

MAL EBC Regulatory Update

7 April – 17 May 2010

What's My View? Dan DeKeizer

The formation of the new government has been discussed at great length over the past week, but it is still remarkable that we are now living under the first coalition government that the UK has had in 70 years. The aim of the coalition is to deliver strong and stable government - an objective which I think most would welcome. However, it remains to be seen how well in practice the coalition will weather the stresses and strains of government, at the same time as overcoming significant policy differences between the coalition partners.

It is reassuring to see new Ministerial teams with expertise and interests in pensions issues. Steve Webb at the Department for Work and Pensions and Justine Greening at HM Treasury will help instil confidence within the industry and provide a useful complement to the 'broken society' focus of the new Work and Pensions Secretary Iain Duncan Smith.

I was also pleased to see pensions feature in the short, yet informative, coalition agreement that was published following the negotiations. There are clearly areas around pensions policy where the two parties largely agree and last week's paper contained some welcome news for the industry.

In particular, the proposals to phase out the default retirement age are clearly a reflection of today's reality – many of us will either want or need to work beyond age 65. The key now will be to ensure that the legislation also permits companies adequate protection from spurious age discrimination suits and is flexible enough to change benefit packages which involve a stated retirement age, such as their defined benefit plans.

The promise to review the speed at which the state pension age is raised is also welcome and should begin as soon as possible. Certainly, we should ensure the state pension is adequate to protect pensioners from abject poverty but it would not be unreasonable for it to begin even as late as age 70 for both men and women, while allowing for actuarially fair reductions for early claimants. If, however, the government wanted to overhaul this process radically, an interesting move would be to consider indexing the state pension age to population expectations of life. This would make the issue much less political, opening up a range of possibilities for the future.

The agreement also confirms a joint Conservative / Liberal Democrat policy to end compulsory annuitisation at age 75. I am of the opinion that annuitisation remains the best way for most individuals to ensure that their pension savings last for their lifetime. However, it is not for everyone. There are of course important considerations to be taken into account to ensure that the government does not create a system where choosing not to annuitise results in an increase in the number of people eligible for means tested benefits. With the right precautions in place, allowing people choice over how they manage their retirement savings could allow people more flexibility to prepare for eventualities such as needing long term care, or living long past age 85. It would seem that both parties are convinced of the need to avoid the unintended consequences of abolishing compulsory annuitisation, but it

remains to be seen exactly how this will be incorporated into the detail of the policy. With the two parties choosing to make civil liberties a flagship theme of the administration, there is plenty of scope for making the case that forcing annuitisation on those who will clearly never end up on means tested benefits is an unnecessary restriction on their liberties. Moreover, as people live longer, work longer and in a more flexible way, lifting the rules on compulsory annuitisation takes more account of how retirement will be experienced in the 21st century.

It's my view that this package of principles are directionally correct and my hope that the implementing legislation will successfully balance the economic and social value of the changes with the cost to corporations and individuals in adopting them.

General Election Announcements on Pensions and Aftermath

Pensions and the ageing society remained a constant if low-key aspect of the debate during the General Election Campaign. On 19 April, the Conservative Party launched its Older People Manifesto, unveiling policies designed to appeal to the older community in Britain. Highlights from the manifesto included looking at scrapping the default retirement age, abolishing compulsory age 75 annuitisation and providing specialist back-to-work support for the over 50s. The Conservatives also pledged to link the basic state pension to earnings in 2012. The Liberal Democrats also pledged to restore the earnings link for the basic state pension and scrapping the default retirement age.

In their coalition agreement document published on 11th May, Prime Minister, David Cameron and Deputy Prime Minister, Nick Clegg agreed to establish 'an independent commission to review the long term affordability of public sector pensions, while protecting accrued rights'. They also agreed to phase out the default retirement age and to 'hold a review to set the date at which the state pension age starts to rise to 66, although it will not be sooner than 2016 for men and 2020 for women'. The two parties committed to ending the rules requiring compulsory annuitisation at age 75.

Further details can be found here –

LibDem Manifesto

http://www.libdems.org.uk/news_detail.aspx?title=Nick_Clegg_sets_out_policies_for_older_people&pPK=9048eb20-6eef-46fd-93b6-dd3ff4682b57

Conservative Manifesto

http://media.conservatives.s3.amazonaws.com/manifesto/cpmanifesto2010_olderpeople.pdf

Joint Conservative Lib Dem coalition agreements

http://news.bbc.co.uk/1/hi/uk_politics/election_2010/8677933.stm

The Pensions Advisory Service (PAS) – Pensions Action Group Unhappy with Party Responses on Pensions

On 4 May, the PAS reported that the Pensions Action Group (PAG) recently wrote to each of the main party leaders with concerns on the future of the UK pensions system as well as the Financial Assistance Scheme (FAS). The PAG campaigns on behalf of those who lost pension rights when their occupational pension schemes were wound up.

The group has since expressed disappointment at the responses that they received from the three main political parties. The PAG said that the Liberal Democrats' response did not specifically address issues raised. The Conservative Party was more accommodating but without any firm commitment. No response was received from the Labour Party.

<http://www.pensionsadvisoryservice.org.uk/news/2010/may/pensions-action-group-unhappy-with-party-responses-on-pensions>

Britons call on next Government to 'plug' black hole in private pensions according to Brewin Dolphin

Two thirds of all Britons (66 per cent) believe that one of the next Government's top priorities should be to encourage people to invest in private pensions, according to a ComRes poll for Brewin Dolphin.

<http://www.brewindolphinmedia.co.uk/brw/media/pressreleases/2010/2010-04-29/>

Regulatory Announcements

FSA – pension switching

On 9 April, the Financial Services Authority (FSA) published the findings of its follow-up work to improve the quality of pension switching advice. The findings will see a number of firms carry out past business reviews that will deliver more than £150 million in redress to customers.

In addition to failings previously identified, the FSA's follow-up work highlighted additional concerns. Some advisers were found to be offering 'portfolio advice services', where the additional costs were not justified for a particular customer; the FSA also saw examples of tied advisers not investigating a customer's existing pension arrangements.

<http://www.fsa.gov.uk/pages/Library/Communication/PR/2010/063.shtml>

FSA appoints CEO of new Consumer Financial Education Body

On 15 April, the FSA announced the appointment of Tony Hobman as the chief executive of the newly created Consumer Financial Education Body (CFEB).

Hobman is currently chief executive of the Pensions Regulator and has held a number of senior appointments within the financial services arena. He spent 20 years with Barclays Bank, and has been chief executive of ProShare, the Money Channel plc and the Occupational Pensions Regulatory Authority.

CFEB will take responsibility for the national roll out of the Money Guidance service, delivered under the Moneymadeclear brand. The service allows people to speak to trained money guides who will assist them with their money issues. A full national roll-out of the face-to-face service is due to be in place later this year.

<http://www.fsa.gov.uk/pages/Library/Communication/PR/2010/068.shtml>

FSA fines London IFA £24,500 for pension switching advice failings

On 16 April, the FSA announced that it had fined Robin Bradford (Life and Pension Consultants) Ltd, a London based IFA firm, £24,500 for exposing customers to unacceptable levels of risk of receiving poor pension switching advice.

The firm is also reviewing the pension switching advice conducted during the period in question to see whether any redress is required.

During its investigation, the FSA found that between 6 April 2006 and 21 April 2008, Robin Bradford exposed customers to the risk of receiving poor advice by failing to obtain and record relevant information from its customers to assess whether advice was suitable, and failing to include relevant information in suitability letters to help customers make an informed choice on the decision to switch. It also failed to adequately monitor the quality of its pension switching advice.

<http://www.fsa.gov.uk/pages/Library/Communication/PR/2010/069.shtml>

Other Announcements

Financial Reporting Council - The Professional Oversight Board announces the scope of the Audit Inspection Unit's work for 2010/11

On 12 April, the Professional Oversight Board of the FRC published a description of those entities whose audits will be deemed to be "major audits" for the purposes of audit inspections in the year from 1 April 2010 to 31 March 2011.

The Board chose to simplify the definition of UK unquoted companies, limited liability partnerships and industrial and provident societies to include all such entities having either a Group turnover greater than £500m or having a Group turnover in excess of £100m and external long term debt in excess of £250m. The Board also chose to include all banks incorporated in the UK as a separate category.

Further details can be found here - <http://www.frc.org.uk/pob/press/pub2260.html>

Financial Reporting Council - FRC announces appointment of Peter Montagnon as Senior Investment Advisor

On 21 April, the FRC announced the appointment of Peter Montagnon as Senior Investment Advisor to the Financial Reporting Council. He will join the FRC in early June.

Montagnon has joined the FRC from the Association of British Insurers, where he was Director of Investment Affairs. Prior to joining the ABI in 2000, he worked at the *Financial Times*, where his assignments included a spell as Head of Lex. He is a member of the European Corporate Governance Forum, a past Chairman of the International Corporate Governance Network and a visiting professor at the Cass Business School.

Further details can be found here - <http://www.frc.org.uk/press/pub2265.html>

Pension Policy Institute briefing note – What are the main parties’ policies on pensions?

On 13 April, following the publication of the Labour and Conservative Party manifestoes, the PPI published an updated briefing note outlining details of the main parties’ approach to pensions.

The PPI concluded that there is cross-party support for many of the state and private pension reforms. However, it added that the introduction of NEST in its current format may depend on the outcome of the general election. In addition, it stated that if the Conservatives win the election then there could also be a strong move towards deregulation of private pensions.

It added that the outcome of the election is likely to have some major ramifications for pensions policy, especially where the implementation of NEST is concerned, but also regarding the implementation of auto-enrolment, rises in SPA, access to pension savings, tax-relief on pension contributions and the shape of the BSP.

https://www.pensionspolicyinstitute.org.uk/uploadeddocuments/Briefing%20Notes/PPI_Briefing_Note_55_update_13.04.10.pdf

Pensions Advisory Service - Adverse tax charge warning after MPA change

On 13 April, the PAS reported that Scottish Life has warned that retirees aged below the new minimum pension age of 55 and in pension income drawdown could face adverse tax charges if they now want to buy an annuity with their fund or switch their fund to another pension income drawdown provider.

<http://www.pensionsadvisoryservice.org.uk/news/2010/april/adverse-tax-charge-warning-after-mpa-change>

Pensions Advisory Service - SIPPs earning little or no interest

On 15 April, the PAS reported that over £13bn in self-invested personal pensions (SIPPs) is earning little or no interest as cautious investors leave their payments in cash funds.

It noted that Defaqto research has revealed that a quarter of the £52.6bn held in SIPPs is left in cash funds despite the poor interest received because concerns about stock market risks are making investors reluctant to commit money to shares.

<http://www.pensionsadvisoryservice.org.uk/news/2010/april/sipps-earning-little-or-no-interest>

Pensions Advisory Service - Reader's Digest scheme enters PPF

On 19 April, the PAS announced that the Reader's Digest pension scheme has entered into the Pension Protection Fund (PPF) assessment period. After going into administration in February, Readers Digest Association UK was recently bought out by private equity firm Better Capital.

<http://www.pensionsadvisoryservice.org.uk/news/2010/april/reader%E2%80%99s-digest-scheme-enters-ppf>

Clear Path Analysis Report on New Active Management Solutions for DC Pension Schemes

On 20th April Clear Path Analysis published a report on 'New Active Management Solutions for DC Pension Schemes'. This is the first report of its kind to analyse how the increase in active fund managers offering DC solutions will change the way trustees, corporate sponsors, advisors, regulators and even employees think about their DC pension savings.

The report is available for download at:

<http://clearpathanalysis.com/report2/report.php>

Veterans complain about frozen pensions

On 30 April, the PAS reported that a veterans' group were "outraged" that the Armed Forces pensions in payment have not increased this year which also applies to other public sector pensions because of negative inflation in September 2009.

<http://www.pensionsadvisoryservice.org.uk/news/2010/april/veterans-complain-about-frozen-pensions>

Association of Consulting Actuaries – ACA Chairman says it's 'time to get positive' about pensions

On 29 April, the Association of Consulting Actuaries (ACA) published its Biennial Review, which had as its theme 'getting positive' about retirement income policies.

Speaking at an industry dinner, ACA Chairman, Keith Barton, launching the Review, said that a key ACA request is that a standing independent retirement income commission should be established so policy across State, public sector and private pensions is addressed in a "joined up" way. He added that he hoped that such an approach would help in coordinating timely changes in retirement ages as longevity improves, balancing the aspirations of the retired with the costs falling on the working population.

http://www.aca.org.uk/files/ACA_Chairman_says_time_to_get_positive_about_pensions-29_April_2010-20100429171255.pdf

CBI - 'NEST' pensions may fail over high and complex charges

On 19 April, the CBI warned that the Government's new workplace pension scheme could deter millions of savers because of its high and complicated charges.

It noted that businesses are worried that staff, and particularly the lower paid, will balk at the proposed charging structure of the National Employment Savings Trust (NEST), which loads fees towards the earlier years after a pension is opened.

John Cridland, CBI Deputy Director-General, said: "NEST is a key part of extending the offer of a good pension to everyone in the private sector. The scheme is meant to be low-cost and easy to understand, so that it spurs people to start saving. But the risk is that many staff will think they are getting a raw deal, and will quit the NEST scheme.

"The next government needs to revisit the structure of these fees. We must make it easier for the low-paid to save by smoothing the cost, instead of front-loading it. The pensions timebomb is ticking loudly, and more people must be encouraged to save."

<http://www.cbi.org.uk/ndbs/press.nsf/0363c1f07c6ca12a8025671c00381cc7/0aa71364a431eb89802576f50056d7e1?OpenDocument>

NAPF updates

NAPF - Four Become Quality Friends

On 12 April, NAPF announced that Standard Life, BlackRock, Ferrier Pearce and Capita Hartshead are the first four companies to become Friends of Pension Quality Mark "because of their commitment to support the award for good quality workplace pensions."

The new initiative is designed to recognise all those working in the pensions industry to make the Pension Quality Mark a success.

http://www.napf.co.uk/DocumentArchive/Press%20Releases/00_2010/20100412_12-04-2010%20-%20Four%20Become%20Quality%20Friends.pdf

Pension Protection Fund updates

7800 Index

The Pension Protection Fund (PPF) 7800 Index has been updated to the end of April 2010. The key points of interest are:

- The aggregate funding position (total assets minus total liabilities) of almost 7,400 DB funds is estimated to have worsened over the month to a deficit of £2.2 billion at end of April 2010, from a surplus of £0.3 billion at end of March 2010 (Chart 1 and Table 1). Scheme funding is better than it was a year previously (there was a deficit of £188.5 billion in April 2009).
- The total deficit of schemes in deficit in April 2010 is estimated to have worsened to £74.4 billion from £73.3 billion at the end of March 2010 (Chart 3 and Chart 4). In April 2009, the aggregate deficit of all schemes in deficit stood at £204.8 billion.

In April 2010, the total surpluses of schemes in surplus decreased to £72.3 billion from £73.6 billion at the end of March 2010 (Chart 6). In April 2009, the total surplus of all schemes in surplus stood at £16.4 billion.

<http://www.pensionprotectionfund.org.uk>

Appointment of PPF Chair

On 7 April, Angela Eagle MP (the then Minister for the Ageing Society) announced that Lady Judge (Barbara Judge) has been selected to be the next Chair of the PPF. She will take over from Lawrence Churchill on 1 July 2010 and her appointment will last for three years.

<http://webarchive.nationalarchives.gov.uk/+http://www.dwp.gov.uk/newsroom/press-releases/2010/april-2010/dwp066-10-070410.shtml/>

Publication of Management Plan

On 8 April, the PPF published its Management Plan for 2010/11 - 2012/13, incorporating Business Plan 2010/11. This outlines PPF's strategic objectives for the next three years and its key performance indicators for the year ahead.

The plan states that for the early part of 2010/11 a key focus will be on transferring the remaining FAS beneficiaries from the DWP system (Compendia) to the PPF's outsourced provider, Capita. The PPF has argued that this should generate efficiency savings on two bases: first because it is no longer incurring Compendia costs, and second through economies of scale derived from aggregation of both FAS and PPF volumes, which will drive down member charge costs. The PPF has argued that this will benefit both tax payers and levy payers.

http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/Business_Plan_April2010.pdf