



Pensions line Autumn 2002

A Newsletter for Pension Scheme Managers and Trustees from Hillier Hopkins

This summer has been an unusually busy time in the pensions world, particularly for the publication of major reports. Following on from the Ron Sandler and Alan Pickering Reports, we now await the outcome of the Inland Revenue's Simplification Review.

In this edition, we review the Sandler and Pickering reports and bring you up to date on the continuing saga of FRS 17. For further information on any of these topics or indeed to let us have your own views and comments, please telephone Phil Collins on 01923 232938 or e-mail philc@hillierhopkins.co.uk.

The Sandler Review

Commissioned by the Financial Services Authority, Mr Sandler's report on the retail savings market was published on 8 July this year. Among its proposals for simplification of investment products, capped charges and more stringent qualifications for financial advisers, the report set out specific ideas for change to the pension system, including:

- urgent consolidation of the various pension tax regimes and
- the need to recognise smaller employers as a special case in relation to undue regulatory burdens.

These proposals were welcomed by the National Association of Pension Funds as "an important first step towards much-needed reform of the pension landscape, and so creating a climate in which pension provision through the workplace can flourish".

The Pickering Review

Alan Pickering's report followed hot on the heels of the Sandler Review. Less fulsomely received than Ron Sandler's proposals, the Pickering Review has been criticised for not being radical enough. However, Mr Pickering maintains that his proposals are both radical and workable, having worked closely with the Department of Work and Pensions and the team leading the Inland Revenue Simplification Review, in a bid to ensure that they are also politically achievable.

In making his proposals, Mr Pickering has considered the interests of the employer, other providers of pensions, and individuals, both those currently in possession of some form of pension provision and those without - currently just over half the working population. He has aimed to reduce red tape and the prescription surrounding provision of pension, with a view to safeguarding the future of existing occupational pension schemes and encouraging the setting up of new ones, in a bid to extend membership to a larger portion of the workforce.

The main Pickering proposals involve:

- A proportionate regulatory framework. Mr Pickering proposes a new Pensions Act to replace or consolidate all existing pensions legislation. The legislative principles should focus on the desired outcome rather than be prescriptive about procedures. He also proposes a new kind of regulator, one who will focus on the bigger picture and not the minutiae of prescriptive processes.
- Under a title of "A pension is a pension is a pension", Mr Pickering proposes a reduction in the number of different types of pension available from the current 20+ to just three. These would most likely be occupational defined benefit, occupational defined contribution and personal pensions, e.g. Stakeholder.
- Finally, encouraging "More pension, less prescription", the Pickering report recommends the removal of the requirement for pension schemes to provide indexation of benefits and survivors' benefits.

While broadly welcoming these proposals, the NAPF and various other bodies feel they do not go far enough in protecting existing pension provision and encouraging saving.

On the back of the Pickering Review and the, soon to be published, Inland Revenue proposals, the Government's Green Paper is due out mid November. Industry commentators hope this might result in early legislation encapsulated in the Finance Act 2003 and a new Pensions Act in the 2003/4 parliamentary session. Whether this will be early enough to arrest or even slow the further closure of occupational schemes remains to be seen.

FRS 17 - The Saga Continues...

As reported in our first edition of Pensionsline, the impact of FRS 17, the new UK pension accounting standard, has had a distinctly disproportionate impact on the results of UK public companies. A number of major employers have cited the new accounting standard as a reason for discontinuing their final salary (defined benefit) pension provision.

While the final deadline date for implementation of FRS 17 (due December 2002) has been postponed, pending the review of the International Accounting Standard (IAS 19), this should only be viewed as a temporary reprieve and not as necessarily good news long term. Sir David Tweedie, who headed up the UK Accounting Standards Board during the conception of FRS 17, is now Chairman of the International Accounting Standards Board and so the prospect of an international accounting standard along similar lines seems very likely.

The only possible light on the horizon is the pressure likely to come from some US corporations for an international standard similar to the current US FAS 87. Having said that, the recent Enron and WorldCom scandals will make it very difficult, one feels, for such corporations to argue effectively against the increased transparency of an FRS 17 look-alike.



Our pension audit team will be happy to discuss any issues relating to occupational pension schemes.
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