**AMNT Autumn conference**

# *The pensions landscape, upcoming issues, consultations and legislation*

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**Partner**

13 September 2018


| Grade | Index Value | Countries | Description |
|---|---|---|---|
| A | >80 | Nil | A first class and robust retirement income system that delivers good benefits, is sustainable and has a high level of integrity. |
| B+ | 75–80 | Denmark<br>Netherlands<br>Australia | A system that has a sound structure, with many good features, but has some areas for improvement that differentiates it from an A-grade system. |
| B | 65–75 | Norway<br>Finland<br>Sweden<br>Singapore<br>Switzerland<br>New Zealand<br>Chile<br>Canada<br>Ireland | |
| C+ | 60–65 | Germany<br>Colombia<br>UK | A system that has some good features, but also has major risks and/or shortcomings that should be addressed. Without these improvements, its efficacy and/or long-term sustainability can be questioned. |
| C | 50–60 | France<br>USA<br>Malaysia<br>Poland<br>Brazil<br>Austria<br>Italy | |


## Ten key policy recommendations

**1** Increase public funding for social care by more than £2 billion from reformed taxation of property. There should also be an increase in property-based contributions towards care costs, but with strict limits so that no-one pays more than a quarter of their wealth towards their own care.

**2** Introduce a £2.3 billion 'NHS levy' via National Insurance on the earnings of those above State Pension age and limited National Insurance on occupational pension income.

**3** Boost employment security via: the right to a regular contract for those doing regular hours on a zero-hours contract; extended statutory rights for the self-employed; and minimum notice periods for shifts.

**4** Introduce a £1 billion 'Better Jobs Deal' that offers practical support and funding for younger workers most affected by the financial crisis to take up opportunities to move jobs or train to progress; and £1.5 billion to tackle persistent underfunding of technical education routes. Both should be funded by cancelling 1p of the forthcoming corporation tax cut.

**5** Make indeterminate tenancies the sole form of private rental contract, with light-touch rent stabilisation limiting rent increases to inflation for three-year periods and disputes settled by a new housing tribunal.

**6** Replace council tax with a progressive property tax with surcharges on second and empty properties; halve stamp duty rates to encourage moving; and offer a time-limited capital gains tax cut to incentivise owners of additional properties to sell to first-time buyers.

**7** Pilot community land auctions so local authorities can bring more land forward for house building, underpinned by stronger compulsory purchase powers; and introduce a £1.7 billion building precept allowing local authorities to raise funds for house building in their area.

**8** Require firms contracting for self-employed labour to make pension contributions; lower the earnings threshold above which employees get auto-enrolled; and provide greater incentives to save among low- and middle-earners by flattening the rate of pensions tax relief and exempting employee pension contributions from National Insurance.

**9** Develop a legislative framework for new 'collective defined contribution' pensions that better share risk; and reform pension freedoms to include the default option of a guaranteed income product purchased at the age of 80.

**10** Abolish inheritance tax and replace it with a lifetime receipts tax that is levied on recipients with fewer exemptions, a lower tax-free allowance and lower tax rates. Use the extra revenues to introduce a £10,000 'citizen's inheritance' – a restricted-use asset endowment to all young adults to support skills, entrepreneurship, housing and pension saving.

1 Earnings progress has stalled for young adults today. Millennials are earning the same as those born 15 years before them were at the same age.

3 Millennial families are only half as likely to own their home by age 30 as baby boomers were by the same age, and are four times more likely to rent privately.

6 Future pensioners are exposed to retirement income risks that current retirees are largely protected from around investment returns, longevity and price shocks. A 1 percentage point decline in investment returns would reduce retirement incomes for millennial men born in the mid 1980s by 8 per cent.

9 Household wealth has grown rapidly throughout the 21st century, but despite this no cohorts born since 1960 are accumulating more wealth than their predecessors.

Source: Resolution Foundation

# WHO SAVES THE MOST?

£286
18-34

£255
35-54

£258
55+

Source: Close Brothers, PLSA

House of Commons

Work and Pensions Committee

# Collective defined contribution pensions

## Royal Mail and CWU agree to introduce UK's first CDC scheme


Royal Mail and CWU agree in principal to set up CDC scheme subject to legislative changes

stage of their working life. *We recommend the Government consult on achieving fair intergenerational risk sharing through CDC scheme design, learning from the experience in the Netherlands. This should be part of a wider consultation on benefit adjustment and risk sharing policies in CDC schemes.*

Department for Work & Pensions

# Automatic Enrolment Review 2017: Maintaining the Momentum

# *Pensions dashboard – does it have a future?*

*Too ambitious? Insufficient commitment? Or just a waste of money?*

Scrapping 'pensions dashboard' could cost savers millions

**Government denies providers to blame for dashboard delays**

Why is the pensions dashboard still stuck on the blocks?

**“ Lights out for pensions dashboard? ”**

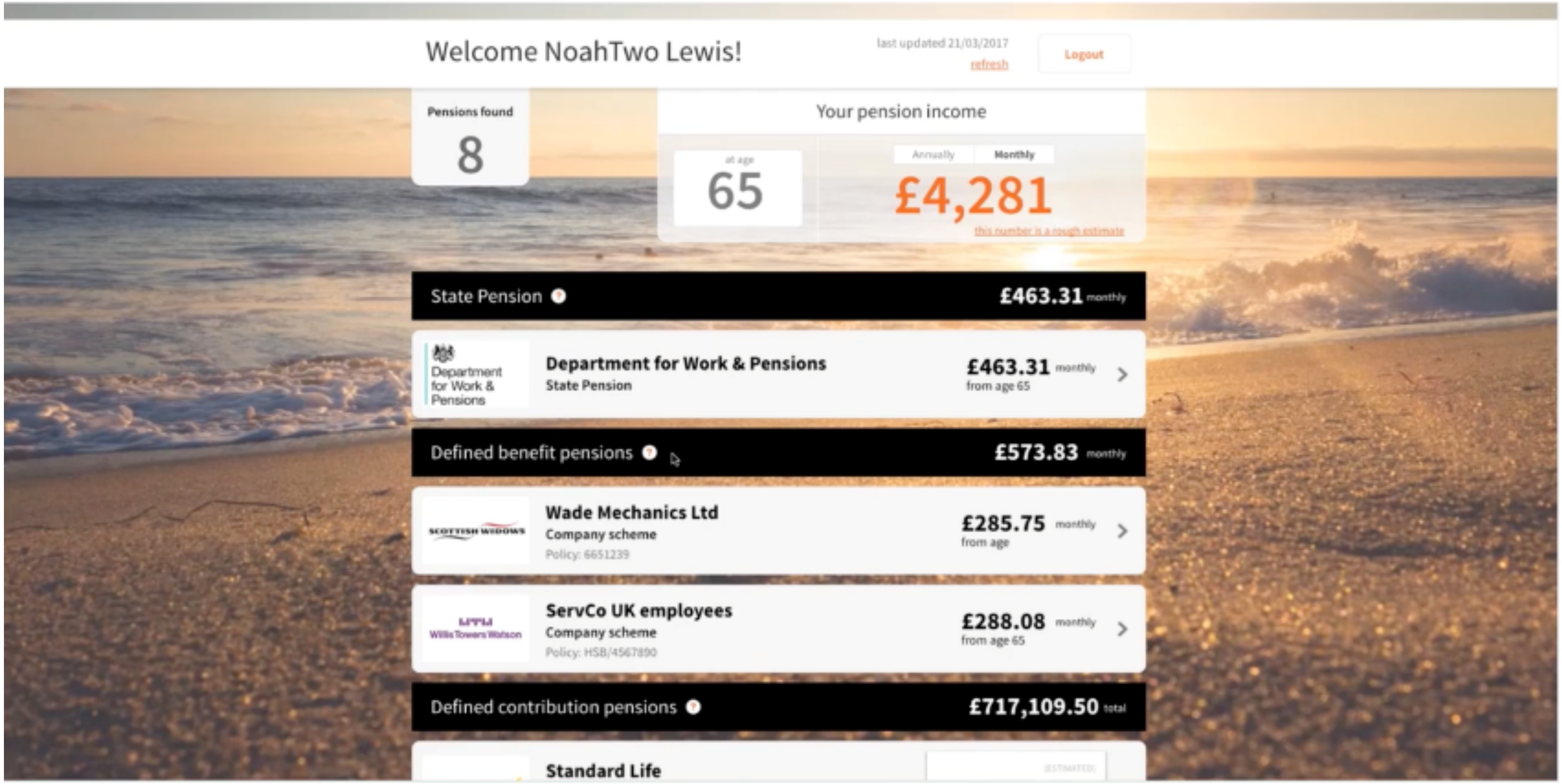
**“ Pensions dashboard belongs in cloud cuckoo land ”**

# *Pensions dashboard*

## *Why should it be "too hard"?*

"That said, the department and government have been doing a feasibility study, they are then reviewing that, and a decision will be made . . . long and short of it is, you'll understand that this is a matter on which the government has to make a decision. No decision has been made."

Source: Guy Opperman




Source: Pensions Dashboard Prototype Project

Institute and Faculty of Actuaries

# Can we help consumers avoid running out of money in retirement?

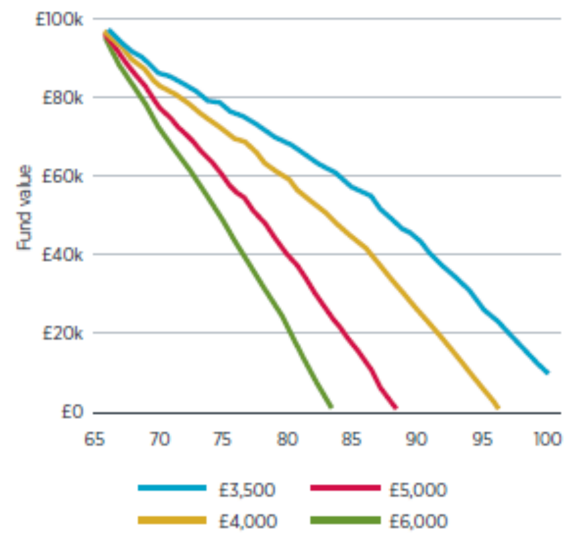
## Policy briefing

**Key findings**

1. **What are the most important factors to consider in order to minimise the risk of consumers' pensions running out during retirement?**

   Consumers must balance the amount of income they withdraw against how long they might live to avoid running out of money.

**Figure 2: Median fund value with balanced investment strategy for £3,500, £4,000, £5,000 and £6,000 per annum withdrawal rates**




Source: IFoA

House of Commons

Work and Pensions Committee

# Pension freedoms

*We recommend the Government takes forward FCA proposals to introduce default decumulation pathways. Any provider offering drawdown would be required by FCA rules to offer a default solution that is targeted at their core customer group. The*

# *Limitations*

## *Why haven't TPR "done better"?*

142. **The Pensions Regulator's feeble response to the underfunding of Carillion's pension schemes was a threat to impose a contribution schedule, a power it had never—and has still never—used. The Regulator congratulated itself on a final agreement which was exactly what the company asked for the first few years and only incorporated a small uptick in recovery plan contributions after the next negotiation was due. In reality, this intervention only served to highlight to both sides quite how unequal the contest would continue to be.**

143. **The Pensions Regulator failed in all its objectives regarding the Carillion pension scheme. Scheme members will receive reduced pensions. The Pension Protection Fund and its levy payers will pick up their biggest bill ever. Any growth in the company that resulted from scrimping on pension contributions can hardly be described as sustainable. Carillion was run so irresponsibly that its pension schemes may well have ended up in the PPF regardless, but the Regulator should not be spared blame for allowing years of underfunding by the company. Carillion collapsed with net pension liabilities of around £2.6 billion and little prospect of anything being salvaged from the wreckage to offset them. Without any sense of irony, the Regulator chose this moment to launch an investigation to see if Carillion should contribute more money to its schemes. No action now by TPR will in any way protect pensioners from being consigned to the PPF.**

https://www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/inquiries/parliament-2017/carillion-inquiry-17-19/

# *The Pensions Regulator – statutory objectives*

*Sustainable growth objective added in 2014*

The Pensions Regulator

The Government will provide The Pensions Regulator with a new objective to support scheme funding arrangements that are compatible with sustainable growth for the sponsoring employer and fully consistent with the 2004 funding legislation. The precise wording of this new objective will be set-out in legislation that the Department for Work and Pensions will publish later this spring.

The Pensions Regulator is the regulator of work-based pension schemes in the UK. We have objectives to: protect members' benefits; reduce the risk of calls on the Pension Protection Fund (PPF); to promote, and to improve understanding of, the good administration of work-based pension schemes; and to maximise employer compliance with automatic enrolment duties.

Source: The Pensions Regulator

# Wide-ranging powers

*But rarely used*

# Pensions Act 2004

**CHAPTER 35**

231 Powers of the Regulator

In any of those circumstances the Regulator may by order exercise all or any of the following powers—

(a) it may modify the scheme as regards the future accrual of benefits;

(b) it may give directions as to—

 (i) the manner in which the scheme's technical provisions are to be calculated, including the methods and assumptions to be used in calculating the scheme's technical provisions, or

 (ii) the period within which, and manner in which, any failure to meet the statutory funding objective is to be remedied;

(c) it may impose a schedule of contributions specifying—

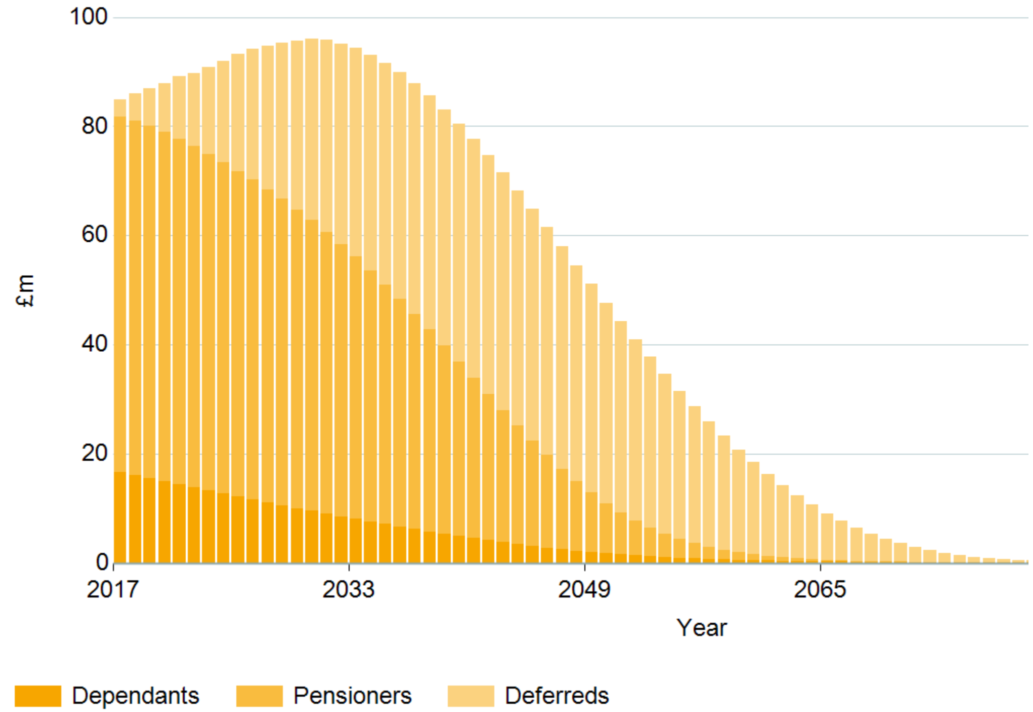
 (i) the rates of contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme, and

 (ii) the dates on or before which such contributions are to be paid.

# *Approach to scheme funding regulation*

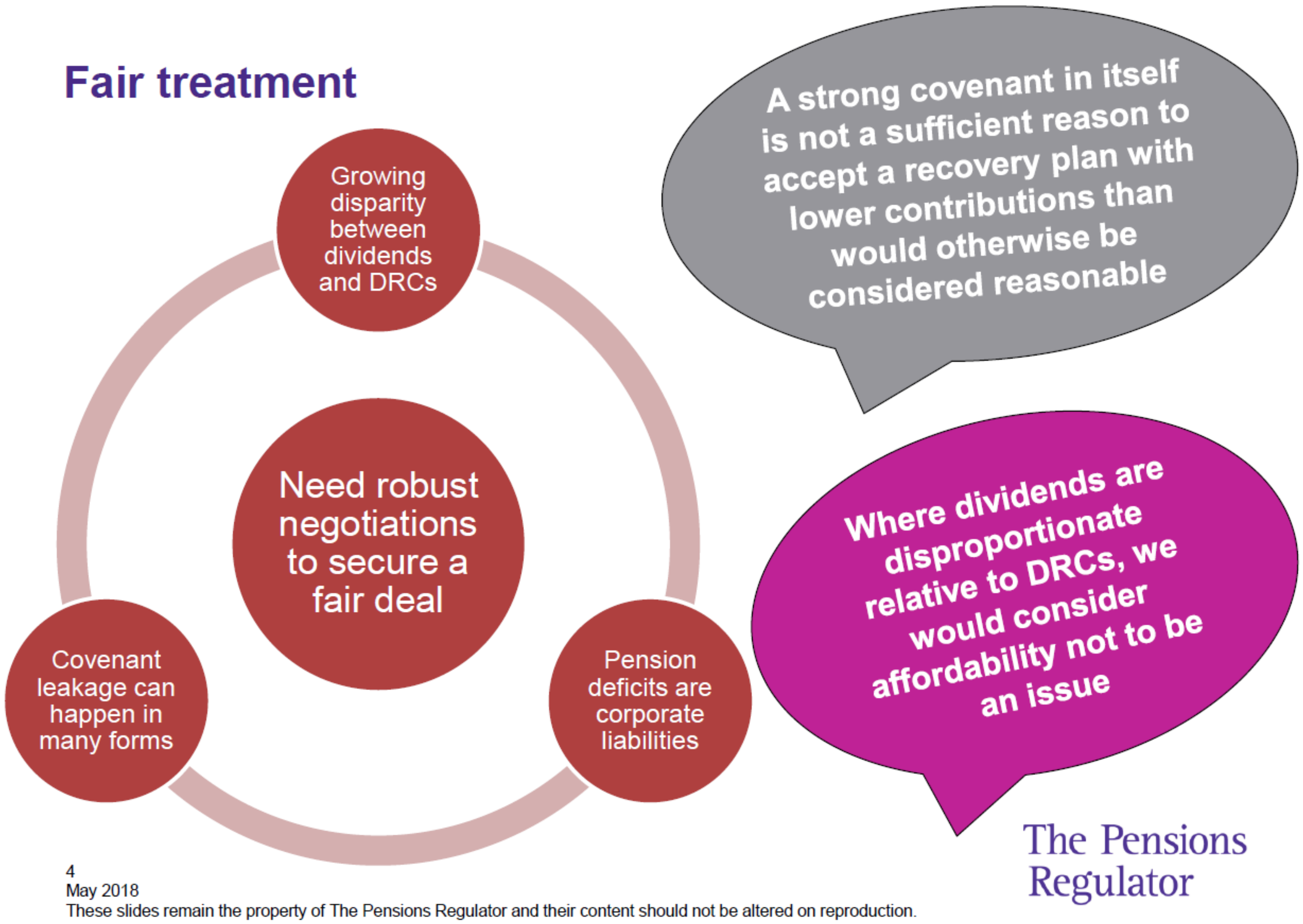
## *Behaviour driven by objectives*

- Understands closed schemes
- Prefers
  - Secure funding
  - shorter recovery periods
  - manageable investment risk
- Accepts
  - Contingency plans
  - guarantees
  - asset-backed contributions



# *Current concerns*

## *Some prompted by BHS / Carillion*




Source: The Pensions Regulator

Department for Business, Energy & Industrial Strategy

LCP INSIGHT CLARITY ADVICE

# INSOLVENCY AND CORPORATE GOVERNANCE

## Government response

**consideration to ways in which directors could provide stronger reassurances for shareholders and stakeholders that proposed dividends will not undermine the affordability of any deficit reduction payments agreed with pension fund trustees. This will be looked at as part of the consideration of fuller disclosure of capital allocation decisions and the case for a review of the UK's dividend regime.**

# *TPR Future*

*Clearer, quicker, tougher*

Protecting workplace pensions

TPR Future – a review of the way we work

July 2017

The Pensions Regulator

# DB White paper

## Revised funding code

Department for Work & Pensions

Protecting Defined Benefit Pension Schemes

**We will:**

- Strengthen the Regulator's ability to enforce Defined Benefit scheme funding standards, through a revised Code, focussing on:
  - how *prudence* is demonstrated when assessing scheme liabilities;
  - what factors are *appropriate* when considering recovery plans; and
  - ensuring a *long-term* view is considered when setting the statutory funding objective.
- Require the trustees of Defined Benefit pension schemes to appoint a Chair and for that Chair to report to the Regulator in the form of a Chair's Statement, submitted with the scheme's triennial valuation.

https://www.gov.uk/government/publications/protecting-defined-benefit-pension-schemes

# *DB chair's statement*

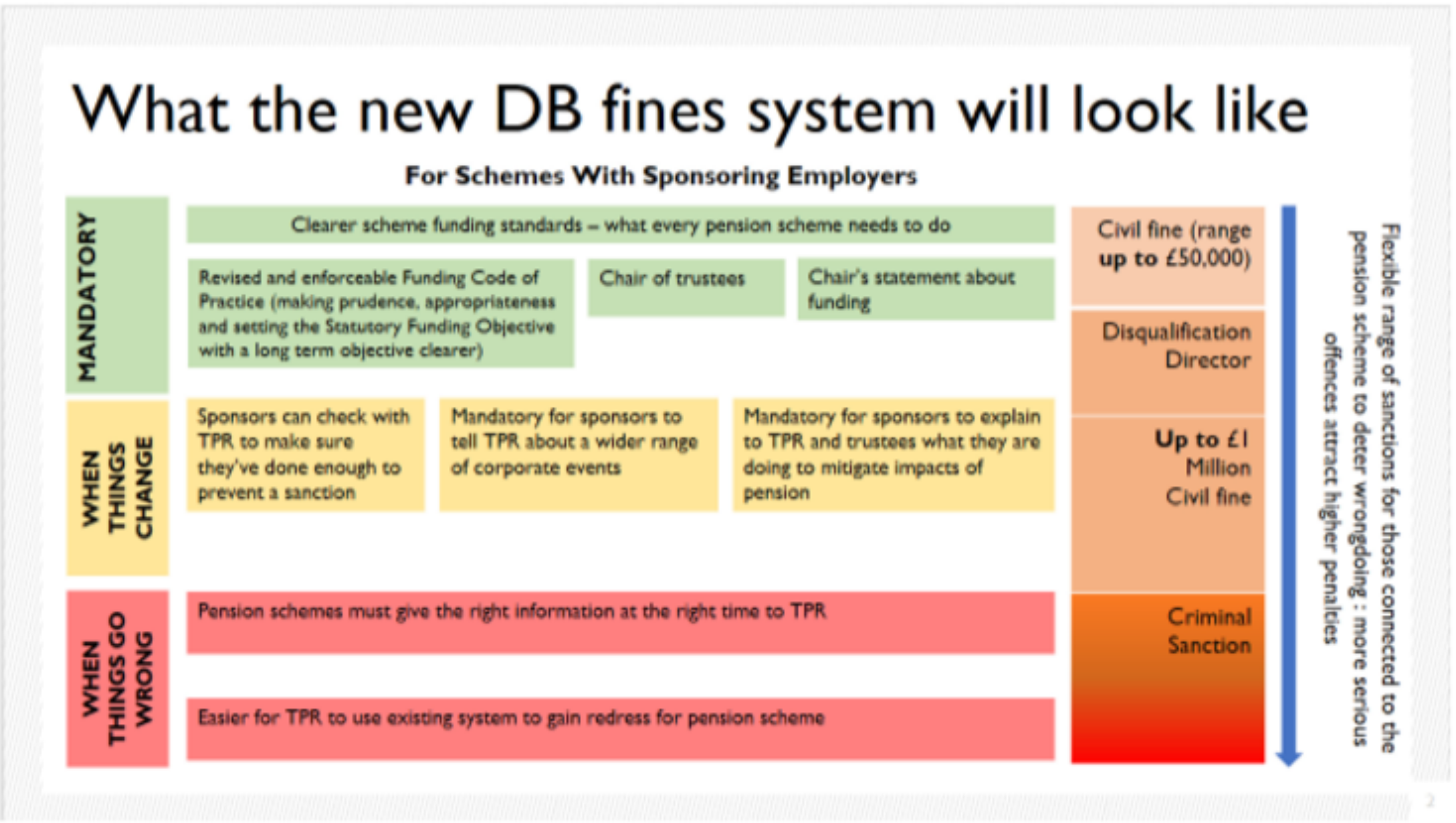
## *Commitment to TPR about the scheme*

The Chair's Statement is intended to drive improved accountability and to demonstrate collaborative decision-making between trustee and sponsoring employer. Trustees will be required to inform the Regulator about their approach to managing risks to the scheme, including information on how the trustee is meeting the clearer funding standards and how the SFO is being set in line with a long term funding objective. The Chair will also be required to reflect on and learn from past decision-making to ensure their plans are optimal. This will also enable the Regulator to get better information to assess risk, and to provide appropriate support or take enforcement action if necessary.

Source: DB White paper

# *A stronger Pensions Regulator?*

*Consultation on enhanced regulator powers*

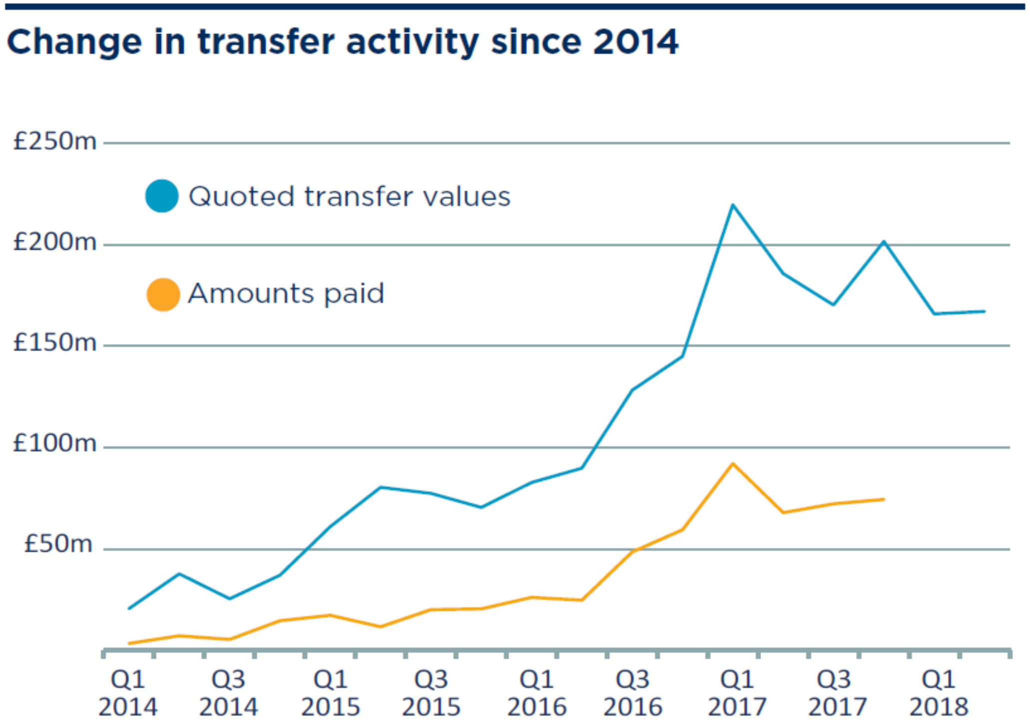


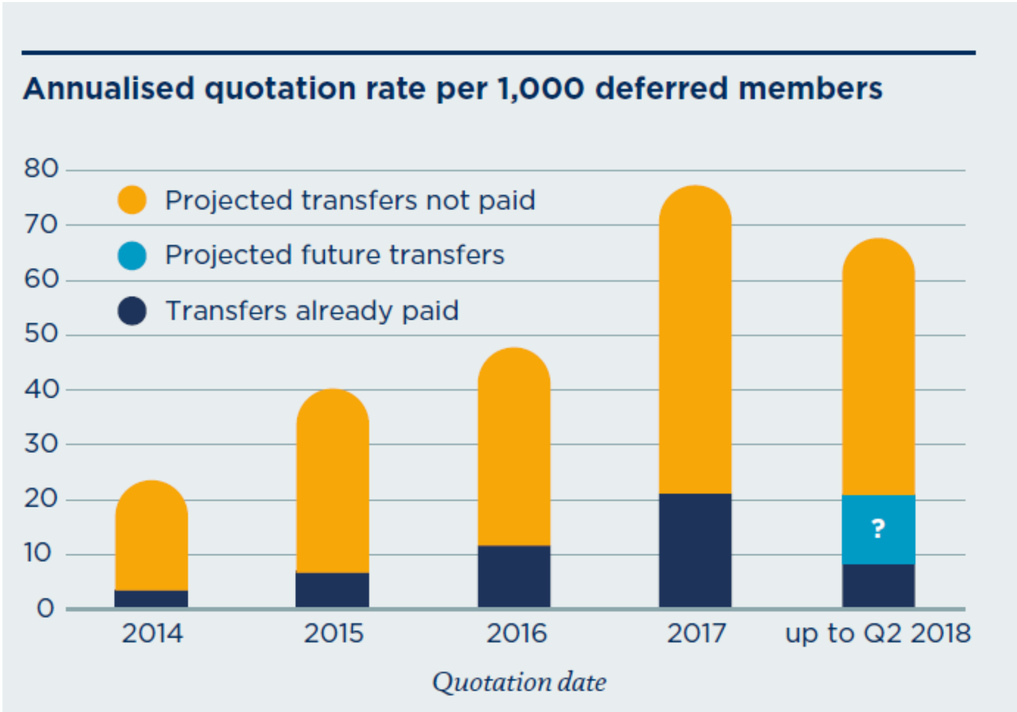

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/719779/protecting-defined-benefit-pension-schemes.pdf

Finance Act 2004

At a cost of £165 million by 2008, I will replace the eight existing tax schemes for pensions with a single lifetime allowance. I will set the allowance at £1.5 million for the first year of the scheme, from April 2006, and will set the allowance now for the years until 2010 when the figure will be £1.8 million.[1]

# Pension freedoms lead to more transfers




https://insight.lcp.uk.com/acton/attachment/20628/f-0718/1/-/-/-/-/Transfer%20Analysis%20Q2%202018.pdf

# *A hot topic*


carillion

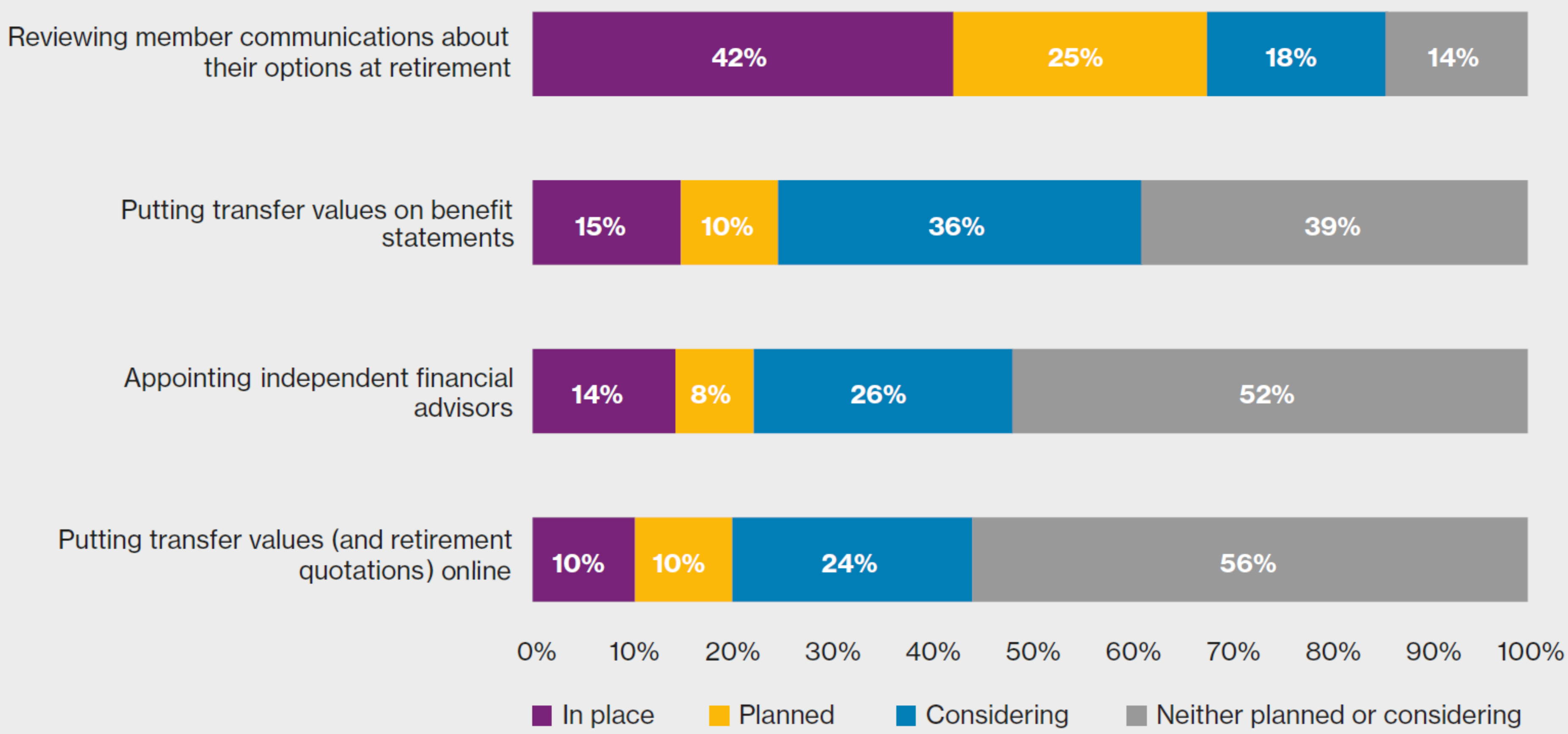



**Why now is the time to cash in your final salary pension**

The Telegraph

# How the industry is reacting

Figure 8: **Steps schemes are taking to help members considering transferring out of the scheme**




Willis Towers Watson: What next for DB? 2018 Defined Benefit Survey

# New FCA rules effective from 1 April 2018

FINANCIAL CONDUCT AUTHORITY

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Home >> FCA Handbook >> COBS >> COBS 19 >> COBS 19.1 Pension transfers, conversions, and opt-...

(1) A *firm* must ensure that *advice on pension transfers, pension conversions and pension opt-outs* is given or checked by a *pension transfer specialist*.

(2) When a *firm* is making a *personal recommendation* for a *retail client* who is, or is eligible to be, a member of a *pension scheme* with *safeguarded benefits* and who is considering whether to transfer, convert or opt-out, a *firm* should start by assuming that a transfer, conversion or opt-out will not be suitable.

To prepare a comparison, a *firm* must:

(1) compare the benefits likely (on reasonable assumptions) to be paid under the ceding arrangement with the benefits afforded by the proposed arrangement;

(e) alternative ways to achieve the *retail client's* objectives instead of the transfer, conversion or opt-out.

# New FCA Rules from 1 October 2018 – including TVC

**Table 1**

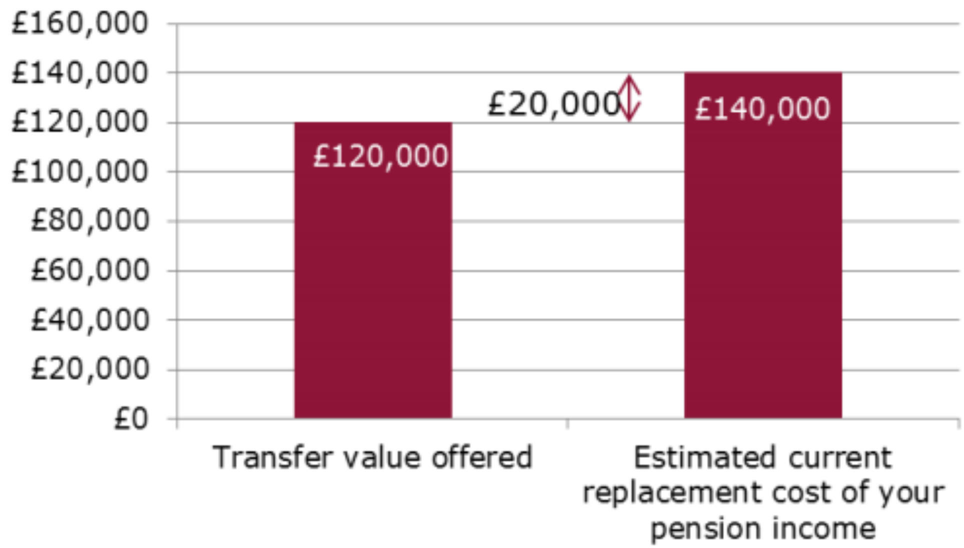
This table belongs to *COBS* 19 Annex 5 1.1R.

You have been offered a cash equivalent transfer value of £120,000 in exchange for you giving up any future claims to a pension from the scheme.

**Will I be better or worse off by transferring?**

- We are required by the Financial Conduct Authority to provide an indication of what it might cost to replace your scheme benefits.
- We have done this by looking at the amount you might need to buy the same benefits from an insurer.

> It could cost you £140,000 to obtain a comparable level of income from an insurer.
>
> This means the same retirement income could cost you £20,000 more by transferring.



FINANCIAL CONDUCT AUTHORITY

# Improving the quality of pension transfer advice

**Consultation Paper**
CP18/7**

March 2018


Source: The Pensions Regulator

# Consolidation

The Pension SuperFund

CLARA

# Stressed schemes and RPI/CPI

Cass Business School
CITY UNIVERSITY LONDON

Pensions Institute

## THE GREATEST GOOD FOR THE GREATEST NUMBER

**An examination of early intervention strategies for trustees and sponsoring employers of 'stressed' defined benefit schemes**

**A Pensions Institute discussion paper for DB trustees, sponsoring employers, advisers, policy-makers and regulators**

*Debbie Harrison*

*David Blake*

*December 2015*

**Lords Select Committee**

New inquiry launched into use of RPI as a measure of inflation

# Use of our work

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Prepared on 13 September 2018

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