

Pension Update

November 2011

TPR's Five Steps to scheme administration

The Pensions Regulator (tPR) has recently issued a Practice Note guide setting out 'five simple steps' for trustees of smaller pension schemes to assist their understanding of their responsibilities and to improve the standard of scheme administration.

The Pension Regulator is concerned that standards of administration appear to be lower in smaller pension schemes and this guide is intended to be a starting point for those trustees.

<http://www.thepensionsregulator.gov.uk/docs/5-step-action-checklist-for-trustees.pdf>

What is Governance?

Put simply, governance is about having the appropriate and effective controls and reporting processes in place to minimise risk or improve efficiency.

Governance should not mean unnecessary bureaucracy or delays. Since 2005 trustees have been required to increase their understanding and time commitment to performing their duties. Demonstrating good governance is likely to continue to be increasing embedded in trustees' ongoing workloads and is certainly an area now commonly being raised by scheme auditors in their examination of pension schemes.

So what are the key areas of good

governance?

- Trustee knowledge and understanding
- Internal controls
- Monitoring the employer covenant
- Securing the scheme's assets and ensuring their best performance
- Record keeping and administration

For governance to be successful it needs to be active – not something that is done once a year. It should be embraced by all trustees and employers and integrated with the business of the scheme.

Schemes which demonstrate the best governance tend to have similar characteristics including an explicit allowance for trustee time and adviser fees.

Compulsory Annuity Purchases scrapped!

From 6 April 2011 there is a requirement to annuitise a defined contribution pension pot. Key changes include:

- No requirement to purchase an annuity at any age if there is a minimum income requirement of £20,000 per year.
- Alternatively secured pensions will be scrapped and replaced by lifetime capped income

drawdown.

- Capped income drawdown will allow annual withdrawals of between £0 and 100% of the basis amount.
- Requirement to take an income of 55% of the basis amount after age 75 is scrapped.

These changes and the continuing complexity of pension regulations mean that most individuals would benefit from taking appropriate advice and regular pension planning.

Auto-enrolment & NEST – the clock is ticking!

In the four years following October 2012 all employers will have to make compulsory pension provision for their employees.

In summary the new regime will require all UK employers to auto-enrol all employees who meet the following criteria into a 'qualifying scheme' or failing that the NEST scheme set up by the government:

- Aged between 22 and the state retirement age; and
- Who have earnings in excess of the income tax personal allowance (currently £7,475pa)

All new employees will have to be auto-enrolled within 3 months of appointment and there is a cap on contributions into the scheme of £3,600pa.

It is expected that most employers

will choose to either use the NEST scheme or an appropriate defined contribution scheme to satisfy the new rules although under certain circumstances opening up membership of an existing defined benefit scheme can meet the requirements.

Under the defined contribution route the employer will have to make a minimum contribution of 3% of qualifying earnings and total contributions must be at least 8% meaning that employees would currently have to pay 4% with the remaining 1% coming in the form of tax relief.

The new rules are being phased in from October 2012 with mandatory contribution rates for employers starting at 1% rising to 2% in October 2016 and 3% in October 2017.

In addition the new requirement will affect differing sizes of employers on different dates with 43 different bands of employer size assessing when the rules first apply to you may not be a quick task in of itself!

As the introduction of auto-enrolment can clearly affect employees employment terms employers would be well advised to ensure they devote sufficient time to plan an orderly introduction of these new requirements without risking a breach of general employment laws.

Audit effectiveness

How do you view the annual audit of a scheme's financial statements? Faced with this question, some pension scheme trustees may respond by saying they see the annual audit as a necessity rather than something of 'real value'. This opinion may reflect poorly on both

scheme auditors and pension scheme trustees alike. This may also risk relegating the audit process to an area of simply reducing costs, as opposed to a process where trustees and members can derive real value.

To be effective, audits should have the following characteristics:

- Trustees should feel that the auditor understands the scheme and the way in which they operate.
- Trustees and their auditor should have a regular open and honest discussion on a broad range of issues including the financial controls of the scheme.
- The auditor should communicate with Trustees, where possible, in layman's terms to aid the knowledge of all trustees.
- The audit should be carried out effectively and efficiently.

In addition, it is important to develop a relationship with the auditor as a 'trusted but critical friend' of the scheme. The auditor's independence together with their experience of other schemes and the general environment means they are able to offer trustees a neutral opinion on a wide range of related issues.

VAT on Investment Management Services to Pension Funds

The European Court of Justice (ECJ) is currently considering whether the VAT exemption for financial services extends to the provision of investment management services to defined benefit occupational pension funds. This is as the result of a referral of a UK VAT Tribunal case.

VAT incurred by pension funds in relation to such expenditure cannot normally be recovered. A successful outcome could reduce costs to such funds by an estimated £100m per annum.

Claims are restricted to the previous four years and the ECJ case may not be decided for another 12 months. Pending the outcome of the case, funds affected are encouraged to contact suppliers to ensure the service providers submit protective claims for overpaid VAT, which can then be repaid to the funds if the case is successful.

Contact

For further information regarding any of the matters discussed please contact your usual Ensors contact or the Pension scheme specialist:

Barry Gostling – Director
T: 01473 220080
E: barry.gostling@ensors.co.uk

This information is given by way of general guidance only, and no action should be taken solely on the basis of the information contained herein. No liability is accepted by the firm for any actions taken without seeking appropriate professional advice.

If you do not wish to receive this newsletter in the future, please contact Helen White on 01473 220090 or email helen.white@ensors.co.uk.