

Industry Update

Defined Benefit Schemes and auto-enrolment from 6 April 2016

This Update is of special interest to Employers and Trustees of Defined Benefit schemes which are open to future accrual.

Our Update of January 2016 described the issues that need to be addressed as a result of the end of contracting-out from 6 April 2016. The final paragraph advised that action was required for defined benefit schemes that continue to accrue future service benefits. This Update explains the action required now that the DWP has finally issued its guidance on this matter on 29 March 2016.

Auto-enrolment

Employers have a legal duty to automatically enrol their eligible jobholders into a qualifying automatic enrolment pension scheme and to maintain active membership for those jobholders already enrolled. If an Employer runs a defined benefit pension scheme which is contracted-out of the State Second Pension and which is open for future accrual then such a scheme can be used for auto-enrolment of the active members of that scheme. The mere fact that it is contracted-out means that it automatically meets the auto-enrolment requirements. Due to the abolition of contracting-out from 6 April 2016, a new approach now has to be used to ensure that such a defined benefit pension scheme continues to be a qualifying auto-enrolment pension scheme.

A test already existed (the "Test Scheme Standard"), which could be used for defined benefit pension schemes which did not contract-out, however this Update addresses the new "Cost of Accruals Test" now available which is much simpler and is expected to be the most common approach used.

Cost of Accruals Test

Under this Test, a scheme will qualify as an auto-enrolment scheme if the cost of the benefits provided exceeds the minimum required. This minimum varies between 8% and 13% of pensionable earnings, depending on the definition of pensionable earnings and whether or not the scheme provides survivors' pension benefits. It will be necessary to check the definition of pensionable earnings but the contribution rate will normally be readily available from the most recent actuarial valuation report.

The DWP guidance anticipates that the Scheme Actuary will provide written confirmation to the Employer that their scheme passes the Cost of Accruals Test. The Employer must retain this confirmation to be able to demonstrate that the scheme complies with their automatic enrolment duty.

Timescales

Unfortunately, the DWP did not issue its guidance until 29 March 2016 even though, as they admit, ideally confirmation by the actuary to the Employer should have been given on or before 5 April 2016. Accordingly, their guidance now states that confirmation can be given shortly after 5 April 2016.

Conflicts of Interest

The required confirmation has to be given to the Employer rather than the Trustees. It clearly makes sense for the Scheme Actuary to provide this advice, but as the Scheme Actuary's primary duty is to the Trustees, the Scheme Actuary will contact the Trustees before giving the confirmation to the Employer, to address the issue of the potential conflict of interest.

We do not regard providing this confirmation as advice which has a direct bearing on the benefits of the scheme or on scheme funding and we therefore do not regard it as raising any actual conflicts of interest. Nevertheless, if the Trustees have any concerns they should discuss this with the Scheme Actuary as soon as possible.

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

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