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

ACTUARIAL PROFESSION

Institute and Faculty of Actuaries publishes longevity bulletin

The Actuarial Profession has published the second edition of its Longevity Bulletin, which aims to provide a regular guide to the prospects for long lives by presenting and explaining the actuarial perspectives on population longevity.

The main focus of the current edition is the interpretation of life expectancy data. Alison O'Connell, editor of the Bulletin, notes that period life expectancy, which is often quoted in media reports as the average number of additional years a person can be expected to live for, is not realistic. O'Connell explains that this is because period life expectancy assumes that mortality rates are frozen to that time period and does not take account of likely future mortality changes, which are needed to produce a realistic picture of future lifespans. O'Connell explains that by contrast, cohort life expectancy, which is increasingly used by actuaries, demographers and policy makers, does make an allowance for how mortality is expected to change in the future. As such, O'Connell says this provides a more realistic view as to how long people may be expected to live.

Actuarial Profession Press Release

ASSOCIATION OF CONSULTING ACTUARIES (ACA)

Discussion Paper: Bridging the gap between private and public sector pensions

The ACA has today (28 November 2011), published the latest edition of Placard, its periodic discussion paper.

Published just two days ahead of planned strikes by public sector workers, the discussion paper focuses on the topical issue of public sector pensions and the wider policy commitment to reinvigorate workplace pensions.

In this edition, Michael Johnson, Research Fellow for the Centre for Policy Studies, calls for the adoption of market-linked pensions for the entire public sector and criticises the Government's latest offer in the public sector pension negotiations with the unions. In response, ACA Chairman, Stuart Southall, calls for a "middle way" approach that closes the pensions gap between public and private sector employees, with a wider sharing of the risks involved in delivering pensions across the board.

ACA Press Release

DEPARTMENT FOR WORK & PENSIONS

Automatic enrolment delayed for small businesses

The DWP has today (28 November 2011) announced that automatic enrolment will be delayed by one year for small businesses.

Although automatic enrolment will begin on schedule in autumn 2012 and all employers will remain in scope, small businesses (defined as those with fewer than 50 employees) will be given additional time to prepare for the implementation of automatic enrolment. The timetable is to be adjusted so that no small employers are affected by the reforms before the end of the current Parliament.

The DWP has also today confirmed that the rate of pension contributions will remain unchanged until all businesses have started automatic enrolment.

Under the revised timeline, small businesses would begin automatically enrolling their staff in May 2015, instead of the current timing of April 2014. Half of all workers are still due to be automatically enrolled before the end of this Parliament.

The DWP is expected to publish further details in January 2012.

HM REVENUE & CUSTOMS

Pension Schemes Newsletter 50: Fixed Protection

In a special edition focusing on fixed protection, HMRC published Pension Schemes Newsletter 50 on 22 November 2011.

From 6 April 2012 the lifetime allowance (LTA) will reduce to £1.5 million from the current level of £1.8 million in 2011/12. Because some pension scheme members may already have built up savings of more than £1.5 million (or had planned to do so in the expectation that the LTA would not reduce from its current level), a new form of protection, known as “fixed protection” was introduced by the Finance Act 2011. Fixed protection can be used to help reduce or mitigate the LTA charge, by allowing individuals to crystallise benefits worth up to £1.8 million without paying the LTA charge (although the ability to accrue future benefits is limited).

The Pensions Schemes Newsletter explains a number of features in connection with fixed protection, including:

- the application process;
- the potential impact of changes to scheme rules and late retirement factors; and
- the ways in which fixed protection can be lost.

The Newsletter should be read in conjunction with the existing guidance published in the Registered Pension Schemes Manual.

Annual Allowance: Carry forward rules for the transitional years

Carry forward provisions: Background

If an individual has a pension input amount of more than £50,000 for a tax year from 2011/12 onwards, they may not be liable for an Annual Allowance (AA) charge for that year despite the reduction of the AA from £255,000 in the previous tax year. This is because they can carry forward any AA that they have not used in the previous three tax years to the current tax year. This amount of unused AA can then be added to the current year's AA, giving the individual a higher amount of available AA to off-set against that year's pension input amount.

The three year carry forward rule allows an individual to make occasional large amounts of pension savings without having to pay the AA charge. There is a strict order in which available AA must be used-up. The AA for the current tax year should be used first. Then unused AA from earlier years is used, beginning with available AA from the earliest tax year first.

Update to HMRC's guidance

HMRC was asked to look again at its interpretation as to how the carry forward rules should work for the AA for the transitional years of 2008/09, 2009/10 and 2010/11. As a result, HMRC has revised its guidance.

HMRC has confirmed that the carry forward provisions are available to any individual who was a member of a registered pension scheme at some point in the tax year for which the carry forward provisions are to be used. (For this purpose, "member" includes an active member, a pensioner member, a deferred member or a pension credit member.)

Under the original carry forward rules, if the contributions actually paid in pension input periods ending in the 2009/10 or 2010/11 tax years exceeded £50,000 then the amounts carried forward had to be *reduced* by the excess. For example, if the member had made contributions of £20,000 in both 2008/09 and 2009/10 but a contribution of £100,000 in 2010/11, HMRC had said that the £30,000 to be carried forward from each of the earlier tax years should be reduced by the £50,000 excess in the final year - leaving a carry forward allowance of only £10,000.

In what represents a significant concession by HMRC, this requirement has been removed.

HMRC has now made it clear that if one of the previous three years that has an input amount of more than £50,000 is 2009/10 and or 2010/11 then that excess is not treated as using up any amount of available AA from the preceding year(s). This is because any amount of available AA from the preceding tax year(s) would not have had the effect of reducing an amount of AA charge for 2009/10 and/or 2010/11.

There has been no change to the guidance for the carry forward rules outside these transitional years. HMRC plans to update the relevant pages of the Registered Pension Schemes Manual as soon as possible.

NATIONAL ASSOCIATION OF PENSION FUNDS

Pension funds and the PPF sign agreement with the Government to boost investment in UK infrastructure

The NAPF and the PPF have signed a Memorandum of Understanding with the Government which is designed to facilitate the development of a new investment platform to help pension funds invest more in infrastructure.

The Chancellor, George Osborne, announced on 27 November 2011 that an agreement had been reached with UK pension funds to help develop a new investment platform. The platform could allow UK pension funds to pool their resources and allow them to invest in key UK infrastructure assets and projects in a new way.

The NAPF notes that, structured correctly, infrastructure assets can provide the necessary investment profile that pension funds require, and pension funds can be an important source of private investment. However, the current investment model makes it difficult for them to invest efficiently in infrastructure.

The National Infrastructure Plan states that the UK needs over £200bn of new infrastructure investment over the next five years - the vast majority of which will need to be provided by the private sector.

The Memorandum of Understanding sets out the framework of how the Government will work with the NAPF and PPF to help facilitate and increase their investment in infrastructure. The Government is targeting an additional £15-20bn of new investment in UK infrastructure.

NAPF Press Release

PENSIONS POLICY INSTITUTE (PPI)

Briefing Note 60: The implications of the Government's latest legislation increasing the State Pension Age

The PPI has issued a briefing note on the implications of the Government's recent changes to the State Pension Age (SPA).

In the briefing note, the PPI reviews the history of the UK's SPA and looks at the potential ramifications of the Pensions Act 2011 provisions, which brought forward planned increases so that SPA will reach 65 for women by November 2018 and will rise to 66 for both men and women by October 2020.

In connection with proposals to increase SPA yet further, the PPI notes that it is difficult to determine the fairest way to calculate SPA rises. However, one potential method considered in the note is to attempt to keep the proportion of the average pensioner's life spent in receipt of the state pension constant.

PENSION PROTECTION FUND

Draft contingent asset guidance published

On 24 November 2011, the PPF published a draft of the contingent asset guidance for the year 2012/13. This follows the submission of responses from stakeholders to the consultation on the draft 2012/13 Levy Determination.

The PPF notes that a final version of the guidance is due to be published shortly, alongside the final Levy Determination.

Additional updates from the PPF

The PPF has also published:

- detailed guidance for trustees on the application of revaluation in respect of PPF compensation; and
- an updated list of fund managers who are currently overseeing the day-to-day management of the PPF's assets.