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

LEGISLATION

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2013

The Local Government Pension Scheme ("LGPS") (Management and Investment of Funds) Regulations 2009 (the "2009 Regulations") are designed to enable local fund mangers to pursue effective investment strategies so that local authority pension funds can deliver the returns needed to pay scheme member pensions as well as to protect local taxpayers and employers from risks associated with meeting long term pension liabilities.

The 2009 Regulations set out prescribed limits on different and divergent investment products so that local authority pension funds can spread risk across a number of different types of investment. Currently, the absolute prescribed limit on investing in partnerships is set at 5% for a single partnership and overall no more than 15% of capital value in each of the 89 LGPS Funds in England and Wales, so as to enable these funds to take advantage of certain unregulated investment opportunities.

In 2012, the Department for Communities and Local Government ("DCLG") received representations from some of its pensions business partners who expressed concern that local authority pension funds have not been in a position to diversify their investments into vehicles established to take advantage of potential returns from investments in infrastructure.

In particular, it was suggested that the current absolute legal 15% limit on investing in partnerships was too low and would put some local authority pension funds at risk of exceeding this limit, thereby preventing them from pursuing infrastructure investment opportunities as well as helping the economy to grow.

In response to those representations, the DCLG carried out a consultation on possible changes to the 2009 Regulations.

As a result of the consultation, the Government has decided to allow a local authority pension fund to invest in partnerships up to a limit of 30% of the fund. The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2013 (which come into force on 1 April 2013) implement this change.

Explanatory memorandum

ASSOCIATION OF BRITISH INSURERS

Code of conduct on retirement choices

The ABI's code of conduct on retirement choices was implemented on 1 March 2013.

The code aims to improve customers' confidence in getting the right pension by requiring members of the ABI to:

- provide clear, timely information to help people approaching retirement understand what their options are.

  At least two years from retirement the insurer will encourage the customer to consider their retirement options. Six months from retirement and at least six weeks from retirement the insurer will send details explaining the various options, such as combining small pots, and shopping around for the best annuity;

- explain the different ways to take retirement income. This will include providing for dependants, lifestyle or medical conditions that may mean they are eligible for an enhanced annuity and protecting against inflation; and

- encourage shopping around for the right pension deal. The benefits of shopping around among other providers will be clearly highlighted along with sources of further advice. Insurers will no longer include annuity application forms so there will be less chance the customer will buy from the current provider without first shopping around.

To monitor the effectiveness of the code the ABI will conduct consumer research to assess changes in people's retirement awareness and pension purchasing. The impact of the code will be reviewed in 2014.

Press release

NAPF comment

NATIONAL ASSOCIATION OF PENSION FUNDS (NAPF)

Pension Quality Mark gets tougher on pensions charges

Pension Quality Mark (PQM) was launched by the NAPF in September 2009.

There are two standards, PQM and PQM PLUS. Under PQM, the scheme's total contributions must equal at least 10% of an employee's salary, with a minimum employer contribution of 6% of salary. Under PQM PLUS, the scheme's total contributions must equal at least 15 per cent of an employee's salary, with a minimum employer contribution of 10 per cent of salary.

On 25 February 2013, PQM announced that, with effect from 1 April 2013, it is lowering its cap on charges from 1% to 0.75% of pot size per year.

This means that pension schemes applying for the benchmark must prove that all charges paid by savers in the default fund do not exceed 0.75% per year. This covers all fees, including annual management charges, as well as administration, contribution and consultancy charges.

The new cap applies to everyone in the scheme, whether or not they are active contributors.

The PQM estimates that someone who pays charges of 0.75% per year could end up with a pension pot of around 8% larger than someone paying annual management charges of 1% per year.

Guide on pension communications

On 28 February 2013, the PQM launched a new guide which aims to help companies communicate more effectively with their staff about pensions.

Alexandra Kitching, PQM Manager, said:

"Companies providing pensions to their staff must ensure that they are communicating with them effectively about their retirement plans. If they fail to do so, there is a risk that employees will make poor decisions that will affect their income in retirement. Employers also spend a lot of time and money on pensions, so it is important that they properly communicate this great employee benefit to their staff.

While there are excellent examples proving that employers and trustees are engaging in good communications, the reality is that there is a still a lot to do when it comes to communicating pensions to staff.

PQM has published this practical guide to help employers and trustees grasp this important aspect of their work. Better communication is crucial if we are to get people more engaged with pensions saving."

Press release

Call on FTSE 350 to show restraint on boardroom pay

In a letter sent to the chairmen of FTSE 350 businesses, the NAPF has warned that companies that have failed to create a strong link between executive rewards and performance should expect shareholders to repeat their concerns of spring 2012.

The NAPF also set out some guidelines it wants to see reflected in the pay policies set through 2013. These include capping executive base pay increases at inflation and keeping them in line with the rest of the workforce. Where this is not the case, companies should offer a sound explanation.

The NAPF also criticised the use of peer group benchmarking, where pay is set by comparing it to that of other executives from different companies. The NAPF believes this practice has contributed to the escalation of boardroom pay. It said boards should focus more on their own strategies and less on comparing themselves against their peers.

Among the pay principles it expects to see applied, the NAPF also called for variable pay to be "genuinely stretching" and determined by results that support the long-term growth of the business.

And it told the FTSE 350 it expects remuneration committees to be ready to take a firmer line when finalising bonus payments and share awards. Their decisions must ensure that rewards are aligned with the success of the business over time and that returns on capital are taken into account.

The NAPF and a small group of some of its largest members recently published a discussion paper arguing for a rethink on executive pay. The paper suggested that companies make more payments in shares that are held for the long-term.

Press release

THE PENSIONS REGULATOR

Awareness of automatic enrolment on the rise

On 26 February 2013, TPR published research which shows a significant increase in awareness and understanding of automatic enrolment amongst UK employers.

Press release

Record-keeping review

In 2010 TPR set targets for schemes to achieve in respect of their "common data" standards (this includes information such as the member's name, date of birth and National Insurance number).[1]

For new data created after June 2010, the target to be met is 100% of common data to be in place; and for data created before June 2010, the target is 95%. The target deadline was 31 December 2012.

On 27 February 2013, TPR announced that it is embarking on a series of checks to establish whether schemes have met targets for keeping accurate records, and how they have addressed TPR's record-keeping guidance.

This is the first of a series of thematic reviews that TPR will be implementing as part of its regulation of governance and administration, particularly among DC schemes.

Around 250 schemes will be selected for review, covering a range of DC, DB, hybrid, contract and trust-based arrangements and both old and new schemes. Schemes will be targeted based on their scheme and membership profile and previous interaction with TPR.

Conducted in phases, the schemes will be asked to provide information demonstrating actions taken to meet data standards, and processes and controls in place to maintain or improve those standards. Schemes that are taken forward for further scrutiny will be provided with individual feedback reports and, at the end of the review, TPR will publish a report summarising its overall findings.

TPR will also be updating its record-keeping guidance this year to reflect the main findings of the review, as well as an increasing focus on "conditional data" (additional, more detailed data such as the member's employing company or the date of a member leaving the scheme) standards of which will be measured in TPR's 2013 record-keeping survey.

[1] Please see our Governance Spotlight: "All I want for Christmas is accuracy" dated 22 November 2012

Pension liberation fraud - know the signs

On 1 March 2013, TPR launched an online "bite-sized" learning module to help pension trustees and administrators to recognise the warning signs of pension liberation fraud and take action to protect people's pensions.

The module takes the user step-by-step through actions they may take including:

- identifying the first warning signs;
- contacting the member and the receiving "suspect" scheme to find out more; and
- deciding whether it is appropriate to pay the transfer.