Sackers extra

12 July 2010

At a glance

COMMITTEE OF EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS SUPERVISORS (CEIOPS)

- Financial Stability Report: Spring 2010

DEPARTMENT FOR WORK AND PENSIONS

- Government proposal to use CPI as the measure of price inflation for occupational pensions
- DWP announces feedback closing date for review of workplace pension reforms
- DWP Research reports published

EUROPEAN UNION

- Green Paper on pensions published

THE PENSIONS REGULATOR

- Nortel determination published

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
FAS: Financial Assistance Scheme
HMRC: HM Revenue & Customs
PPF: Pension Protection Fund
TPR: The Pensions Regulator

COMMITTEE OF EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS SUPERVISORS (CEIOPS)

Financial Stability Report: Spring 2010

CEIOPS has released its first half-yearly report on the financial conditions and stability of the insurance and occupational pension fund sectors in the European Union (EU) and European Economic Area (EEA).

The report covers developments in the insurance, reinsurance and occupational pension fund markets for recent years, including observations regarding 2009 and 2010 and an outlook beyond.

In terms of occupational pensions, the report notes that the recovery of financial markets, especially after the third quarter of 2009, led to relatively high investment returns, appreciation of assets and higher funding ratios. The report also notes that "in response to the crisis, supervisory authorities focused on the flexibilities within the current framework allowed within the IORP Directive[1] and the different security mechanisms available. No major changes in the supervisory approaches have been reported or are expected."

DEPARTMENT FOR WORK AND PENSIONS

Government proposal to use CPI as the measure of price inflation for occupational pensions

The Chancellor, George Osborne, in the Emergency Budget on 22 June 2010, announced that the Government intends to use Consumer Price Index (CPI) rather than the Retail Prices Index (RPI) as the measure for applying increases to public sector pensions (both in deferment and to pensions in payment) from April 2011.

On 8 July 2010, the Minister of State for Pensions, Steve Webb, made a Written Ministerial Statement to Parliament announcing the Government's intention to apply CPI to increases granted by occupational pension schemes as well as public sector schemes. This was backed by a DWP Press Release published today (12 July 2010) which sets out more detail. We will be publishing an Alert shortly.

DWP announces feedback closing date for review of workplace pension reforms

Following the publication by the DWP of the terms of reference for its review of workplace the workplace pension reforms planned for introduction in 2012 (reported in 7 Days on 28 June 2010), it has now announced that the review team invite comments on the issues covered by the review (including on the current policy and alternative proposals) to help inform their findings.

Responses should be submitted by 13 August 2010.

[1] Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision

DWP Research reports published

The DWP has recently published a number of research reports.

- Postcode Selection? Employers' Use of Area and Address-Based Information Shortcuts in Recruitment Decisions (Report 664)

    - This report considers the extent to which address-based discrimination by employers exists and its potential contribution to high rates of worklessness in deprived areas.

- Review of international pension reform (Report 663)

    - The review drew together evidence from eight countries[2] that have implemented private pension reform, to inform the development of the UK workplace pension reforms. Among the findings was evidence that some countries' home pension markets seem to have been stimulated by an increase in private pension saving as a result of reforms, as well as higher-than-anticipated voluntary participation among individuals who were not required to join.

- Likely treatment of different workers under the workplace pension reforms: Qualitative research with employers (Report 662)

    - While all of the employers in this research were in agreement that the responsibility for saving for one's retirement should fall to some extent on the individual concerned, there was some disagreement as to how much responsibility the employer should have. Employers that saw pension provision as the responsibility of both employee and employer tended to be larger in size.

- Consultation on workplace pension reforms: Qualitative research with small and medium-sized companies (Report 652)

    - Among the findings of this research, the DWP notes that overall, there was a good level of awareness of the basic details of the reforms amongst employers, although this did not extend to NEST (the National Employment Savings Trust, which (subject to the outcome of a review by the Coalition Government) employers will be able to use for the fulfilment of their duty to enrol staff automatically into a qualifying pension arrangement). In general, the research found that the larger the employer, the higher the awareness.

EUROPEAN UNION

Green Paper on pensions published

On 7 July 2010, the European Commission launched a public consultation on pensions in the EU.

The Commission is seeking views as to whether, and how, the EU pensions framework should be adjusted in order to provide the best support for Member States to ensure that they achieve their agreed goal of adequate and sustainable pensions for EU citizens.

The consultation has been prompted by growing pressure on European pension systems as a result of demographic ageing - the consequence of increasing longevity and declining birthrates - with the working age population in Europe set to shrink from 2012.

The Green Paper addresses three key themes:

[2] Australia, Canada, Denmark, New Zealand, Norway, Poland, Sweden and Uruguay

- how the EU can best support Member States as they seek to balance periods spent in work and periods spent in retirement, taking account of structural changes in society, local labour markets and increasing life expectancy;

- the removal of obstacles connected with pension arrangements to the mobility of workers and capital;

- ensuring the safety of pensions now and in the future by seeking to mitigate risk and volatility for workers and pensioners and by ensuring that funded pension systems are secure and that they strike the right balance between efficiency and safety.

As the Green Paper notes, many aspects of pension provision, such as the setting of retirement ages, are the responsibility of individual Member States. The Green Paper therefore "does *not* question Member States' prerogatives in pensions or the role of social partners and it does *not* suggest that there is one 'ideal' one-size-fits-all pension system design." Instead, it sets out to address some common themes, such as the functioning of the internal market and ensuring that pension reforms are consistent with the Europe 2020 strategy (the Commission's strategy for jobs and sustainable growth which was adopted in June 2010).

It does, however, reignite the ongoing debate in relation to the application of Solvency II to occupational pensions. The Green Paper states that the Commission considers "the Solvency II approach could be a good starting point, subject to adjustments to take account of the nature and duration of the pension promise, where appropriate." It goes on to state that "the suitability of Solvency II for pension funds needs to be considered in a rigorous impact assessment, examining notably the influence on price and availability of pension products."

(Solvency II is the EU-wide initiative, currently scheduled to come into effect on 1 November 2012, the aim of which is to introduce a modernised, risk-based approach to the regulation of insurance companies whilst at the same time ensuring appropriate protection for policyholders.)

The consultation on the Green Paper will close on 15 November 2010. Responses can be submitted by anyone with an interest in the subject, via a dedicated website.

THE PENSIONS REGULATOR

Nortel determination published

TPR has published a determination to issue a Financial Support Direction (FSD) against 25 companies in the Nortel group in Canada, the US, Europe and Africa.

TPR's Determinations Panel found that it would be reasonable to impose the requirements of an FSD on the target companies after the employer of the Nortel Networks UK Pension Plan was found to be "insufficiently resourced". The FSD would require those companies within the group to provide financial support for the scheme. The employer, Nortel Networks UK Limited (NNUK) entered administration in January 2009, together with several other entities worldwide.

June Mulroy, TPR's executive director for delivery, said that: "The FSD enables the scheme to have a voice in the insolvency proceedings of the target companies. The FSD is a UK regulatory process and is not an attempt to enforce outside of the Canadian or US insolvency processes. It provides certainty over the size of the pension debt for the courts and those supervising the Nortel insolvencies."

"We will continue to strive for the best result for the 42,000 members of the Nortel Networks UK Pension Plan and to limit calls on the Pension Protection Fund."

This follows TPR's recent determination (reported in 7 Days on 5 July 2010) to issue a £5m Contribution Notice in relation to the Bonas Group Pension Scheme.

TPR Press Release