Sackers extra

14 January 2013

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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)
CPI: Consumer Price Index
DB: Defined benefit
DC: Defined contribution
DWP: Department for Work and Pensions
HMRC: HM Revenue & Customs
NAPF: National Association of Pension Funds
NEST: National Employment Savings Trust
PPF: Pension Protection Fund
RPI: Retail Prices Index
TPR: The Pensions Regulator

CONSUMER PRICES ADVISORY COMMISSION (CPAC)

RPI: No Change

CPAC was asked to consider and comment on the recommendations that were developed by the Office of National Statistics following its October 2012 consultation on changing the methodology for calculating RPI. This consultation put forward four possible options (and raised the spectre of RPI morphing more closely into CPI) with the potential for reducing inflation protection for both pensioners and bond holders.

On 10 January 2013, CPAC published a summary note of its decision; there will be no change to RPI.[1]

The Economic Secretary to the Treasury, Sajid Javid, confirmed that the Government will consider any implications of the National Statistician's announcement on its approach to RPI indexation across different policy areas in due course.

Please see our Alert: RPI – No change.

DEPARTMENT FOR WORK AND PENSIONS

White Paper on State Pension reform

The Pensions White Paper was published today. This confirms that a flat rate state pension of £144 per week (at today's prices) will be introduced from 2017, at the earliest. All individuals with a NICs record of 35 years will be eligible for the flat rate state pension.

But as with many major changes whilst there are winners, there will also be losers.

Key Points

- From 2017, the BSP will be a flat rate pension of £144 per week, at today's prices.
- There will be a process of transition to the flat rate state pension. As part of this transition, some people will receive a top-up to the flat rate pension.
- As a consequence of the abolition of DB contracting-out, members of contracted-out DB schemes will have to pay higher NICs and sponsors will lose the contracting-out rebate.

[1] Please see our Alert: "RPI - No change" dated 10 January 2013

- There will be a review of the SPA every five years – starting from the next Parliament (i.e. after 2015).

We will be publishing an Alert on the White Paper tomorrow.

HM TREASURY

Alternative Investment Fund Managers Directive

The Alternative Investment Fund Managers Directive is due to be transposed into national law by 22 July 2013. It establishes an EU-wide harmonised framework for monitoring and supervising risks posed by Alternative Investment Fund Managers and the funds they manage. It covers the investment managers of hedge funds, private equity funds, and real estate funds among others and is therefore relevant to many different types of asset manager.

Transposition into UK law will require a number of high level policy decisions as well as a considerable number of operational decisions. On 11 January 2013, HM Treasury issued a consultation paper which sets out the Government's proposed approach to a number of the key policy decisions. There are a limited number of issues, including those arising from further working at the European level, which it cannot consult on at this time. A second consultation paper is expected to be published shortly.

NATIONAL ASSOCIATION OF PENSION FUNDS

Investment specialist appointed

The NAPF has appointed Helen Roberts to lead its work on investment issues.

Helen joined the NAPF earlier this month from F&C Asset Management, where she was head of government bonds for over 13 years. Previously, she was head of UK gilt and inflation-linked bonds at Hermes Investment Management.

Helen joins the NAPF policy team led by Policy Director Darren Philp. She will spearhead the policy work on investment issues across both DB and DC pensions.

THE PENSIONS REGULATOR

Report on UK Coal

On 7 January 2013, TPR published a report detailing its actions that enabled the restructuring of the UK Coal group.

UK Coal Mining Limited (UKCML) was the sponsor of sections in two industry-wide pension schemes; the Industry Wide Coal Staff Superannuation Scheme and the Industry Wide Mineworkers Pension Scheme (the UK Coal Sections). The UK Coal Sections have approximately 6,800 members. Based on recent figures, the UK Coal Sections had an estimated aggregate deficit on a buy-out basis of £900m on aggregate assets of £451m.

In 2012, UKCML's parent, UK Coal Plc, concluded that the group's operating structure and balance sheet necessitated a restructuring.

TPR indicated it would reject a proposal to transfer scheme liabilities into the PPF, but encouraged the parties involved to explore other possible funding solutions.

Following extensive discussions, a plan was agreed which has resulted in substantially all of the economic interest in the group transferring from shareholders to the trustees of the UK Coal Sections.

TPR worked closely with the trustees and the group during negotiations and provided clearance for the restructuring.

Pensions automatic enrolment: setting the standard for DC schemes

On 10 January 2013, TPR published a consultation on a package of measures for DC schemes, including a new code of practice and regulatory guidance. Its aim is to increase the chance of individuals receiving good outcomes from their retirement saving.

Chief executive of TPR, Bill Galvin said:

"We expect all DC schemes to demonstrate how they will comply with our principles for good DC schemes and this will give employers reassurance about their choice of scheme.

Members bear risks where DC schemes perform poorly. Many members will not have any experience of DC pension saving, so it's vital that schemes are run by capable people who act in members' interests - from enrolment to retirement.

Where we find schemes fall short of the standards we have set out, we will expect them to improve. Some smaller schemes may find this challenging and decide that the interests of their members would be better served in another type of arrangement."

TPR is working with the pensions sector to encourage the design and delivery of pension products run in accordance with its principles and quality features for good DC schemes. Its research indicates that larger DC schemes, benefiting from economies of scale, have the resources, governance, time and expertise to be able to comply. TPR's communications to employers are intended to steer them towards choosing schemes for their workforce that meet these standards.

We will be publishing an Alert on this consultation shortly.