Sackers extra

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At a glance

LEGISLATION
- The Equality Act 2010 (Commencement No. 4, Savings, Consequential, Transitional, Transitory and Incidental Provisions and Revocation) Order 2010

ASSOCIATION OF CONSULTING ACTUARIES
- Pension reforms: Smaller firms survey

DEPARTMENT FOR WORK AND PENSIONS
- New FAS Guidance published
- Employers' Pension Provision Survey
- Pensioner population on the increase

HM REVENUE & CUSTOMS
- Pensions Tax Simplification: End of transitional period ahead

NATIONAL ASSOCIATION OF PENSION FUNDS
- Consultation on Corporate Governance Policy and Voting Guidelines
- The Pensions Communications Project 2010

PENSION PROTECTION FUND
- PPF Levy Guide for 2010/11
- New "FAQs" added to PPF website
- PPF Signs up to the Stewardship Code
- PPF Bulletin: Issue 5

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

LEGISLATION

The Equality Act 2010 (Commencement No. 4, Savings, Consequential, Transitional, Transitory and Incidental Provisions and Revocation) Order 2010

This Order brings various provisions of the Equality Act 2010 into force on 1 October 2010. It also sets out various savings, consequential provisions and a revocation, made as a result of the repeal and revocation of previous discrimination legislation and its replacement by the 2010 Act.

ASSOCIATION OF CONSULTING ACTUARIES (ACA)

Pension reforms: Smaller firms survey

The ACA has today (27 September 2010) published a report of its survey of 404 smaller employers (classified as those with 250 or fewer employees), conducted during August 2010, in connection with the proposed introduction of automatic enrolment into workplace pensions from October 2012. This follows the ACA's earlier survey on the impact of the reforms on larger firms (reported in 7 Days on 30 August 2010).

The ACA's findings indicate that of the smaller employers surveyed:

- only one in five have begun to consider financial impact of automatic enrolment;
- 60% will auto-enrol current 'non-joiners' into a new firm's scheme or will restrict entry into an existing scheme, while 20% plan to close their existing scheme and enrol all employees into the National Employment Savings Trust (NEST);
- 66% say that employers with one employee should be exempt from operating auto-enrolment (half say this should be the case for employers with fewer than five employees); and
- 61% say that employees with less than three months' service should be excluded from automatic enrolment.

ACA Press Release

DEPARTMENT FOR WORK AND PENSIONS

New FAS Guidance published

The Pensions Act 2004 and the Financial Assistance Scheme Regulations 2005 (the Regulations) set out the conditions that must be met for a scheme to qualify for FAS.

As part of the rules and processes governing the transfer of scheme assets to government, there must be a calculation of the assets of the transferring scheme which are available to discharge the liabilities in respect of each beneficiary. A valuation under Regulation 22 of the Regulations will determine the asset shares of eligible beneficiaries.

New DWP guidance has been published on the method and assumptions to use when undertaking a valuation of FAS schemes under Regulation 22. It will apply to schemes that have a calculation date on or after 30 September 2010. For schemes that have calculation dates before 30 September 2010, the previous guidance will still apply.

Guidance for schemes with calculation date on/after 30 September 2010

Guidance for schemes with calculation date before 30 September 2010

Employers' Pension Provision Survey

The DWP's Research Report No. 687 presents the findings from its 2009 Employers' Pension Provision Survey and describes the extent and nature of pension provision among private sector employers in Great Britain in 2009. The findings are based on research carried out among a nationally-representative sample of 2,519 private sector employers.

Key findings from the DWP's research indicate that:

- the majority (82%) of private sector employees work for "pension providing organisations"; and
- workplace-based stakeholder pension schemes (SHPs) were the most common form of pension provision in 2009 (provided by 23% of all firms).

The report also focuses on scheme size and status, as well as eligibility criteria, joining mechanisms and employer contributions.

Pensioner population on the increase

The DWP has announced that the number of 65-year-olds in Britain will increase by around 150,000 between 2011 and 2012 (those born in the latter half of 1946 and the first half of 1947), corresponding with the post-war spike in births, otherwise known as the "baby boomers". For the Government this presents a significant challenge, as many of these new pensioners will start claiming their state pension.

The DWP notes that since the first of the baby boomer generation started to draw their pension at age 60 in 2005/06, DWP spending on people over working age has risen by almost £14 billion. By 2012, spending is expected to have risen by nearly another £4 billion.

Given that many people can now expect to spend around 20 years in retirement, the Government is currently looking into bringing forward increases in the state pension age and also wants to ensure that older workers who want to keep working are able to do so, by phasing out the default retirement age (DRA). (For more information on the Government's consultation on the phasing out of the DRA, please see our News: "The end of the default retirement age is nigh!" dated July 2010.)

HM REVENUE & CUSTOMS

Pensions Tax Simplification: End of transitional period ahead

The Finance Act 2004 brought in sweeping changes to pension scheme taxation, removing the old system of discretionary approval and Inland Revenue limits. It was replaced from A-Day with a permissive system of authorised and unauthorised payments.

The Registered Pension Schemes (Modification of the Rules of Existing Schemes) Regulations 2009 (the Transitional Regulations) were put in place to prevent the change of regime having unintended consequences for pension schemes that took no action before A-Day. However, the Transitional Regulations will fall away after 5 April 2011, so schemes which have yet to put a deed in place to deal with A-Day will need to take action before then. HMRC has issued a reminder to schemes about this.

For more information on the end of the transitional period, please see our News: "Just when you thought it was safe to go back in the water", dated August 2010.

NATIONAL ASSOCIATION OF PENSION FUNDS

Consultation on Corporate Governance Policy and Voting Guidelines

The NAPF has published a draft update of its Corporate Governance Policy and Voting Guidelines to take account of the changes to the UK Corporate Governance Code (the Code) which were announced by the FRC earlier this year. (For more information on the new governance standards for listed companies, please see 7 Days dated 31 May 2010.)

The NAPF is inviting comments on the draft guidelines from interested parties, with a view to ensuring that they are "balanced, comprehensive and reflect current best practice".

The NAPF also notes that although the guidelines, like the provisions of the Code, will apply to companies with financial years beginning after 30 June 2010, it is encouraging companies to consider early application of the new Code.

Comments on the NAPF's draft guidelines should be submitted by 8 October 2010.

NAPF Press Release

The Pensions Communications Project 2010

Given the trend for low engagement of DC pension plan members in the UK with their retirement benefits, eight UK pensions industry firms, including the NAPF, sponsored a project to learn from examples of pensions workplace communications excellence around the world.

The report summarises research carried out by research and marketing intelligence provider, Spence Johnson, in early 2010. Spence Johnson collected 90 DC pension communications campaigns from leading pension communicators across nine countries where DC pension arrangements are well established, including the US, Canada and Australia.

Key themes emerging from the research include:

- *simplification of complex ideas:* avoiding use of jargon ensuring communications are concise;

- *creative ideas/graphics:* high quality design to highlight messages should become standard;
- *call to action:* effort should be made to generate action from members;
- *segmentation of audiences:* to ensure that each target group receives a different and appropriately tailored message; and
- *personalisation of messaging:* making messages personal to just one respondent.

A summary of the findings is available from the NAPF website.

NAPF Press Release

PENSION PROTECTION FUND

PPF Levy Guide for 2010/11

The PPF's invoicing for the 2010/11 levy began on 23 September 2011.

With their levy invoice, schemes will receive the PPF's new Guide to the Pension Protection Levy 2010/11. This includes background information about the 20010/11 levy as well as general information about how to pay or query a PPF invoice.

New "FAQs" added to PPF website

The PPF has published a new frequently asked question (FAQ) on GMP equalisation, as well as a number of FAQs on interest on late payments.

GMP Equalisation

In October 2009, the PPF published a response to its April 2008 consultation on "the requirement under section 171 of the Pensions Act 2004 to equalise compensation to allow for differences in the GMP formula. It subsequently began work to address the calculation requirements for the different categories of members whose compensation needs equalising. The idea is that the PPF will address, in a pragmatic way, the differing data that is generally available for the different statuses of member.

In an update to its position on the calculation of compensation to allow for GMP equalisation, the PPF states in its new FAQ that: "We have previously confirmed that we will be issuing guidance which sets out how we will be implementing benefit equalisation for the Guaranteed Minimum Pension (GMP) process. We appreciate the guidance is now delayed and this has a consequential impact for schemes in an assessment period – but it is important that we arrive at the right solution for what is a very complex area. Until the guidance is available, schemes in an assessment period will not be expected to take any action to equalise for GMPs. We will ensure that schemes are given sufficient notice of the guidance being made available."

Interest on late payments

The FAQs on interest on late payments confirm, among other things, that interest will be calculated in accordance with legislation at a daily rate of Bank of England base rate +5%. Interest will be invoiced separately, with payment due within 28 days.

PPF Signs up to the Stewardship Code

The Stewardship Code, which was published by the Financial Reporting Council on 2 July 2010, has been designed to improve the quality of corporate governance through promoting better dialogue between shareholders and company boards, and more transparency about the way in which investors oversee the companies they own. The PPF has today (27 September 2010) published its statement of compliance with the new Code.

The PPF states in its Press Release its belief that good stewardship:

- strengthens corporate governance and improves accountability;
- helps improve company performance in all areas of business, including social and environmental activities; and
- provides an added dimension when making investment decisions by focusing on everything that affects investment value, including environmental, social and governance factors.

The PPF is "committed to being a responsible and vigilant asset owner which, in particular, means that we will exercise our ownership rights, including voting rights, to safeguard sustainable returns in the long-term. Following the principles set out in the FRC code will help us achieve this goal."

For more information on the Stewardship Code, please see 7 Days dated 5 July 2010.

PPF Bulletin: Issue 5

The PPF published its latest Bulletin on 21 September 2010. Issue 5 features updates on the PPF's investment strategy, levy invoicing and improvements to the assessment period.