PENSIONS UPDATE

Quattro Pensions
CONSULTING ACTUARIES

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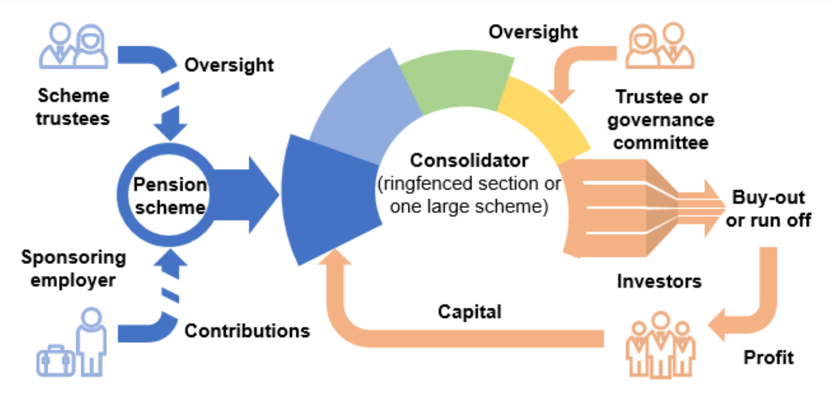
First "superfunds" emerge

New commercial consolidation vehicles designed to provide pension schemes with an alternative exit route to buying annuities with an insurance company are preparing to strike their first deals.

They are likely to target large schemes who are well funded but not yet able to achieve buyout. The trustees would exchange the security of the employer's covenant for the capital backing the "superfund".



Superfunds hope to profit through economies of scale, and through lighter-touch regulation than that used by insurance companies which would otherwise require them to hold greater capital to cover their risks. In turn, they can offer a more affordable option for schemes looking to wind up, and high standards of governance.

While a potential 10% discount to buyout pricing may seem tempting, a contribution from the employer may still be needed. Providers may also set a minimum transaction size so smaller schemes may be overlooked for now.

Trustees may have difficulty in comparing the strength of their future employer covenant with the financial position of the superfund.

If use of superfunds becomes more widespread, and the regulatory regime applying to them becomes clearer, more schemes may be able to consider this option.

To prepare for this eventuality, trustees should make sure their data and governance is in order, and may wish to consider a stronger funding target than the statutory objective.

Debt-dodging directors face fines

Company directors who try to avoid their pension obligations by dissolving their companies face fines or disqualification, under government proposals. Alongside measures that give companies more time to rescue a struggling business, the government hopes that this will help to safeguard jobs and pensions.

The consultation proposes no immediate change to the way that companies pay dividends when there is a deficit in the pension scheme. However, it plans to undertake an in-depth review of the dividend regime which will consider, among other things, how directors could provide reassurances that dividends will not undermine the affordability of pension deficit contributions.

Pensions guidance providers are changing

The new Single Financial Guidance Body, to replace the Money Advice Service, the Pensions Advisory Service and Pension Wise, will be established later this year with services to launch in January 2019.

The Pensions Advisory Service's dispute resolution functions have already transferred to the Pensions Ombudsman, while its information and guidance provision will become part of the new body. Schemes may want to review their Internal Dispute Resolution Procedures to ensure that members are signposted in the right direction.

The Pensions Regulator has fined a trustee £25,000 for failing to submit two valuations of its pension scheme

CDC on the horizon

The Government intends to consult on proposals for new collective forms of pension saving before Christmas, according to Parliamentary Under-Secretary of State for Work and Pensions, Guy Opperman.

These proposals could lead to the first Collective Defined Contribution (CDC) pension scheme in the UK. Royal Mail and the Communication Workers Union wish to set up a scheme which would target a certain level of pension with an accompanying lump sum, however the pension could be reduced in the event of underperformance, in a similar way to popular forms of provision in Denmark and the Netherlands.

The Government is also planning work around:

- Defined Benefit consolidation
- Scheme Funding guidance
- Provision of information to members

Equitable Life policyholders

Trustees may wish to make members with investments in the Equitable Life With Profits Fund aware of the potential impact of proposals to close the fund.

Purchaser Reliance Life plans to convert the policies to unit-linked, with members receiving a distribution of 60%-70% compared to the 35% currently granted. The enhancement would be granted towards the end of 2019, subject to a policyholder vote and court approval.

Affected members who are due to retire before 2019 could benefit from delaying their decision and should consult an independent financial adviser. Note that scheme rules may prevent AVCs being taken at a different time to scheme benefits.

Combating pension scams

TPR has launched a new ScamSmart advertising campaign, jointly with the Financial Conduct Authority, warning “Don’t let a scammer enjoy your retirement”.

The Government plans to implement its ban on pensions cold calling shortly to reinforce the message.

Meanwhile, an industry Code of Good Practice has been updated to help trustees and administrators protect members from falling prey to scams.

Victims of pension scams lost an average of £91,000 in 2017, according to a survey carried out for the Pensions Regulator

GMP equalisation

Trustees of contracted-out schemes must equalise benefits for the impact of unequal Guaranteed Minimum Pension (GMP), following a landmark High Court case (the Lloyds case).

Our forthcoming bulletin will look at the next steps for trustees.

Trustees’ powers challenged

The Court of Appeal has found that the trustee of the Airways Pension Scheme acted for an “improper purpose” in amending the scheme’s rules to permit the award of discretionary increases, following the change from RPI to CPI for statutory increases to pensions.

The trustee has been granted permission to appeal to the Supreme Court. The circumstances are unusual but the judgment could have wider application around the use of trustees’ powers.

To find out more, please speak to your usual contact at Quattro.

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