February 2016

Quattro Pensions
CONSULTING ACTUARIES

PENSIONS UPDATE

Code of Good Practice for Incentive Exercises

On 1 February 2016, the Incentive Exercises Monitoring Board (IEMB) published version 2 of the code of good practice for incentive exercises.

The main difference in the revised code is the introduction of a proportionality threshold under which there is no longer a requirement for advice or guidance to be provided to members where the offer made under a transfer exercise and/or of a full commutation of £10,000 or less. For pension increase exchange exercises, the threshold applies where the pension that can be modified under the offer is £500 pa or less. The proportionality threshold is applied cumulatively.

Other changes in the revised code are:

- The inclusion of full commutation exercises under the definition of a Modification Exercise
- Recognition that other parties, such as trustees, could initiate an incentive exercise
- Requirement for advice to consider the implication of the offer on the spouse and other beneficiaries

Alongside version 2 of the code, the IEMB have also published boundary examples. The examples do not form part of the code and are not hard and fast rules. They are intended only to provide guidance in the areas they cover.

Integrated Risk Management - New Guidance from the Regulator

On 8 December 2015, the Pensions Regulator (tPR) published guidance to help trustees and employers understand what is meant by "Integrated Risk Management" (IRM) in the context of funding defined benefit schemes.

The aim of the guidance is to help trustees and employers work together to make more robust, transparent and well documented decisions towards meeting the Scheme's funding objectives. The guidance sets out a step-by-step approach to implementing an IRM framework to identify and manage employer covenant, investment and funding risks.

The Regulator recognises that the actions taken and decisions made by trustees and employers should be proportionate to each scheme and employer circumstances.

State Pension Top Up Scheme Launched

A new scheme has been introduced by the DWP, which aims to help anyone reaching State Pension age before 6 April 2016 to safeguard their long-term financial security by offering them the chance to purchase up to an additional £25 per week of State Pension.

The scheme will remain open for 18 months. Anyone interested in the scheme is advised to seek advice to ensure this option would be right for them.

Don't Forget...

Abolition of DB Contracting Out on 6 April 2016

1. Consequential scheme design changes to be completed before 6 April 2016
2. GMP reconciliations needed - register with HMRC before April 2016
3. Reconciliation service no longer available after 2018

Changes to Pension Scheme Accounting

For accounting periods ending after 31 December 2015, the pension scheme accounts will be subject to the requirements of the new Statement of Recommended Practice (SoRP).

The main changes introduced by the new SORP relate to the way in which pension scheme investments are reported, including:

- Requirement to record investments under a hierarchy - based on the ease of obtaining the market valuation
- Greater disclosure regarding fair values and the methods used to determine them
- Requirement to include a note setting out the risks associated with the scheme's investments and details of the trustees' policies towards managing and mitigating these risks
- Requirement to include the fair value and cash flows from any annuity policies held by the trustees

There is also the additional requirement to include a statement showing the present value of the Scheme's liabilities (based on the most recent actuarial valuation) along with details of the assumptions and method used to value them.

Regulator Consults on New DC Code of Practice

The Pensions Regulator (TPR) has begun consultation on a revised Code of Practice on the governance and administration of occupational DC trust based schemes.

The draft is much shorter than the current DC code and is likely to be welcomed by trustees.

The draft does not make reference to the 'DC Quality features'. Instead it is supported by pieces of guidance that will set out good practice and suggested approaches that trustees may take.

Where a board of trustees are not confident that, collectively, they are conversant with the relevant legislation, TPR is urging them to consider if they are meeting the TKU requirements and, where necessary, commit to appropriate training and obtain professional advice.

This consultation will be followed by a further consultation on related guidance later this year with both the Code and Guidance intended to come into force in July 2016.

Don't Forget…

DC Governance

For accounting periods ending after 5 July 2015, trustees of schemes that provide money purchase benefits (including hybrid scheme and AVCs in some cases) will be required to include an annual governance statement in the Scheme's report and accounts. The statement should be signed by the designated Chair and should set out how the trustees have met their DC governance obligations.

(Almost) No More Short Service Refunds for DC Schemes

From 1 October 2015, members whose only benefits under a scheme are defined contribution (DC) will be entitled to deferred benefits after only 30 days' pensionable service.

Members will no longer be entitled to a refund of contributions when they leave pensionable service once the 30 day limit is reached. The new rules will apply to open DC schemes and DC sections of hybrid schemes but not to DC AVC sections of DB schemes.

The new requirement is not overriding and, strictly speaking, should be written into scheme rules.

The change applies only to members commencing relevant pensionable service on or after 1 October 2015. So, someone who joined on 30 September would have two year statutory vesting, someone joining the next day would have 30 day vesting.

Secondary Annuity Market

In December 2015, the Government published a response to their "call for evidence" for creating a secondary market for annuities, an extension of the Government's freedom and choice in pensions reform. The market will give annuitants the opportunity, from April 2017, to sell their annuity income stream to a third party, i.e. to exchange their annuity policy for a cash lump sum. Further consultation remains, with particular regard to taxation and notification of death. However, the key ideas are:

- Annuity purchasers and intermediaries will need to be FCA authorised
- Individuals wishing to sell an income stream above a pre-determined value (yet to be announced) will be required to take financial advice
- Pension Wise will offer guidance where there is no requirement for an individual to take advice
- Consent will be required from dependants and/or other beneficiaries of the annuity
- Annuitants may be asked to provide health information

PPF 2016/17 Levy Determination

On 17 December 2015, the PPF published the final details for the 2016/17 levy year. The determination is largely the same as that used for the 2015/16 levy with no changes made to the parameters, scaling factors or to the risk-based levy cap (0.75% of unstressed liabilities).

Only minor changes have been made, relating to:

- Certification of asset-backed contributions (ABCs) and contingent assets - ABC certification simplified and technical changes made to type C contingent assets
- Mortgages - only immaterial mortgages need to be re-certified. For others, the 2015/2016 certification will carry over.

Don't Forget...

PPF Levy - Data Deadlines

31 March 2016 for submitting information to the Pensions Regulator (via the scheme return on Exchange) and for certifying mortgage exclusions, ABCs and contingent assets

29 April 2016 for certifying deficit reduction contributions

30 June 2016 for certifying full block transfers

Schemes that have previously received a discount on past levies as a result of mistakenly indicating that they are last man standing (LMS) schemes will be invoiced for the underpayments.

PPF determinations are subject to a wider review every 3 years. The next full review due will be for the 2017/2018 levy year.

House of Commons Briefing Paper on Tax Treatment on Death

The House of Commons has published a briefing paper providing details on many of the changes regarding the tax treatment following the death of a person with pension entitlement. Although the majority of these changes have been in place since April 2015, the guide is a useful reference point for dealing with deaths relating to lifetime annuities or drawdown arrangements.

The guide also highlights how the changes have introduced differences in the tax treatment on some death benefits from lifetime annuities (now tax free if the member dies under age 75) when compared to (otherwise potentially near identical) benefits from a scheme pension (taxed at the survivor's marginal rate).

Dates For Your Diary 2016

5 February 2016	Deadline for consulting members about any abolition of contracting out changes
31 March 2016 (midnight)	Deadline for submitting information on the Pension Regulator's Exchange system for use in the 2016/17 PPF Levy Calculation
31 March 2016 (midnight)	Deadline for certifying mortgage exclusions, asset-backed contributions (ABCs) and contingent assets
5 April 2016	Final date for registering with HMRC for GMP reconciliation exercises
5 April 2016	Final date for making a section 251 surplus resolution
6 April 2016	Ban of active member discounts and member-borne commission (DC schemes used for auto enrolment)
6 April 2016	Reduced Lifetime Allowance and Annual Allowance (for higher earners) comes in to effect
29 April 2016 (5pm)	Deadline for certifying Deficit Reduction Contributions
30 June 2016 (5pm)	Deadline for certifying full block transfers
6 July 2016	Deadline for informing members of cessation of contracting out
31 July 2016	Deadline for online application for members who made interim application to protect Lifetime Allowance
Autumn 2016	2016/17 PPF Levy Invoices due to be issued

Recovering VAT on Pension Scheme Costs

On 26 October 2015 HMRC published their brief on recovering VAT on pension management costs.

The transitional period during which DB pension schemes can continue to use the existing VAT rules has been extended to 31 December 2016. This is to allow HMRC time for further consultation, and for the industry to come up with some more innovative solutions.

Don't Forget...

Budget Changes - Tax

1. Lifetime allowance will be reduced from £1.25m to £1m from 6 April 2016
2. Annual allowance will also be restricted for high earners
3. Pension input periods to be aligned to tax year

Find Out More

Please contact us for further information. Our contact details can be found in the footer below. Alternatively, please speak to your usual contact at Quattro Pensions.