substantial numbers of trustees who do not display good governance behaviours. Examples given include:

- **Training:** Whilst large schemes (those with more than 1000 members) generally perform well, two thirds of small DC schemes and half of small DB schemes do not provide any training.
- **Internal controls:** Less than half of schemes are very confident that they have appropriate internal controls to mitigate the risks from inappropriate investment strategies or errors in scheme administration.
- **Record keeping:** Not enough schemes are aware of TPR's record keeping guidance.
- **TKU:** Only six out of ten trustees describe their boards' collective understanding as "very good" on the fundamental matters of the investment of their scheme's assets and assessment of the employer covenant.

Among other things, trustees are therefore encouraged to ensure they meet the TKU requirements, have in place adequate internal controls and know the quality of their scheme records (and have a concrete plan in place to improve these where necessary).

TPR Press Release