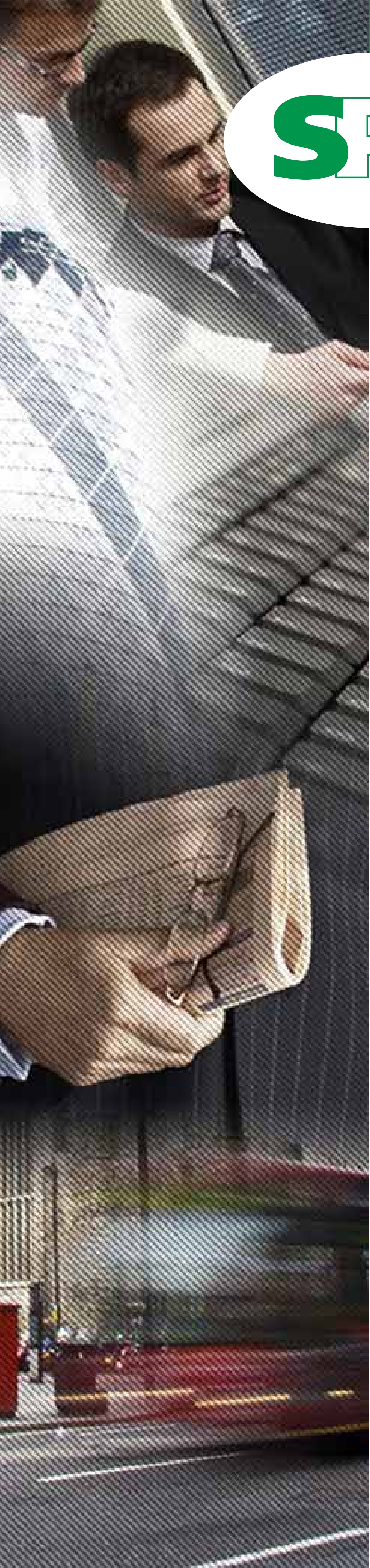

SPC News No. 8, 2012 Issued in January, 2013

THE NEWSLETTER OF THE SOCIETY OF PENSION CONSULTANTS

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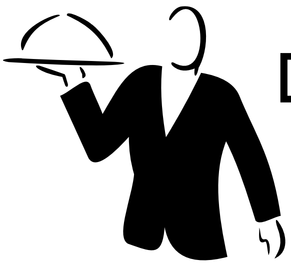
SPC London Evening Meetings

Details of forthcoming SPC London Evening Meetings are as follows:-

Date	Speakers	Subject	Venue	Time
24 January 2013	Keith Bryant (Barrister, Outer Temple Chambers) for APL and Paul Sturgess (Capita Employee Benefits) for SPC	The meaning of "Worker" in the Context of Auto-enrolment	Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG	5.00 pm for 5.30 pm
27 February 2013	Duncan Buchanan (Hogan Lovells International LLP)	TBC	America Square Conference Centre, 1 America Square, 17 Crosswall, London EC3N 2LB	5.00 pm for 5.30 pm
24 April 2013	Mark Dowsey (Towers Watson)	The Review of the IORPS Directive	Towers Watson, 21 Tothill Street, London SW1H 9LL	5.00 pm for 5.30 pm
16 May 2013	Faisal Aziz (IBM Global Business Services)	A Virtual Hub in the Context of Transfers	KPMG LLP (UK), 8 Salisbury Square, London EC4Y 8BB	5.00 pm for 5.30 pm



SPC Dinner 2012

The SPC Dinner took place on November 7th.

Almost 300 guests enjoyed the evening, listening to interesting and entertaining speeches by Gregg McClymont, MP (Shadow Pensions Minister) and the SPC President Roger Mattingly (JLT Employee Benefits)

To read Roger Mattingly's speech, please CLICK HERE.

Gregg McClymont also presented the SPC Pension Journalist of the Year Awards. The winners were

- National: Philip Coggan (The Economist)
- Trade: Jack Jones (Professional Pensions)

Many thanks to all SPC Members, who supported The Dinner and to Capita for sponsoring the menu.

Please put the date for the 2013 Dinner in your diary now – November 6th at the Dorchester.

Jack Jones (left) receives the SPC Trade Journalist of the year award from Gregg McClymont at the SPC Dinner, November 7th 2012

Philip Coggan (right) receives the SPC National Pension Journalist of the year award from Gregg McClymont at the SPC Dinner, November 7th 2012

SPC contacts

SPC has recently had meetings with the Pensions Minister and the Chief Executive of the Pension Protection Fund, Alan Rubenstein.

Subjects discussed with the Minister were small pots and transfers; reinvigorating pensions, including Defined Ambition; the review of the IORP Directive; adjusting for the effects of unequal GMPs; and funding in the current economic climate.

With Alan Rubenstein, the subjects discussed were PPF's GMP equalisation pilot study; PPF's report and accounts and the levy for 2013-2014; D&B failure scoring; the review of the IORP Directive; and infrastructure investment.

The President, Roger Mattingly, represented SPC at meetings of DWP's policy group on small pots and automatic transfers, on September 10th and November 7th.

New member

The latest new Member of SPC is **Evercore Pan-Asset Capital Management Ltd.**, London SW1.

SPC Conference, October 9th 2012

This year's SPC Conference was held at the Bloomsbury Hotel, London WC1. The theme was *"Pension Regulation and Reinvigoration: A Marriage of (In)Convenience?"*

The speakers were Bill Galvin (Chief Executive, The Pensions Regulator), Alan Pickering (Chairman, BESTrustees and the Life Academy), Nigel Stanley (Head of Campaigns and Communication, TUC), Jim Bligh (Head of Labour Market and Pensions Policy, CBI), Sheenagh Gordon Hart (Client & Industry Research Executive, JP Morgan Worldwide Securities Services), Edward Whitehouse (Head of Pension Policy Analysis, OECD), Julie Parker-Welch (Reward Manager for Pensions, Marks & Spencer) and Sheila Nicoll (Director of Conduct Policy, FSA).

A feature of the day once again was audience polling on topical pension issues. For details of the questions asked and the audience response, please CLICK HERE.

What's being read on the SPC website?

CLICK HERE for the latest summary of hits on the SPC website, presented to the SPC PR Committee.

Who's writing about SPC?

CLICK HERE for the latest summary of SPC press coverage, also presented to the PR Committee.

SPC on-line poll

Our latest question was as follows:-

"The Government has stated its intention that 'small pots' should follow the member to their new employer. What do you think is the most challenging barrier, which needs to be overcome for this policy to be successful?"

The voting was:

	%
The creation of a database/virtual hub	43.59
Minimising consumer detriment	30.77
Deciding which party pays for the cost of the transfer	15.38
Legislative amendments	10.26

Pension Charges Made Clear: Joint Industry Code Of Conduct

As you will probably have read in the press, the above code of conduct was launched in November 2012. For a copy, please CLICK HERE.

It is endorsed by ABI and NAPF in association with the Investment Management Association and SPC.

Stage 1 of use of the code began on January 1st 2013. At this stage the code is intended to be used as guide for best practice.

Stage 2 begins one month after the web tool referred to in the code is launched.

SPC encourages its Members to follow the practices set out in the code.

Commenting on the launch of the code, Roger Mattingly, SPC President, said:-

"It is important to ensure that charges are transparent, comparable and fair, and we support this initiative to address this.

There is welcome recognition that employers' decisions should be driven by value, not just cost. A 'race to the bottom' on charges would be fraught with danger for members. This needs to be kept firmly in view when the code comes into operation.

We also welcome the acceptance that the code cannot be applied mechanistically as a one size fits all template. It will be less relevant in some situations than others, particularly in cases of existing client, adviser, or provider relationships."

Implementing the UK-USA FATCA Agreement

HMRC has published a consultation document on implementing the UK-USA FATCA agreement.

The consultation document is available CLICK HERE.

In our response we commented that the intention appears to be to establish a very wide ranging, and welcome, exemption for pension schemes under the FATCA agreement, but, taking the text of the agreement in isolation, we requested confirmation of the extent of the exemption regarding the position of pension schemes.

Firstly, are schemes governed by trustees automatically outside the reporting scope of FATCA, on the basis that, presumably, trustees fall outside the definition of a "Financial Institution" in the UK-US Agreement? Or would this depend on none of the trustees being a corporate entity?

Secondly, as regards the exemption for "certain [retirement] accounts or products maintained by a United Kingdom Financial Institution", it is not clear at all from the draft wording whether this would apply:

- **a)** Only to registered schemes, provided that both (i) annual contributions are limited to £50,000 and (ii) funds cannot be accessed before age 55 except on serious ill-health grounds.
- **b)** To (i) all registered pension schemes, regardless of contribution amounts etc., and (ii) those non-registered schemes, where annual contributions are limited to £50,000 and funds cannot be accessed before age 55, except on serious ill-health grounds.
- **c)** To registered and non-registered pension schemes, provided that both (i) annual contributions are limited to £50,000 and (ii) funds cannot be accessed before age 55 except on serious ill-health grounds.

We were of the impression that the intention was that all registered pension schemes were to be exempt, but on our reading the wording would need to be amended to achieve this.

In particular, if (a) or (c) above were to apply, there would be serious consequences for registered pension schemes and the exemption would, in practice, be worthless. This is because:

1. Scheme rules will typically not explicitly limit contributions to £50,000. Rather, the fact that, if contributions in excess of the Annual Allowance under the Finance Act 2004 are paid, the individual would be subject to tax penalties (unless there is sufficient carried forward unused allowance from the previous three tax years) will act as an implicit limit for most members.

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Implementing the UK-USA FATCA Agreement

2. In addition, for defined benefit schemes the concept of a contribution limit is essentially meaningless.
3. There may be scheme members, who have a Protected Pension Age under the Finance Act 2004, which is below age 55.

It would also be helpful to have express confirmation of the position as regards:

Employer Financed Retirement Benefit Schemes, as defined in section 393A of the Income Tax (Earnings and Pensions) Act 2003

'Section 615' schemes (under that section of the Income and Corporation Taxes Act 1988)

We then turned to the position of annuities. The exemption could have been phrased in terms of applying to any annuity purchased in relation to a registered pension scheme and this would have left no doubt that all annuities were covered. The actual specification of non-investment linked, non-transferable immediate annuities raises doubts as to whether there are some annuities, which are not intended to be covered.

Among annuities, we specifically requested confirmation that the following fell within the exemption:-

- Investment linked annuities
- Purchased life annuities

Restructuring and rewriting of HMRC Registered Pension Schemes Manual

We have raised concerns with HMRC over its plans to restructure and rewrite the Registered Pension Schemes Manual.

We welcome the attention, which has been given to keeping RPSM up to date, but we have concerns about plans to merge the four elements of RPSM into one.

We do recognise that the intention is to produce a version, which will properly support the tax pension professional constituency, which will embrace the pension practitioners within SPC, but we do foresee considerable practical difficulties in combining the aims of simple language with accurate, comprehensive and practical guidance. The latter is what pension practitioners need. We see a major risk that the need to use simple language will inevitably over-simplify the underlying content, which would be a particular step backwards, given the progress, which we view HMRC and practitioners having jointly made over the years to strengthen the content of RPSM, thus reducing the need for queries to HMRC.

We remain committed to seeking to assist in the revision of RPSM, and we recognise the resource constraints, with which HMRC is having to deal, but we raised the possibility of having an RPSM, which accommodates the technical needs of practitioners (without the risk of over-simplification), and building on a planned set of articles for the HMRC website, to provide simplified content for other users.

In its response, HMRC indicated that it fully appreciates our concerns and states that it is a critical element of the re-write project that there is no dilution or change to the technical content in terms of meaning/interpretation. HMRC intends to express material in a way, which meets the needs of all users, but in particular those in the pensions industry who rely upon it most, to inform their understanding and decisions without detracting from the quality of existing guidance, particularly for the more complex issues. All the new material will be subject to scrutiny and revision, where necessary, by the HMRC Technical team within Pension Schemes Services as well as to external consultation.

HMRC intends there to be the opportunity for volunteer industry representatives to contribute, to ensure the final product meets industry needs and addresses the concerns SPC has expressed.

The Chancellor's Autumn Statement

This article is derived from Mercer Select, Mercer's subscriber service offering news and analysis of UK pension developments on-line and by email. For further information please CLICK HERE.

This article was correct on 6th December 2012.

Unlike with the Spring Budget, the widespread press speculation about a reduction in the annual allowance has proved to be broadly correct. What was not anticipated was that change would apply with effect from 6 April 2014 and that the lifetime allowance would be further reduced at the same time. The main changes in the pensions arena are as follows:

- With effect from 6 April 2014, the annual allowance will be reduced to £40,000 (from the current £50,000).
- At the same time, the lifetime allowance will reduce from £1,500,000 to £1,250,000. A new form of fixed protection (provisionally called 'fixed protection 2014') will be introduced. A further type of protection, known as 'personalised protection', has also been suggested. This will be similar to primary protection.
- Details of these proposals can be found here CLICK HERE.
- The limit on capped drawdown will be increased from 100% to 120% of the value of an equivalent annuity. The timing of this change will be confirmed in due course.
- The Government has announced that the DWP will carry out two consultations on the regulation of defined benefit pension schemes. The first is to consider providing the Pensions Regulator with a new statutory objective to consider the long-term affordability of deficit recovery plans to sponsoring employers. The second will review whether to allow companies undergoing valuations in 2013 or later to smooth asset and liability values.

The Autumn Statement was described as 'fiscally neutral' and the other points of note as they relate to individuals and businesses are as follows:

- The basic state pension will increase in April 2013 by 2.5% (or £2.70 per week), in line with the 'triple lock' promise.
- Most 'working age' benefits will increase by 1% per annum for the next three years (therefore, less than inflation although benefits for carers and those with disabilities will increase in line with inflation).
- Child benefit will increase by 1% in the years 2014/15 and 2015/16.
- The personal tax allowance will increase by more than previously announced and will be set at £9,440 with effect from 6 April 2013. Higher rate taxpayers will benefit from this increase. However, in 2014/15 and 2015/16, the higher rate threshold for income tax will rise by 1% instead of in line with inflation.
- The capital gains tax exempt amount will increase by 1% each year in 2014/15 and 2015/16.
- The ISA limit increases to £11,520 on 6 April 2013.
- The inheritance tax nil-rate band will increase by 1% in 2015/16.
- The main rate of corporation tax will be reduced by a further 1% from April 2014, to 21%.
- The government continues to target tax avoidance and evasion. The introduction of the General Anti-Abuse Rule has been confirmed and tax loopholes continue to be closed.

A draft of the Finance Bill 2013 which will enact many of the changes referred to above, has now been published.

Pensions Regulator Consultation: Maintaining Contributions

The Pensions Regulator has published a consultation document on Maintaining Contributions. For a copy please CLICK HERE.

We met Pensions Regulator officials to discuss our initial reactions, and for a copy of our response, please CLICK HERE.

DWP proposals for risk-sharing and reinvigorating workplace pensions

This article is derived from Mercer Select, Mercer's subscriber service offering news and analysis of UK pension developments on-line and by email. For further information please CLICK HERE.

This article was correct on 6th December 2012.

- The DWP has published proposals for rebuilding confidence and trust in workplace pensions, for sharing the risks more equally between employers and employees, and for helping people get the most out of what they save in a pension. Whilst offering no concrete proposals, the DWP has floated a range of possible ideas and hopes to stimulate debate and assess employers' appetite for new scheme designs and pensions products.
- Earlier in 2012, the Pensions Minister announced that one of the methods by which he hopes to encourage workplace pension provision is through "defined ambition" ("DA") pension provision. The DWP has now released a paper entitled Reinvigorating Workplace Pensions with objectives including increasing the amount of pensions saving and the amount people receive from their saving; promoting industry innovation and encouraging more risk-sharing; increasing transparency and building trust, confidence and engagement in pension saving; and ensuring the sustainability and stability of the UK system.
- In response to the Red Tape Challenge it believes existing occupational pensions legislation is "largely fit for purpose" and that the "introduction of automatic enrolment necessitates stability in legislation". However, it is looking at consolidation and simplification of the disclosure regulations, aiming to bring forward draft regulations "early next year".
- The paper reaffirms the Government's intentions to create a single-tier state pension "at a level above the standard minimum guarantee in Pension Credit" (currently £142.70 per week), and to set up a framework for increasing state pension age (as announced in April 2011). The reforms will be "introduced in the next Parliament" and will apply to future pensioners only. The DWP intend to publish more details "shortly".
- The Government wants to put in place conditions in which risk is shared between employers, savers and the industry to give members greater certainty about their retirement income whilst reducing cost volatility for employers.
- The paper briefly examines the reasons for the decline in DB and concludes that the current economic and social environment means that "there is likely only to be a limited amount that can be done to revive DB schemes, at least in their pure, final salary form". In addition to setting out the work already in progress in the area of charges and investments, the paper goes on to discuss some key questions and issues in relation to DC outcomes:
  - Could Save More Tomorrow™ automatic escalation of contribution rates, which is popular in the USA, be encouraged in the UK and why isn't it used more already? (The Government says it has "no plans to alter the statutory minimum beyond 8% at this point").
  - Would fewer, larger schemes result in better value for money? The Government and the Pensions Regulator are considering how to ensure appropriate governance for such schemes, but should consolidation be encouraged?
  - How can the Government support people through annuitisation decisions at retirement? Should more flexible products such as the 'retirement bridge' be encouraged?
- The DWP has been working with a Defined Ambition Industry Working Group with SPC representation, focussing on some well-established and some new models (indicated with a *):
  - Career Average Revalued Earnings (CARE) schemes.
  - Cash balance schemes.
  - Longevity adjustment factors.
  - Other risk management options, such as buy-outs, buy-ins, longevity swaps and reinsurance.
  - * Simplified/core DB schemes, with conditional or optional indexation, and removing spouses' benefits.
  - * Conversion of DB leavers' benefits to DC.

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DWP Proposals for risk-sharing and reinvigorating workplace pensions

- * Fluctuating pensions linked to funding levels, though the Government has admitted is it not feasible to implement Dutch-style Collective Defined Contribution schemes in the UK because of cultural and institutional differences (especially lack of compulsion).
- *Linking scheme retirement age to state pension age (already proposed for the new public service schemes).
- DC with bonuses ("with-profits")
- Deferred annuities.
- Targeted or managed DC, aiming to achieve a specific income in retirement.
- * Money-back guarantees.
- * Pensions paid only until a particular age, with tail-risk insured with a guarantee provider
- * Guaranteed minimum returns or standardised income guarantees (essentially with-profits-style bonuses would be declared in the form of guaranteed income in retirement). Could either be via an employer-funded "smoothing fund" or provided through insurance products.

• The DWP will continue to work with industry and consumer bodies to develop possible models and designs for DA pensions. It will also explore the scope for amending the current regulatory framework to promote DA schemes. Apart from those already mentioned above, the paper does not suggest a timeframe for these specific issues.

• DWP research highlights communication is key to people's engagement with pensions, with further work on-going in this area. It outlines 6 principles for pensions information:

- Giving people control (even if they don't use it)
- Focussing on the benefits not the responsibilities
- Making it relevant now i.e. engage with people during their working lives
- Providing real examples to help people understand the context
- Keeping presentation simple and let the facts speak for themselves
- Building understanding of basic concepts but tailor the level of information to the individual.

DWP Consultation: Occupational Pension Schemes (Miscellaneous Amendments No. 2) Regulations 2013

DWP has published a consultation document on The Occupational Pension Schemes (Miscellaneous Amendments No. 2) Regulations 2013.

For a copy, please CLICK HERE.

In summary, the draft regulations:-

- introduce a limited power for the trustees of schemes, which provide bridging pensions, to modify their schemes' rules to take account of the impact of changes to State Pension Age;
- make various minor and technical amendments regarding indexation as a consequence of the switch to using the Consumer Prices Index rather than the Retail Prices Index, and measures in the Pensions Act 2011.

For a copy of our response please CLICK HERE.

BIS Consultation: Reporting of Directors' Pay

We have responded to the Department for Business, Innovation and Skills on its consultation document on reporting of directors' pay.

For a copy of our response, please CLICK HERE.

In summary, we strongly challenged the proposal to move away from the current cash equivalent approach to disclosure. The proposed new policy of using the HMRC method has been developed in isolation from the pensions industry (on the basis of just the one Financial Reporting Council research paper), but it seems fundamentally misplaced if one is concerned to disclose the value of directors' pensions in an accurate and transparent way.

The consultation is at: http://www.bis.gov.uk/assets/biscore/business-law/docs/d/12-888-directors-pay-consultation-remuneration-reporting.pdf

National Statistician's Consultation: Options for Improving the Retail Prices Index

The Office for National Statistics has published a consultation document on options for improving the Retail Prices Index. For a copy, please CLICK HERE.

For a copy of our response, please CLICK HERE.

About SPC

SPC is the representative body for the providers of advice and services needed to establish and operate occupational and personal pension schemes and related benefit provision. Our Members include accounting firms, solicitors, life offices, investment houses, investment performance measurers, consultants and actuaries, independent trustees and external pension administrators. Slightly more than half the Members are consultants and actuaries. SPC is the only body to focus on the whole range of pension related functions across the whole range of non-State provision, through such a wide spread of providers of advice and services. We have no remit to represent any particular type of provision.

The overwhelming majority of the 500 largest UK pension funds use the services of one or more of SPC's Members. Many thousands of individuals and smaller funds also do so. SPC's growing membership collectively employ some 15,000 people providing pension-related advice and services.

SPC's fundamental aims are:

(a) to draw upon the knowledge and experience of Members, so as to contribute to legislation and other general developments affecting pensions and related benefits, and

(b) to provide Members with services useful to their business.

THE SOCIETY OF PENSION CONSULTANTS

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