Sackers extra

04 February 2013

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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

LEGISLATION

Draft Automatic Enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2013

A draft Order has been published which sets out the revised earnings thresholds for automatic enrolment for the 2013/14 tax year:

- the earnings trigger will rise from £8,105 to £9,440;
- band qualifying earnings will be between £5,668 and £41,450 (rather than £5,564 and £42,475).

The Order is due to come into force on 6 April 2013.

ASSOCIATION OF CONSULTING ACTUARIES (ACA)

Survey of Smaller Firms

The biennial survey of pension trends in smaller firms with 250 or fewer employees was conducted in two stages by the ACA. The results of the initial survey were published in October 2012 in the report, "A million challenges ahead".[1] The ACA has now published its second report which focuses on questions posed to smaller firms following the publication of the DWP's paper "Reinvigorating workplace pensions" in November 2012,[2] as well as examining wider areas such as trends in smaller firms' pension contributions.

Key findings include:

- increasing the amount people receive as an outcome from their savings was the "top priority" for firms when considering the objectives outlined in the DWP reinvigoration paper;
- a third of firms support "automatic escalation schemes" whereby members' pension contributions increase at a future date, often in line with wage increases, with 22% saying that would consider adding such a feature to their scheme;
- 17% of firms said that a "money back guarantee" of members' contributions at either retirement or death would make a significant difference (and 32% a marginal difference) to employees joining a qualifying default fund run by their scheme; and

[1] See 7days dated 15 October 2012

[2] See our Alert: "The Government defines its ambition" dated 26 November 2012

- 67% of firms do not believe fewer, larger schemes result in better value for money for savers and/or employers and only a fifth feel Government should encourage scheme consolidation in the pensions market.

FINANCIAL SERVICES AUTHORITY

Investigation into annuities

On 31 January 2013, the FSA confirmed (in its Insurance Sector newsletter) that it has commenced a thematic review into annuities.

The review will take 12 months and will be taken forward by the Financial Conduct Authority (FCA) when it forms in April this year. The FCA aims to make markets work better to provide a fair deal for consumers and the work on pension annuities is part of this.

The annuities project is exploring the risk of detriment that consumers may face as a result of not using the open market option ("OMO") when purchasing an annuity. The first phase will consider the level of detriment consumers suffer from not shopping around. This will involve a pricing survey of all annuity providers, and will compare the rates available to consumers through a range of distribution channels, including the OMO and those only available to existing pension policyholders. The second phase will depend on the outcome of the first and will consider whether firms' processes for providing annuities facilitate or inhibit shopping around. The timing of this work will take account of the implementation of the Association of British Insurer's Code of Conduct on 1 March 2013.[3]

GOVERNMENT ACTUARY'S DEPARTMENT (GAD)

Announcement re: staff transfers

On 19 November 2012, HM Treasury (HMT) published the results of the consultation on the Fair Deal policy, together with draft guidance on the new Fair Deal Policy. HMT also confirmed that the Department for Communities and Local Government (DCLG) would be considering the impact of the new Fair Deal Policy upon transfers from local government and other best value authorities in the light of the existing Pensions Directions and the availability of Admitted Body Status in the Local Government Pension Scheme (LGPS).[4]

On 21 December 2012, DCLG published draft regulations for consultation on membership, contributions and benefits in relation to the 2014 reforms of the LGPS.[5]

Following the above changes, GAD has now issued an announcement regarding its approach to broad comparability assessments (which address whether a scheme is "broadly comparable" to the LGPS). The announcement affects local authorities/contracting authorities conducting procurements, contractors involved in those procurements and departments and other bodies responsible for machinery of government moves.

HM REVENUE & CUSTOMS

The Registered Pension Schemes (Reduction in Pension Rates, Accounting and Assessment) (Amendment) Regulations 2013

HMRC has published for external comment a draft Statutory Instrument making amendments to the Registered Pension Schemes (Accounting and Assessment)

[3] See 7days dated 12 March 2012

[4] See 7days dated 19 November 2013

[5] See 7days dated 7 January 2013

Regulations 2005 (the "2005 Regulations") and the Pension Schemes (Reduction in Pension Rates) Regulations 2006 (the "2006 Regulations").

The changes set out in the draft Statutory Instrument are intended to amend Regulation 3 of the 2005 Regulations so that a scheme administrator making a return under section 254 of the Finance Act 2004, the Accounting for Tax return, must include the tax year to which an annual allowance charge relates. They also amend the 2006 Regulations to make additional provision for a pension to be reduced without it ceasing to be a "scheme pension" (i.e. an authorised payment under the Finance Act 2004) where an adjustment has been made as a result of the scheme administrator paying an individual's annual allowance charge.

Any questions or comments on this draft Statutory Instrument should be sent by email to Pensions Policy by 22 February 2013.

Pensions Newsletter 56

On 29 January 2013, HMRC issued Pensions Newsletter 56. It includes information on:

- higher rate tax relief for contributions to personal pensions;
- the Autumn Statement and draft Finance Bill 2013 (including more details on "personalised protection", an option which might be offered to individuals who have pension rights at 5 April 2014 which are greater than £1.25 million and who do not have one of the existing protections); and
- completing Event Reports.

NATIONAL ASSOCIATION OF PENSION FUNDS (NAPF)

Annual Survey 2012

The NAPF has published its Annual Survey for 2012. Key findings include:

- less than 10p in every £1 of pension fund assets is now invested in shares in UK companies. The proportion of total assets invested in UK equities fell from 12.2% in 2011 to 9.9% in 2012. Meanwhile, the allocation to corporate bonds rose from 12.4% in 2011 to 15.1% in 2012;
- two thirds (68%) of sponsoring employers have already decided which pension scheme to use for auto-enrolment, and a third (30%) have an employee communication plan in place. Anecdotal evidence suggests levelling down – where employers reduce pension contributions to the new legal minimum – is unlikely to be a widespread issue;
- the creation of a new single-tier state pension will mean the end of contracting out.[6] Of the DB pension schemes that are open to new members or future accrual, 17% were contracted in, but 83% were still contracted out.
- the costs of running a DB pension in the private and public sectors rose in some areas. Mean costs for fund management and custody increased from £170 per

[6] See our Alert: "Pensions White Paper" dated 15 January 2013

member in 2011 to £186 in 2012. Fees to consultants increased from £98 last year to £116; and

- a third year of pay freezes for local government workers and changes to the LGPS being introduced from 2014 are putting financial pressure on LGPS members. 25% of LGPS respondents said their opt-out rate had increased, while none reported that their opt-out rate had fallen.

NATIONAL EMPLOYMENT SAVINGS TRUST

Report on consumer and employer landscape

On 30 January 2013, NEST published analysis which demonstrates that, despite affordability pressures, most consumers welcome automatic enrolment.

"NEST Insight" draws on five years' worth of research and evidence from a number of sources. Key findings include:

- there are currently more private sector working people not contributing to a pension (68%) than doing so (32%);
- 63% of people agree with the idea of automatic enrolment; and
- only 14% of people think their current long term saving plans are adequate.

Restrictions on transfers and contributions

Drawing on research and evidence from employers, members and the private pension market, NEST has concluded that the restrictions on transfers and contributions to NEST should be lifted for two reasons:

- to remove complexity and the administrative burden for employers, particularly in 2014 as the volumes of employers being staged in increases significantly, and to give them freedom to choose NEST as a single, straightforward route to compliance if that is what they want to do; and
- to allow NEST members to take the active decisions about their retirement saving that other consumers enjoy, such as increasing contributions to meet their retirement aspirations and consolidate the pension savings into another scheme or into NEST as they progress through their working career.

NEST's report argues that the restrictions could be lifted without being detrimental to private market provision because of the other unique elements of NEST's framework, such as its public service obligation, fixed price and inability to offer any products beyond an automatic enrolment pension scheme.