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SO7

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

HMRC: HM Revenue & Customs

PPF: Pension Protection Fund

TPR: The Pensions Regulator

DEPARTMENT FOR WORK AND PENSIONS

Increase to state pension age (SPA): Response to call for evidence

In June 2010, the DWP announced a call for evidence, asking for views from organisations and individuals on the timing of an increase in the SPA to 66 (for more information, see 7 Days dated [28 June 2010](#)).

As announced by the Chancellor in the recent Spending Review, SPA will rise from 65 in 2018 to 66 in 2020, for both men and women. The Government's [response](#) to the call for evidence was published on 3 November 2010 and sets out the [timetable](#) for increasing the SPA to 66.

According to DWP figures, the decision to bring forward the increase in the SPA means that a total of 4.9 million people in Great Britain will have their SPA revised. Of these, 4.4 million men and women will have an increase in SPA of a year or less. It is estimated that the change will result in £30.4 billion of savings between 2016/17 and 2025/26, which would otherwise need to be met by the working-age population.

Legislation to effect these changes is expected to be introduced early in 2011.

[DWP Press Release](#)

Predictions of Income in Retirement

The DWP has published [Working Paper No.87](#): "Research on predictions of income in retirement".

The main aims of this paper were to investigate the extent to which people are able to predict their potential income in retirement, the type of information and reference points they use and the attitudes and behaviours this reveals.

Findings from the research show, among other things, that:

- when asked to think about and predict their own income in retirement, people tend to focus on their various individual potential sources of income such as pensions, rather than income 'in the round';
- there were significant variations in the ease with which people were willing and able to predict their likely income in retirement; and
- people adopted three different approaches when making their predictions: guesses, rules of thumb and financial calculations.

EQUITABLE LIFE

Independent Commission on Equitable Life Payments

On 26 May 2010, the Financial Secretary to the Treasury announced that an independent commission would be set up to advise on the design of the payment scheme for Equitable Life policyholders (see 7 Days dated [31 May 2010](#) for more information).

The role of the Independent Commission on Equitable Life Payments (the Commission) is to provide advice to the Government by the end of January 2011 on:

- how best to fairly allocate funds provided for the Equitable Life Payments Scheme in the first three years of the Spending Review to those persons found to have suffered relative losses as a result of accepted Government maladministration, excepting with-profits annuitants and their estates; and
- whether any groups/classes of persons that should be paid as a priority with regard to the timing of payments, again excepting with-profits annuitants and their estates.

On 3 November 2010, the Commission published a [discussion paper](#) which aims to explore the principles that should underpin this advice in the light of the Government's announcement (as part of the Spending Review) that it intends to pay compensation in the region of £1.5 billion, and following confirmation of the underpinning methodology. This follows an initial call for evidence on 3 September 2010.

The discussion paper includes a number of questions for further discussion. Responses should be submitted to the Commission by 3 December 2010.

FINANCIAL ASSISTANCE SCHEME

FAS Data analysis

The PPF (which administers FAS) has produced an "S1 analyser" to help data providers ensure that data is "fit" for submission to FAS.

The analyser is an Excel [Spreadsheet](#)¹ which is designed to help users review the member data which providers are looking to submit to the FAS. The idea is to improve data quality and reduce the amount of possible rework required. As the analyser cannot account for the individual complexities of every scheme, it makes certain assumptions in respect of the data which is used.

The PPF notes that output from the analyser only provides a starting point for any data to be submitted. Users will need to review the output and make any changes needed or include appropriate explanations.

Data providers should read the [User Guide](#) before adding data to the analyser.

INTERNATIONAL ORGANISATION OF PENSION SUPERVISORS

Risk-based approach to pension supervision

The International Organisation of Pension Supervisors (IOPS) is an independent international body representing those involved in the supervision of private pension arrangements. The organisation currently has around 70 members and observers

¹ If asked for a password on opening this link, click "cancel" and you should be able to access the spreadsheet

representing supervisory bodies from about 60 countries and territories worldwide, including the UK's Pensions Regulator.

First approved in 2005, The IOPS "Principles for Private Pension Supervision" are designed to cover occupational and personal pension arrangements. The Principles cover the areas of objectives, independence, adequacy of resources and powers, risk-orientation, proportionality and consistency, consultation and cooperation, confidentiality, transparency and governance.

Revised Principles have now been produced to take account of lessons learned during the financial and economic crisis.

IOPS has also launched a "Toolkit for Risk-based Supervision". The Toolkit is an on-line device which is designed to help pension supervisors operate more efficiently and effectively, identifying weaknesses and potential problems before they occur, rather than following-up on non-compliance and complaints after the event.

Together, the revised principles and the Toolkit are aimed at strengthening global supervisory techniques, including the introduction of a risk-based approach to pension supervision.

[IOPS Press Release](#)

PUBLIC SECTOR PENSIONS

Independent Public Service Pensions Commission: Hutton call for evidence for final report

On 7 October 2010, Lord Hutton published the interim report of the Independent Public Service Pensions Commission (the Pensions Commission), setting out the case for change in public service pensions.

The interim report suggests that there should be no structural change to public sector schemes immediately (the indication is that these will be delayed for four years). However, the Spending Review confirmed acceptance of Hutton's key recommendations that public sector workers will have to make additional member contributions in the short term. Hutton also recommends a review of the discount rate used for actuarial valuations in time for the final report (due by the 2011 Budget).

On 1 November 2010, Lord Hutton launched a [call for evidence](#) for his final report, which will look at options for structural reform. The deadline for submissions is 17 December 2010.

For more information on the Pensions Commission's interim report, please see our Alert: "[Hutton Report - the Future of Public Sector Pensions](#)" dated 7 October 2010.

THE PENSIONS REGULATOR

Investment Governance Group (IGG): Principles and best practice guidance for DC schemes

TPR's partner, the IGG, has published [principles and guidance](#) for those running work-based DC schemes.

The IGG was established in response to a review of the Myners Principles in 2008, to encourage industry ownership and promotion of the Myners' Principles and to take account of the characteristics of DC and the differences between trust-based and contract-based schemes. Between February and May 2010, the IGG [consulted](#) on draft investment governance principles and best practice guidance work-based DC pension schemes.

The final framework sets out six DC principles:

- *clear roles and responsibilities*: to help ensure that firm foundations are in place for the process of investment governance;
- *effective decision making*: decisions relating to investment governance must be taken on a fully informed basis and the processes must be sound;
- *appropriate investment options*: to make certain that investment options take account of the range of risks and needs within the scheme membership;
- *appropriate default strategy*: determining that an appropriately designed investment strategy is offered for members who prefer not to make a choice;
- *effective performance assessment*: the performance of the chosen investment options must be monitored; and
- *clear and relevant communication*: to ensure that members are provided with clear, relevant and timely information so they can make an informed choice about where to invest.

The IGG's new DC principles will be followed by guidance for small schemes and good practice case studies for DB schemes.

TPR Press Release

Retirement guides updated

TPR has updated two of its retirement guides:

- "Making your retirement choices" is designed to help members of work-based DC pension arrangements decide how to take benefits from their scheme; and
- "Talking to your employees about pensions" is a guide for employers who currently offer their staff access to a pension arrangement, whether an occupational pension scheme, a personal pension scheme to which the employer contributes or a stakeholder scheme. The guide is produced jointly by TPR and the Financial Services Authority.

TPR Press Release