Sackers extra

15 October 2012

At a glance

LEGISLATION

- Draft Financial Services (Banking Reform) Bill

ASSOCIATION OF CONSULTING ACTUARIES

- 2012 Smaller firms' pensions survey report

NATIONAL EMPLOYMENT SAVINGS TRUST

- NEST urges industry to work together

PENSION PROTECTION FUND

- New Voting and Engagement Advisor

THE PENSIONS REGULATOR

- The DB regime: evidence and analysis

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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
ECJ: European Court of Justice
FAS: Financial Assistance Scheme
GMP: Guaranteed Minimum Pension
HMRC: HM Revenue & Customs
NEST: National Employment Savings Trust
PPF: Pension Protection Fund
TPR: The Pensions Regulator

LEGISLATION

Draft Financial Services (Banking Reform) Bill

On 12 October 2012 the Government published draft legislation to implement key elements of the Independent Commission on Banking's (ICB) recommendations.

This marks the latest milestone in the Government's reforms of the banking system. The draft Banking Reform Bill, which will now be scrutinised by the Parliamentary Commission on Banking Standards (chaired by Andrew Tyrie MP), prior to its formal introduction into Parliament, delivers on the Government's timetable for implementation of the ICB's recommendations, as set out in the June White Paper.

The Government is satisfied that it remains on track to have all legislation in place by the end of this Parliament. Banks will be required to comply with all aspects of the ICB's recommendations from 2019.

The Financial Secretary to the Treasury, Greg Clark said:

"The publication of the draft Banking Reform Bill...illustrates Government's ongoing commitment to reforming the banking sector.

We want to ensure that taxpayers are protected whilst retaining our status as a global financial centre. The Government remains on course to have all ICB legislation in place by the end of this Parliament.

The Government looks forward to receiving the report of the Parliamentary Commission on Banking Standards and will consider it carefully ahead of formally introducing the Bill to Parliament in early 2013."

Press release

ASSOCIATION OF CONSULTING ACTUARIES

2012 Smaller firms' pensions survey report

The ACA has published the results of its research into the pension provision of smaller employers (those with 250 or fewer employees). Key findings include:

- of those firms with a current pension scheme, 50% are likely to auto-enrol all employees into an existing scheme. Only 4% will close their existing scheme and place all employees in NEST; and

- Over 4 out of 10 firms who presently offer no pension scheme remain unsure about what they will do when they auto-enrol employees into pensions. 38% expect to auto-enrol all employees into NEST, with 19% looking to enrol into an employer's pension scheme.

Press release

NATIONAL EMPLOYMENT SAVINGS TRUST

NEST urges industry to work together

NEST chief executive Tim Jones has called on pension providers, advisers, payroll professionals and government bodies to work together to help employers navigate their automatic enrolment journeys.

Press release

PENSION PROTECTION FUND

New Voting and Engagement Advisor

On 15 October 2012, the PPF announced the appointment of Hermes EOS as its new Voting and Engagement Advisor.

The new Advisor will vote shares, monitor portfolio companies for Environmental, Social and Governance risks and, where concerns arise, engage company management on these concerns.

The PPF is committed to exercising its ownership rights, including voting rights, in order to safeguard sustainable returns in the long-term. In order to do so cost-efficiently across a growing global listed equity portfolio, it appoints external agents.

The PPF monitors its voting and engagement agents throughout the year, including their level of compliance with the UK Stewardship Code,[1] and works with them to improve the quality and quantity of their stewardship activities globally.

Press release

Investment Information

THE PENSIONS REGULATOR

The DB regime: evidence and analysis

On 10 October 2012, TPR published evidence of how some of the flexibilities in the DB funding regime have been used by pension schemes and sponsoring employers, together with an analysis of the contributions required to keep schemes largely on track to previously agreed recovery plans.

The analysis sets out that the funding framework is flexible enough to take into account the circumstances of individual schemes and employers:

[1] The Stewardship Code sets out good practice for institutional investors on monitoring and engaging with investee companies and reporting to clients and beneficiaries

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- contributions as a percentage of liabilities ('technical provisions') vary significantly from scheme to scheme;

- discount rates used by trustees vary significantly – assumptions for investment outperformance relative to gilts have varied from below zero to over 200 basis points;

- recovery plans for schemes in the current cycle increased by about 4.7 years in their last round of valuations three years ago. Recovery plans are assumed to increase on average by three years this time around, meaning an aggregate increase of 7.7 years since 2009; and

- use of guarantees, security and contingent assets in place of cash contributions has increased seven-fold since 2006 to 2007.

In producing its scheme funding statement earlier this year, TPR considered how best to achieve the right balance regulating appropriate funding, in particular giving due account to affordability for employers. Starting with the assumption that sponsors would wish to maintain the level of contributions already committed to in recovery plans, TPR analysed what impact this would have on them and whether they would need to make use of the flexibilities available in the DB funding regime.

Based upon this TPR concluded that:

- about 25% of schemes would not need to amend their recovery plans;

- about 30% of schemes would remain on track to meet their long-term liabilities with a three-year extension to their existing recovery plan and 10% increase in contributions;

- about 20% of schemes could remain on track with a three-year extension to their existing recovery plan, a 10% increase in contributions and making use of further flexibilities in the funding regime, such as allowing for greater investment outperformance in their recovery plan; and

- about 25% of schemes would need to make maximum use of the flexibilities available in the funding framework because of the affordability challenges for their sponsoring employers.

The analysis shows that for more than half of FTSE350 sponsors in the sample, deficit recovery contributions (DRCs) represent less than 20% of the money distributed in share dividends. At the other end of the scale, for about 15% of FTSE350 schemes, DRCs are higher than 50% of current dividend payments.

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