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
HMRC: HM Revenue & Customs
HMT: HM Treasury
PPF: Pension Protection Fund
TPR: The Pensions Regulator

ASSOCIATION OF BRITISH INSURERS (ABI)

Four point action plan for pension savings

The ABI has published a "Plan for Action", designed to address levels of under-saving in the UK.

According to the ABI, currently over 40% of people in the UK are not taking basic steps to save sufficiently for their retirement. It states that, coupled with the need for the Government to cut spending to address the budget deficit, "large numbers of people will not have a retirement they find acceptable, unless under-saving is tackled urgently".

The ABI considers that this under-saving is caused by a number of factors, including: a focus on the short-term; a lack of understanding of the trends affecting retirement (such as an underestimation of life expectancy); and a general lack of trust in financial services. It has therefore put together a four point plan, which it considers could reinvigorate saving, if the causes of under-saving are addressed at policy level.

- **Automatic enrolment** into pension saving is welcomed by the ABI, which it considers should be implemented without delay from October 2012.
- **Employer engagement with pensions**. The compliance regime for employers who automatically enrol their staff into a workplace pension arrangement should be straightforward.
- **Honest communication**. The ABI recommends a Government-led communication campaign about the modest pension benefits provided by the state, and the limitations of only saving 8% of salary towards retirement.
- Offering **simplified advice** by streamlining existing processes. This would have the potential to help ensure the success of automatic enrolment.

The ABI plans to work with the Government on its various consultations relating to pensions reform, including the review of auto-enrolment and NEST, and the current consultation on the end of compulsory annuitisation at age 75 (see HMT section below).

COMMITTEE OF EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS SUPERVISORS (CEIOPS)

Occupational pensions reports

CEIOPS has recently published two reports on occupational pensions.

A paper on ring-fencing in stress situations (such as on the insolvency of a pension scheme or its sponsoring employer or provider) analyses the effectiveness of ring-fencing measures in protecting pension benefits in stress situations, in particular where such measures are imposed by a Member State's supervisory authority.

The main finding from this paper is that the level of pension protection for arrangements across the EU depends on a wide range of factors. These include the legal form of the pension arrangement (i.e. whether it is trust or contract-based, or an insurance product), the type of stress situation (such as default of the pension provider or deficit in the scheme) which is directly or indirectly related to the scheme, and the security afforded by a Member State's rules for protecting scheme benefits.

In addition, CEIOPS' 2010 report on market developments provides a general overview on the developments in cross-border occupational pension arrangements since the implementation of the 2003 pensions Directive.[1]

The report shows that during the twelve months to June 2010, seven new cross-border arrangements were reported, one of which is based in the UK. However, five schemes ceased cross-border activity during the same period, all of which had been based in the UK.

CEIOPS Press Release

DEPARTMENT FOR WORK AND PENSIONS

Working paper No. 665: What does the distribution of wealth tell us about future retirement resources?

The DWP has published research which considers what the level and composition of wealth held by households in the UK can reveal about potential future retirement resources.

The findings of the research indicate, among other things, that wealth holdings are, on average, lower among younger and less educated households. Meanwhile, the levels of wealth held by the vast majority of high-educated households (i.e. headed by someone with degree-level qualifications) nearing retirement age suggests that their resources are likely to be sufficient to provide at least a subsistence level of income in retirement.

EUROPEAN COMMISSION

NEST approved under EU rules on state aid

The new national pension savings scheme - the National Employment Savings Trust or NEST - has been approved by the European Commission under EU State aid rules.

NEST is due to be made available to employers from October 2012, for use when they will have an obligation to enrol staff automatically into a workplace pension scheme which meets certain qualifying criteria. However, this is subject to the outcome of a review which is being carried out by the Coalition Government over the summer into NEST and the auto-enrolment requirements generally. (The DWP's conclusions and recommendations arising out of this review are due by 30 September 2010.)

The Commission found NEST to be compatible with EU State aid rules on the basis that it carries out a service of general economic interest and receives no overcompensation for providing it.

European Commission Press Release

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

HM TREASURY

Consultation on the removal of the requirement to annuitise by age 75

On 15 July 2010, Financial Secretary to the Treasury, Mark Hoban MP, announced the start of an 8-week consultation on removing the effective requirement to annuitise by age 75. This follows the announcement in the Coalition Government's June 2010 Budget that these rules will end from April 2011.

The consultation document sets out proposals which are designed to simplify the treatment of retirement savings and reduce complexity for individuals as well as for pension and annuity providers. This issue is of increasing importance given the continued growth of the DC pensions market.

HMT notes that the proposed reforms would give individuals greater flexibility to choose the retirement options which are best for them, with more choice over how they can provide a retirement income for themselves, while at the same time protecting existing tax revenues.

The consultation closes on 10 September 2010.

Consultation on draft Finance Bill provisions

HMT is also consulting on draft legislation on technical tax measures inherited from the previous government which will be included in a Finance Bill to be introduced to Parliament in the autumn (the Finance No.2 Bill 2010).

In terms of pensions, the draft bill includes a clause in connection with NEST, confirming that it will be a registered pension scheme for the purposes of pensions tax legislation under the Finance Act 2004.

This is in addition to the first Coalition Government Finance Bill which was published on 1 July 2010, under which a power has been included for HMT to make an order repealing the tax relief restrictions provisions contained in the Finance Act 2010 (introduced by the previous administration) and which had been due to come into force in April 2011. (For more information see 7 Days dated 5 July 2010.)

The consultation closes on 3 September 2010.

INTERNATIONAL ORGANISATION OF PENSION SUPERVISORS (IOPS)

Revised Principles of Private Pension Supervision

IOPS is consulting on revised principles of private pension provision.

The IOPS Principles were first approved in 2006 and are designed to cover both occupational and personal pension arrangements. The principles cover key aspects of the supervisory regime, which in the UK is undertaken by the Pensions Regulator.

The Principles include the operational independence of the supervisory authority, and requirements for the authority to have adequate resources and powers. Proposed revisions to the Principles are designed to ensure compatibility with subsequent IOPS guidance and to reflect the changes in the financial, economic and supervisory environment.

The consultation closes on 3 September 2010.

Consultation on good practices for pension funds risk management systems

Together with the Organisation for Economic Co-operation and Development (OECD), IOPS has published a consultation on draft principles of good practice in relation to pension fund risk management systems.

The aim of the consultation is to outline the main features of risk management systems used by pension funds. The draft good practice principles cover various features of risk management, including:

- the role of management in the risk management process;
- investment risk, solvency risk and operational risk (including outsourcing) control; and
- the risk management mechanisms which should be in place (including monitoring and reporting).

The draft good practice principles also provide guidance for pension fund regulators and supervisors on how to check that such systems are not only in place but are operating efficiently.

PUBLIC SECTOR PENSIONS COMMISSION

Reforming public sector pensions

The Public Sector Pensions Commission has published a report in which it sets out a "menu of reform options" which are designed to ensure that public sector pensions remain affordable in the long-term.

Findings from the report include:

- the Government uses artificially high discount rates to report unfunded liabilities and to calculate the employer and employee contribution rates which appear to lower the cost of providing public sector pensions;
- the main unfunded schemes have combined employer and employee contribution rates artificially set at around 20% of salary, but the true value of such schemes, when measured using a discount rate based on the current yields on index-linked gilts, is over 40% of salary;
- reforms should apply to all current members of schemes, while protecting past accrual.

The report sets out a number of recommendations for the Government to consider, including: the reduction of accrual rate to 1/80 or a switch to a career average revalued earnings benefit structure; the increase of employee contribution rates; and the use of hybrid schemes, combining a core DB benefit with flexible DC top-ups.

This independent commission was set up as a result of an initiative from the Institute of Economic Affairs, to improve transparency and public understanding of public sector pension costs and present the new Government with a "realistic set of options for reform of the present public sector arrangements".

Public Sector Pensions Commission Press Release

THE PENSIONS REGULATOR

Regulator updates guidance on transfer incentives

On 13 July 2010, TPR published draft guidance on transfer incentives for consultation.

The consultation builds on TPR's 2007 guidance on inducement offers, and has been driven by TPR's concerns over the popularity of such incentives.

In the draft guidance, TPR proposes that any incentive offer from an employer should adhere to five guiding principles:

- **Principle 1: Clear, fair and not misleading**

  Members should be able to understand the implications of the offer and make the right decision for them.

- **Principle 2: Open and transparent**

  Everyone involved should be made aware of the reasons for the exercise and the interests of other parties.

- **Principle 3: Manage conflicts of interest**

  Conflicts should be identified, managed and, where necessary, removed.

- **Principle 4: Trustee consultation**

  Trustees should be consulted and engaged from the start and their concerns (if any) alleviated.

- **Principle 5: Independent financial advice**

  Fully independent and impartial advice should be available to all members and promoted in the strongest possible terms. Most offers should be structured to require members to take financial advice. If an employer has concerns about members' ability to understand the offer and its implications, then it should pay for the advice and require members to receive it before making a decision.

The draft guidance is accompanied by a new e-learning module and a joint statement with the FSA. The consultation closes on 5 October 2010.

For more information, please see our Alert: "TPR issues draft guidance on transfer incentives".

TPR Press Release