Sackers extra

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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)
DB: Defined benefit
DC: Defined contribution
DWP: Department for Work and Pensions
HMRC: HM Revenue & Customs
HMT: HM Treasury
NEST: National Employment Savings Trust
PPF: Pension Protection Fund
TPR: The Pensions Regulator

LEGISLATION

Finance (No. 3) Act 2010

The third Finance Act of 2010 (and the second to be introduced by the Coalition Government) received Royal Assent on 16 December 2010.

The purpose of the Finance (No. 3) Act 2010 is to bring into force a series of technical tax measures which the Coalition inherited from the previous Labour government's Budget on 24 March 2010. Given the intervening 2010 General Election, Labour introduced a shortened Bill, with the intention of introducing a second Bill after the election.

Post-Election, the Coalition Government announced that it would introduce one short Finance Bill before the summer recess to implement its key priorities, with a second Bill in the autumn to clear these inherited measures.

While there is little in this Act directly relating to occupational pensions, it provides that the National Employment Savings Trust is to be treated as an occupational pension scheme for the purposes of the Finance Act 2004.

Equitable Life (Payments) Act 2010

This Act also received Royal Assent on 16 December 2010. It authorises the Treasury to make payments to former and current Equitable Life policyholders who were adversely affected by the Government’s maladministration in the regulation of the Equitable Life Assurance Society (Equitable Life). The Act is designed to enable implementation of an Equitable Life Payments Scheme.

Superannuation Act 2010

A third Act to receive Royal Assent on 16 December 2010 was the Superannuation Act 2010.

Under this Act, compensation payable under the Civil Service Compensation Scheme (the “CSCS”) will be capped, including enhancements to early retirement pensions.

The Superannuation Act 2010 (Repeal of Limits on Compensation) Order 2010

This Order, which was made under the Superannuation Act 2010, repeals the upper limits on the value of compensation payments that may be paid to civil servants who are made redundant from their employment, whether on a voluntary or compulsory basis.

The Government intends to introduce a revised CSCS which offers more generous provision than is allowed by the limits in the 2010 Act. Therefore, the limits must first be repealed in order for the revised CSCS to come into operation.

The Order was laid before the House of Commons today, and will come into force on 21 December 2010.

Further information can be found in the Explanatory Memorandum which accompanies the Order.

ACTUARIAL PROFESSION

Two new Exposure Drafts published

On 15 December 2010, the Actuarial Profession issued two Exposure Drafts:

- Exposure Draft 24 (ED24) of proposed Actuarial Profession Standard APS P1: Duties and Responsibilities of Actuaries Advising Pension Scheme Trustees; and

- Exposure Draft 25 proposed Actuarial Profession Standard APS P2: Compliance Review: Pensions.

ED24 (APS P1) is primarily intended to be a rewrite of Actuarial Guidance Note GN29 (Advisers to Trustees), in a new form with fewer detailed rules. In addition to the Actuaries' Code, it sets out ethical obligations for pensions actuaries working for trustees or similar governing bodies. ED24 (APS P1) extends almost all Scheme Actuary obligations to actuaries who perform a similar role in, for example, public sector schemes. It is also intended to pick up ethical issues which are currently contained in other actuarial guidance notes.

Likewise, ED25 (APS P2) is primarily intended to be a rewrite of GN48 (Compliance Review - Pensions) to make it suitable for the new regime of Technical Actuarial Standards (TASs) and the Actuaries' Code, which replace the "old" regime of GNs and the former Professional Conduct Standards. ED25 (APS P2) continues to restrict the scope of compliance work done by Scheme Actuaries, although it proposes that the range of such work is widened compared with the current GN48.

The consultations close on 15 February 2011.

Actuarial Profession Communication with members

Actuarial Profession Press Release

BOARD FOR ACTUARIAL STANDARDS

New Actuarial Standard on Transformations published

The Board for Actuarial Standards ((BAS) part of the Financial Reporting Council which is responsible for setting technical actuarial standards (TASs) in the UK) has published its standard for actuarial work relating to pension and insurance transformations.

In the pensions context, the main areas covered by the TAS on transformations are:

- transfers of pension scheme assets and liabilities without consent (currently covered by GN16);

- modification of pension scheme benefits;

- buy-outs without consent for schemes in wind-up.

The new TAS is designed to help ensure that those making decisions about transformations can rely on actuarial information to help them understand the potential effects on beneficiaries.

BAS Press Release

DEPARTMENT FOR WORK AND PENSIONS

Basic State Pension increase in 2011

The Government has announced that the Basic State Pension will increase by £4.50 in April 2011 to £102.15.

Low income pensioners are also due to see an increase of £4.75 in their guarantee credit and, as announced in the Spending Review, Cold Weather Payments have been increased to £25 from £8.50.

HM TREASURY

Early access to pension savings: Government call for evidence

In the Coalition Agreement, the Government pledged to explore the potential to give people greater flexibility to access part of their private pension savings early. On 13 December 2010, HMT issued a call for evidence on the subject.

The consultation document sets out the available evidence on early access and asks whether it could provide an effective incentive for private pension savings. It also explains some of the different models which could potentially be used for early access, examining the potential benefits and risks of each.

The consultation document notes that the Government is keen to consider any further measures which may improve the simplicity and flexibility of pensions tax rules without creating fiscal risk to the Exchequer. It therefore also asks for views on the trivial commutation rules which determine when individuals with small pension funds can take their savings as a lump sum, and evidence on the barriers to transferring smaller pension pots.

HMT notes that the Government is “keen to consider the arguments for and against allowing more flexible access to pension savings, based on firm evidence, before considering any further change to the pensions tax framework”.

The consultation closes on 25 February 2011.

HMT Press Release

NATIONAL ASSOCIATION OF PENSION FUNDS

New Guide: Derivatives “made simple”

The NAPF has published the latest in its range of “made simple” guides for trustees and pensions managers. “Derivatives made simple” (sponsored by Legal & General Investment Management) provides a comprehensive account of the different types of derivatives and the reasons for using them. It also explains how pension schemes can use derivatives in their investment strategies.

Made Simple guides are available from the NAPF bookshop.

NAPF Press Release

NATIONAL EMPLOYMENT SAVINGS TRUST

Consultation on NEST Corporation Regulations

The DWP is consulting on a draft amendment to regulation 5 of the Pension Schemes (Investment) Regulations 2005 ("the Investment Regulations") to exempt borrowing by the NEST Corporation (the trustee of NEST) in relation to the costs of set up and administration of NEST from the restrictions imposed by that regulation.

NEST will be available to employers to use for automatic enrolment purposes when this obligation starts to apply from October 2012.

The consultation closes 3 February 2011.

PENSIONS POLICY INSTITUTE

Report on the impact of tax policy on employer sponsored pension provision

The PPI's latest report (which was sponsored by the Actuarial Profession, with support from Age UK) examines pensions tax policy and explores both the direct and indirect impact that changes in successive Governments' tax policies have had over the past thirty years on employer pension provision. It includes the latest changes to the Annual Allowance which will apply from the tax year 2011/12.

Among other things, the report considers:

- pensions taxation in the context of wider developments which have shaped the pensions landscape including: government policy; regulation; social change; and the economy;
- the rationale for changes to pensions taxation and the direct and cumulative impact that the changes have had on employers and scheme members; and
- how the reforms proposed by the Coalition in 2010 could affect higher earning individuals, in particular highlighting the different effects for those in DB schemes compared with DC scheme members, as well as the outcomes for different generations of employees.

PPI Press Release

PENSION PROTECTION FUND

Final determination for 2011/12 levy

The PPF has published its 2011/12 Pension Protection Levy Policy Statement. This document confirms:

- that the Board aims to collect an overall levy of £600 million;
- the levy scaling factor of 2.07 and the scheme-based levy multiplier of 0.000135;
- that the taper will start at 135% funding;
- a risk-based levy cap of 0.75% of liabilities; and
- changes to how insolvency risk is measured.

The PPF also published the final Determination for 2011/12, which implements these measures. All related documents can be found on the 2011/12 Determination page.

PPF Press Release

THE PENSIONS REGULATOR

2010 Recovery Plan Report

TPR has published the latest edition of its annual analysis of recovery plans from DB and hybrid pension schemes.

In contrast to previous years, TPR's report is being released in two parts. TPR notes that as a result of an increase in the existence of enhanced security in the form of contingent assets, it is examining the funding element of recovery plans in greater detail than before. A supplementary report on scheme funding will follow.

The present report covers recovery plans received by TPR up to 31 August 2010 from DB schemes which are eligible for the PPF. Key trends which feature in the report include:

- average recovery plan lengths increased by 1 year to 9.4 years;
- the proportion of schemes triggering overall is greater than previously;
- the greatest increases in triggering were observed in respect of the technical provisions and the investment return assumption; and
- there has been a decrease in the number of clearances approved in the financial year 2009/10 but an increase in the number and complexity of open cases.