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)
CPI: Consumer Prices Index
DB: Defined benefit
DC: Defined contribution
DWP: Department for Work and Pensions
ECJ: European Court of Justice
FSA: Financial Services Authority
GMP: Guaranteed Minimum Pension
HMRC: HM Revenue & Customs
NEST: National Employment Savings Trust
PPF: Pension Protection Fund
TPR: The Pensions Regulator

LEGISLATION

Automatic enrolment: Key regulations and guidance finalised

On 1 February 2012, the DWP published a package of measures, including final regulations and guidance, which are designed to complete the legislative framework for auto-enrolment. Consultation on these measures took place between 19 July–11 October 2011, with a view to implementing the findings of an independent review published in October 2010, "Making Auto-Enrolment Work".

Among other things, the final regulations cover:

- waiting periods;
- the certification process for DC schemes;
- re-enrolment dates; and
- pay reference periods.

The accompanying guidance for employers on certification explains how employers can use certification as a means for ensuring that their money purchase scheme or money purchase element of their hybrid scheme can qualify to be used for auto-enrolment related duties. The guidance informs employers of the issues that they must consider in determining whether they can certify that their scheme(s) satisfies the relevant quality requirements, in respect of the relevant jobholders.

DWP Press Release

For more information about how you should be preparing now for 2012 and where Sackers and Sackers Support Services can help, please contact your usual Sackers advisers or Mark Wileman, Head of Business Development (mark.wileman@sackers.com).

Abolition of protected rights: Consequential amendments

Ahead of the abolition of protected rights from 6 April 2012, The Pensions Act 2008 (Abolition of Protected Rights) (Consequential Amendments) (No.2) (Amendment) Order 2012 (a draft Order) makes minor amendments to regulations to:

- remove the protection given to protected rights payments in bankruptcy proceedings; and
- remove the prohibition on assigning protected rights payments,

as such payments will no longer be identifiable after the abolition date.

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

Meanwhile, the Government's response and final regulations following the 2011 consultation on proposed changes to contracting-out regulation, including the introduction of a regulation to allow trustees of formerly contracted-out DC occupational pension schemes to change their scheme rules to take into account the abolition of "protected rights" after 6 April 2012, is still awaited.

Revaluation and increases Orders

The Social Security Revaluation of Earnings Factors Order 2012

The Social Security Revaluation of Earnings Order (also known as a section 148 order) is made each year to revalue historic earnings factors in line with the movement in average earnings. Among other things, earnings factors are also used to calculate increases in deferment (and for GMPs).

The Order specifies an earnings factor of 1.8% based on the average increase on earnings between September 2010 and September 2011 (including bonuses).

This Order will come into force on 6 April 2012.

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

GMP Increase Order

The draft Guaranteed Minimum Pensions Increase Order 2012 specifies that the increase payable in respect of GMPs is based on CPI but will be capped at 3% with effect from 6 April 2012.

The Order is due to come into force on 6 April 2012.

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

ACTUARIAL PROFESSION

Longevity improvements in England and Wales

Recent analysis by the Actuarial Profession of the latest figures from the Office for National Statistics (ONS) points to further improvements in longevity in England and Wales, with an overall improvement in the mortality rate of 4%.

This means that there were 20,000 fewer deaths in 2011 than would have been expected but for the improvement. It also represents an increase in the average rate of improvement in longevity of 2.4% over the ten years to 2010.

Actuarial Profession Press Release

DEPARTMENT FOR WORK AND PENSIONS

Changes to the automatic enrolment timetable

In January 2012, the DWP published an updated table of staging dates for automatic enrolment. This followed the statement by the Pensions Minister, Steve Webb, in November 2011, announcing that small businesses (defined as those with fewer than 50 employees) would be given additional time to prepare for the implementation of automatic enrolment (see 7 Days dated 30 January 2012).

Steve Webb has since issued a written ministerial statement, revising part of his January announcement on the new staging dates. The statement notes that "Medium sized employers will be re-allocated automatic enrolment dates between 1st April 2014 and 1st April 2015. This means that the implementation dates of some of these employers will be up to nine months later. However, this still means that around 55% of eligible workers will be automatically enrolled before the end of this Parliament compared with around 65% under previous arrangements." The Government's original statement had indicated that 70% of eligible workers would be automatically enrolled before the end of the Parliament, compared with around 75% under previous arrangements.

HM REVENUE & CUSTOMS

HMRC launches pension savings annual allowance calculator

HMRC has today (6 February 2012), launched a calculator to help individuals work out their savings and unused annual allowance for DB and DC pensions (including additional voluntary contributions), or a combination of these pension savings.

The calculator can help individuals work out the total amount of their pension savings (the 'pension input amount') and any unused annual allowance for a tax year. It can also be used to work out whether any unused annual allowance is available to carry forward from up to three years before the 2011/12 tax year.

The calculator cannot be used for career average, cash balance or hybrid pensions.

Further information can be found in HMRC's guidance on using the calculator.

NATIONAL ASSOCIATION OF PENSION FUNDS

Treating DC Members fairly in retirement? A joint report by the NAPF and Pensions Institute

The NAPF and the Pensions Institute have published a joint report of research which was designed to address widespread concerns about the outcomes that DC members can achieve when they buy their annuities and concludes that, "for most employees, membership of a workplace DC pension scheme represents an illogical and uncoordinated journey".

Findings from the report indicate that it is often too difficult for pension savers to get the best deal and that annuity prices are heavily manipulated. The findings include:

- 80% of DC pension scheme members have pots of less than £50,000 and most annuity advisers will not find it profitable enough to advise on pots of this size. This can mean that the open market option (OMO) can effectively be shut. It is likely that this will have a real impact on the millions of low to median earners who are due to be automatically enrolled into pension saving;
- fewer than one in five people have the financial know-how needed to pick the right annuity at the best price and people get too little support from employers or providers when making a decision about their annuity;
- there is a severe lack of transparency and understanding about how annuities are priced, especially for those with medical conditions who could qualify for a much higher level of pension income; and
- annuity rate bands can have 'cliff-edges' which mean that rates outside the commonly quoted £50,000 and £100,000 benchmarks suddenly drop off and become much worse.

Key recommendations from the NAPF and the Pensions Institute are that:

- people should automatically shop around for the best annuity when they retire and be given help to access the whole of the market. A new OMO process, built into all pension schemes, would ensure that people get the best deal;
- the Government should set clear baseline measures and monitor the evidence on shopping around. If there is no improvement it should consider a national annuity support and brokerage service.
- greater transparency is needed to increase competition and trust levels. The Government, the FSA and the Association of British Insurers should drive transparency in annuity pricing, commission and retention business through greater disclosure; and
- employers and trustees should be able to support staff with retirement decisions without fearing legal comeback. Clearer and simpler rules should be set for workplace advice, which could help create 'safe harbours' for employers to discuss pension matters with staff.

NAPF / Pensions Institute Press Release

PENSION PROTECTION FUND

Guidance on the PPF levy

The PPF has published a guide to the new levy framework that comes into effect from the 2012/13 levy year. It is designed to help people understand the changes to the way in which their levy bills will be calculated.

The PPF also has launched its own YouTube channel, with a video on the new levy framework, in which Chief Policy Advisor Chris Collins explains the main levy changes and what schemes can do to ensure their bills are accurate and predictable.

Purple Book published

The PPF, together with TPR, has published the latest edition of the Purple Book. Now in its sixth year, it looks at the risks faced by predominantly private sector DB pension schemes throughout the UK.

The main focus of the 2011 publication is on changes that have happened with schemes between March 2010 and March 2011. It also sets out developments in scheme funding between the end of March and the end of December 2011.

Key findings show that:

- the proportion of open schemes continues to fall, moving from 18% in 2010 to 16% in 2011. The proportion of schemes closed to future accrual rose from to 24% from 21%;
- the proportion of schemes closed to new members was unchanged at 58%;
- in 2011, there were around 11.96 million memberships. Of these, 5.29 million (44%) were deferred, 4.36 million (36%) were pensioners and 2.31 (20%) were active memberships;
- the aggregate s.179 funding position of the schemes in the Purple 2011 dataset as at 31 March 2011 was a deficit of £1.2 billion;
- the s.179 funding ratio fell from 104.3% in 2010 to 99.9% in 2011. This represents a small shift compared to the historical volatility of the funding ratio as shown by the PPF 7800 index during a year;
- the full buy-out funding ratio is 67.5%; and
- the total number of recognised contingent assets in place has risen by 20%, from approximately 750 for the 2010/11 levy year to 900 for 2011/12.

The Purple Book is based on 6,432 schemes, representing about 12 million members. This accounts for 98% of PPF eligible schemes and 99.6% of estimated eligible liabilities.

PPF Press Release