
Scheme Administration

Benefit Calculations

The Department for Work and Pensions (DWP) has postponed the start date for the lower 2.5% per annum cap on revaluation for deferred benefits. The likely effective date has been delayed from 1 January 2009 to 6 April 2009. This change will only impact on schemes offering benefit accrual to existing members after the effective date.

Reporting and Controls

The Pensions Regulator commenced a review of its Internal Controls Code of Practice and Guidance on 18 November 2008. The review is part of the Regulator's commitment to ensure that materials available for trustees, employers and pension professionals remain fit for purpose.

Actuarial

Pension Protection Fund

On 18 November 2008, the PPF issued a consultation document on the future development of the PPF levy. The proposed new elements of the levy formula are an investment risk measure to take account of scheme-specific investment strategy and a five-year insolvency risk factor based on a combination of the D&B failure score and the PPF's own risk model. The aim of the proposals is to distribute the levy costs more fairly between schemes using a less volatile calculation formula.

On 20 November 2008, the PPF confirmed that it had set a total pension protection levy estimate of £700 million for 2009/10, fulfilling their earlier commitment to maintain the 2008/09 levy of £675 million for the next three years, indexed to wages. At the same time, the PPF has confirmed a final levy scaling factor (which schemes will use to calculate their individual levy bills) of 2.22, in advance of the 2009/10 levy year.

The PPF has issued further guidance about the information that eligible pension schemes need to provide so that their levies can be calculated correctly. The latest version of Exchange, the online service for submission of information to the Regulator, now allows schemes to submit all voluntary certificates for contingent assets, deficit reduction contributions and block transfers online for the first time. This means that there is now a single place for schemes to provide all the data needed by both the Regulator and the PPF.

Scheme Funding

On 11 December 2008, the Regulator published its annual Scheme Funding report which analyses recovery plans submitted by final salary schemes. The key findings included average funding levels of 90% and average recovery plan periods of 7 years.

The Actuarial Profession

On 27 November 2008, the Board for Actuarial Standards published a consultation paper on actuarial modelling which addresses appropriate testing of models, measurement of risk and uncertainty and selection of assumptions.

The Financial Reporting Council issued a statement for users of actuarial information on 4 December 2008, highlighting the challenges of the current investment and economic environment. The statement includes a list of questions to be considered by scheme trustees and employers.

Consultancy

Defined Contribution

The Board for Actuarial Standards has published a consultation on amendments to Technical Memorandum 1, the note which describes the calculation method for Statutory Money Purchase Illustrations. The consultation reflects the anticipated abolition of contracting-out for money purchase schemes in 2012.

Legislation

The Chancellor's Pre-Budget Report (PBR) of 24 November 2008 announced that the levels of the Lifetime Allowance and Annual Allowance will be frozen at £1.8m and £255,000 respectively for five years from the 2010/11 tax year. The PBR also announced that the Basic State Pension will be increased to £95.25 per week for a single person and £152.30 per week for couples with effect from April 2009.

On 26 November 2008, the Pensions Bill 2007 received Royal Assent and became the Pensions Act 2008. The main provisions of the Act include changes to the Regulator's anti-avoidance powers, the revaluation of deferred benefits and details for the Personal Accounts regime.

On 28 November 2008, a legal ruling on the issue of pension equalisation in the Foster Wheeler v. Hanley case has implied that certain schemes may have to pay pension benefits at an early retirement age without applying any actuarial reduction.

Pensions Provision

The Government has rejected the inclusion of conditional indexation for defined benefit schemes in their consideration of risk sharing measures in early 2009. Measures that will be considered include collective defined contribution schemes, cash balance schemes and flexible accrual to reflect increasing longevity.

On 2 December 2008, the Personal Accounts Delivery Authority (PADA) published a consultation on 'decumulation'. The consultation covers securing a retirement income, the selection of an annuity and the possibility of taking small pension pots as a lump sum, all in the context of the Personal Accounts regime from 2012.

The Pensions Regulator

The Regulator has published final guidance on record keeping in December 2008, describing a good practice approach for reviewing the member data records held in a scheme.

"The true meaning of Christmas will not be revealed until Easter – or possibly much later"

Mervyn King

The information in this note should not be relied upon or taken as an authoritative statement of the law.



Thomson Dickson Consulting LLP

45 West Nile Street, Glasgow, G1 2PT | t: 0141 285 1585 | f: 0141 285 1586 | enquiry@tdcllp.com | www.tdcllp.com