MAL EBC Regulatory Update

8 February 2010 - 9 March 2010

What's My View? Dan DeKeizer

15th March 2010

The Pensions Policy Institute published its fourth report on retirement incomes and assets this month. The report focused on the future outlook for pension savers.

One finding which stood out for me was the fact that whilst state pension reforms could make it easier for lower income pensioners to meet replacement rates (calculation of income the pensioner would require to meet other basic needs versus the income required to achieve an acceptable standard of living), the shift away from DB schemes into DC schemes could see moderate to high income pensioners struggling to meet their expectations for reasonable replacement income from their pension alone.

The PPI's analysis suggests that the hypothetical median-earning man would have a reasonable chance of saving enough to meet their desired replacement rate if he had contributed 15% of total salary to a DC pension during his working life. The problem is that this would require both employer and employee to be contributing about 5% more than the current average contribution levels.

The finding that employees are not saving enough into private pension schemes to meet their income expectations in retirement is hardly shock news, but what is puzzling is the seeming lack of engagement with this problem by policy makers and industry. There has been plenty written on the need for advice and support services to be developed to help employees cope with the increasingly complex investment and income decisions which DC schemes require, but startling little written about how to communicate what a sensible level of saving looks like for the average employee.

A case in point is the consultation on best practice in investment governance for DC schemes, published by the government sponsored Investment Governance Group (IGG) this month. This highlights 'clear and relevant communication' as a key principle of good governance, but the communication it talks about is 'information on the investment options and their characteristics', with no mention of the fundamental question of 'how much retirement income am I going to get'.

Educating savers so that they can make informed choices about the funds that they hold in their DC schemes is a laudable objective, but you would have to be a very smart, or lucky, investor to make up for a chronic shortfall in contributions over the lifetime of a scheme. Focusing communications principles on the detail of investment choices, without addressing the fundamentals of what scheme members need to save to meet retirement income expectations, seems to me a clear case of putting the cart before the horse.

Employees who have been used to having a clear view of what their income would look like on retirement through their DB schemes are now being asked to make those calculations themselves. At the moment it looks like they are getting their sums wrong and are under saving. If we want to avoid significant problems down the road, then more work is needed on how to most effectively communicate the outcomes of different contribution levels.

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Lindsay Tomlinson speech at the NAPF Chairman's Dinner, 24th February 2010

Lindsay Tomlinson, the Chair of the National Association of Pension Funds gave a keynote speech on the UK pensions scene at the NAPF Chairman's dinner on 24th February.

He noted "an astonishingly steep decline" in the number of those saving into DB schemes in the last 10 years and pointed out that "the rapid decline in defined benefit provision is not just a future problem. It is actually having very important investment consequences which are immediate and which are likely to be deeply damaging to the UK economy."

He said that "The defined benefit pension funds would have matured over time and their investment strategies would in any event have moved in favour of bonds as opposed to equities. But the regulatory and tax blizzard which has hit them over the last 20 years has pushed them towards run-off and has forced the investment strategy change to happen much more quickly." He argued that the application of mark-to-market accounting and solvency standards to life assurance companies and pension funds has reduced the proportion of their assets invested in equities.

"For those pension funds which were not mature, the effects have been even greater because marking-to-market has forced them out of equities. This has denied them the opportunity of earning the hotly debated equity risk premium and pushed up the expected costs of the benefits they seek to provide. We all know what happened next: the rate of pension fund closure has accelerated, which has further reduced the funds' equity investment potential. We are now locked in a self-reinforcing downward spiral of decline."

He claimed that "the decline in defined benefit pension funds is not just a problem to worry about in 20 years time. It is already having a considerable impact in the equity market, with major consequences for British companies and the UK economy, not to mention millions of people who are trying to do the right thing and put a bit by for retirement."

He called on the Government to issue more long-dated and index-linked gilts. "We know it makes sense: it's good for companies, who will see their liabilities fall; it's good for schemes, who will see their deficits shrink; it's good for working people, who are more likely to see their schemes survive; and it's good for government who will have access to capital– and let's face it, they need some of that right now."

Mr Tomlinson's speech may be read at:

http://www.napf.co.uk/DocumentArchive/Press%20Releases/00_2010/20100225_25-02-2010%20-%20Lindsay%20Tomlinson%20Speech%20at%20NAPF%20Chairmans%20Dinner%202010.pdf

Cameron makes retirement age pledge

Conservative Leader David Cameron revealed that should the Conservatives win the upcoming general election they will raise the basic state pension as well as the retirement age. In a speech to the Conservative Party Spring Conference on 28th February, David Cameron said: "Because we've made a tough choice. We have said that from 2016, we're going to move the retirement age a year later. Believe me, I've had e-mails, quite a lot of e-mails, from people in their late 50s who are not happy about this. But I believe we have the right argument. People are living longer in this country, people are having longer and happier retirements, and I think it is right to say we should move that retirement age. But above all, it enables us to look Britain's pensioners in the eye and say: you deserve security, dignity and a good quality of life in your old age, and we will link the pension back with earnings, that's a promise."

The link to Mr Cameron's speech may be found at:

http://www.conservatives.com/News/Speeches/2010/02/David_Cameron_Lets_win_it_for_Britain.aspx

NAPF awards 37 Schemes the Pensions Quality Mark

On 2nd March, the National Association of Pension Funds announced that they had awarded 37 schemes the Pension Quality Mark, just six months after its launch. NAPF Chief Executive Joanne Segars said: "The Pension Quality Mark continues to go from strength to strength. It is really exciting to see so many schemes qualified and so many people saving in schemes covered by the Mark so soon after its launch."

The NAPF press release may be read at:

http://www.napf.co.uk/DocumentArchive/Press%20Releases/00_2010/20100302_02-03-2010%20-%20100,000%20Workers%20Have%20Schemes%20That%20Hit%20The%20Pension%20Quality%20Mark.pdf

PPI publishes report on 'Retirement income and assets: outlook for the future'

On 11th February, the Pensions Policy Institute published its fourth report looking at the future of retirement income and assets in the UK. The report considers the income and assets that a future generation, reaching state pension age in 2030, may have to support retirement.

The report may be read at:
https://www.pensionspolicyinstitute.org.uk/default.asp?p=12&publication=0260&

A write up of the PPI seminar on the report may be seen at:

http://www.pensionspolicyinstitute.org.uk/default.asp?p=12&publication=0262&subjectSelector=&yearSelector=2010&DefinedSearchSubmitted=1&submit=Search&publicationSelector=7&keywords=Enter%20keyword&searchphrase=1&

Draft of new Actuarial Standard on Pensions is published

On 25th February, the Financial Reporting Council's Board for Actuarial Standards published its draft pensions standard. This proposed new standard places the onus on actuarial advisors to check their data, use reasonable assumptions and explain the uncertainty around any figures. This should give further reassurance to pension trustees. The information supplied will have to be understandable to users, and (in the case of the final report) to pension scheme members.

The consultation period for the exposure draft ends on 21 May 2010. Copies can be downloaded from the BAS website at http://www.frc.org.uk/bas/publications/pub2233.html

The press release may be read at:

http://www.frc.org.uk/bas/press/pub2234.html

Industry bodies lobby against Government pension changes

On 25th February, the National Association of Pension Funds announced that it had set up a working party to lobby against the Government's changes to tax relief on pension contributions. The NAPF press release argued that "The Government must support good quality pensions by increasing the supply of long-dated and index-linked gilts and abandoning their complex and costly proposals on the tax treatment of pensions contributions."

On 3rd March, the NAPF published its response to the HM Treasury consultation on "Implementing the restriction on pensions tax relief". The NAPF press release said that "The Government must stop its plans to change pensions taxation for high earners, look carefully at the threat they pose to wider pension provision, and listen to the pensions sector's alternative approach." The Association of Consulting Actuaries (ACA) submitted a response to the same consultation criticising the policy as "seriously flawed with each attempt to try to make it fairer only increasing the complexity and adverse impact on pension schemes."

The NAPF response to the HMT consultation can be found at:
http://www.napf.co.uk/policy/recentreports.cfm

The HM Treasury's consultation "Implementing the restriction on pensions tax relief" can be found at: http://www.hm-treasury.gov.uk/consult_pensionsrelief.htm

The NAPF press release may be found at:

http://www.napf.co.uk/DocumentArchive/Press%20Releases/00_2010/20100225_25-02-2010%20-%20Chancellor%20Must%20Adopt%20a%20Budget%20for%20Pensions.pdf

The NAPF's Budget submission "A Budget for Pensions" was published on Thursday 25th February at: http://www.napf.co.uk/policy/recentreports.cfm

The ACA press release may be read at:

http://www.aca.org.uk/files/ACA_says_pension_tax_changes_severely_flawed-5_March_2010-20100305104332.pdf

The ACA consultation response may be read at:

http://www.aca.org.uk/files/ACA_response_to_pension_tax_relief_consultation-3_March_2010-20100304164633.pdf

The press release with the NAPF's alternative proposals may be read at:

http://www.napf.co.uk/DocumentArchive/Press%20Releases/00_2010/20100225_25-02-2010%20-%20Chancellor%20Must%20Adopt%20a%20Budget%20for%20Pensions.pdf

NAPF initiatives on corporate governance

On 9th February, the National Association of Pension Funds (NAPF) announced two new initiatives designed to support the ownership role of pension funds and continue to support raising corporate governance standards in the UK.

New guidance "Pension Funds and the ISC Code – A practical guide" sets out how the Code's Principles, covering shareholder engagement and reporting, can be applied in practice. It encourages pension funds to incorporate effective engagement monitoring into their fund manager reviews helping to build a stronger corporate governance culture.

The NAPF also established a dedicated corporate governance service, Corporate Governance PensionsConnection, for funds and investment managers to give them access to expert thinking on a broad range of corporate governance issues.

Both form part of the NAPF's role in promoting good corporate governance and supporting the ownership responsibilities of pension funds.

The NAPF press release may be read at:

http://www.napf.co.uk/DocumentArchive/Press%20Releases/00_2010/20100209_09-02-2010_Putting%20a%20Stronger%20Corporate%20Governance%20Culture%20into%20Practice.pdf

Pension Funds and the ISC Code – A Practical Guide is freely available on the NAPF web-site at http://www.napf.co.uk/Policy/Governance.cfm

Pension funds and investment managers can register for the Corporate

Governance PensionsConnection at www.napf.co.uk/PensionsConnection

IGG consults on Principles for DC pension schemes

On 10th February, the Investment Government Group (IGG) announced the publication of its consultation paper on its draft Investment governance principles and best practice guidance for both trust based and contract based DC work based pension schemes. The proposed Principles address three key areas: accountability and delegation, fund choices and default strategy, and communications with members.

This consultation will run for 12 weeks and responses should be submitted to the IGG Secretariat before 5th May 2010.

The Investment Management Association responded positively to the IGG consultation paper, saying: "The draft principles from the IGG DC sub-group are an important contribution to the promotion of good investment governance in DC provision, whatever the underlying delivery architecture. The IMA fully supports this process."

The IMA press release may be read at:

http://www.investmentuk.org/press/2010/20100212.asp

To view the consultation document, please visit:

http://www.thepensionsregulator.gov.uk/pdf/igg-con-doc-2010.pdf

To view the full press release:

http://www.thepensionsregulator.gov.uk/docs/igg-press-release-2010.pdf

CII seeks industry support to restore public trust

On 18th February, the Chartered Institute of Insurance published research calling on the financial services sector to debate and develop solutions that will deliver change that not only improves the public's perception of financial services, but the reality. According to the press release, "The CII report - What we talk about when we talk about trust shows that today's 'crisis of trust', which many commentators have called unprecedented, is nothing new, other than in scale." The report – the first in a series about the issue of trust and the importance of public confidence – is part of the CII's attempt to promote a thoughtful debate on trust in the financial services sector.

Further details of and a full copy of the CII's report is available at:
http://www.cii.co.uk/downloaddata/Trust_CII_2010.pdf

Pensions Advisory Service Launches a new Auto Enrolment Planner for Employers

The Pensions Advisory Service has launched a new planner will help employers understand what their duties will be when auto enrolment is introduced in October 2012.

The website with a link to the planner may be found at:

http://www.pensionsadvisoryservice.org.uk/employer-guidance/auto-enrolment

Department of Work and Pensions Announcements

The Pension Protection Fund and Occupational Pension Schemes (Miscellaneous Amendments) Regulations 2010: Government response to consultation on draft regulations

This document sets out the main points made by respondents to the Government's consultation and provides the Government's response.

The final Regulations and accompanying explanatory memorandum will be available on the Office of Public Sector Information's website at:

http://www.opsi.gov.uk/si/si-2010-index

The DWP response may be read at:

http://www.dwp.gov.uk/docs/ppf-occ-pen-response.pdf

The Pensions Regulator (Contribution Notices) (Sum Specified following Transfer) Regulations 2010: Government response to consultation

The Department of Work and Pensions has published the written responses received to its consultation exercise on the draft Pensions Regulator (Contribution Notices) (Sum Specified following Transfer) Regulations 2010 which closed on 11th December 2009. The final regulations will be laid before Parliament and debated. As set out in the consultation document, these regulations do not place a requirement on business. Therefore the

Government intends, subject to Parliamentary approval, to commence the regulations the day after they have been made, rather than align to a common commencement date.

The final regulations and accompanying explanatory memorandum will be available on the Office of Public Sector Information's website at: http://www.opsi.gov.uk/si/si-2010-index

The Government response to responses received may be read at:

http://www.dwp.gov.uk/docs/pen-reg-response.pdf

DWP awards contract for the scheme administration services of NEST

On 2nd March the Minister of State for Pensions and the Ageing Society (Angela Eagle) announced that the Personal Accounts Delivery Authority (PADA) had completed its procurement for the Scheme Administration Services for NEST, and would award the contract to Tata Consultancy Services Limited (TCS).

The PADA press release may be found at:

http://www.padeliveryauthority.org.uk/documents/Press-release5-2010.pdf

PPF Announcements

Pensions Protection Fund publishes its Technical News

The Pension Protection Fund is pleased to publish TN - the first of a regular series of Technical News updates about practical issues that affect schemes in a PPF assessment period. It is accessible from the homepage story, the Technical Guidance page, and there are also links on the Trustee and Pensions Professional pages.

The Technical News may be read at:

http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/TN_Feb2010.pdf

The PPF announcement may be read at:

http://www.pensionprotectionfund.org.uk/News/Pages/details.aspx?itemID=149

Four More Schemes Transfer to PPF

The PPF took four more schemes under its wing in January 2010. United Industries Plc Group Pension Scheme (Bacup Plastics Limited); United Industries Plc Group Pension Scheme (United Industries Plc); Unifi Dyed Yarns Ltd Pension Scheme; and Botes Building Limited Retirement and Death Benefit Scheme (Scheme 2) are the latest pension schemes to transfer to the PPF.

The press release with more details may be read at:

http://www.pensionprotectionfund.org.uk/News/Pages/details.aspx?itemID=157

PPF Deadlines on the Pensions Protection Levy

The PPF home page currently reminds trustees and scheme advisors of key deadlines in respect of the pension protection levy:

2010/11 Levy

- 5pm on 31 March 2010 for certification/re-certification of contingent assets.
- 5pm on 9 April 2010 for certification of deficit reduction contributions.
- 5pm on 30 June 2010 for final certification of full block transfers that have taken place up to and including 31 March 2010.

2011/12 Levy

- 5pm on 30 March 2010 for providing information to D&B regarding sponsoring employers' failure scores.
- 5pm on 31 March 2010 for updating PPF-related Scheme Return information including s179 valuations.
- 5pm on 30 June 2010 for final certification of full and partial block transfers that have taken place up to and including 31 March 2010.

The reminder may be found on the PPF web page at:

http://www.pensionprotectionfund.org.uk/Pages/homepage.aspx

PPF Issues Guidance on Onerous contracts

On 8th March, the PPF issued guidance for trustees and counterparties on the Board's power to modify and disclaim onerous contracts under section 161 and Schedule 6 of the Pensions Act 2004.

The press release may be read at:

http://www.pensionprotectionfund.org.uk/News/Pages/details.aspx?itemID=158

The guidance letter may be read at:

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

PPF 7800 Index

The PPF 7800 Index has been updated to the end of February 2010. According to the PPF website highlights include:

- The aggregate funding position (total assets minus total liabilities) of almost 7,400 DB funds is estimated to have improved over the month to a deficit of £15.1 billion at end-February 2010, from a deficit of £51.9 billion at end-January 2010 (Chart 1 and

Table 1). Scheme funding is better than it was a year previously (there was a deficit of £204.7 billion in February 2009).

- The total deficit of schemes in deficit in February 2010 is estimated to have improved to £79.5 billion from £102.8 billion at the end of January 2010 (Chart 3 and Chart 4). In February 2009, the aggregate deficit of all schemes in deficit stood at £218.0 billion.
- In February 2010, the total surpluses of schemes in surplus increased to £64.4 billion from £50.9 billion at the end of January 2010 (Chart 6). In February 2009, the total surplus of all schemes in surplus stood at £13.3 billion.

The PPF 7800 Index web page with more information may be found at:

http://www.pensionprotectionfund.org.uk/Pages/PPF7800Index.aspx

The full update may be read at:

http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF_7800_March_10.pdf