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
EEA: European Economic Area
ECJ: European Court of Justice
EU: European Union
FAS: Financial Assistance Scheme
HMRC: HM Revenue & Customs
NEST: National Employment Savings Trust
PPF: Pension Protection Fund
TPR: The Pensions Regulator

DEPARTMENT FOR WORK AND PENSIONS

Workplace Pension Reforms: Evaluation Strategy

The Pensions Act 2008 introduced measures aimed at encouraging greater private pension saving, including workplace pension reforms which will start to apply from October 2012.

The workplace pension reforms consist of four key elements:

- employers will be required to enrol their eligible jobholders automatically into a qualifying workplace pension;
- employers will be required to pay minimum contributions of 8% on a band of earnings, of which at least 3% must come from the employer;
- a compliance regime to ensure employers meet their obligations; and
- a low-cost pension scheme to provide a suitable savings vehicle for those moderate-to-low earners to whom the existing private pensions industry does not offer a suitable product. The National Employment Savings Trust has been established to fulfil this requirement.

These new requirements will be brought into force in stages over a four year period, depending on the size of the employer.

The DWP has published a research report which outlines a framework for evaluating the effects of these reforms and sets out the key benefits and costs to individuals, employers, industry and Government.

EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY (EIOPA)

Financial Stability Report 2011

EIOPA's Financial Stability Committee has released its first half-yearly report on the financial conditions and stability of the EU/EEA insurance and occupational pension fund sectors.

The report maintains that sovereign risk is the main source of concern for the financial stability of these sectors. It also notes that:

- there is a continuing trend in the EU and EEA towards DC pension provision;
- improvements have been seen in the funding position for DB schemes (although they generally remain below the funding levels seen in 2007); and
- uncertainty in the financial markets and the current low interest rate environment continue to cause problems for both DB and DC schemes.

Review of the Pensions Directive: Draft response to Call for Advice

EIOPA has also published a consultation in connection with its review of the "IORP" or Pensions Directive[1].

The consultation focuses on:

- the scope of the Directive;
- the definition of "cross-border activity";
- the scope of prudential regulation; and
- the governance of pension schemes.

The draft advice has been produced in response to the European Commission's request for advice on the EU-wide legislative framework for pension schemes.

The EIOPA consultation closes on 15 August 2011.

HM REVENUE & CUSTOMS

Disguised remuneration: Draft regulations

The Finance (No.3) Bill 2010-11 (the Bill) includes provisions which are aimed at tackling "arrangements involving trusts and other vehicles to avoid, reduce, or defer liabilities to income tax on rewards of an employment or to avoid restrictions on pensions tax relief". This is known as "disguised remuneration".

The new rules will create a tax charge which will apply when a "relevant step" arises, for example, on the making of certain loans of money or assets by third parties to an employee, the earmarking of money or assets for an employee by a third party and on the outright payments of money or transfers of assets to an employee by a third party. The tax charge occurs where these relevant steps are not otherwise charged to tax as earnings from the employment.

HMRC has published draft regulations which are intended to make sure that no employment income tax charges arise when the sums and assets that are the subject of a "relevant step" arise or derive from:

- contributions to a relevant non-UK scheme that received UK tax relief;
- funds transferred from a registered pension scheme to a qualifying recognised overseas pension scheme; or

[1] Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision

- a payment by a pension scheme that has been subject to unauthorised payment charges.

HMRC has also published a revised question and answer document on the "disguised remuneration" legislation in the Bill.

HM TREASURY

Review of pensioner taxation announced

The Treasury has today (11 July 2011) announced a review by the Office of Tax Simplification (OTS) of pensioner taxation.

The review team will gather evidence from pensioner groups and other interested parties in order to identify and examine the parts of the tax system that cause taxpayers the most difficulties, look at how this varies across the pensioner population, and propose ways to improve the situation.

The OTS is due to provide an initial report to the Chancellor ahead of the 2012 Budget, with a final report and specific recommendations later in 2012 if the review of evidence presents a case for change.

OTS Terms of Reference

HM Treasury Press Release

OTS Press Release

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)

Draft guidance: Good practices on pension funds' use of alternative investments and derivatives

The OECD and the International Organisation of Pensions Supervisors are together consulting on revised draft guidance on "Good practices on pension funds' use of alternative investments and derivatives".

The good practices described in the draft guidance are designed to encourage:

- the establishment of robust and efficient risk-management policies and methods for measuring associated risks;
- the implementation of appropriate internal governance processes and risk control procedures;
- the conduct of due diligence investigation when assigning such investments to external asset managers and the promotion of open communication with shareholders on the results and costs of the use of alternative investments and derivatives.

The consultation closes on 9 September 2011.

THE PENSIONS REGULATOR

Enabling good outcomes in DC pensions: Next steps

In January 2011, TPR published a discussion paper: "Enabling good member outcomes in work-based pension provision", in which it proposed a strategy for achieving its statutory objectives in respect of DC pension provision. The paper set out nine key challenges for DC schemes:

- small schemes;
- multi-employer schemes with non-associated employers;
- product characteristics;
- costs and fair value;
- protection of assets;
- selection of a suitable scheme;
- effective and efficient administration;
- decumulation; and
- clarity of accountabilities.

TPR published a response to the discussion paper on 7 July 2011. The response reflects opinions from across the industry and sets out next steps in each of the nine key areas raised.

A full response, including more detail about the proposed next steps, is expected to follow in the autumn.

TPR press release

WORKPLACE PENSION REFORMS

Commons inquiry into automatic enrolment and NEST

The Work and Pensions Committee (a Commons Select Committee) has launched an inquiry into automatic enrolment in workplace pensions and the National Employment Savings Trust (NEST).

The terms of reference for the inquiry include:

- the DWP's communication strategy for introducing auto-enrolment and provision of advice and support to employers and employees;
- arrangements for phasing and staging the introduction of auto-enrolment;
- the likely impact of auto-enrolment on business, especially small and micro-businesses;

- the role of TPR, including certification of schemes;
- estimated opt-out rates, including the possible impact on NEST if the numbers auto-enrolled are significantly lower than predicted;
- the likely impact of the limitations placed on NEST, including the contributions cap and the ban on transfers;
- possible measures to reduce the proliferation of small pension pots;
- how self-employed people, and part-time, temporary, casual and agency staff, will be treated under auto-enrolment; and the equality implications; and
- the extent to which auto-enrolment is likely to achieve the desired behavioural change in terms of encouraging people to make provision for retirement.

The deadline for submitting written evidence is 26 August 2011.

Press Release