GODDARD PERRY
CONSULTING

Hot topics in Pensions

Autumn 2015

1. Budget Summary

A number of changes and a major review was announced in the Summer Budget in July. In brief, the pension measures were:

- A major consultation is to take place – the government is asking how individuals can be encouraged to save more into pensions, but is also considering removing tax relief on contributions and making the benefits tax free instead;
- From 2016, the annual allowance is to be cut for those earning over £150,000 (including pension contributions). For every £2 earned over this amount the annual allowance will reduce by £1, until it reaches £10,000. This potentially affects anyone earning more than £110,000;
- Pension Input Periods, ie the period (normally a year) over which contributions are measured for annual allowances purposes, will all commence from the start of the new tax year in 2016. The current year will be split, with mini Pension Input Periods starting from 9 July so that the transition is achieved without individuals losing tax relief;
- Local Government pension schemes are being encouraged to pool investments to reduce costs;
- The ability to sell a pension in payment will be introduced in 2017;
- Steps will be taken to prevent fund managers avoiding capital gains tax when they are paid from fund profits;
- Salary sacrifice will be actively monitored;
- Employers will get tax relief on the cost of financial advice in DB to DC transfer exercises;
- From 2018, the Lifetime Allowance will be increased in line with CPI.

Actions:

- High earners may need to be notified of the change and contribution arrangements for them may need to be amended.

2. Tax Treatment of lump sum benefits paid on or after 6 April 2016

Draft legislation amends the tax treatment of lump sum death benefits paid on or after 6 April 2016. Some lump sum death benefits that currently attract a high tax rate will instead be subject to tax at an individual recipient's marginal rate of income tax. The change in legislation covers some lump sums where the deceased was over 75 or where the lump sum is not paid within two years of the administrator becoming aware of a member's death and is intended to make the tax system fairer. Different tax rates apply where the recipient is, for example, a trust or a company.

Actions:

- Administrators should be aware of the changes and monitoring relevant cases.

3. Trustees urged to act now on new DC standards

The Pensions Regulator is calling on trustees of defined contribution (DC) pension schemes to ensure they are on track to meet new requirements introduced in April 2015 following a change in the law.

The new requirements are designed to drive up the quality of governance and administration in workplace DC schemes and deliver good member outcomes.

The new duties state a scheme must:

- meet new governance standards and explain how it has done so in an annual chair's statement
- have an appointed chair who signs the annual statement
- be compliant with the new charge controls, which relate to schemes used as automatic enrolment 'qualifying schemes'

Schemes which conclude they are unlikely to comply with the charge cap may be planning to use the 'adjustment measure' provision, so that the charge cap won't apply for a particular default arrangement. Trustees should be aware that the deadline for using the adjustment measure, unless certain exceptional circumstances apply, is 6 October 2015.

The Pensions Regulator, which is now contacting trustees to remind them of their duties, has published a number of products to help pension scheme trustees get to grips with the new requirements.
The products include an essential guide to the governance standards and charge controls and a new list of frequently asked questions about the changes, in particular about the appointment of trustees for relevant multi-employer schemes, which include master trusts.

This year's scheme return for DC schemes contains some new questions relating to the April changes and the regulator has produced a checklist to help trustees prepare for completing it. Charles Counsell, Executive Director at The Pensions Regulator, said:

The charges and governance standards are a welcome step to raise the quality of occupational DC schemes and to protect the hard-earned savings of members. Trustees will have to demonstrate how they are meeting the requirements in their annual chair's statement.
We have provided a number of online resources to help trustees meet their duties, and I urge those who have not done so to visit our website for support. Trustees will need to establish whether their scheme must comply with any of the new requirements and we advise that they may need to seek professional advice to do this.

Those planning to use the adjustment measure should be aware that they must notify employers, members and the regulator at least one month before the 6 October deadline.

If a scheme is not compliant it may be subject to enforcement action, including fines.

Actions:

- Changes to the law from 6 April 2015 mean that trustees of many occupational pension schemes offering money purchase benefits will have to meet new requirements.
- The law requires a trustee board to appoint a chair. The chair will be responsible for signing the chair's annual statement, a document that details how the trustees have met the new governance standards. A chair should have been appointed by 5 July 2015.

4. Employer Covenant - New guidance from the Pensions Regulator

The Regulator has issued the first in a series of guides for trustees to help them apply the defined benefit (DB) funding code of practice. The first publication provides guidance on how to assess and monitor an employer's covenant i.e. the extent of the employer's legal obligation and financial ability to support the scheme now and in the future.
The code contains little that is new but is nevertheless a helpful guide containing numerous examples to illustrate the main points.

Key messages from the guidance:

- Assessing and monitoring the covenant should be proportionate to the circumstances of the scheme and employer.
- Trustees should consider obtaining external advice where they lack the objectivity or expertise to do it themselves.
- Trustees and employers should work openly together.
- The covenant can change quickly and so should be monitored regularly between valuations with contingency plans in place.

The full guidance can be found on the pension regulator's website:
www.thepensionsregulator.gov.uk/guidance/guidance-assessing-monitoring-employer-covenant.aspx

Actions:

- Trustees should review the guidance and ensure that they have assessed and are monitoring the employer covenant appropriately.

5. DC Refunds

From 1 October 2015 new members of occupational pension plans with money purchase benefits will no longer be able to take a refund of their contributions if they have 30 days of qualifying service. (This qualifying period is reducing from two years.)

Actions:

- Trustees should ensure that pension plan rules reflect legislation, and new member communications and administration processes should be updated. Employers should note the cost implications – at present the portion of the refund relating to employer contributions typically stays in the pension plan and this amount can reach significant levels where there is a high turnover of staff.

6. Transfers

HM Treasury has published a consultation on 'Pension transfers and early exit charges'. The Government is keen to assess how the pension freedoms introduced in April 2015 are working in practice and the extent to which exit charges and transfer legislation act as barriers to individuals who wish to flexibly access their benefits. The Pensions Regulator and the FCA are also gathering evidence on this issue. This is a good opportunity for the diverse sectors of the pensions industry to provide feedback to the Government. The consultation closes on 21 October 2015.

Actions:

- No action required at the moment as consultation stage only.

7. Automatic re-enrolment

Automatic re-enrolment is now a live issue for larger employers. An employer can choose its re-enrolment date which must fall within a window three months either side of the third anniversary of its staging date. Employers should assess their workforce for re-enrolment purposes, noting recent relaxations to legislation which, for example, provide that workers who benefit from Life Time Allowance protection do not have to be re-enrolled. The process should be carefully planned and trustees should be kept informed (where applicable).

Actions:

- Employers must complete a re-declaration of compliance for the Pensions Regulator within two months of the re-enrolment date.

8. The State Pension System

The state pension system will undergo major reform in April 2016 with the existing two-tier state pension system being replaced with a single-tier flat rate state pension. Pension plans that are integrated with the basic state pension will be affected by the reform, and plans that are or have been contracted-out of the State Second Pension should consider reconciling GMP records and should prepare for the forthcoming increase in national insurance contributions. Some employers may look to offset the additional cost with benefit changes and/or increased member contributions. In the meantime, the Government is still exploring GMP conversion and equalisation.

Actions:

- To be considered by Employers and their advisers on how the changes affect their Scheme prior to April 2016.

Where can I get further information?

Please contact your Goddard Perry consultant if you would like to discuss the issues raised by this update in more detail. Alternatively contact us via the following:

@ enquiries@goddardperry.com

✆ 020 8603 3700