Industry Update – Defined Benefit Pensions Green Paper and Budget

While the Spring Budget brought no new pensions news, it confirmed the reduction of the Money Purchase Annual Allowance from £10,000 per annum to £4,000 per annum for those who have commenced accessing their savings flexibly.

The Lifetime ISA will open its doors for business from 6 April, offering an alternative to pension saving.

From 9 March 2017 transfers to a Qualifying Overseas Recognised Pension Scheme may be subject to a 25% tax charge.

A little less conversation….. a little more action

Whilst the Chancellor may have turned his attention away from pensions for the moment, the spotlight remains on Defined Benefit Schemes as we consider what the recent Department for Work and Pensions Green Paper on Security and Sustainability in Defined Benefit Schemes might mean in practice, particularly for small schemes. Despite the significant size of the paper (some 100 pages), no consensus was reached on striking the right balance between protecting members and supporting employers. The feedback from the informal consultation held in 2016 with key stakeholders was that there is not a fundamental problem overall.

A key question is whether or not the issues faced by Trustees differ depending on the size of their scheme, with the smallest 81% of defined benefit schemes by number, covering just 10% of defined benefit scheme membership.

Cartwright have considerable experience of advising small and medium sized schemes, and have first hand knowledge of the areas considered by the paper, working with sponsors and trustees for whom the outcome will be of great interest.

There are four key areas:

Funding and Investment

- Liabilities have increased due to low interest rates, and remain volatile, prompting reconsideration of the way that financial assumptions are set.
- How can small schemes access the perceived better investment strategies of larger schemes?
- The time for completion of valuations could shorten, e.g. to 9 months, or be linked to the risk profile of the scheme.

Employer contributions and affordability

- The data supporting the Green Paper finds the level of sponsor contribution commitment affordable within the flexibilities of the current funding regulations, though there may be a reluctance on the part of some Trustees and Advisors to fully utilise these flexibilities
- There is a recognition that there are “stressed” schemes and the analysis indicates that many of these schemes will be the smaller ones. There is a proposal that certain benefit guarantees might be reduced if unaffordable, for example, might CPI inflation be used to index benefits in place of RPI irrespective of restrictions in Rules?

Member protection

- Members are often unaware of the potential consequences of being a member of a stressed scheme without detailed independent financial advice. Should communications to members be improved through greater clarity and access to information?
- Should the Pensions Regulator's powers be extended to allow them to intervene earlier and more effectively?

Consolidation of Schemes

The Pensions Regulator has already expressed the view that Trustees should consider consolidating their Trustee activity with Trustees of other schemes, but can this extend further, ranging from back office functions to a "Superfund" vehicle consolidating assets and liabilities?

- The Government believes there is a strong case for voluntary consolidation to take advantage of savings and is keen to understand what hurdles can be overcome to make this happen.

Comment: Cartwright believe that many small schemes are well run and resourced but welcomes options for those schemes that are genuinely "stressed".

The Green Paper supports the regime of Integrated Risk Management which if undertaken fully will identify a "stressed" scheme where the Sponsor is in genuine danger from the cost of its obligations.

A strong theme of the Green Paper is whether non Professional trustees can really meet their fiduciary duties, but the alternative adds to the burden of the cost of running a scheme.

In our January update on the requirements to be a 21st Century Trustee paper we highlighted the new minimum standards for "lay" Trustees. Cartwright believes that whilst Trustees do have to take time out to update and hone their skills, this is perfectly viable. A full evaluation of the Trustee Body will highlight the bespoke areas of training needed.

Investment Tools such as Investment Platforms allowing better access to best of breed managers in each asset class, and products delivering Liability Driven Investment Strategies are now equally accessible to small schemes and will afford them a full range of solutions to address and evaluate risk. This is a recent innovation and needs time to take effect.

If you would like to discuss this further, please get in touch with your usual contact at Cartwright.

March 2017

Mill Pool House
Mill Lane
Godalming
Surrey GU7 1EY

T: 01483 860201
E: enquiries@cartwright.co.uk

250 Fowler Avenue
Farnborough Business Park
Farnborough
Hampshire GU14 7JP

T: 01252 894883
E: enquiries@cartwright.co.uk

Marlborough House
Victoria Road South
Chelmsford
Essex CM1 1LN

T: 01245 293300
E: enquiries@cartwright.co.uk

The Mansley Business Centre
Timothys Bridge Road
Stratford Enterprise Park
Stratford-upon-Avon
CV37 9NQ
T: 01245 293300
E: enquiries@cartwright.co.uk