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The Pension Schemes Bill

Jane Beverley

9 September 2014

‘Ground-breaking reforms’

‘We may live in an increasingly uncertain world, but pensions shouldn’t be part of that uncertainty’

Steve Webb
2 September 2014

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Defined ambition timeline

2012

November 2012: 'Reinvigorating workplace pensions'

2013

November 2013: 'Reshaping workplace pensions for future generations'

2014

26 June 2014: Government response to 'Reshaping workplace pensions consultation' & Pension Schemes Bill

2014

2 September 2014: Second reading of Pension Schemes Bill

???

Pension Schemes Bill brought into force

Mind-breaking definitions

'I like good strong words that mean something'

Louisa May Alcott, *Little Women*

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Agenda

Existing DWP definitions of ‘benefits’

Existing HMRC definitions of ‘benefits’ and ‘arrangements’

New DWP definitions of ‘schemes’

New DWP definition of ‘collective benefits’

Some questions

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DWP legislation: definitions of benefits

A benefit whose

- rate or amount is calculated by reference to a payment or payments made by the member or by any other person in respect of the member, and
- ‘**solely by reference to assets** which (because of the nature of the calculation) must **necessarily suffice** for the purposes of its provision to or in respect of the member’

(Pension Schemes Act 1993 as amended by Pensions Act 2011 s29)

Money purchase benefit

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DWP legislation: definitions of benefits

Effectively everything that isn't money purchase, but not explicitly defined until Pensions Act 2008 (for the employer duties quality requirements only)

Defined benefit

New definition in Pensions Act 2011

(for the purposes of indexation only)

A benefit where

- The rate of the pension is calculated by reference to a sum of money, and
- There is a **promise** about the amount of the available sum, but not about the rate or amount of the benefits to be provided

Cash balance

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Finance Act 2004: definitions of benefits

Money purchase benefits	Benefits the rate or amount of which is calculated by reference to an amount available for the provision of benefits to or in respect of the member
Cash balance benefits	Money purchase benefits calculated otherwise than wholly by reference to payments made under the arrangement by the member or by any other person in respect of the member
Defined benefits	Benefits which are not money purchase benefits (but which are calculated by reference to earnings or service of the member or any other factor other than an amount available for their provision)

Pension Schemes Bill: definitions of schemes

There is a '**full pensions promise**' in relation to a member's retirement income and other retirement benefits payable from a fixed normal pension age and continuing for life	**Defined benefits scheme**
There is a '**pensions promise**' in relation to at least some of the retirement benefits that may be provided to each member, but the scheme is not a defined benefits scheme	**Shared risk scheme**
There is no '**pensions promise**' in relation to any of the retirement benefits that may be provided to the members	**Defined contributions scheme**

Pension Schemes Bill: definition of collective benefits

Rate or amount depends solely on funds available collectively for members (and factors to distribute funds)

Regulations may require schemes to set target and actuary to calculate initial targets set at right level

Regulations may introduce requirements on investment strategy, selection and performance

Regulations may require ‘actuary’ to prepare a valuation and ‘scheme actuary’ to provide advice

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Some questions

What is a pensions promise?

Full pensions promise:

if the scheme provides a promise about the level of the benefit at all times before the benefit comes into payment

Pensions promise:

if the scheme provides a promise about the level of the benefit at a time before the benefit comes into payment

Discretions do not necessarily prevent scheme providing full pensions promise

Some questions

What about schemes that provide both DB and DC?

If members can only have <u>either</u> DB <u>or</u> DC, then scheme is treated as two separate schemes (one DB and one DC)

If members can have <u>both</u> DB <u>and</u> DC, then scheme is a shared risk scheme, because there is a pensions promise in relation to some of the retirement benefits that may be provided to each member

But Pension Schemes Bill allows for regulations to split schemes 'in other circumstances' so may not be an issue

Some questions

Where does a cash balance scheme fit in?

Defined benefit for funding etc

Cash balance for indexation

Money purchase (cash balance) for taxation

Shared risk under Pension Schemes Bill

Some questions

What does it mean to be a shared risk scheme?

Apparently not very much!

Additional governance requirements?

Additional disclosure requirements?

Power to exempt shared risk schemes from indexation (unlikely to be used initially)

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Some questions

What is the difference between money purchase and defined contributions schemes?

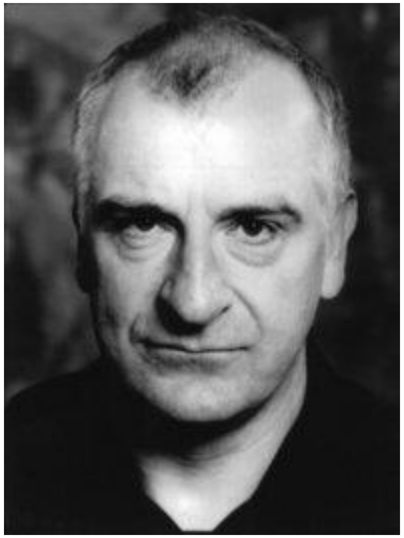
Yes, there is one!

Money purchase schemes provide solely money purchase benefits

Defined contributions schemes provide no pension promise in the accumulation phase

E.g. schemes with collective benefits or internal annuitisation may be defined contributions but not money purchase

'We demand rigidly defined areas of doubt and uncertainty'



Douglas Adams, *The Hitchhiker's Guide to the Galaxy*

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