

# Hot Topics

## Pensions



### 1. PENSION INPUT PERIODS

The opportunity for trustees to nominate a PIP retrospectively will disappear when the Finance Bill 2011 has effect. Failure to make any nomination may lead to some members being affected by the lower Annual Allowance earlier than expected and could lead to future administrative complications. Trustees should assess the merits or otherwise of making a retrospective nomination.

### 2. HUTTON REPORT BACKED BY GOVERNMENT

The 2011 Budget confirmed that Lord Hutton's recommendations regarding the reform of public sector pensions will form the basis of Government consultation with public sector workers, trades unions and others. The recommendations included a move to a CARE structure for future service, and increases in Normal Pension Age. The Government's proposals will be published in the Autumn.

### 3. ECJ RULING IN TEST ACHATS

Following the recent ECJ ruling, from 21 December 2012 the insurance industry cannot differentiate on the grounds of sex when calculating premiums and benefits. This has a direct effect on annuity purchase, largely affecting DC plans. Whilst the use of sex based actuarial factors in occupational pension plans is currently allowed under UK law, the ruling may indicate a future change of direction.

### 4. "SCHEME PAYS"

Members who incur tax charges of more than £2,000 for pension savings above the Annual Allowance will have the option of meeting this charge from their pension benefits. DB and DC plans will have to offer this facility. Trustees will make a deduction from benefits at the point that the tax charge arises and will not be able to make an administrative charge.

### 5. EMPLOYER DEBT

The DWP is considering simplifications to the employer debt legislation that applies when an employer exits a multi-employer DB plan. Amongst the proposals, the DWP is assessing whether legally binding group company guarantees could be an alternative to paying or apportioning a debt. If the DWP goes ahead with the reforms, it plans to bring new legislation into force in October 2011.

### 6. STATE PENSION REFORM

The DWP's consultation document on the reform of the state pension sets out two main options. (1) Retain the two tier structure made up of Basic State Pension and S2P, bringing forward planned reforms to make S2P flat rate by 2020. (2) Introduce a single tier state pension and **abolish DB contracting out**. Interesting times!

## 7. REGULATOR'S DC INTEREST

With numbers of DC members increasing (and set to increase further due to auto-enrolment) the Pensions Regulator is keen to ensure good outcomes for members in all segments of the DC market. Its discussion paper marks the start of a dialogue with industry and stakeholders regarding what good DC pensions look like and how the Regulator can best offer support.

## 8. INCOME DRAWDOWN

Employers and trustees should consider whether it is appropriate to introduce flexibilities allowing DC members to take advantage of new rules to permit income drawdown from retirement funds. For example, changes from 6 April 2011 mean that members with lifetime pension incomes of at least £20k per year will be able to make withdrawals without any annual cap applying.

## 9. REMUNERATION STRATEGIES

The reduction in the Annual Allowance from 6 April 2011 is causing many employers to rethink their remuneration strategies. Greater flexibility in registered pension scheme design can allow individuals to vary contributions and/or benefit accrual to actively manage their savings against the Annual Allowance. Opportunities remain to provide top-ups for higher earners through unregistered unfunded contract based plans.

## 10. IT'S THE FINAL COUNTDOWN

2012 is fast approaching! New duties on employers to automatically enrol employees into a pension plan will come into force next year. Employers will be obliged to make pension contributions and should be planning ahead when setting budgets. Over the coming months employers should be assessing how their own pension strategies fit with the auto-enrolment duties.

## FURTHER INFORMATION

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