Peter Williams - 23 September 2010

A summer of consultations

Summer consultations

- CPI announcements
- Commission to review long term affordability of public sector pensions
- Review of automatic enrolment and NEST
- Increasing State Pension Age – call for evidence
- Removing age 75 annuitisation requirements
- Abolition of DC contracting out and post-2012 rebates consultations
- TPR guidance on monitoring employer support
- TPR guidance on departures from multi-employer schemes
- TPR guidance on ‘transfer incentives’

CPI announcements

- 22 June announcement of move from RPI to CPI for public sector schemes
  - “a more appropriate measure of pension recipients’ inflation experiences’
- 8 July Ministerial Statement extended to private sector
  - Use CPI for future pension increase orders under PSA93
  - Amend legislation for PPF and FAS
- 12 July DWP statement
  - Confirmed impact of change to pension increase orders
  - Will bring forward legislation “to ensure that other reference to price inflation in pensions law are consistent”
- TPR July statement – review rules, plan communication, no action on funding yet
- Currently awaiting further details (for consultation?)
  - What happens for schemes with RPI references in their rules (or booklets)?

Hewitt

Public Sector pensions

- Independent commission chaired by John Hutton
- Call for evidence in July, to assist in considering:
  - Affordability, fairness, impact on mobility and plurality of current public service provision of the current public sector pension schemes
  - The objectives that should guide public service pension in future
- Also asked to consider the case for delivering savings:
  - Options to deliver savings within the spending review period
- Expected to report in September

Review of automatic enrolment and NEST

- Review of the proposed scope of auto-enrolment announced on 24 June
- The review of automatic enrolment (AE) may among other things explore
  - The earnings threshold, above which AE applies
  - Introducing a de minimis level for contributions before AE applies
  - The age group to which AE should apply
  - The size of firm to which AE applies
  - Whether AE should apply from day one of employment
- On NEST,
  - The availability and capacity of other providers
  - Is NEST the most effective way to deliver
    - future access to workplace pensions
    - Income security in retirement

Increasing SPA and removing annuitisation at 75

- “Call for evidence” on increasing SPA announced on 24 June
  - Coalition agreement said increase to 66 would not be before 2016 (M) and 2010 (F)
- Consultation on removing requirement to annuitise by 75 launched on 15 July
  - Remove age 75 limit on existing drawdown arrangements **or**
  - introduce ‘flexible drawdown’ allowing unlimited amounts subject to ‘minimum income requirement’ based on pension income only; various options suggested
  - 55% charge on death for funds not used to provide dependants pension
  - Age 75 remains relevant for PCLS, tax relief on contributions, BCEs 5 and 5A

Contracting out consultations

- Abolition of DC contracting out consultation commenced 28 July
- From 6 April 2012
  - Protected Rights converted to “normal” MP benefits
  - Contracting out certificates cancelled
  - One-off requirement to inform members
- Transitional arrangements for rebates received after 2012, subsequent adjustments, transfer etc.
- Significantly less options for transfers of GMP/RST benefits
  - Not clear if this is intentional
- Separate GAD consultation on post 2012 rebates for COSRs
  - Very wide range of options

TPR draft guidance on monitoring employer support

- TPR think covenant strength needs closer scrutiny
  - Consider both legal obligations and financial position
  - Consider appointing external experts
  - Don't "spend disproportionate amounts" to measure/monitor covenant
- TPR considers options for improving security
  - Contingent assets versus extra cash
- On monitoring, TPR suggests
  - "full review" for every valuation
  - Annual review "generally undertaken" in the light of financial results
  - Standing item on agenda
  - Be ready to act quickly – immediate mitigation might be needed

TPR draft guidance on departures from multi-employer schemes

- Guidance is relevant for trustees and employers of multi-employer schemes
  - Once a debt is triggered
  - On an ongoing basis, to prepare for potential future debts
- Outlines the “six mechanisms” set out in legislation
- Sets out considerations from trustee and employer perspectives
  - Suggests that trustees should be aware of how debts would fall on each employer for covenant purposes – who is actually sponsoring the scheme?
  - Trustees entitled to expect full section 75 debt – any alternative must be in the best interest of scheme members and provide appropriate mitigation

TPR draft guidance on transfer incentives

- Titled ‘transfer incentives’ but covers other exercises such as pension increase conversions. Principles are:
  - Clear, fair and not misleading offers
  - Open and transparent offers
  - Identify and manage conflicts
  - Involve trustees from the start
  - Make independent financial advice available
- Trustees should start by presuming that the exercise is not in the members’ best interests.
- TPR thinks there may only be a “small minority of cases where it might be beneficial”

Summer consultations – your thoughts and questions

- CPI announcements
- Commission to review long term affordability of public sector pensions
- Review of automatic enrolment and NEST
- Increasing State Pension Age – call for evidence
- Removing age 75 annuitisation requirements
- Abolition of DC contracting out and post-2012 rebates consultations
- TPR guidance on monitoring employer support
- TPR guidance on departures from multi-employer schemes
- TPR guidance on 'transfer incentives'

Hewitt

Hewitt