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
EOI: Expression of Interest
GMP: Guaranteed Minimum Pension
HMRC: HM Revenue & Customs
NAPF: National Association of Pension Funds
NEST: National Employment Savings Trust
PPF: Pension Protection Fund
TPR: The Pensions Regulator

DEPARTMENT FOR WORK & PENSIONS

Response to consultation on disclosure

In February 2013, the DWP issued a consultation which sought views on proposals to consolidate, simplify, update and, where possible, harmonise the disclosure requirements for occupational and personal pension schemes.

The DWP's response was published on 31 July 2013. Key points are:

- draft regulations have not yet been issued but, according to the response, they will be in broadly the same form as those published for consultation.
- schemes which intend to adopt a lifestyling strategy will be required to inform members of this twice; both as part of the basic scheme information and again between five and fifteen years before their retirement.
- the new regulations will come into force on 6 April 2014 (rather than 1 October 2013 as originally proposed) to give schemes sufficient time to comply with the changes.
- responses indicated "no overwhelming desire" to move to a principles based approach so this will not currently be pursued.

For further information, please see our Alert "Response to consultation on disclosure" dated 1 August 2013.

LAW COMMISSION

Inheritance and Trustees' Powers Bill

The Inheritance and Trustees' Powers Bill was introduced into the House of Lords on 30 July 2013. Among other matters, it would reform trustees' statutory powers to use income and capital for the benefit of trust beneficiaries (subject to any express provisions in the trust instrument).

NATIONAL ASSOCIATION OF PENSION FUNDS

Trends in DB asset allocation

The NAPF has used data from its annual survey to explore some of the underlying trends in the changing nature of pension scheme investment. It has now published a research paper with its conclusions.

Key findings include:

- the rapid pace of private sector DB scheme closures is exacerbating recent trends in asset allocation. Closed schemes now hold an average of 7% in UK equities compared to 13% in open schemes;
- based purely on a static analysis, if schemes continue to close at this rapid pace, the NAPF estimates that DB schemes could shift a total of £31 billion out of UK equities and towards other assets between now and 2020;
- pension funds are increasing their allocations to index-linked gilts and corporate bonds once schemes close to either new members or to both new members and future accrual. Closed schemes now hold 21% in index-linked gilts, compared to 8% for open schemes, and 19% in corporate bonds, compared to an average of 9% in open schemes;
- similarly, by 2020 the NAPF estimates the extra demand for index-linked gilts could be an additional £70 billion;
- smaller schemes remain far more reliant on UK equities than the largest schemes. Half of equity holdings in the smallest schemes remained in UK equities in 2012, compared to a quarter in the very largest schemes; and
- allocations to 'other' assets such as property, infrastructure and hedge funds have increased as DB schemes search for alternative assets that can deliver attractive returns whilst providing a good match for liabilities or reducing exposure to risk.

NAPF looks to help savers make right choices at retirement

On 30 July 2013, the NAPF issued a Call for Expressions of Interest (EOI) on the provision of at-retirement services for those saving in DC pension schemes.

The NAPF is interested in working with advisers, brokers, and other parties active in the at-retirement market to develop solutions to help more trustees and employers appoint advice and brokering services and secure a good deal for their scheme members.

The EOI exercise follows the publication of an NAPF report on 25 June (see 7days dated 1 July 2013). The report highlighted a number of barriers that may prevent trustees and employers from appointing advice and brokering services. The NAPF is now looking to develop support for employers and trustees to help them put these services in place, so that they can help those saving in DC pension schemes with the difficult, one-off decisions they need to make at retirement around annuities and income drawdown.

The following models of support are being considered:

- a ‘quality mark’ scheme that would assess advisers and brokers against a set of minimum quality standards that have yet to be determined. Any service meeting the standard would be accredited by the NAPF, or an appointed body, and added to a shortlist;

- a limited ‘panel’ of adviser or broker services with the selection based on a rigorous assessment process. This could simplify processes and reduce costs for those running DC pensions, and provide assurance that due diligence had been applied to the panel member selection. Other services could be included, such as educating the workforce about options at retirement; and

- alternative propositions, for example the potential for insurer-sponsored solutions that could provide more universal access to advice and brokering services to parts of the market that may currently be considered uneconomic to serve.

PENSION PROTECTION FUND

PPF to work with Experian as new Insolvency Risk Provider

On 31 July 2013, the PPF announced that it will be working with global information services company, Experian, as its insolvency risk provider.

Insolvency risk, or failure, scores are one of the three main factors, alongside investment and underfunding risk, needed to calculate the individual pension protection levies paid by eligible pension schemes.

For the past eight years, the PPF has been using Dun & Bradstreet (D&B) to provide this service but it decided to change supplier following a competitive tendering process.

There will be a handover period between the two companies which means the PPF will not be using Experian scores to calculate levies until the 2015/16 levy year. During this period, the PPF will continue to use D&B to calculate the levy and the current methodology will remain unchanged.

In the meantime, Experian will be working alongside the PPF, with input from stakeholders, to develop a bespoke model for calculating insolvency risk. This bespoke model will focus on measuring insolvency risk for the PPF’s universe of sponsoring employers, supported by Experian’s detailed understanding of the UK’s economic environment and its impact on commercial solvency.

The intention is that schemes and sponsoring employers will have access to the new insolvency risk scores from early 2014.

THE PENSIONS REGULATOR

Automatic enrolment analysis published

On 30 July 2013. TPR published its first in-depth analysis of the initial implementation of automatic enrolment.

The report provides an overview of TPR’s work to prepare employers for the changes in workplace pension law and includes information on the first six months of automatic enrolment (from October 2012 to the end of March 2013).

Highlights include:

- from October 2012 to March 2013, 83 employers completed registration, rising to 1,153 as of July 2013;
- awareness of the changes in workplace pension law increased significantly between spring and autumn 2012 and was high among all sizes of employers;
- TPR's website received more than 320,000 unique visits to the automatic enrolment pages, mostly with regards to staging dates; and
- TPR's customer contact centre received nearly 8,000 telephone calls, 5,000 emails, more than 2,000 web forms, letters and faxes and had 600 face to face meetings.

Helping employers select quality pension schemes

TPR has launched a suite of new guides to help employers with limited pensions experience to select a good quality scheme for automatic enrolment.

TPR appoints Stephen Soper as interim chief executive

TPR has announced the appointment of Stephen Soper as its interim chief executive, with effect from 1 August 2013.

Mr Soper, who is currently executive director of DB regulation, will take charge of TPR until a permanent replacement is found for Bill Galvin, who left his position as chief executive at the end of June this year.

Geoff Cruickshank, a senior member of the DB regulation management team, has been appointed as interim executive director for DB regulation while TPR searches for a new chief executive.