SQUIRE SANDERS

HOT TOPICS IN PENSIONS

Winter 2012-2013

1. State pension reform

The DWP has issued its paper on state pension reform. It is intended that the State Second Pension (i.e. the earnings related top up for contracted-in employees) will be abolished. A new single tier state pension is likely to be introduced from 2017 at a level of approximately £144 per week. The legislation will contain safeguards to protect entitlements already built up by individuals at the date of the change, if this would provide a better outcome.

2. The end of contracting out

The introduction of a single tier state pension will lead to the end of contracting out for DB pension plans. Employers and employees will be required to pay full rate NI contributions. The Government proposes that private sector employers will be given the power, for a limited period, to modify DB pension benefits for future service (without trustee consent) to offset the extra employer costs. Keep an eye on developments!

3. More tax reform

From 6 April 2014 the Lifetime Allowance will reduce from £1.5m to £1.25m and the Annual Allowance will reduce from £50,000 to £40,000. This will affect a new layer of members, and will bring further administration and communication responsibilities for pension plans still struggling with the 2011/2012 changes. 'Fixed Protection 2014' will be available for individuals impacted by the reduction in the LTA.

ACTION

4. PPF levy developments

The PPF has confirmed its pension protection levy estimate as £630 million for levy year 2013/14. There are also a number of clarifications to this year's contingent assets guidance – most notably the way in which trustees should approach their assessment of the guarantee to be certified as a Type A contingent asset (group company guarantee). Trustees with any form of PPF contingent asset should now consider the actions that they need to take to achieve the 28 March 2013 deadline.

5. RPI remains intact

Following consultation, the Office for National Statistics has announced that there will be no change to the calculation of the Retail Prices Index. A new index, the RPIJ, will be introduced which is regarded by some commentators as a better measure of inflation. However, the introduction of the new index will not affect pension funds and investments that are linked to the RPI – as the RPI will remain.

6. Public sector pension reform

The Government is consulting on draft regulations to reshape the benefits provided by the Local Government Pension Scheme in England and Wales from April 2014. Details on the cost control mechanism and governance changes will be consulted on separately. Discussions are also ongoing regarding the 'Fair Deal' policy and it is not yet clear how this will affect private sector contractors who have already accepted transfers of staff from the public sector.

7. Abolition of contribution refunds

The DWP has announced that short-service refunds from occupational DC pension plans will be completely abolished when the automatic transfer regime is introduced (scheduled to be some time next year). The DWP were considering whether very small amounts (so-called "micro pots") could still be refunded to employees who leave a pension plan but has now decided against this, having assessed the complexities associated with refunds.

8. Data Protection – ICO fines Prudential

The ICO has issued a £50,000 fine to Prudential Assurance Company Limited in its capacity as data controller of pensions and policy records. Two customers with the same name and date of birth had their records merged. This led to information being sent to the wrong customer and an erroneous transfer of funds. The records were not updated in spite of numerous complaints. The data controller "ought to have known that there was a risk".

9. Defined ambition

The strategy paper: "*Reinvigorating workplace pensions*", sets out the Government's latest views on how it intends to increase pension savings, restore public confidence and make workplace pension plans more attractive. The paper contains numerous options for the structure of defined ambition plans. For example, defined ambition plans could be DB based but subject to fewer regulatory requirements, or DC based but with some level of guarantee.

10. DC pension charges

A new Joint Industry voluntary Code of Conduct: "*Pensions Charges Made Clear*" applies to all parties that provide services to employers in setting up and administering a pension plan. It requires such providers to give clear information about DC pension charges and will assist employers in selecting automatic enrolment plans. The code will be followed by the launch of a web tool in the spring but should now be viewed as a guide for best practice.

Further information

For further information about any of our Hot Topics please contact any of the partners listed or your usual contact in the Squire Sanders pensions team.

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