ACA - Jonathan Camfield – 29 May 2014

Budget 2014
Defined benefit schemes

Lane Clark & Peacock LLP Trustee Consulting Investment Consulting
Corporate Consulting Insurance Consulting Business Analytics www.lcp.uk.com

Immediate changes in Budget 2014

With effect from 27 March 2014

Trivial commutation:
£30,000

"Small pensions"

Small pension pots:
£10,000

Capped drawdown:
150%

"Large pensions"

Flexible drawdown:
£12,000

Small and large pensions

New opportunities for members and employers

- Many more members have the option now

- At retirement
  - Small pensions: check rules
  - Large pensions: complex - partial transfers? - await developments

- One-off small/trivial pension exercises for pensioners
  - Likely only new de-risking opportunity for pensioners

- Beware selection risk

Consider Code of Good Practice

Increase to Normal Minimum Pension Age

50, 55, 57 or something else?

- Age 50 at A-Day
- Increased to 55 on 6 April 2010 (with grandfathering)
- Consulting on increase to age 57 from 2028 (10 years below SPA)
- With transitional arrangements? With grandfathering?

Potential for administration and communication confusion

DB transfer consultation

Opening up flexibility for DB members

"The question is whether it is possible to extend the kind of freedoms discussed earlier in this document to members of private sector defined benefit pension schemes. In principle, the government would like to find a way to do so." (5.11)

"…legislating to remove the right of all members of defined benefit schemes to transfer to a defined contribution scheme … must be the government's starting point, unless the issues and risks around other options can be shown to be manageable." (5.15)

Consultation closes 11 June 2014 - Response July 2014?

DB to DC transfers

Consultation options

Ban on transfers
(with exceptions)

Allow transfer, but remain in “old regime”

Cap the amount that can transfer

Require trustee approval

Allow transfers

Speculation…

Why transfer out?

Cash out from DB scheme?

Remodel DB benefits?

DB to DC transfers

Possible impact on bond markets

Before Retirement	At retirement	After retirement
Few	£5bn - £15bn each year?	None
Equity to Equity	Reduce £20bn annual bond demand to £10bn?	Stock problem £100bn?

In addition, £0.8trillion seeking de-risking opportunities

ACA response supports transfers

DB member benefits and options

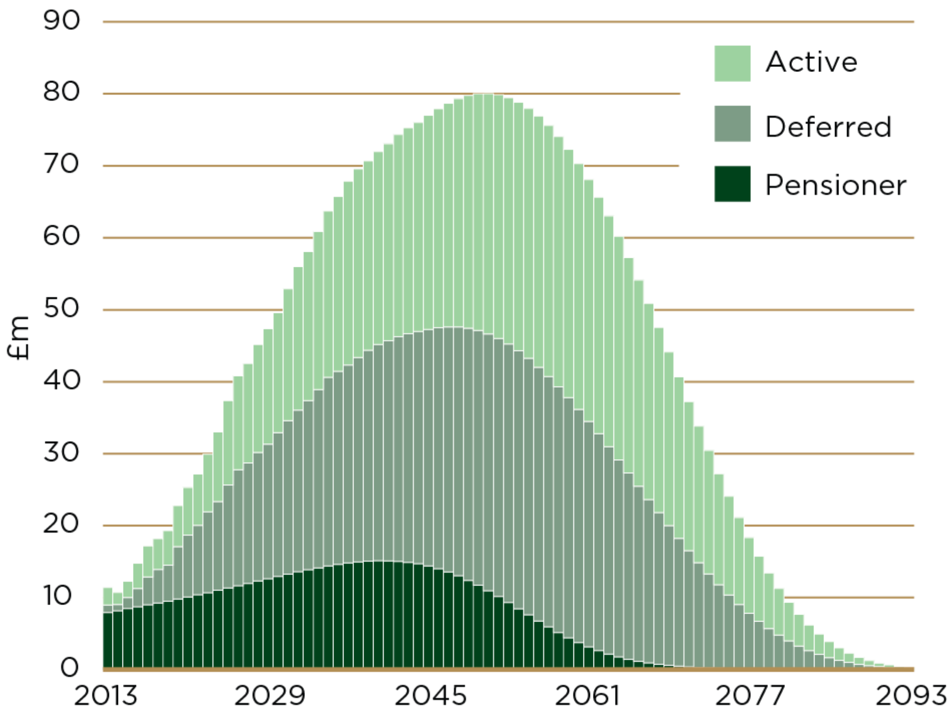
Wide ranging changes to member option processes and communications?

- Revised transfer process
- 20% - 40% transfer out at retirement?
- Member incentive exercises:
  - ETVs – less likely?
  - PIEs – small fry?
  - TPIEs / FROs – more popular, to kick off new retirement process?

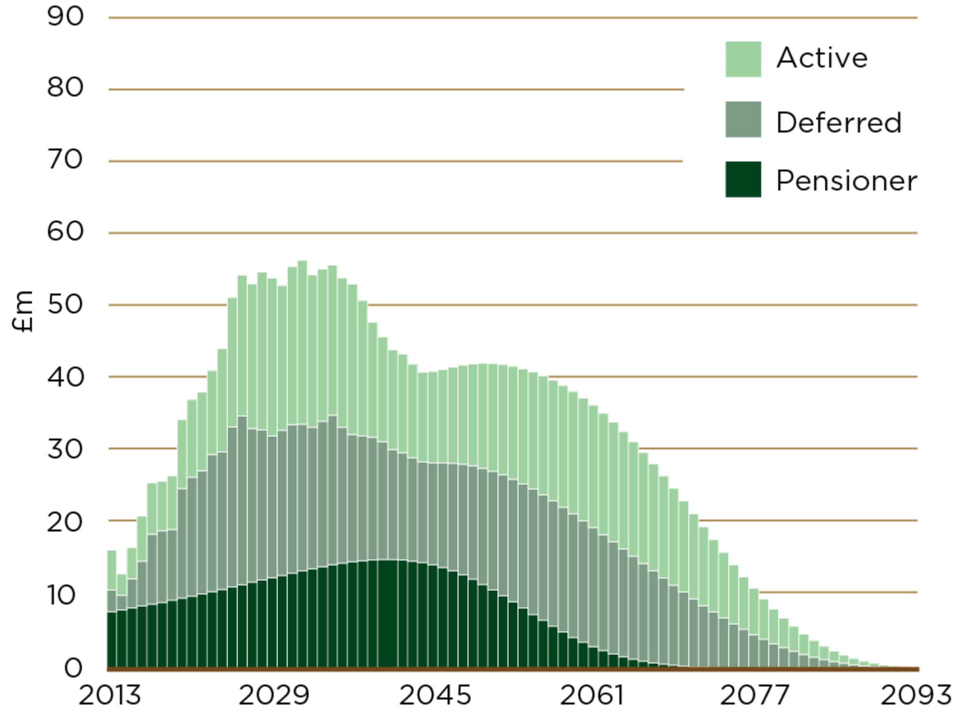
Possible new DB world

Fundamental changes to DB scheme liability payments

Typical DB cashflow "shape" now



Possible new DB cashflow "shape"



Investment strategies, valuation assumptions, factor bases (including consistency) and accounting assumptions may need wholesale reviews

Potential wider implications for DB world

Government is aware and thinking

- Statutory discharge?
- Pensioner transfer ban?
- Review of statutory basis for transfer values?
- Guidance guarantee extended to DB?
- Code of Good Practice?

Scope

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- If you would like any assistance or further information, please contact the partner who normally advises you.
- While this document does not represent our advice, nevertheless it should not be passed to any third party without our formal written agreement.
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