Sackers extra

07 February 2011

At a glance

LEGISLATION

- The Occupational Pension Schemes (Levy Ceiling – Earnings Percentage Increase) Order 2011
- The Occupational Pension Schemes (Levy Ceiling) Order 2011
- The Pension Protection Fund (Pension Compensation Cap) Order 2011
- The Guaranteed Minimum Pensions Increase Order 2011
- The Social Security (Reduced Rates of Class 1 Contributions, Rebates and Minimum Contributions) Order 2011

DEPARTMENT FOR WORK AND PENSIONS

- Less than two months remaining on offer to backdate State Pension

FINANCIAL REPORTING COUNCIL

- Revised guidance on the audit of occupational pension schemes

GOVERNMENT ACTUARY'S DEPARTMENT

- New GAD Appointments

HM REVENUE & CUSTOMS

- Draft Orders published

NATIONAL EMPLOYMENT SAVINGS TRUST

- NEST appoints fund managers for initial mandates

PENSIONS POLICY INSTITUTE

- PPI Briefing Note 57: How could CPI Indexation affect pension income?

THE PENSIONS REGULATOR

- TPR announces senior team portfolios

WORKPLACE RETIREMENT INCOME COMMISSION

- Launch of new independent commission to review workplace pensions saving

S07

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
HMRC: HM Revenue & Customs
NEST: National Employment Savings Trust
PPF: Pension Protection Fund
TPR: The Pensions Regulator

LEGISLATION

The Occupational Pension Schemes (Levy Ceiling – Earnings Percentage Increase) Order 2011

An Order has been laid before Parliament which specifies the increase in the general level of earnings during the latest review period, for the purpose of uprating the PPF levy ceiling for the financial year beginning on 1 April 2011. The increase has been set at 2.4%.

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

The Occupational Pension Schemes (Levy Ceiling) Order 2011

Section 175 of the Pensions Act 2004 requires the PPF to set a levy for DB occupational pension schemes (and the DB element of hybrid schemes) to fund the compensation it will pay to scheme members if their employer becomes insolvent and the scheme has insufficient assets to enable it to provide benefits up to the protected PPF level.

As noted above, the levy ceiling has been uprated by affirmative Order by 2.4%, in line with the increase in the general level of earnings. Consequently, the draft Levy Ceiling Order specifies the levy ceiling figure to be imposed on the pension protection levy for the financial year beginning 1 April 2011 as £892,092,092.

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

The Pension Protection Fund (Pension Compensation Cap) Order 2011

The draft PPF Compensation Cap Order for 2011 has also been published. It provides for the level of the PPF compensation cap to be increased to £33,219.36 (up from £33,054.09) from 1 April 2011. This figure is based on a 0.5% increase in average earnings over the review period.

When applying the new compensation cap to members whose PPF entitlement is restricted to 90% of benefits (i.e. people below their scheme's normal retirement age), the maximum level of compensation payable to an individual at age 65 will be £29,897.42.

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

The Guaranteed Minimum Pensions Increase Order 2011

This draft Order specifies that the increase payable by contracted-out occupational pension DB schemes in respect of guaranteed minimum pensions (GMPs) will be capped at 3% with effect from 6 April 2011.

Further information is available in the explanatory memorandum which accompanies the draft Order.

The Social Security (Reduced Rates of Class 1 Contributions, Rebates and Minimum Contributions) Order 2011

The Government has published details of the contracted-out rebate rates which will apply from 2012. The new rates were laid in a draft Order.

It is a legal requirement for the rebate rates to be reviewed at least every five years.

The key rates which have been set out relate to DB occupational schemes, due to the expected abolition of contracting-out on a DC basis from April 2012.

Currently, if an individual is contracted-out of the State Second Pension (S2P), the employer and the employee pay National Insurance Contributions (NICs) reduced in total by 5.3%. The new rebate will mean that from April 2012, if an individual is contracted-out, the employer and the employee pay NICs reduced in total by 4.8%.

Further information can be found in:

- the explanatory memorandum which accompanies the Order;
- GAD's review of certain contracting-out terms (incorporating a report from the Secretary of State for Work and Pensions); and
- the DWP's Press Release.

DEPARTMENT FOR WORK AND PENSIONS

Less than two months remaining on offer to backdate State Pension

The DWP has issued a reminder to the group of around 70,000 people who now have less than two months left to boost their State Pension and get backdated payments.

Individuals who have reached, or will reach, State Pension age between April 2008 and April 2011 and who would not otherwise receive a full basic State Pension, could increase their payment and get it backdated if they buy back NICs by 5 April 2011.

The special offer allows this group to buy back up to six years of voluntary contributions as far back as 1975.

Although people will still be able to fill gaps in their National Insurance records when this offer expires, the voluntary contributions will not be backdated.

DWP Press Release

FINANCIAL REPORTING COUNCIL (FRC)

Revised guidance on the audit of occupational pension schemes

The Auditing Practices Board (APB) of the FRC has today published a revised version of Practice Note (PN) 15: "The Audit of Occupational Pension Schemes in the United Kingdom". An exposure draft of the revised PN was issued in July 2010 for public comment.

The revised PN updates the current guidance to reflect:

- the new International Standards on Auditing (ISAs) (UK and Ireland) (which apply to audits of financial statements of occupational pension schemes for periods ending on or after 15 December 2010); and

- changes in the legislative and regulatory framework.

In addition, new guidance has been included on:

- communicating deficiencies in internal controls to those responsible for governance and management;

- audit considerations relating to an entity using a service organisation; and

- auditing accounting estimates, including fair value accounting estimates and related disclosures.

APB Press Release

GOVERNMENT ACTUARY'S DEPARTMENT

New GAD Appointments

Colin Wilson has been appointed as Technical Director of GAD with effect from 1 April 2011. He will join the GAD Management Board as an Executive Member.

Mr Wilson will continue to head up GAD's Investment and Risk work, a role he has held since joining GAD in February 2009. Prior to joining GAD, Mr Wilson was Director of Research in the Portfolio Management Group of Prudential M&G, before joining financial risk consultancy Barrie & Hibbert.

In addition, Jane May has been appointed to the Board of GAD as a non-executive director. Ms May is also a non-executive director at OFWAT and the Information Commissioner's Office and is the Chair of the Berkshire Autistic Society.

HM REVENUE & CUSTOMS

Draft Orders published

HMRC is implementing, over time, the new late filing and late payment penalties and interest provisions in Finance Act 2009, as and when resources allow.

On 4 February 2011, it published two draft Orders for comment:

- the Finance Act 2009, Schedule 55 (Appointed Day and Consequential Provisions) Order 2011, which is designed to bring into effect new late filing penalties for pension schemes from 1 April 2011; and

- the Finance Act (No.3) 2010, Schedules 10 and 11 (Appointed Day) Order 2011, which is designed to bring into effect certain minor technical changes to the late filing and late payment penalty regimes for Income Tax Self Assessment and Pension Scheme Returns in April 2011.

Further information is available from HMRC's website: Review of HMRC's Powers, Deterrents and Safeguards.

NATIONAL EMPLOYMENT SAVINGS TRUST

NEST appoints fund managers for initial mandates

On 3 February 2011, NEST Corporation (the governing body of NEST), announced which fund managers have been appointed for its first five mandates. Together, these funds are to provide the building blocks for the NEST yearly target date funds (its default fund offering).

NEST Corporation explains that the infrastructure being put in place is designed to give NEST members access to a diverse set of global asset classes, through NEST-constructed yearly target date funds, which will help NEST manage investment risks in a way which is appropriate for members.

NEST Press Release

PENSIONS POLICY INSTITUTE (PPI)

PPI Briefing Note 57: How could CPI Indexation affect pension income?

The PPI's latest Briefing Note considers the potential impact of the switch from RPI to CPI as the measure used to calculate increases to pensions in payment and in deferment for private occupational pension schemes.

Among other things, the Briefing Note observes that the new measures:

- could reduce scheme liabilities for both existing and future members, as well as the PPF levy payable, and as such could lead to the survival of DB schemes;

- however, they are likely to lead to lower income from S2P and some occupational pensions in future, and reduce the total yearly pension income for a median earner who receives income from the basic State pension, S2P and a private sector occupational pension, by around 4% at the age of 85, if the occupational pension payments are indexed to CPI.

THE PENSIONS REGULATOR

TPR announces senior team portfolios

TPR has announced a number of new senior appointments and some changes to the portfolios of its senior management team.

The changes are being made to reflect changes in the pensions industry, including the introduction of auto-enrolment and the increasing prevalence DC schemes.

June Mulroy (formerly executive director of business delivery) is the new executive director for DC, governance and administration; Stephen Soper (formerly head of risk and funding) will be interim executive director for DB funding; and Charles Counsell (formerly employer compliance programme manager) will be interim executive director for employer compliance, leading the regulator's work helping employers prepare for their new duties under auto-enrolment from 2012.

Stuart Weatherley will continue as executive director for support operations. The role of executive director of strategic development will no longer exist and responsibility for strategy and delivery will pass to individual directors for DB, DC and employer compliance.

TPR's senior management team is completed by Sue Griffin, head of customer channels, Nigel Peaple, head of corporate and international affairs, and the post of head of risk (currently vacant).

TPR Press Release

WORKPLACE RETIREMENT INCOME COMMISSION (WRIC)

Launch of new independent commission to review workplace pensions saving

WRIC, established to undertake a review of pensions and other savings, principally (although not exclusively) delivered through the workplace, has issued a call for evidence from stakeholders and individuals, with a view to building a consensus around solutions for strengthening workplace retirement saving.

With a remit to evaluate public policy and industry/employer practice, WRIC will make recommendations to ensure that all UK citizens can retire in security and dignity. WRIC will examine:

- the barriers to workplace retirement saving for both employees and their employers and how these can be overcome. WRIC will pay particular attention to the barriers faced by small and medium sized enterprises and the self-employed;
- the most efficient ways of providing retirement income that meet the needs and demands of today's workforce and employers, that optimise opportunity, efficiency and adequacy, in which employees have confidence and which employers are encouraged to run; and
- the role of retirement savings in the wider economy.

The Commission is chaired by Lord McFall, former Treasury Select Committee chairman. The five other members of the Commission are:

- Graham Cole, currently Managing Director of major manufacturer AgustaWestland;
- John Hannett, General Secretary of Usdaw, the UK's fourth biggest union;
- Chris Hitchen, Chief Executive of pension service provider RPMI and former NAPF Chairman;
- Paul Johnson, Director of the Institute for Fiscal Studies; and
- Imelda Walsh, former HR director of Sainsbury's and author of an independent review into extending the right to request flexible working.

The closing date for responses is 26 April 2011. The Commission will report in October 2011 at the NAPF Annual Conference.

WRIC Press Release