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Pensionline

A Newsletter for Pension Scheme Managers and Trustees

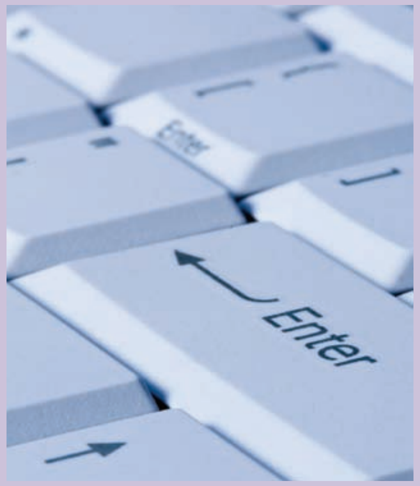
Winter 2007

Well, the Autumn, hopefully, sees the Royal Mail strike settled, although just at the point that Siemens staff threaten action over changes to pension provision. Once upon a time, industrial action was about more pay or shorter hours. With an ageing population, pensions are gaining an ever higher profile at a time when we may be seeing the demise of the defined benefit scheme. A recent NAPF survey of such schemes showed that one in five believe that there is nothing government can do to halt their decline, so maybe the government's recently announced proposals for deregulation are too late? A large proportion of respondents however, believe less regulation and government intervention is the answer. So, let's hope so. Also in this edition, we provide an overview of the results of the survey issued by the Confederation of British Industry (CBI) on the impact of pensions on UK businesses.

With many schemes having just gone through their first scheme specific funding requirements (SSFR) valuation under the new regime, the Pensions Regulator has published an analysis of those recovery plans submitted so far. We think you will find it of interest, particularly if you have yet to undertake your first SSFR valuation. But first …

Trustee Knowledge and Understanding

Over the Summer, the final module of the Trustee Toolkit 'Running your Scheme' was posted at www.trusteetoolkit.com If the members of your trustee board have worked their way through the whole toolkit, they will now be able to obtain their certificate of completion. We would suggest that scheme members would be reassured to see mention of this in the trustee's next annual report.



Pensions deregulation

At the end of October, the Department of Work and Pensions announced its proposals for deregulation. Specifically, these will involve allowing employers to reduce the cap on the rate at which deferred pensions are revalued from 5% to 2.5% pa and, similarly, reducing the cap on statutory pension increases (in respect of benefits earned since 2005) from 5% to 2.5% pa. There is to be a short period of consultation ending on 15 November, following which the government will make its final decisions and introduce the necessary changes.

The Minister for Pensions Reform, Mike O'Brien said "We believe the proposals we've brought forward today strike the right balance between encouraging employer provision of pensions and protecting members' benefits."

A number of organisations had asked the government to remove altogether the statutory requirement to increase pensions in payment but this has been declined.

In addition to the above proposals, the government has identified further areas of potential deregulation for consideration. We understand that these 'further areas' include Employer Debt, Disclosure and the Surplus regulations, which will be considered as part of an ongoing, and very welcome, programme of deregulation.

NAPF DC Service

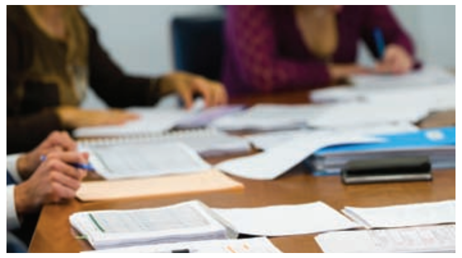
The NAPF has launched a new service for defined contribution plans called DC Pensions Connection. This features discussion forums, polls, newsletters and online networking. We think trustees of DC schemes will find it extremely useful. For more information please visit www.napf.co.uk/dcconnection/

Regulator considers first recovery plans

Under the new funding regime, pension schemes in deficit are required to submit a recovery plan setting out how quickly the deficit is to be eliminated. Considering those plans submitted up to July of this year, the Regulator has been able to determine some key issues:

- More than 80% of schemes are planning recovery periods of no more than 10 years, with an average of 7.5 years.
- Mortality assumptions have not yet reflected the recent debate on the need for more prudence.
- In some cases, trustees and employers have failed to agree a recovery plan, requiring the Regulator to consider intervening.

Tony Hobman, Chief Executive of the Pensions Regulator said "It is still early days in the Scheme Funding regime and many of the recovery plans included in this analysis are still being looked at. But it provides a useful snapshot of a dynamic and still unfolding situation that will be of interest to the wider market. More information is available at www.thepensionsregulator.gov.uk/



The CBI survey

The CBI, in association with a leading actuarial firm, has carried out a survey of Chief Executives' opinions in relation to final salary pensions. The results of the survey show that while UK companies remain committed to providing pensions (86% want their staff to retire with adequate savings), the costs of such schemes are damaging business and one in six companies has been forced to cut jobs. Medium sized firms appear to have been particularly affected.

John Cridland, Deputy Director-General of the CBI said "Businesses are determined to help provide a decent retirement for their staff, and see a good pension scheme as a big advantage when recruiting. It is nonetheless clear that the large and growing burden of defined benefit pension contributions is taking its toll on future jobs, investment and growth." As a result only 9% of respondents now think that firms should provide final salary pensions for all their employees. Average company contributions to DB schemes last year rose to a record 22% of salary, while only 37% of firms have a DB scheme still open to new members.

Firms are increasingly concerned with reducing the volatility of pensions costs, with 64% citing it as a priority. Such costs stem from a combination of volatile investment markets, uncertainty over future life expectancy, and red tape.

Not surprisingly, more firms are shifting to Defined Contribution (DC) and, since 1994, the proportion of companies offering DC schemes has increased from 50% to 67%. Employers are now contributing an average of 7.2% of salary into DC schemes, compared with 6.6% in 2006.

Changes to the State Second Pension

In the Chancellor's Pre-Budget Report issued at the beginning of October, he announced that the State Second Pension will start its move to a flat rate from 2009. This will partially reduce the amount of contracted-out rebate available to defined benefit pension schemes, and therefore increase the cost to the employer.

Employers do have the choice of amending their schemes in order to take account of the reduced rebate, for example by contracting back in to the State Scheme or otherwise reducing the benefit accrual rate. However, as the NAPF Director of Policy, Nigel Peaple said, "…this is not a straightforward exercise as they would have to consult all the members, entailing extra costs, and some scheme rules might prohibit it."

Finally…

Thank you to those of you who responded to our Pensionline survey in the Spring. We were delighted with such positive responses. Most of you told us that you found the content quite interesting and the length of our newsletter just right. Some of you wanted more on DC schemes and we will certainly take account of that. A large number indicated that you would like the newsletter to be a quarterly publication, rather than half-yearly. We will be considering this over the course of the Winter, but may well be tempted to abide by the old adage 'always leave them wanting more'. We hope you continue to.

UK200Group

Our pension audit team will be happy to discuss any issues relating to occupational pension schemes. Please telephone Phil Collins, Paul Brunt or Stuart Hoey on 01923 232938 or email phil.collins@hhllp.co.uk

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