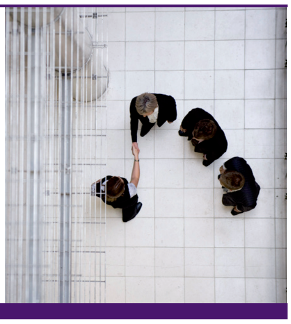
Hot Topics

Pensions



1. BUY-OUT ACTIVITY

2010 has seen a few large buy-out transactions and there remains an enormous corporate appetite for further de-risking. A key driver is the increased awareness of pensions risk in corporate planning. Buy-outs can achieve de-risking in a structured way with innovative and bespoke models being explored (eg collateralised buy-ins).

2. ENHANCED TRANSFER VALUE EXERCISES (ETV)

Careful targeting of deferred members and the quality of the enhancement on offer are essential for success. The Regulator's guidance considers ETVs from a trustee, employer and member perspective. Due to proposed changes to IAS19, companies need to consider whether any proposed ETV will impact on their P&L account.

3. INVESTMENT DE-RISKING

The implementation of investment de-risking solutions is gathering pace due to improvements in the economic climate. The de-risking market has responded to this by offering a wide range of solutions such as longevity swaps and liability driven investments, in addition to partial buy-ins or buy-outs with an insurance company.

4. TRANSITIONAL REGULATIONS

Rule amendments may be required before 6 April 2011 for schemes that did not amend their rules when the tax regime changed on 6 April 2006 (otherwise schemes may face increased liability). Action should also be taken before this date by trustees who wish to preserve any existing power in their scheme rules to make payments to an employer.

5. HIGH EARNERS

Restrictions on pensions tax relief for high earners are changing from April 2011. Changes proposed by the previous Government will be scrapped and are expected to be replaced with a new annual allowance of £30,000 - £45,000. The anti-forestalling provisions (broadly affecting those with an annual income of over £150,000) will remain in force until April 2011.

6. PENSION INCREASES

The Government recently announced that it believes the CPI to be a more appropriate measure of pensioner inflation than the RPI. This may offer scope for employers and trustees to explore alternative bases for dealing with pension increases in the future eg swapping fixed rates of increase to an index based approach.

7. GMP EQUALISATION

The Government intends to introduce legislation requiring schemes to equalise GMPs. We are suffering from lack of clarity on the shape of any legislation and the equalisation solution that schemes should adopt. Employers and trustees should ensure they understand equalisation principles and employers should start to consider costs.

8. DC GOVERNANCE

The Regulator's DC focus is apparent in the new guidance on internal controls and record keeping. Employers with contract based schemes should consider appropriate monitoring of administration and investment performance. Employers can apply for the NAPF Pensions Quality Mark, if their scheme satisfies certain governance and communication standards and minimum contribution levels.

9. RECORD-KEEPING

The Regulator is taking a "strengthened approach" to member data accuracy. Its new guidance aims to improve standards and further measures may be introduced if improvements are not noted. Data controls should be assessed and data sampling should take place. Data cleansing is also essential for those schemes in buy-out or if an ETV is contemplated.

10. NEST

The Personal Accounts Scheme is now called the National Employment Savings Trust (NEST). The requirement for workers to be automatically enrolled into a qualifying pension scheme will be phased in from October 2012. Employers should start thinking about the impact of automatic enrolment on their budgets.

FURTHER INFORMATION

For further information please contact any of the partners listed below or your usual contact in the pensions team.

Francois Barker
International Head of Pensions
Head of Birmingham Pensions
T: +44 (0)121 222 3584
E: francois.barker@hammonds.com

Catherine McKenna
Head of Leeds Pensions
T: +44 (0)113 284 7045
E: catherine.mckenna@hammonds.com

Wendy Hunter
Head of London Pensions
T: +44 (0)207 655 1119
E: wendy.hunter@hammonds.com

Steve Southern
Head of Manchester Pensions
T: +44 (0)161 830 5172
E: steve.southern@hammonds.com

Emma King
Head of Pensions Disputes
T: +44 (0)121 222 3103
E: emma.king@hammonds.com